Third Quarter 2021
Market Recap
Performance Review
and Near-term Outlook

Market Recap

Year-to-date and one-year returns remain above average, boosted by an overwhelmingly positive first half of 2021. Q3 started strong as well. Global markets continued to advance despite lingering concerns over COVID-19 Delta variant infection rates and a barrage of regulatory crackdowns by the Chinese government.

Through Q3's U.S. high-water mark, struck on September 2nd when measured by the Russell 3000 Index, a measure of the largest 3,000 U.S. companies and a proxy for the complete U.S. stock universe, U.S. stocks were up +5.10% thus far during Q3, for a year-to-date-return of +20.98%, and a one-year return of +30.81%.

Hawkish commentary from the U.S. Federal Reserve turned investor sentiment towards a more precarious outlook for the global economy. Low employment participation, high employee turnover, and the resultant hobbling of world-wide supply chains has driven up labor costs. Rising commodity prices, driven by surging global demand, has driven up the costs of most material inputs. And acknowledging that labor and supply shortages, when coupled with rising energy prices, – particularly so should oil rise above the psychologically important $100 p/barrel mark – could lead to persistent rather than transitory inflation was somehow interpreted as "would lead" to persistent inflation.

> When ~~France~~
> ~~the United States~~
> China sneezes,
> ~~Europe~~
> the world catches
> a cold.
>
> - First attributed to Prussian diplomat Klemens Wenzel Furst von Metternich

Reminding the world of its powerful global impact, regulatory pressure by the Chinese government and instability in the Chinese real estate market also contributed meaningfully to a shift in sentiment. While regulatory actions, and threats of further action, caused double-digit declines in technology and consumer stocks, the unfolding story of the potential collapse of developer China Evergrande and fear of global contagion dominated financial news cycles.

After a summer of positive performance, the broader market did capitulate to the hawkish messaging. Fearing that rising inflation would mean rising interest rates, and that rising interest rates would mean slowing global growth that would negatively impact corporate earnings, U.S. and global equity markets dipped deeply into the red for the month of September to wipe out most, if not all, of the summer's gains.

Q3 returns for U.S. markets, therefore, were essentially flat. Measured once again by the Russell 3000 Index, U.S. stocks finished Q3 down -0.10%, for a year-to-date return of +14.99%, and a one-year return of +31.88%. The tech-heavy growth component eked out a modest +0.69% gain, while the cyclical-oriented value component lost -0.93%.

The continued cyclical-to-growth rotation closed a bit more of the post-election performance gap and did benefit client portfolio performance. Industrials (-4.25% Q3), Energy (-2.12% Q3), and Materials (-3.48% Q3) – cyclical sectors that we have underweighted for several years – were no match for our growth-oriented sector portfolio over-weights in Health Care Tech/Medical Devices (+4.48% Q3) and Technology (+1.31% Q3). Our third sector over-weight, Communications (-0.83% Q3), did finish with a modest loss but finished well ahead of those cyclical sectors.

The Russell 2000 Index, a measure of the small company stock universe in the U.S., fell -4.36% during Q3, for a year-to-date return of +12.41% and a one-year return of +47.68%. Although a headwind for Q3, allocations to small-company stocks added meaningfully to client portfolio returns for the last year.

As measured by the iShares MSCI ACWI Index, an index composed of large and mid-sized companies in both developed and emerging markets, international stocks fell -1.05% during Q3, for a year-to-date return of +11.12% and a one-year return of +27.44%.

Rather than choose only one style, or one factor, Lake Jericho constructs diversified portfolios across asset types, geography, and other performance factors. As well, we overweight allocations to industry sectors that we expect to provide the greatest returns over the investment horizon, and meaningfully underweight others.

Because our investment horizon is, most typically, long-term, and we do actively manage sector positioning, our performance during any single quarter, or even a full year, might significantly deviate from market averages. We have been for some time, and are at this point in the economic cycle, meaningfully biased toward growth-oriented strategies. While that negatively impacted 2021 performance during Q1, the rotation during Q2 and Q3 have provided a significant tailwind for Lake Jericho managed portfolios.

Performance Review

Lake Jericho managed and advised portfolios are typically invested in some variation of either one of two strategies - either (1) a global-macro strategy broadly diversified by geography, asset type, and sector, executed via exchange traded funds, or (2) a concentrated individual stock/bond strategy heavily biased towards U.S. large-company technology, health care, and consumer-focused stocks. Within each strategy the sector, asset type, and geographic diversification or concentrations have meaningful impact upon returns.

As we discussed during our Q2 Review, the unwinding of the "re-opening" trade was already underway. As those influences continued to soften during Q3, our individual stock/bond portfolio positioning continued to close the performance gap that had accrued post-election through the end of Q1. In contrast, our global-macro strategy, constructed with broad diversification more linked to top-line total market performance factors independent of individual security performance, and with a constant commitment to small- and mid-sized company stocks, lagged during Q3, but has meaningfully outperformed throughout 2021.

Reviewing the bulleted benchmark returns that follow, you will see where and how Lake Jericho managed and advised portfolio returns were impacted. Within the tabled data attached, we present the iShares (by Blackrock) Core Allocation ETF Portfolio Series benchmarks. Lake Jericho provides the tabled information for a relative performance comparison against independent, balanced, globally diversified strategies managed to similar risk profiles.

- The Dow Jones Industrial Average, 30 "blue-chip" U.S. companies with an industrial company bias, finished Q3 with a loss of -1.59%, for a year-to-date return of +11.66% and a one-year total return of +23.45%.
- The technology and consumer-cyclical heavy NASDAQ Composite Index finished Q3 with a loss of -0.23%, for a year-to-date return of +12.66% and a one-year total return of +28.42%
- The S&P 500® Index, a broad, but committee selected index of 500 large U.S. companies, finished Q3 with a modest gain of +0.48%, for a year-to-date return of +15.55% and a one-year total return of +29.43%.
- Small- and mid-sized companies, as a group measured by the Russell 2500™ Index, finished Q3 with a loss of -2.68%, for a year-to-date return of +13.83% and a one-year total return of +45.03%.
- International developed markets, as measured by the MSCI World (ex-USA) Investable Market Index, finished Q3 with a modest loss of -0.45%, for a year-to-date return of +9.43% and a one-year total return of +27.05%.
- International emerging markets, as measured by the MSCI Emerging Markets Investable Market Index, significantly trailed their developed markets counterparts to finish Q3 with a total loss of -7.39%, for a year-to-date return of just +0.71% yet a one-year total return of +20.80%.
- The Bloomberg Barclays U.S. Aggregate Bond Index, a measure of the performance of the U.S. investment grade bond market, finished Q3 with a modest gain of +0.05%, for a year-to-date loss of -1.59% and a one-year total loss of -0.90%.

Near-term Outlook

2021 remains a strong year for markets. While at the end of Q2 we were commenting about potentially overvalued markets, at the end of Q3 we considered markets generally undervalued. There were, and are, economic warning lights flashing. September's downturn was an acknowledgement of those warnings. And many observers continue to express concerns, both for Q4 results and for 2022's prospects. In its just published World Economic Outlook, the IMF said it expects global GDP to grow by 5.9% this year, down- 0.1% down from its July estimate. For 2022, the IMF kept its global growth projection at 4.9%

The revised outlook for this year comes amid the supply chain issues in advanced economies and the worsening health situation in emerging countries. "This modest headline revision masks large downgrades for some countries," Gita Gopinath, chief economist at the IMF, said in an accompanying blogpost. "The outlook for the low-income

developing country group has darkened considerably due to worsening pandemic dynamics. The downgrade also reflects more difficult near-term prospects for the advanced economy group, in part due to supply disruptions."
"These divergences are a consequence of the 'great vaccine divide' and large disparities in policy support," Gopinath said. "While over 60% of the population in advanced economies are fully vaccinated and some are now receiving booster shots, about 96% of the population in low-income countries remain unvaccinated."

The United States is one of the countries in this position; the IMF has cut its growth estimates for the U.S. this year by 1.0% to 6.0%. The IMF slashed its 2021 economic growth forecast for Asia, now expecting the region to grow by 6.5% this year, versus the April forecast for a 7.6% expansion. Beyond 2022, the Fund still sees reasonable growth over the medium term. The IMF forecasts a moderate global growth level of 3.3% over the medium term, well above pre-pandemic trend as the global economy continues to recover.

Despite fears associated with the global supply chain, "stagflation", global pandemics and possible economic contagions, our global-growth thesis remains intact. This has everything to do with the fact that Q3 earnings results are mostly surprising to the upside due to the continued, even if now a bit slower, surging demand due to the reopening of global economies. Open wallets are contributing to what Jason Draho, head of asset allocation at UBS, recently called a "positive aggregate demand shock" that keeps the bullish case for markets firmly intact.

After an encouraging run of bank results that kicked off Q3 earnings season, continued positive earnings reports have proven a soothing balm for skittish markets. According to Factset, in aggregate, companies are reporting earnings that are 14.7% above estimates, well above the five-year average of 8.4% above. Of these companies, 80% have reported actual earnings per share above estimates, above the five-year average of 76%.

The late-Q3 pessimism, and the pessimism for this earnings season, was a bit overblown. Supply chain issues have been present nearly all year long, and most companies have been able to adjust. Current profit margin estimates are near historical highs, even amid the current economic headwinds. Should those headwinds become permanent in some sense, I am confident that companies will continue to adjust.

Echoing JPMorgan Chase CEO Jamie Dimon, I continue to believe that the current headwinds will be proven generally "a non-issue" for corporate America and will likely "work itself out" before next year. Matching analyst consensus, Dimon estimated Q4 earnings will likely grow by 20%, for a 40% year-over-year growth rate.

Now back to all-time highs, if October is the measure, markets appear to want to climb higher into the year end.

As always, I am available to discuss anything within this Outlook, or your own specific portfolio performance questions. Please reach out at any time, any day of the week. Until then, be well. And thank you for your continued trust and support!

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The iShares Core Allocation ETF Portfolio Benchmark Series

Total Return Comparisons For Periods Ending September 30, 2021

Core Allocation Portfolio (Ticker)	Q3 2021	YTD 2021	1 Year Return	3 Year Total Return	5 Year Total Return
Conservative (AOK)	-0.39%	2.71%	7.91%	23.67%	33.73%
Moderate (AOM)	-0.50%	4.08%	10.67%	26.16%	40.31%
Growth (AOR)	-068%	6.76%	16.39%	31.06%	53.98%
Aggressive (AOA)	-0.85%	9.40%	22.24%	35.72%	68.20%

The iShares Core Allocation ETF Portfolio series is designed to meet the needs of investors who would like to maintain fixed target levels of exposure through a portfolio diversified across domestic, international, and emerging market equities, bonds, and other instruments. The Core Conservative Allocation Strategy seeks approximately 30% exposure to global equity markets. The Core Moderate Allocation Strategy seeks approximately 40% exposure to global equity markets. The Core Growth Allocation Strategy seeks approximately 60% exposure to global equity markets. The Core Aggressive Allocation Strategy seeks approximately 80% exposure to global equity markets. Presented here is the iShares Core Allocation ETF Portfolio Benchmark NAV total return performance as reported by iShares, constructed with no investment advisor fees, and with no transaction costs, while Lake Jericho portfolio performance is actual performance, net of all fees, including investment management, administration, and transaction expenses.