U.S. Economy & Financial Market Observations

During the first nearly four months of the year, equity markets have continued to build on substantial 2020 gains. The S&P 500 Index of large U.S. companies has climbed **11.8%** YTD through last Friday. Smaller companies have fared even better with the S&P Midcap Index and Russell 2000 gaining **19.5%** and **15.3%** respectively. International equity has also been solid with the MSCI ex-U.S. Index standing +7.1%. Bonds, though, have generally lost ground YTD with the Barclays Aggregate now at **-2.4%**. Shorter-term fixed income, inflation-protected bonds and Municipal bonds, however, have provided relative bright spots in fixed income markets with the Barclays NY Muni Index, for example, now at least in the black at **+0.9%** for the year[1].

There has, though, been a clear shift in leadership among equity asset classes. As we have expected and commented extensively on over the last few quarters, the white-hot performance of large growth companies (we've dubbed them "Pandemic-Proof Darlings" or "PPD's") has not proven sustainable. Over the trailing 6 months through quarter-end, the Russell 1000 Growth Index lagged behind all other equity asset classes. Despite generating a positive return of **12.4%**, it was trounced by the Russell 1000 Value Index, (**+29.3%**), MSCI ex-U.S. Index (**+21.1%**) and Russell 2000 Index (**+48.1%**) over that period. Should the global economy continue to recover successfully from the pandemic, the basic math around current valuations indicates the "PPD's" may continue to suffer relative performance deficits[1].

We believe value stocks may continue to outshine as the 'reopening trade' continues, amidst higher GDP growth and interest rates. According to Bloomberg data, 2021 earnings for growth companies are expected to rise a sharp 21% on average, yet for the average value stock earnings are expected to leap by 50% or more. Take for example, the largest U.S. bank (one of the largest stocks in the Russell Value Index), **JP Morgan Chase.** Its' recently reported Q1 earnings beat estimates by 49% with $5.2 billion of credit reserves (cash escrowed for loan defaults that never materialized) now released back onto its' balance sheet. While we don't recommend individual stocks as a core investment strategy for most investors, granular examples like this help explain the solid math that informs our asset class allocation decisions as the economy rebounds.

That recovery, while still in some question, has recently seen multiple robust, reinforcing data points. Last week's jobless claims fell to their lowest level since March 2020. Many industrial production indexes are also hitting 12-month highs.

Despite the many economic positives, and a strong Q1 earnings season so far, we need to acknowledge risks and many pockets of bubbly performance that have appeared over the last several months. With interest rates still cut near zero and government stimulus dollars raining down, there is a lot of money circulating in the U.S. financial system. This courts inflation risk by forcing too much money to chase a relatively fixed amount of goods and services. It also has brought nonsense to some tawdry and trendy pockets of investment markets.

Index Total Returns	2021 YTD (4/23/21)	1-Year (ending 3/31/21)
Russell 1000 Growth	8.41	62.74
Russell 1000 Value	15.21	56.09
S&P 500 Composite	11.80	56.35
DJ Industrial Average	11.86	53.78
NASDAQ Composite	8.96	73.40
S&P MidCap 400	19.45	83.46
Russell 2000	15.33	94.85
MSCI All Country Ex USA	7.05	49.41
FTSE Emerging Markets	5.54	56.16
Barclays US Aggregate Bond	-2.43	0.71
Barclays Municipal New York	0.85	5.01
Bloomberg Commodity Index	13.26	34.90

Wall Street veterans used to quip about the proverbial "Taxi Cab Driver Index," knowing when cabbies started talking stock tips, it was time to get cautious. Recently, prominent athletes and celebrities have promoted SPACs on TikTok and other social media. The 2021 equivalent of the "Taxi Driver Index" could well prove to be the "TikTok Index." The SEC's recent warning to investors about such "celebrity SPACs" highlights the danger here, which many have likened to the dot.com stock boom of the late '90's.

There are most certainly some pockets of extreme froth in both many areas of cryptocurrency as well as SPAC's. Yet, reasonable valuations in many equity segments, ample cash supply and more infrastructure spending on top of the $1.9 trillion stimulus dropped in March outweigh these isolated concerns. While it is critical that the pace of COVID vaccinations continues to outpace new COVID variants, we remain cautiously constructive on the prospects for equity markets to advance for the balance of the year.

Current Portfolio Stance & Outlook

NLFP Core Model Portfolios ended Q1 with results ranging from **+1.4** to **+6.8%** and have extended their gains in April. Among holdings most accretive to performance in the first quarter were **Vanguard Small Cap Value** (VBR, +16.8%), **iShares S&P Midcap Index,** (IJH, +13.5%) and **Vanguard Value Index** (VTV, +11.0%). Lagging components included iShares Aggregate Bond Index (AGG, -3.4%), Vanguard Growth Index (VUG, +1.5%) and **Fidelity Informational Technology Index** (FTEC, +1.5%).

While our October, 2020 rebalancing activity had harvested some of last year's heady gains from the latter two equity positions, in the opening days of April, both holdings jumped significantly with gains of about 6.0% to start the 2nd quarter. Our recent, April 20th rebalancing activity allowed us to reduce our exposure to these richly-valued growth stocks slightly further. Weightings in small and mid-cap stocks were largely retained with the addition of a new small cap holding to most model portfolios, **Vanguard Small-Cap Index** (VB). A more recent (2018) addition to model portfolios, **Centerstone International I** (CINTX, +6.2%, YTD) was removed entirely due to concerns about style concentration, fee level and performance. Though this holding had rebounded more strongly recently (**+25.1%**, trailing 6-months through 3/31/2021) our Investment Direction Committee felt that removing it in favor of more indexed international and smaller company exposure was prudent.

Bringing portfolios back to target stock weightings after experiencing strong gains, allows us to maintain our long-term focus and an appropriate risk/return balance while remaining mindful of inevitable downside volatility in the future. In addition to our April portfolio rebalancing, we are pleased to announce two new additions to NorthLanding's roster of low-cost, index-based model portfolios, **NLFP ESG 60** and **NLFP ESG 80.** Environmental, social and governance (ESG) data spanning a range of issues including measures of a company's carbon emissions, labor, human rights, diversity polices and corporate governance are evaluated to provide indexes weighted toward companies with higher scores on these metrics. Both portfolios, targeting 60% and 80% exposure to equities, respectively, are constructed using low cost ESG index fund components created by BlackRock, Inc. These portfolios are highly diversified and meet NLFP's standards for low investor costs with total fund expenses between 0.16% and 0.18%. They do, though, have different risk/return characteristics and portfolio exposure that we would encourage you to discuss in detail with your advisor. As always, we encourage you to contact your advisor for information regarding our ESG models, your current portfolio holdings and performance, or this most recent update.

NorthLanding Financial Partners, Investment Direction Committee

1. Investment index and NLFP portfolio performance data through 3/31/2021 and 4/23/21 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, Bloomberg, Federal Reserve Economic Data (FRED) and the Vanguard Group. 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.