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Nauset Market Commentary
Third Quarter 2021

Market Performance Recap: **Markets Stall Amid Worries**

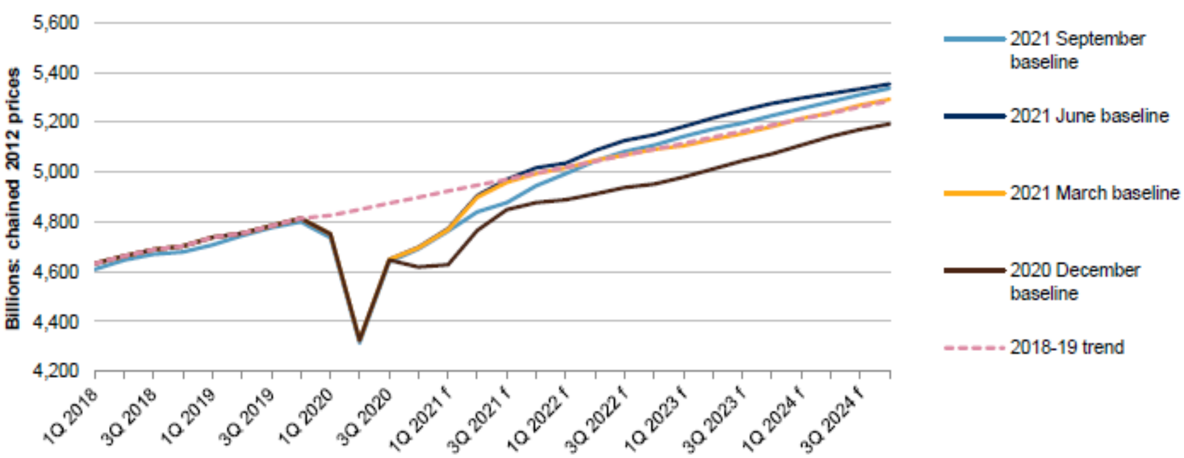
After a positive start to Q3, stocks turned down in September as a number of headwinds and uncertainties raised investor concerns. As a result, the Russell 1000 finished the third quarter essentially flat at +0.2%. Small cap stocks as measured by the Russell 2000 fell -4.4% in the quarter as the rate of economic growth slowed. International developed markets equity followed a similar path to US stocks with EAFE off slightly at -0.4%, while the Emerging Markets index fell -8.1% as China concerns hurt all EM stocks. Like stocks, bonds were also up early in the quarter and then suffered declines as Treasury yields rose in September, leading to a flat return for Barclays Intermediate Gov't/Credit bond index.

Economic & Market Discussion: **Growth, But Slower**

Softening economic reports in Q3 resulting from increasing supply chain constraints and an upswing in Covid infections indicate a slowing pace to the US economic recovery. The key question is whether these issues as well as above-trend inflation, upcoming Fed tapering, and fiscal policy developments will choke off or severely slow the ongoing economic recovery, the ultimate driver of financial markets.

- GDP Momentum Intact– Despite ongoing headwinds, the path of GDP recovery to the pre-pandemic growth trend line appears to be intact according to the latest economic estimates from the Bureau of Economic Analysis, Oxford Economics, and S&P Global Economics. While their GDP estimates for Q3 and Q4 have been reduced, the chart below shows that the upward slope of the recovery remains in line with earlier expectations.

The Evolution of U.S. Real GDP



f--Forecast. Sources: Bureau of Economic Analysis, Oxford Economics, and S&P Global Economics forecasts.

- Confidence in Growth – We remain confident that the US economic recovery will continue to move forward, but at a slower pace. The country remains open and Covid infection rates are improving after a summertime spike. Ample money and credit are available for businesses and consumers. Job growth continues albeit on an uneven pace. Supply chain bottlenecks will continue, but are likely to ease over time and help reduce inflation pressures. This points to continued economic recovery with expectations for above-average corporate earnings growth, which should support current market valuations.

- Ongoing Risks = More Volatility = More Normal – The recent slide in the market shows investors are no longer complacent and will respond to headline risks. We view this as good news. Markets typically experience high-single, low double-digit declines even in positive years. When investors seem immune to bad news, market bubbles are more likely to surface. Given the constantly evolving Covid news, upcoming fiscal policy decisions as well as Fed tapering action, we expect more market volatility as we close out the year. As always, we will monitor the action and its impact on the economy and market sentiment, while searching for new investment opportunities and tactical shifts.

Portfolio Strategy: **Staying In**

Although US equity indices have declined over the past few weeks, we are not turning defensive. As the above discussion indicates, our view is that the US economic recovery continues and additional upside is possible in this current cycle.

- Long-Term Investor Advantage – As long-term investors, one of our advantages is that we stay invested and rebalance to client specific allocations, and do not engage in all-in or all-out market timing. Our discipline allows us to ride out bouts of market turbulence without missing unexpected market upswings. This has been very useful during the past 18 months as the market recovery has experienced several zig and zags on its way to new highs.
- Staying Active – While maintaining our overall stock and fixed income weightings, we made several moves in the past quarter. We switched investments in both the financials sector and floating rate loan area to securities we believe offer more attractive upside. And in emerging markets stock, we added a China stock fund to get specific exposure to this important global market.
- Private Investments – We search for and review non-public investments in private equity, real estate, private credit and venture capital as part of our investment process. We specifically look for private investments that provide both differentiated returns from publicly-traded securities and portfolio diversification. While many private investments have investor eligibility requirements, we are increasingly finding opportunities available for all clients. In fact, we recently added a private debt fund available to our Fidelity RIA platform clients.

Market Performance **% Change for Periods Ended 9/30/2021**

Market Index	Third Quarter	2021 YTD	1-Year	3-Year Annual.	5-Year Annual.
Russell 1000	0.21	15.19	30.96	16.43	17.11
MSCI EAFE – Non-US	-0.45	8.35	25.73	7.62	8.81
Russell 2000	-4.36	12.41	47.67	10.54	13.45
MSCI Emerging Markets Equity	-8.09	-1.25	18.20	8.58	9.23
DJ US Real Estate	0.85	21.30	30.67	11.67	8.63
NASDAQ Composite	-0.23	12.66	30.26	22.67	23.37
Barclays Gov't/Credit Interm. Bond	0.02	-0.87	-0.40	4.63	2.60
Wilshire Liquid Alternative	-0.40	4.06	8.62	3.32	2.87
3-Month T-Bill	0.01	0.03	0.06	1.14	1.13