NorthLanding Financial Partners, LLC

Quarterly Model Portfolio Update

July 15, 2020

U.S. Economy & Financial Market Observations

Index	Year-to-Date
Market Performance as of June 30, 2020	**% Total Return**
S&P 500 Composite	-3.80%
DJ Industrial Average	-8.43%
NASDAQ Composite	12.67%
S&P Mid-Cap 400	-12.78%
Russell 2000	-12.98%
MSCI ACWI Ex U.S.	-11.00%
FTSE Emerging Markets	-10.32%
MSCI U.S. REIT	-18.95%
Barclays U.S. Aggregate Bond	6.14%
Barclays US Corporate High Yield	-3.80%

After enduring one of their most difficult periods in over a decade, financial markets staged a robust rally through the end of June. The S&P 500 rose **20.5%** for the quarter bringing its year-to-date total return back to a modest loss of **-3.8%**. The large-cap, tech heavy NASDAQ index rocketed **31%** during Q2, bringing it to a notable, pandemic-be-damned **+12.7%**. This strong investor preference for large technology stocks has left all other major stock asset classes looking weak with International, Emerging Markets, Small and Mid-sized U.S. stock indexes dropping between **-10%** and **-13%** at the mid-year mark. Buyers are reminded to beware chasing top-performing assets classes. Such intra-market divergence is sharper than any recorded since the period leading up to the dot.com bubble of 2000[1].

Meanwhile, in the economy, first quarter GDP fell 4.8% and second quarter GDP is expected to decline by a stomach-dropping ***50%***. These two consecutive quarters of negative GDP growth officially qualify as an economic recession - the first the U.S. has endured since 2008-2009.

While March's headlines illustrated how bad things were, since then the market has continued to shed light on how conditions may improve. However, there is still a wall of worry for the market to climb. The second wave of coronavirus cases (that this writer had rudely dismissed as fright-thinking in March) has reignited in western and southern U.S. States in the absence of a coordinated national health response. We believe more effective therapeutics and multiple coronavirus vaccines will eventually be found but are possibly as far as a few quarters away. The looming 2020 elections combined with charged social unrest and tense international standoffs with China creates a recipe for continued volatility in the second half of the year. Moreover, these uncertainties cause investors to wonder: **Why is the stock market going up while the pandemic gets worse?**

The short answer: cash-flooded markets. Unprecedented fiscal stimulus, sustained low interest rates (making bonds uninviting alternatives) and ongoing low inflation create a supportive environment for continued stock outperformance. As of the end of June, the Federal Reserves Economic Data (FRED, *see inset chart)* show cash levels of banks, retail and institutional investors at all-time high levels, providing more fuel for the market to advance. While the risk factors previously mentioned have strong potential to drive one or more 10% corrections at any time, these unignorable levels of sidelined cash indicate the directionality of equity markets from here is likely *up*. Cash levels, in fact, look much more like previous market *bottoms* than tops.

Fed Measures of Cash: All-Time High

(OVER)

Quarterly Model Portfolio Update (Continued)

Current Portfolio Stance & Adjustments

NLFP Core Model Portfolios hit the mid-year mark with YTD results ranging from **-0.67%** for bond-heavy portfolios to **-7.67%** for the equity-laden Core 98 model which carries substantial weights in international and emerging markets stocks that have meaningfully lagged the S&P 500 so far this year. While these results generally tracked or slightly bettered those of their best-fit global benchmarks[1], there are two main portfolio dynamics that present questions and opportunities going forward: our exposure to international markets and our exposure to U.S. technology companies.

On the latter, our addition of the **Fidelity MSCI Information Technology Index (FTEC; +18.4% YTD)** in early 2018, has helped performance. However, in retrospect, the magnitude of the addition was too modest. This sector index addition was intended to counter-balance our international index exposure, as these indexes do not enjoy the behemoth weightings of the pandemic-proof likes of Microsoft, Alphabet, Amazon, Apple and Facebook. These five, as of today compose nearly ***23%*** of the entire S&P 500 index. Chasing such painfully obvious winners directly after a global market shock has concentrated their appeal is not likely a successful approach. Prominent tech executive, Chamath Palihapitiya (among others) recently highlighted the multiple, increased risks of anti-trust, tax and regulation that such giants will face in post-pandemic years as governments around the world seek increased tax revenues. While details of the debate over U.S. mega-tech portfolio weightings is outside the scope of what we can cover here, we are constructively monitoring Core Portfolio weightings with a bias towards increasing global technology exposure while avoiding potential pockets of U.S. valuation distortions.

International success in containing the virus (compared to U.S. results) is a driver for the global markets that has been under-broadcast. In 2019, large U.S. companies received about 40% of their revenue in aggregate from foreign sources. But what about foreign stocks themselves? Since mid-May the value of the U.S. dollar has declined as European stock prices have generally outperformed. U.S. stocks remain much more expensive even as Europe and many international nations reopen and U.S. states are forced to reintroduce business controls. While so far, *any* international stock exposure has been a drag on portfolio performance (yet again) in 2020 **(iShares Core MSCI Index; -9.7% YTD)**, we remain constructive on the benefits that geographic and currency diversity have in our portfolios.

When this year began, no one could have predicted the economic path traveled in just six short months. Now that we are here, it is the time to leverage your advisor to reflect on your personal economic goals, risk appetite and risk capacity moving forward. The best risk tolerance questionnaire, though, cannot capture how you tolerated the volatility in the markets during the past six months. Take a moment to reflect on 2020 to date. How did you handle the emotional aspect of these wild swings in valuations? How did your portfolio perform relative to your expectations? Did your current income and liquidity comfortably support your current needs? Avoiding performance chasing, active portfolio bets and emotional decision making in the face of the uncertainty of the next six months should be a prudent investors' primary endeavors.

The first half of the year provided a robust test of investor discipline and fortitude. The second half of the year will have new surprises and heightened volatility will likely persist. Keep yourself healthy, safe, and invested at a risk level that supports your emotional and financial well-being.

NorthLanding Financial Partners, Investment Direction Committee

1. Investment index and NLFP portfolio performance data through 6/30/2020 is provided by Morningstar and believed to be accurate as of the date of this publication, gross of any advisory fees. Other sources include the Wall St. Journal, FactSet Research, Federal Reserve Economic Data (FRED) and the NBER. All investment strategies including diversified asset allocation have risk. Past performance of our investment approach, and component holdings does not guarantee future results. Advisory services are offered through NorthLanding Financial Partners, LLC, ("NLFP") Registered Investment Advisor. While all data is believed to be from reliable sources, accuracy and completeness are not guaranteed.