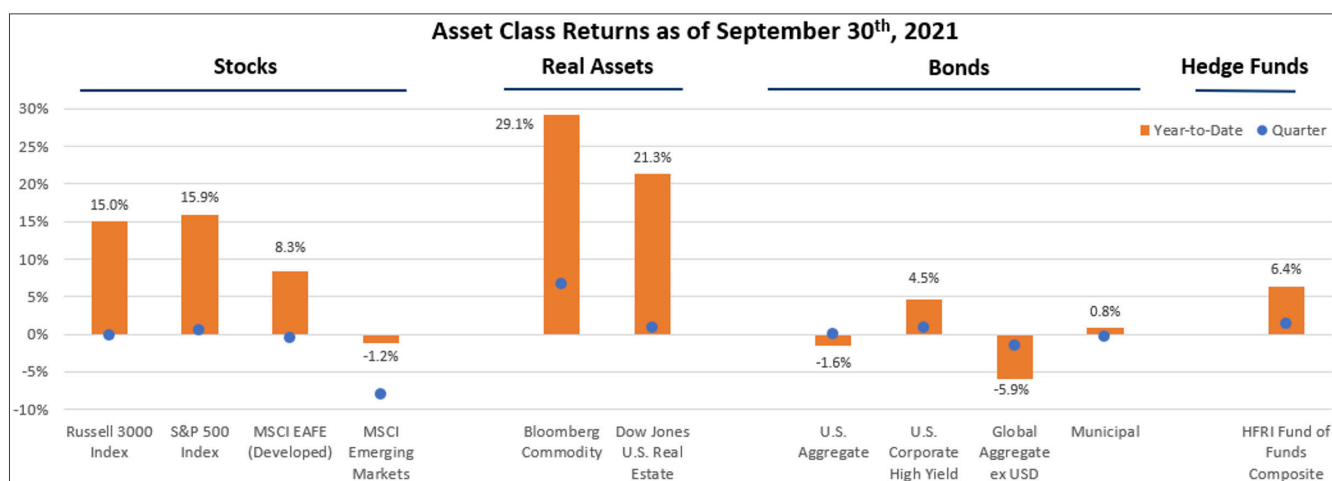


### Executive Summary

Investor sentiment was fickle during the third quarter, resulting in meager performance for most investable assets. Equity markets echoed the rebound in corporate earnings, reaching new highs during the first weeks of summer. At the same time, bond yields fell to levels not seen in months, suggesting bond markets anticipated slower economic growth. By September surging inflation, the threat of tighter U.S. financial conditions, heavy handed regulation in China and the continued spread of COVID-19 had rattled stock and bond investors. Stock markets suffered large drawdowns while higher interest rates weighed on bond prices.

Broad U.S. equity and fixed income markets were flat for the quarter, but international markets did not fare as well, partially due to a stronger U.S. dollar. The regulatory turmoil in China and sustained high COVID-19 infection rates in some countries undermined emerging markets. Small-capitalization stocks, which are more geared to economic growth, also sharply declined. While inflation was a headwind for the core bond markets, sectors that do well in inflationary environments, including high yield, bank loans and inflation-protected securities outperformed. Upward momentum in commodities persisted, led by sharply higher energy prices. Despite the disappointing quarter, most risk assets have strong results year-to-date, while fixed income remains in the red.

The economic recovery from the Coronavirus pandemic carried on during the quarter. U.S. GDP growth has been running at over 5% but is likely to moderate. Shortages of commodities, manufactured goods and labor should put the brakes on output in the coming months. The U.S. Federal Reserve seems poised to tighten monetary policy and government stimulus spending that supported the economy during the pandemic is being phased out. In addition, the boost from infrastructure and social services spending proposed by the Biden administration may be less than expected. While supply shortages and pent-up demand have caused U.S. inflation to rise to a level not seen in decades, the pull back of fiscal and monetary stimulus as well as secular trends should contain inflation although this may take some time. Long-term deflationary pressures encompass aging demographics, productivity gains driven by technological innovation and elevated government debt (and the resultant higher taxes).



Morningstar & Hedge Fund Research, Inc. (HFR1); Bond indices from Bloomberg Barclays

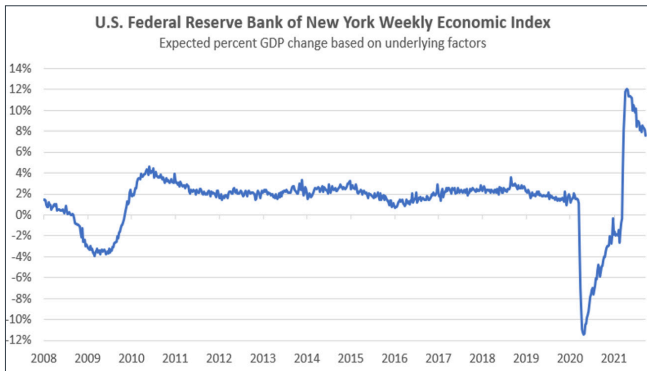
One consequence of the COVID-19 pandemic may be a wider range of outcomes for economies and financial markets globally. Most countries lag the U.S. recovery and may have more potential for growth to accelerate. U.S. stimulus during the COVID-19 crisis has been almost 25% of GDP, far larger than other countries, and will be more painful to unwind. Some low-income countries, with slower vaccine rollouts and less policy support, may take years to recover.

With high asset valuations and a world economy that has fallen out of sync, a diversified portfolio that incorporates defensive and growth assets is more important than ever.

The recovery from the pandemic continued as we enter the final quarter of 2021. That said, the honeymoon period might be coming to an end as new concerns and economic issues are coming to light. These include new, more contagious variants (mainly delta so far) in addition to the repercussions of the unprecedented level of monetary and fiscal intervention.

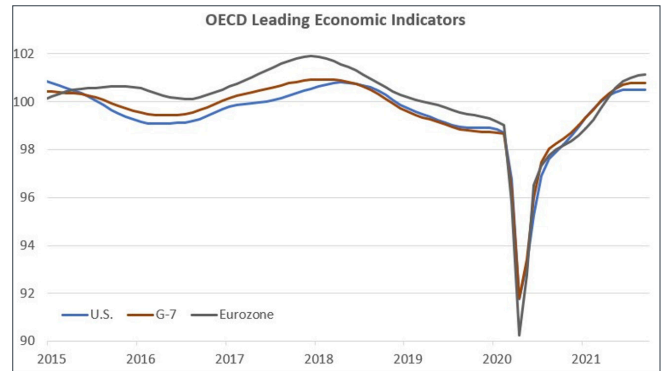
Specifically, excess money supply and unforeseen supply chain disruptions have contributed to higher levels of inflation that may be here to stay. Pent-up demand as the economy comes back online has only exacerbated this issue, making it hard for supply to catch up. Additionally, global central banks are preparing to start tapering support, adding to the list of potential headwinds going forward.

While these concerns can appear daunting, progress in combating the pandemic and/or acceptance of COVID-19 as an endemic could provide an additional boost to prolong the expansion. Increasing vaccination rates paired with natural forms of immunity has resulted in much of the U.S. population having some form of protection against the virus. Additionally, the duration of the pandemic has caused many businesses to adapt their models to be able to function in the current world. This continues to translate to heightened levels of economic activity as measured by a variety of metrics. High output levels also reflect that we are emerging from one of the deepest (but quickest) recessions recorded in history.



Federal Reserve Bank of New York

This economic index, which measures several daily and weekly indicators that approximate GDP growth, continues to be at unprecedented levels reflecting that the U.S. is still in recovery mode from the pandemic, although it has fallen somewhat recently. The rapid snapback has translated to pre-pandemic levels of GDP growth.



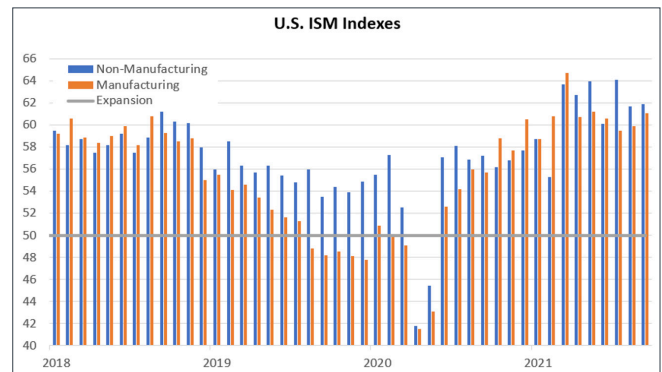
Organization for Economic Cooperation and Development

Leading economic indicators have maintained their trajectory upwards suggesting that there is room for continued growth in the economy against emerging headwinds such as elevated inflation and the potential central bank tapering.



Citigroup

Following outsized readings during and immediately after the start of the pandemic, economic surprise readings have been much closer to expectations. In fact, recent indicators have underwhelmed expectations suggesting that growth is starting to level off.



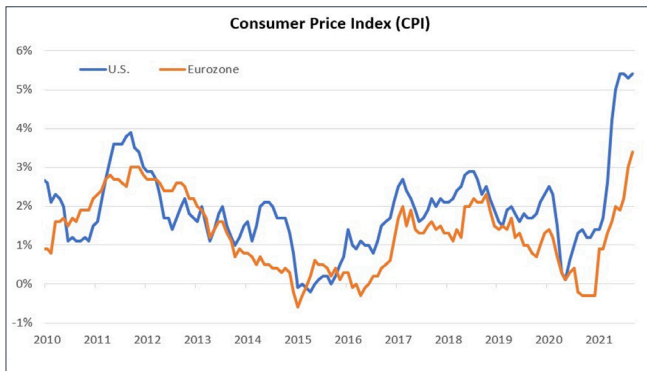
Institute for Supply Management

Both ISM Indexes have come down from historic highs reached earlier in 2021. That said, they both remain well in expansionary territory (above 50) and the services (non-manufacturing) index has caught up with the manufacturing index in recent months as more of the economy comes back online.

## Economic Growth

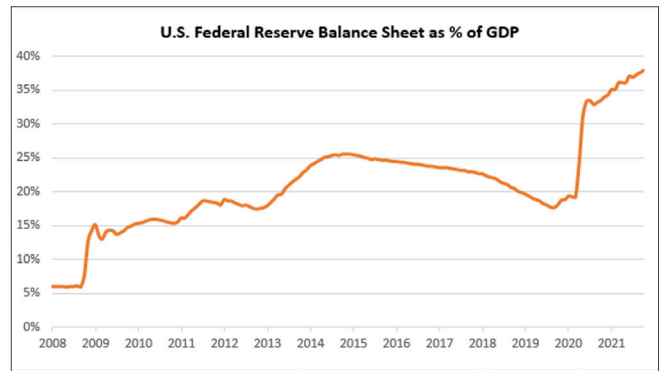
As we advance in the recovery, much of the focus has shifted from concerns about growth to the potential ramifications of the massive efforts put forth to combat the impacts of the pandemic. Debt levels in the U.S. are approaching historic levels and it's uncertain if they will subside in the coming years. While the extensive stimulus efforts have propelled the recovery, they may have contributed to adverse effects in the near- and medium-term. Perhaps most prominent is the impact on inflation, which has risen considerably throughout the year. The Consumer Price Index (CPI) has been running at over 5% for much of this year reflecting heightened levels of demand intersecting with supply shortages across many major areas of the economy. Additionally, the stark recovery in the job market has resulted in limited slack in the labor force which has pushed wages higher. All of this translates to higher consumer prices and/or lower profit margins.

S&P 500 Index operating earnings have made a remarkable recovery this year after a more than 20% decline in 2020. The resiliency in earnings partially reflects that larger sectors, such as technology and healthcare, were moderately or even positively impacted by the pandemic. Additionally, some productivity gains were unlocked as businesses were forced to adapt to a more virtual world. While operating earnings are expected to reach a new all-time high this year, there are fresh headwinds looking forward, such as higher input costs, taxes, and



U.S. Bureau of Labor Statistics

CPI has risen to over a 5% growth rate in the U.S. with the Eurozone not far behind. While pandemic-related price declines may have amplified these numbers, demand and supply shocks have sent price increases throughout many areas of the economy. Although the Fed believes much of the increases are transitory, it is foreseeable that some of the recent inflation is more structural in nature.



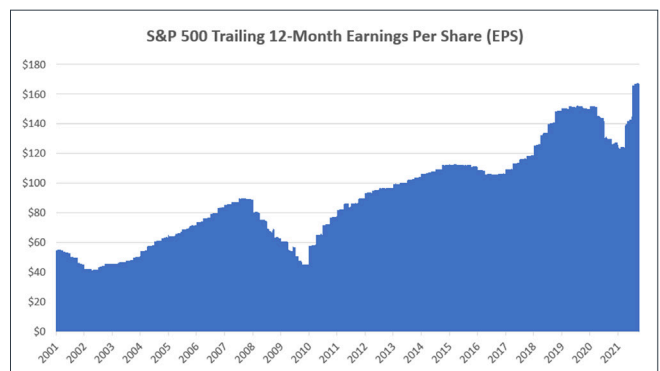
Bloomberg

Federal monetary aid has continued to support the recovery but is likely to start tapering in the coming months as the economy is better able to stand on its own footing. Projections anticipate that the deficit could fall in the coming years, although that assumes limited further spending and/or increased revenues from tax increases.



U.S. Federal Reserve and Bloomberg

The U.S. Dollar rose over the quarter from earlier lows. After an initial flight to quality during the pandemic, the Dollar had fallen to lower levels. Since then, a slowdown in China paired with higher inflation and rates should offer some support to the currency going forward.



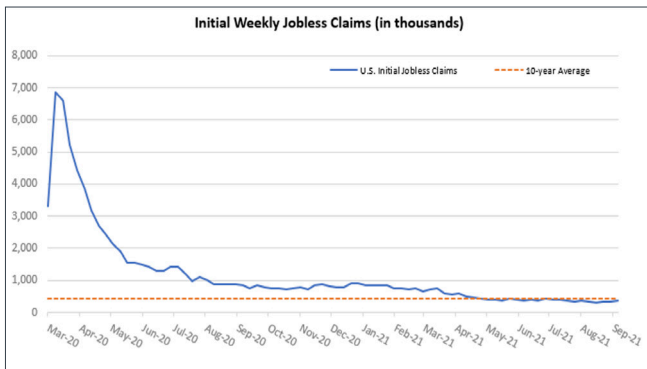
Bloomberg

S&P500 earnings are slated to reach new all-time highs by the close of the year. The recovery in earnings is remarkable considering the extent of the pandemic and the impact on business models. Resiliency in key sectors, government aid, and improvements to productivity all helped in the pace of the rebound.

## Employment and Consumer

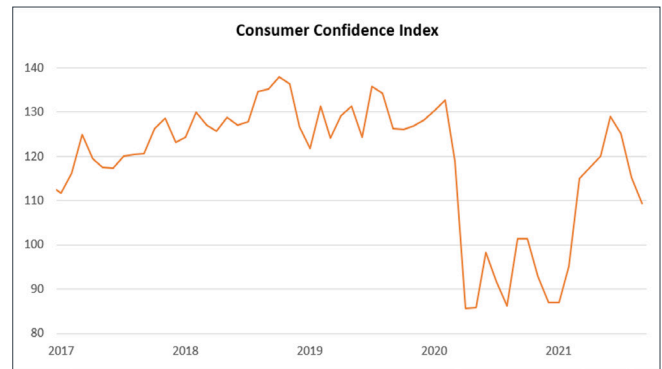
The past quarter’s economic growth has been shadowed by a similar improvement in the labor market, but not without added concerns. Amazingly, of the 22.4 million jobs shed during the pandemic, nearly 17 million or 77% of the calamity has been recuperated. Still, it appears that the labor market recovery is nearing a plateau given the slow improvement in the national unemployment rate. Pre-pandemic the country boasted a 3.5% rate, which has more recently fallen to 4.8% through September as 194,000 non-farm jobs were added. The plateau effect may be largely attributable to an insufficient amount of labor supply throughout the economy as reflected by the Job Openings and Labor Turnover Survey (JOLTS). The survey’s data has trended higher reflective of record levels of job vacancies. As businesses reopen, fewer workers have returned for various reasons including augmented unemployment benefits which have since expired, restricted levels of immigration, higher child care costs, and persistent pandemic-related fears. The exceptionally strong demand for labor has driven up average wages to sustained levels last seen before the Global Financial Crisis. Economists have justified concerns that wage growth can translate to higher long-term inflation, not necessarily transitory as assumed, which is being carefully monitored by the Federal Reserve. Strong labor demand together with the expired COVID-related unemployment benefits, should lead to gradual improvements in labor conditions and a declining unemployment rate over time.

As inflation picked up this year, some of the largest catalysts for the increase include increased consumer demand coupled with strained supply chains in many economic sectors. Notably, the global semiconductor chip shortage impacted an array of goods in various sectors, most prominently autos. Similarly, higher airfares, restaurant prices, and rents have contributed to elevated inflation. Linked to this, consumers’ confidence has retreated since its pandemic-era highs in the second quarter but is still above the benchmark level of 100 indicative of further upside potential in the near term. However, the two back-to-back index monthly declines suggest consumers have grown more cautious and are likely to curtail spending amounts going forward.



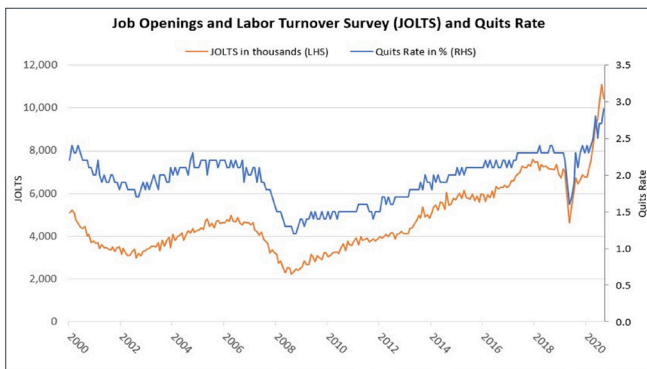
Labor Department

Initial weekly jobless claims have moderated as many employees returned to work in sectors across the economy.



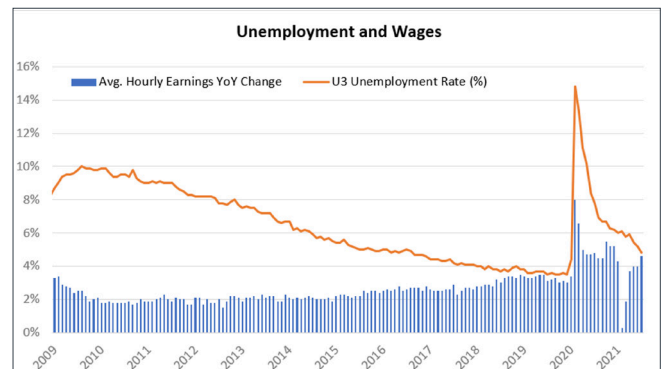
Conference Board

In the third quarter, consumer confidence fell from the pandemic peak level likely due to higher inflation.



U.S. Bureau of Economic Analysis

A record number of job vacancies exist nationwide, ironically in line with the rate of workers who are proactively quitting their jobs. Reasons for this abound such as enhanced unemployment benefits and higher child care costs.



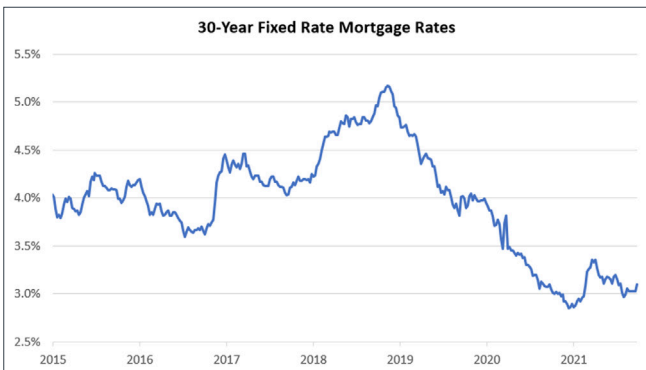
U.S. Bureau of Labor Statistics

Higher average wages paired with strong labor demand should help the economy edge closer towards full employment.

## Housing and Commercial Real Estate

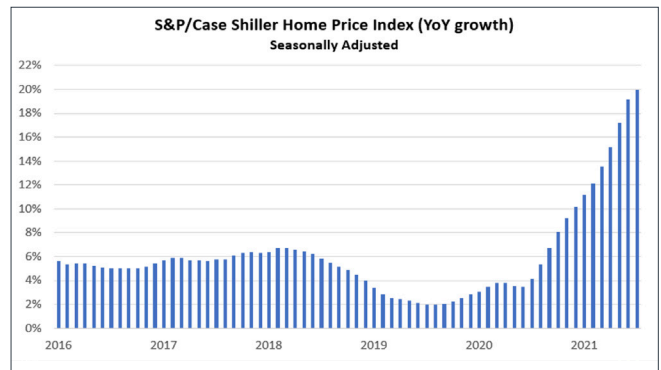
Low rates and plentiful demand had kept inventories low and home prices elevated. In many cases, homes were receiving multiple offers and trading hands for levels well above the initial asking price. The sticker shock and aggravation has given many buyers pause causing them to contemplate sitting out of the market for now until things calm. Fewer potential buyers are possibly cooling the red hot market, at least modestly. Despite the small pullback, home sales remain well above historic levels, and homes that do hit the market are on average selling much faster than they had prior to the pandemic. Prices continue to be high, but the pace of growth is slowing. Homebuilding is trying to catch up with heightened demand but has been somewhat restrained by various input and labor shortages.

After getting a slow start, the commercial real estate market is also in the middle of a strong recovery. While favorable supply and demand dynamics have lifted the entire commercial sector, evolving consumer behaviors have served as tailwinds to certain areas of the market while negatively impacting others. Commercial growth areas generally include multifamily and industrial in addition to specialty areas such as life sciences where there is a premium placed on customized workspaces. In some cases, vacancy rates in areas like multifamily and industrial are now below pre-pandemic levels with rents rising quickly. The rise of e-commerce has only accelerated throughout the pandemic with shifting lifestyles and elevated consumer needs resulting in an insatiable demand for industrial logistics facilities near densely populated areas. Other areas, such as office and retail, have had a tougher time but are finally catching up. While return to office was delayed for many companies due to the spread of the Delta variant, certain sectors, such as technology, have made headlines for expanding their office footprints. Many other companies have recently called workers back and in office levels have reached post-pandemic highs. The retail sector has also demonstrated new signs of life as people have started resuming aspects of their daily lives translating to increased foot traffic and occupancies.



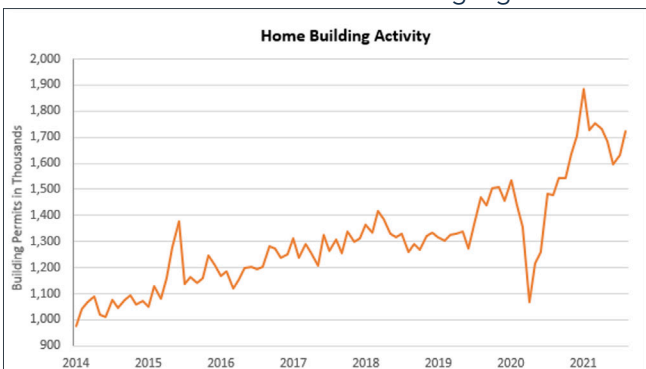
Mortgage Bankers Association

Mortgage rates have bounced off all-time lows but remain at low levels. Reduced borrowing costs have helped somewhat mitigate rising prices for home affordability. Home affordability would be further eroded were rates to continue moving higher.



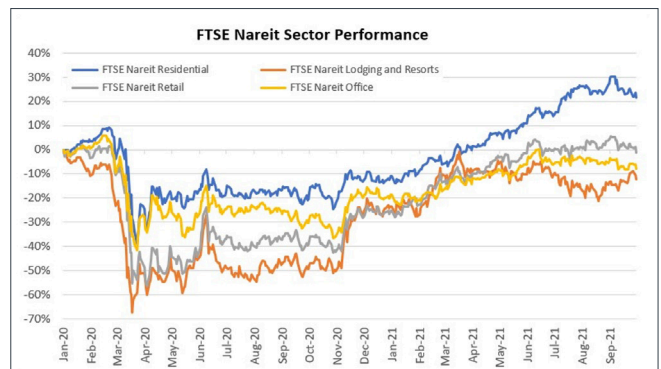
S&P/Case Shiller

Gains in home prices marched higher, rising nearly 15% year-over-year. The rapid increase in home values has shied away some prospective buyers who have exited the market temporarily.



U.S. Bureau of the Census, U.S. Department of Housing and Urban Development

Homebuilding activity has stayed elevated but has struggled to keep up with demand, especially for starter homes. U.S. residential construction has continued to shift towards the suburbs and lower-cost markets.



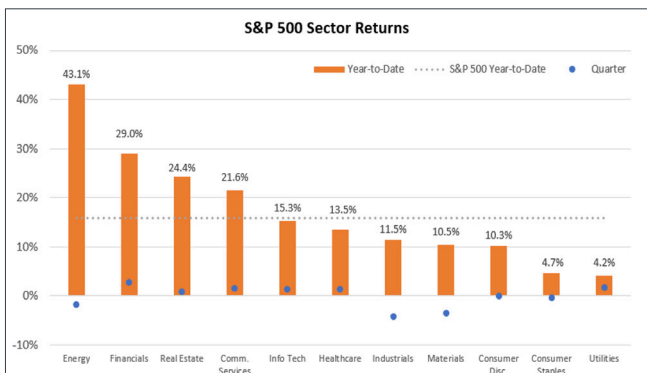
Nareit

The broad REIT market demonstrated impressive gains in 2021. The residential portion of the market was resilient throughout the crisis and remains a standout performer, although other areas have made a strong comeback.

## Equity Markets

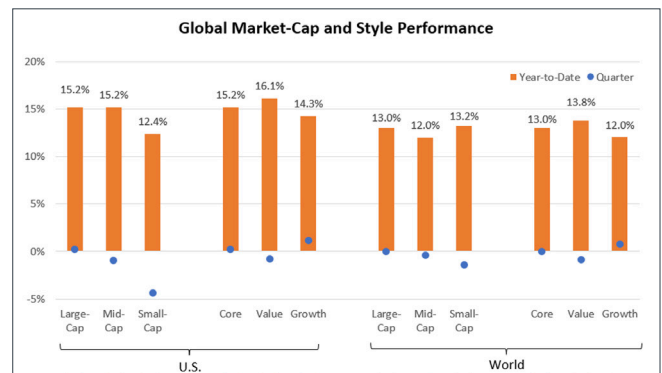
Stocks were mixed last quarter depending on the index, region, or sector evaluated. The S&P 500 Index was up 0.6% which brought its year-to-date return to just under 16%. However, small-cap stocks struggled reflected by the -4.4% drop in the Russell 2000 Index. S&P 500 sectors were mixed as well with financials rising the most, nearly 3% given the prospect of higher future interest rates, while industrials lagged more than 4%. Energy was slightly negative last quarter but retains its stellar 2021 capitalizing on elevated oil prices given OPEC’s planned restriction of oil output and an imbalance of supply and demand. Globally, large-cap stocks outperformed small-caps although to a much less drastic measure outside the U.S. However it is important to note that small-cap stocks historically perform well in rising-rate environments. Year-to-date, domestic large-cap stocks and small-caps flip-flopped their leadership. Growth beat value globally given resurgent Delta variant fears and disappointing economic data relative to expectations. Current U.S. company valuations remain elevated although they have fallen modestly last quarter given reported strong earnings’ reports. Ensuring higher inflation and tax rates do not degrade firms’ purchasing power is paramount for the Federal Reserve to monitor in the near-term.

For the most part, international equity indices were negative. Developed non-U.S. markets grossly outperformed emerging markets in USD terms due to China’s newly enforced regulation measures. During the third quarter, emerging markets and Chinese stocks specifically, plummeted about 8% and 18% respectfully as represented by their MSCI indices in U.S. Dollar terms. Recent underperformance has contributed to more compelling valuations for non-U.S. stocks when compared to U.S. counterparts. Similarly, various structural growth opportunities, waning effects of the pandemic, and the potential for a lower dollar in the long run justify maintaining a steady



Bloomberg

Sector returns were mixed last quarter although none were too extreme in either direction. Energy continues to lead the pack for the year as oil production limitations persist and commodity prices have risen.



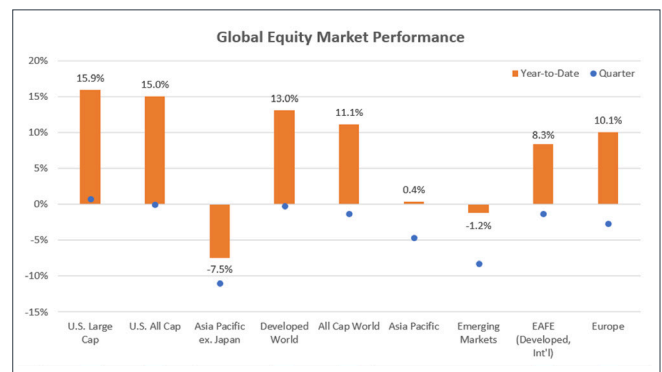
Bloomberg; U.S. indices from Russell and World indices from MSCI

Small-cap stocks lagged large-cap stocks within the U.S. and the entire world as a whole. However, only within the U.S. do small-caps lag large-caps for the year. Growth beat value last quarter globally.



Bloomberg

Global trailing 12-month price-to-earnings ratios remain higher than they’ve been during their past 10-year track record, although developed non-U.S. valuations swiftly fell last quarter as strong earnings were reported.



S&P and MSCI

Third-quarter global equity returns were flat to negative. An area worth mentioning is emerging markets and Asia Pacific ex. Japan due to the regions’ exposure to China. Chinese stocks fell and erased the emerging markets’ positive YTD 7% return through the second quarter.

## Fixed Income Markets

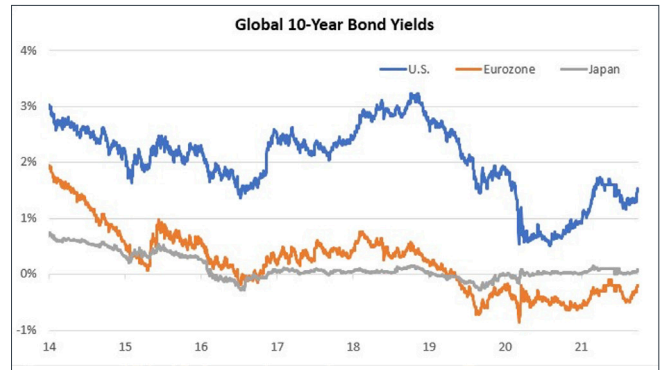
After a flat third quarter, U.S. fixed income markets remain in negative territory year-to-date. Government bond yields climbed following the September Fed meeting due to both higher real yields and greater inflation expectations. The supply/demand backdrop for municipals remained favorable and yields rose sharply in September, improving valuations versus U.S. Treasuries. Lower quality taxable and municipal bonds both outperformed. Corporate credit and municipal bond spreads remain historically low. After support from COVID-19 stimulus programs and solid tax receipts, municipal fundamentals are healthy. U.S. corporate credit has lower leverage and stronger balance sheets than before the COVID-19 crisis. Corporate high yield default rates are roughly 1%, at the bottom of the historical range.

Current expectations are that the Fed will soon scale back asset purchases and raise the Fed Funds Rate next year. Other central banks such as the ECB are also signaling tighter monetary policy but seem poised for slower implementation than the Fed. Forward looking returns for high quality U.S. bonds are under 3% with yields well below the current pace of inflation. In this environment, higher yielding sectors such as bank loans and direct lending as well as tax-efficient municipal bonds have seen strong inflows. With higher tax rates likely on the horizon, flows into municipal funds are the second highest on record. However, high quality bonds have proven their worth during equity market drawdowns. Demand continues to be robust with investors pursuing a mix of safe-haven bonds and riskier higher yielding securities.



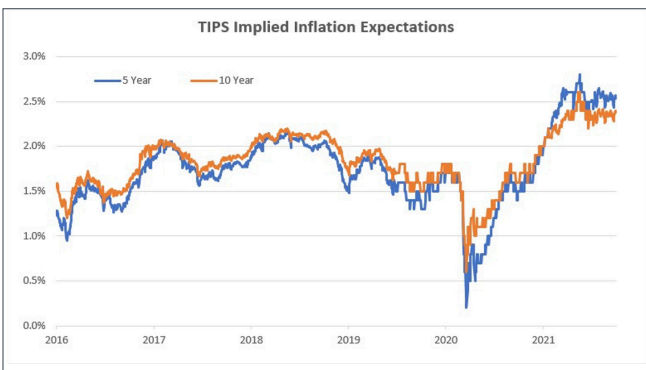
Barclays Capital

Credit spreads saw a small uptick during the quarter, modestly improving valuations. Credit spreads remain at historic lows, far off the peaks seen at the height of the Coronavirus Crisis. High yield corporate default rates are roughly 1%, reflecting relatively strong corporate balance sheets.



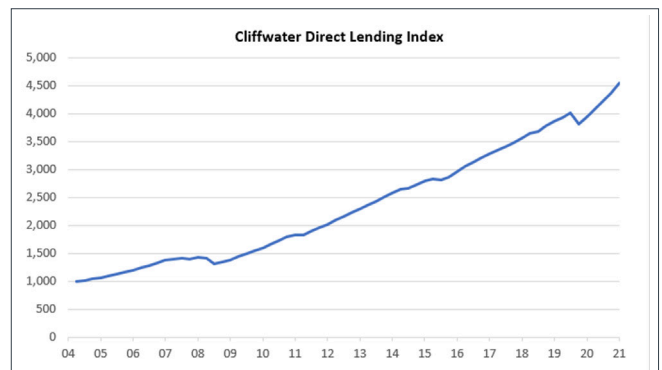
Bloomberg

Yields in most major bond markets were stable for the quarter, despite a rise in volatility in September. Higher yielding U.S. bonds are attractive to international investors faced with meagre and even negative rates in their home countries. Structural factors are keeping rates low in Europe and Japan.



Bloomberg

10-year TIPS implied inflation rose during the quarter, reflecting an uptick in inflation expectations. Medium-term inflation expectations have exceeded long-term expectations since the beginning of the year, perhaps reflecting that investors are less optimistic about long-term U.S. economic growth.



Bloomberg Barclays

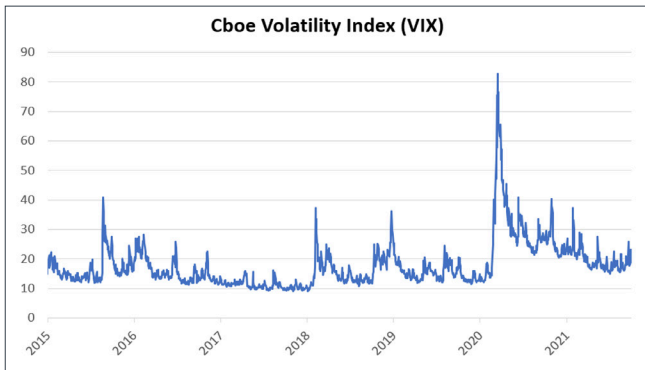
The Cliffwater Direct Lending Index measures the performance of middle market corporate loans. Over time, investment income is the primary source of return. Principal losses during the COVID-19 crisis have been reversed and the Index is up more than 15% since the market bottom in March 2020.

## Alternative Markets

Hedge funds had another solid quarter, led by equity hedge and event driven strategies. So far, 2021 has seen the best hedge fund results in over 20 years according to Hedge Fund Research (HFR). Equity-oriented strategies benefited from price momentum in energy and technology stocks and a favorable stock picking environment with wide dispersion across stocks. Event-driven strategies benefited from the healthy supply of distressed debt and the improving M&A environment. Tactical global macro traders took advantage of volatility in oil prices and interest rates while thematic strategies struggled with the changing economic landscape.

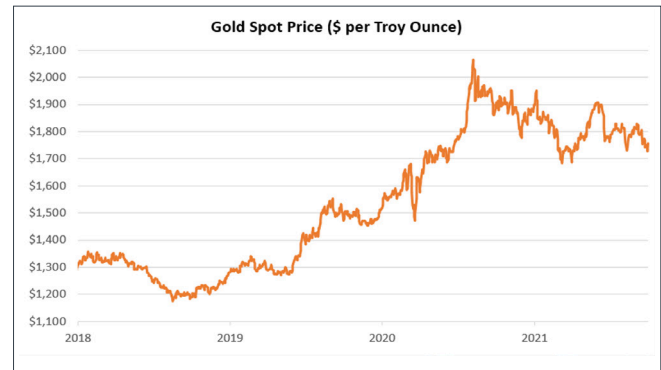
After coming to a near standstill during the pandemic, private equity deal activity continued to rebound. Recent private equity exits through IPOs has surged and is now on par with strategic acquisitions which historically has dominated exit activity. Investor demand for SPAC IPOs, as well as high yield debt, is a tailwind for the private equity and credit investments. Credit dispersion in private credit, while at historically low levels, has made the available universe more robust than in the public bond markets.

Commodities were the highest performing asset class in the second quarter and for the first half of the year. Prices continued to surge, reflecting the pick-up in global demand and inflation as well as supply backlogs. Gains were led by the energy and agriculture sectors which faced unusual supply uncertainty. Prices for many natural resources, such as lumber, hit multi-decade highs but have since fallen back. After strong demand from investors in 2020, commodity funds experienced small outflows during the quarter, suggesting there may be less technical support for large price gains going forward.



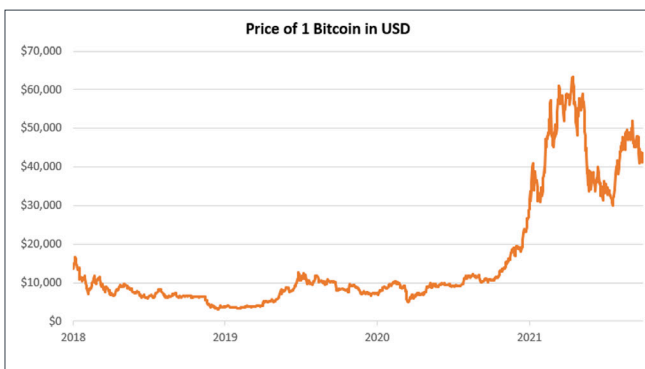
Cboe, Bloomberg

Expected stock market volatility, as measured by the VIX Index, rose modestly during the September market sell-off, into the mid-20s. Expected volatility remains at modest levels. The number of days with a price move of 1% or more in the stock market is well below average over the past year.



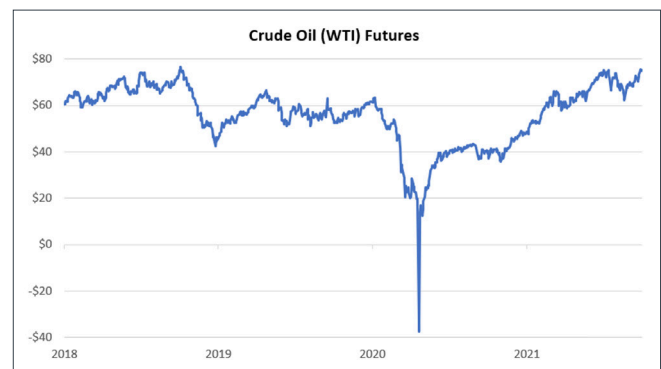
Bloomberg

Precious metals, which are sensitive to the level of real interest rates, declined in response to expectations for tighter monetary policy. Platinum and silver experienced the largest declines, but gold, a popular safe-haven in investor portfolios, also lost ground.



Bloomberg

The price of Bitcoin has been volatile over the past year. Although the cryptocurrency fell by 25% during the third quarter, the price has doubled since December 2020. Government regulatory scrutiny, a setback in institutional usage and concerns over energy demand have impacted the digital currency sector.



U.S. Energy Information Administration

WTI crude oil continued to rise during the quarter, propelled by rebounds in transportation and travel as well as supply constraints. Efforts to control the oil supply by OPEC, weather-related problems and limited inventory have dampened energy supply. Natural gas prices have skyrocketed and are at historic highs.



## Capital Market Returns

	Third Quarter	Year-to-Date
<b>Cash and Fixed Income</b>		
U.S. Treasury Bills	0.0%	0.0%
Barclays U.S. Aggregate Bond Index	0.1%	-1.6%
Barclays Municipal Bond Index	-0.3%	0.8%
Barclays Global Aggregate ex. USD	-1.6%	-5.9%
<b>Hedge Funds and Alternatives</b>		
Bloomberg Community	6.6%	29.1%
DJ U.S. Real Estate	0.9%	21.3%
HFRX Global Hedge Fund	1.4%	6.4%

Morningstar & Hedge Fund Research, Inc. (HFRI)

	Third Quarter	Year-to-Date
<b>U.S. Equity</b>		
Russell 3000	-0.1%	15.0%
S&P 500	0.6%	15.9%
Russell 2000	4.4%	12.4%
<b>International Equity</b>		
MSCI ACWI ex. U.S.	-2.6%	6.8%
MSCI EAFE (Developed)	-0.4%	8.3%
MSCI Emerging Markets	8.1%	-1.2%

## Disclaimer

This commentary was written by Craig Amico, CFA®, CIPM®, Senior Investment Analyst, Noreen Brown, CFA®, Director of Portfolio Management and Steven Melnick, CFA®, Senior Investment Analyst at Summit Financial, LLC., an SEC Registered Investment Adviser (“Summit”), headquartered at 4 Campus Drive, Parsippany, NJ 07054, Tel. 973-285-3600. It is provided for your information and guidance and is not intended as specific advice and does not constitute an offer to sell securities. Summit is an investment adviser and offers asset management and financial planning services. Indices are unmanaged and cannot be invested into directly. The Sustainable Spotlight portion of this report is written and provided by Seeds Investor LLC (“Seeds”). Seeds is an SEC Registered Investment Advisor which is not affiliated with Summit. The market return chart returns are represented by the following indices: large cap value by Russell 1000 Value TR Index, large cap blend by Russell 1000 TR Index, large cap growth by Russell 1000 Growth TR Index, mid cap value by Russell Mid Cap Value TR Index, mid cap blend by Russell Mid Cap TR Index, mid cap growth by Russell Mid Cap Growth TR Index, small cap value by Russell 2000 Value TR Index, small cap blend by Russell 2000 TR Index, and small cap growth by Russell 2000 Growth TR Index, international developed by the MSCI EAFE NR USD Index, Emerging Markets by the MSCI EM NR USD Index, U.S. Aggregate Bond by the BBgBarc US Agg Bond TR USD Index, U.S. Municipals by the BBgBarc Municipal TR USD Index, and Corporate High Yield by the BBgBarc US Corporate High Yield TR USD Index. The Wilshire 5000 Total Market Index measures the performance of all U.S.-headquartered equity securities with readily available price data. The Standard & Poor’s 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market. The Russell 2000 Index is a market-cap weighted index comprised of the smallest 2,000 companies within the Russell 3000 Index, a larger market-cap index made up of the largest 3,000 publicly traded companies in the U.S., nearly 98% of the investable U.S. stock market. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI Europe Index captures large- and mid-cap representation across 15 Developed Markets countries in Europe, covering approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe. The MSCI Emerging Markets (EM) Index captures large- and mid-cap representation across 26 Emerging Markets countries, covering approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Japan Index captures large- and mid-cap representation of the Japanese market, covering approximately 85% of the free float-adjusted market capitalization in Japan. The Bloomberg Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index comprising Treasury securities, Government agency bonds, mortgage backed bonds, corporate bonds, and some foreign bonds traded in the U.S. The Bloomberg Barclays Global Aggregate Ex U.S. Index measures the performance of global investment grade fixed-rate debt markets that excludes USD-denominated securities. The Bloomberg Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market’s expectation of 30-day forward-looking volatility. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss.

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