NorthLanding Financial Partners, LLC

QUARTERLY MODEL PORTFOLIO UPDATE • October 19, 2021

U.S. Economy & Financial Market Observations

During the third quarter, equity markets rose steadily until the first few days of September, but the remainder of the month was volatile, resulting in the rockiest monthly performance since the pandemic-fueled selloff in March 2020. Though it still sits at a very solid ***+15.9%*** year-to-date, in early September, the S&P 500 had reached at one point (intraday) a nearly ***22%*** YTD gain before surrendering nearly all of its quarterly progress by month's end. Most other stock indexes actually fared worse than the S&P 500 during Q3, with the Russell 2000 Index of smaller companies shedding ***4.4%*** and international markets down similarly. Emerging markets were unusually weak, with a sharp ***6.8%*** quarterly decline driven primarily by concerns over austere government limits placed on many large Chinese companies, which represent nearly 30% of most emerging markets indexes. Bonds were generally flat for the quarter leaving the Bloomberg Aggregate Bond Index down ***1.6%*** year-to-date.

September's market malaise was driven primarily by three factors: fears that unhealthy inflation levels may be more persistent than previously thought, the Federal Reserve's reaction to recent inflation data, and the heightened clash in Washington over suspending the debt ceiling.

Let's start with a review of recent and trending inflation data. Given the amount of monetary stimulus pumped into the U.S. economy, we have continued to feel inflation is the largest risk to disrupting 2021's strong economic recovery and market gains. In fact, the largest YTD gain of any asset class we track has come from the Bloomberg Commodity Index at ***29.1%.*** The most recent inflation data shows the Consumer Price Index (CPI) was up ***5.3%*** over the trailing 12 months, its highest reading in 13 years. However, the most closely watched core inflation data (which excludes food and energy) was up only 0.1% when most recently reported at the end of August. While this initially appeared supportive of the Fed's argument that inflation is merely "transitory," that monthly rate may have been held down by a temporary retreat from travel as the Delta variant caused surging Covid-19 infections in late summer.

Federal Reserve Chair Jay Powell's recent arguments have downplayed inflation risks by citing measures that strip out the most volatile components to smooth results artificially. We generally have felt these strained measures which couch inflation as more docile don't present a very compelling case. In fact, wage, energy, and food inflation have been consistently stubborn over the past several months. Anyone shopping in a grocery store, paying an energy bill or filling a gas tank may have a much more serious view of inflation than what the Federal Reserve has conceded so far. Persistent supply chain issues and labor shortages, especially in trucking, could cause price increases to ripple through the U.S. economy, as they have in Europe. In the U.K. gasoline shortages and spiking energy prices are causing major disruptions. A risk also exists that as consumers start to fear and expect higher inflation, their own purchasing behavior helps it become a self-fulfilling prophecy. This could push the Fed to tighten policy earlier than even it has indicated.

Index Total Returns	Monthly Return: September, 2021	2021, YTD Return, 9/30/21
Russell 1000 Growth	-5.60	14.30
Russell 1000 Value	-3.48	16.14
S&P 500 Composite	-4.65	15.92
DJ Industrial Average	-4.20	12.12
NASDAQ Composite	-5.27	12.66
S&P MidCap 400	-3.97	15.52
Russell 2000	-2.95	12.41
MSCI All Country Ex USA	-3.20	5.90
FTSE Emerging Markets	-3.35	0.79
MSCI US REIT	-5.65	22.15
Bloomberg US Aggregate Bond	-0.87	-1.55
Bloomberg US Corporate High Yield	-0.01	4.53
Bloomberg Municipal New York	-0.80	0.94
Bloomberg Commodity Index	4.97	29.09

Over recent weeks markets have also been bracing for the challenge of the U.S. government failing to pay its own bills unless the $28.5 trillion statutory debt ceiling is increased or suspended. During the last decade, Congress has been able to pass legislation to raise or suspend the debt limit five times during periods of political impasse. So, while increases to the debt ceiling aren't anything new, facing a possibility of government default during a period of brutal political division has cast a real pall on markets. In the very unlikely event that a U.S. debt default would occur it would have severe and extraordinary consequences far beyond the 2011 credit downgrade to U.S. Government debt which was caused by political brinksmanship akin to what we've seen in Washington this year. As of this writing, the specter of a U.S. default appears likely to be punted down the road until another showdown in December.

With the U.S. likely temporarily extending its power to pay its bills through December, investors should be prepared for the possibility of significant volatility over the next two months. However, absent a low probability but high consequence mistake in Washington, we generally believe that such volatility would prove only temporary as the amount of cash in the U.S. financial system is likely to be supportive of assets prices over the next several months. The final few weeks of September served as a reminder to investors that markets will face the resolution of numerous macroeconomic and political unknowns in the fourth quarter. While fundamentals remain decidedly positive, an increase in market volatility should be expected.

Current Portfolio Stance & Outlook

NLFP Core Model Portfolios ended the third quarter with results ranging from ***+4.73%*** to ***+12.60%,*** largely unchanged from three months ago. As we had cautioned in early summer, based on the relatively strong YTD returns we have experienced, additional gains were expected to be harder to win for the balance of the year.

While the S&P 500 was slightly positive during the quarter, some of the holdings in our globally diversified portfolios did not fare quite as well. For example, ***Vanguard Small Cap Value (VBR),*** fell ***2.2%*** during Q3 though it still remained ***+20.4%*** through September 30th. Our international stock index holdings, which represent about one third of the equity weighting in each Core Model Portfolio, also dipped. The ***iShares Core MSCI EAFE Index (IEFA)*** fell ***0.80%*** during the quarter and is now positive just ***8.3%*** for the year, roughly half of the return of the S&P 500. The ***iShares Core Emerging Markets Index (IEMG)*** is now flat for the year after dropping ***-7.9%*** for the quarter. Though international performance has lagged, current valuations remain attractive. We also stay cognizant of the long-standing academic research demonstrating international stock exposure makes portfolios more efficient from a risk-return perspective than ones focused on the U.S. stock market alone. In fact, Vanguard's most recent forward looking capital market assumptions show international stock performance projected at about ***2.5%*** per year higher than domestic equities over the next decade. Maintaining a patient outlook in this area reminds us of hockey great Wayne Gretzky's famous quote, "I skate to where the puck is going, not to where it has been." While the puck certainly has not gone international, the investment thesis for it remains strong.

Our recently completed semi-annual rebalancing review process found Core Model Portfolios slightly overweight in large-cap U.S. stock holdings that have performed relatively strongly over the past several months. Early October rebalancing activity recently completed in your account trued-up asset weightings back to their targets, though modestly in most cases. The recently lagging international and emerging markets indexes received about 40% of these harvested profits, with the balance being added to fixed income components. While buying lagging asset classes is counter-intuitive (as all investment rebalancing is) we are confident that it improves our portfolios' potential to benefit from an eventual change in the relative valuation between U.S. and international markets. As always, we encourage you to contact your advisor for information regarding your current portfolio holdings, performance, or this most recent update.

NorthLanding Financial Partners, Investment Direction Committee

1. Investment index and NLFP portfolio performance data through 9/30/2021 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.