C&N VANTAGE POINT

QUARTERLY MARKET RECAP & OUTLOOK | SECOND QUARTER, 2021

MEET A TEAM MEMBER

MICHAEL HICKEY

VP/Senior Financial Consultant

Michael Hickey joined C&N in February of 2018 and is currently holds the title of Vice President, Senior Financial Consultant. He has worked as a licensed advisor for 10 years, having worked at another institution as a Financial Advisor in the Danville, Williamsport, Lewisburg and State College markets. Michael earned his Bachelor's degree from Penn State University in 2010 and currently holds his licenses in life, accident, health and long-term care, series 6, series 63, series 66 and series 7 designations and is currently pursuing his Certified Financial Planner designation. In his current role, he works with clients to help them navigate through the various aspects of financial planning such as wealth management, retirement planning, education planning, insurance and legacy planning, as well as working with local businesses to help them provide the best benefits available to their employees.

When not at work, Michael is extremely active throughout his community. He is the treasurer for the Pennsylvania Bowhunters Festival, and coaches various little league and senior league baseball and softball teams in Danville. He has also been an active member of the Danville Moose lodge for the past 8 years. He is an avid outdoorsman, spending much of his time hunting, fishing, golfing and hiking with his girlfriend, Erin and his dog, Bentley.

"I love being a resource for my clients and helping them navigate through their financial life cycle."

Key Equity Indexes - As of Quarter End	%YTD Return**	NTM P/E**	P/B**	Dividend Yield**
S&P 500	16.75	21.60	4.30	1.31
Russell 2000	17.30	29.37	2.59	0.85
Russell 1000 Growth	14.59	30.92	12.13	0.67
Russell 1000 Value	18.10	17.11	2.55	1.83
MSCI EAFE	9.68	16.33	1.79	2.30
MSCI EM	6.11	14.01	2.03	1.85

Sources: JP Morgan Weekly Market Recap; Northern Trust. Past performance does not guarantee future results, which may vary.
** As of 07/02/2021

Key Interest Rates	2021			
	10/2/20	12/31/21	4/1/20	7/2/21
2-yr Treasury Note	0.13	0.13	0.17	0.24
10-yr Treasury Note	0.7	0.93	1.69	1.44
30-yr Treasury Note	1.48	1.65	2.34	2.05
30-yr Fixed Mortgage	3.05	2.86	3.33	3.2
Corp. Bond Index	2.06	1.79	2.28	2.08
High-Yield Bond Index	6.08	4.97	4.91	4.57

Sources: JP Morgan Weekly Market Recap & Oppenheimer Markets Review At-a-Glance
Past performance does not guarantee future results, which may vary.

2021 YTD STYLE PERFORMANCES**

	US Equity Style			MSCI World Style			US Fixed Income Maturity***			
Equity Size	Value	Core	Growth	Value	Core	Growth	Short	In-termed.	Long	Quality
Large	18.10%	16.29%	14.59%	15.41%	14.32%	13.03%	-0.44%	-1.05%	-7.50%	Government
Medium	20.50%	17.09%	10.95%	16.66%	13.26%	9.13%	0.14%	-0.43%	-2.18%	Corporate
Small	26.42%	17.30%	8.78%	18.83%	15.31%	11.56%	4.71%	3.70%	5.61%	High Yield

Source: Goldman Sachs Asset Management Market Monitor & Oppenheimer Markets Review At-a-Glance US Equity Style Returns - Russell Indices Past performance does not guarantee future results, which may vary.
**As of 07/02/2021

SEEING THE WHITES OF INFLATION'S EYES

Debating whether the Federal Reserve (Fed) will "fire" against oncoming inflation is a fitting analogy as America turns 245. Troops defending Bunker Hill* during the early stages of the American Revolutionary War were told not to fire until they saw the "whites of the eyes" of opposing forces. Federal Reserve Chair Jerome Powell has more or less committed to the same on inflation. But some might argue we are, in fact, seeing those eye whites. Inflation, as indicated by the Fed's preferred measure (core personal consumption expenditures), is at 3.4% year-over-year and well above the 2% Fed target. Will the Fed fire? It depends on whether the inflationary forces continue to march or retreat. We review each possibility.

Inflation continues attack? When the pandemic shut down the global economy, demand waned quickly. As the economy reopens, demand snapped back while supply is taking longer, creating a larger supply/demand mismatch. Anecdotes abound. Whether it be restaurants struggling to find wait staff or manufacturers facing part shortages, supply reinforcements (sticking with the battle theme) are in high demand in a number of areas.

Inflationary forces retreat? It's often said the best cure for higher prices are … higher prices, as they incentivize new supply or induce substitutions. Lumber prices surging from mid-March to mid-May have led to those same prices falling below that mid-March starting point as supply has ramped up; rising wages have only led to more kiosks.

New rule: Don't fire unless inflation persists. A one-time price jump does not generally elicit a reaction from the Fed. And the Fed has made it clear that it doesn't believe inflationary forces will last. Importantly, it is what the Fed *will* do — more so than any single analysis of what the Fed *should* do — that matters when considering Fed policy and the broader financial market outlook.

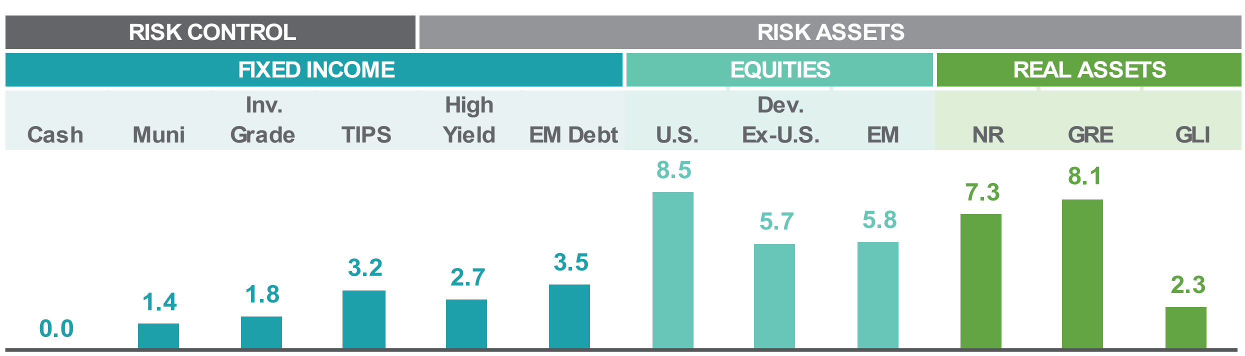
What does the Fed "firing on inflation" really mean? The Fed is currently engaged on two fronts: 1.) its (near-zero) Fed funds rate; 2.) its ($120 billion-per-month) asset purchase program (buying both Treasurys and mortgage-backed securities). It is unlikely the Fed begins raising the Fed funds rate before it fully removes itself from the bond buying business. Further, the Fed has committed to "tapering" its monthly purchases before it fully stops buying. Even further still, the Fed is committed to alerting the market well in advance of any tapering action. A reasonable "earliest case" timeline would be for the Fed to announce its tapering initiative coming out of its annual Jackson Hole summit in late August; for tapering to occur throughout most of 2022; and for the Fed to be in position for its first rate hike in late 2022. This remains well outside the approximate six-month horizon discounted by markets.

Fighting the battle — and the war. Just as the Fed fights this current inflation "battle", it must also keep its eyes on the longer-term economic "war" — a decade-long war on low economic demand and low inflation. The Fed will not give up hard-fought ground by exiting its easy monetary policy prematurely. Instead accommodation will be removed carefully — so long as the Fed can help it.

*The battle was actually fought mostly on nearby Breed's Hill.

SECOND QUARTER 2021 TOTAL RETURNS (%)

Risk asset momentum continued into the second quarter; U.S. equities came out on top.



	Cash	Muni	Inv. Grade	TIPS	High Yield	EM Debt	U.S.	Dev. Ex-U.S.	EM	NR	GRE	GLI
YTD	0.0	1.1	-1.6	1.7	3.6	-3.4	15.3	10.3	8.9	19.9	14.2	5.4

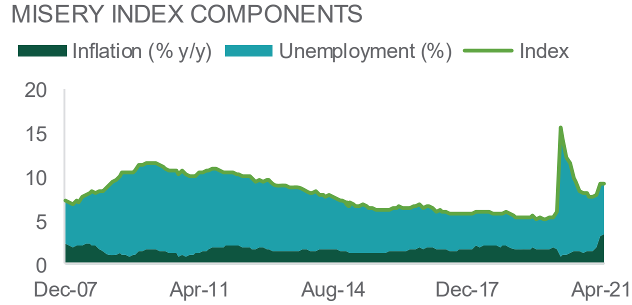
Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees.

KEY DEVELOPMENTS

This Too Shall Pass

The misery index, created amid the stagflation of the 1970s, simply sums unemployment and inflation. It has recently been at a decade-high — and more recently driven by higher prices as elevated unemployment only slowly declines. Concerning? Not overly. Plentiful job openings should solve for the unemployment issue in upcoming months. Inflation is proving a bit stickier than many expected, as supply chains are slow to untangle and reset, but we are seeing some rollover in pricing (e.g., lumber prices halved over the past two months).

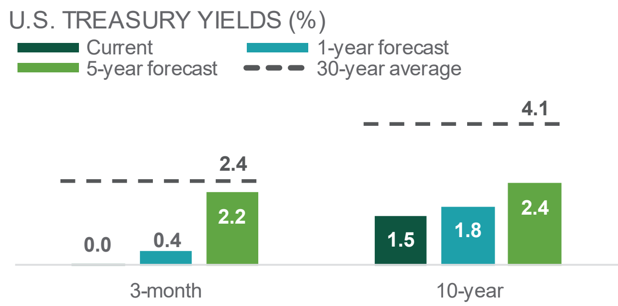
MISERY INDEX: UNEMPLOYMENT AND INFLATION



Monetary Policy: Keeping Calm

It is important to keep in mind that central banks remain committed to easy money. Investors don't fear inflation as much as they fear central bankers overreacting to inflation — in a way that pushes interest rates higher and growth trajectories lower. That prospect is not the base case. Brief market volatility arose after the Fed's most recent meetings as officials showed some hint at a potential end game to current accommodation. But — keeping it all in perspective — below-average interest rates should continue for the next five years (see chart).

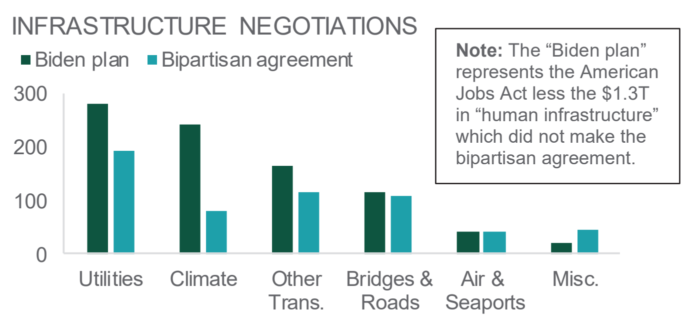
MARKET-BASED INTEREST RATE EXPECTATIONS



Fiscal Policy: Carrying On

While monetary policy remains easy and on hold, politicians have been busy attempting to find bipartisan agreement on the first half of the Biden administration's infrastructure plan. The announcement of a $1.2 trillion deal (with $0.6 trillion in "new money", outlined in chart) quickly ran into confusion as to whether the deal was tied to a broader reconciliation bill. At any rate, the bill still faces a tough road through the legislative process. History advises investors to not get too optimistic over the prospects of sweeping infrastructure spending.

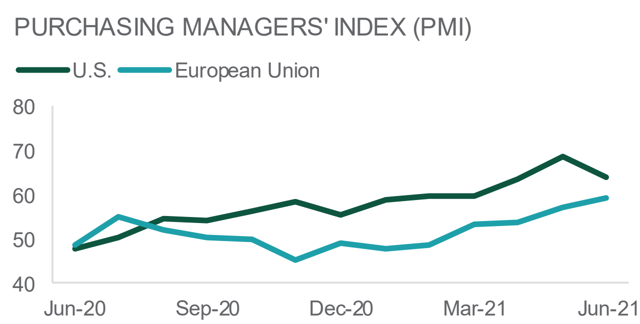
INFRASTRUCTURE BILL NEGOTIATION UPDATE



Growth: Passing the Baton

A strong global recovery has taken place as economies reopen and fiscal spending kicks in. This growth has been fairly well-sequenced — a baton that has been passed first from China to the U.S., and now from the U.S. to Europe. As judged by purchasing manager indices (see chart), we have seen the U.S. growth trajectory come off the boil (though still very strong) while Europe sees continued momentum. This, alongside Europe's more economically-leveraged stock market, may provide near-term European stock support.

U.S. AND EUROPE GROWTH ENVIRONMENT



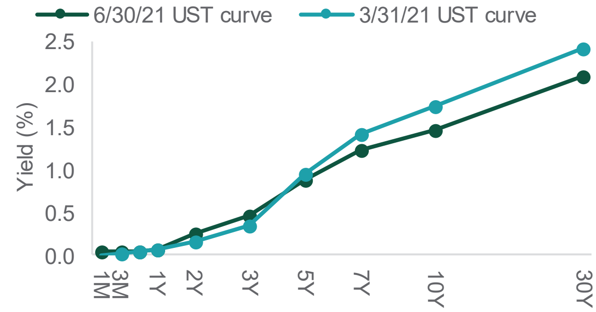
Source: Northern Trust Asset Management, Bloomberg, Strategas. Yield forecasts from Treasury forward curves. Markit PMIs; flash PMIs for June 2021. Data as of 6/30/2021.

MARKET REVIEW

Interest Rates

The Fed was forced to choose between: 1.) tighter policy in response to building inflationary pressures and economic improvement; and 2.) stay-the-course easy policy in aim of its dual goals-based policy approach, transitory inflation and lingering economic headwinds. It sided with the latter, but short-term yields rose on more optimistic economic forecasts and initial tapering talks. Longer-term yields stalled as waning growth momentum weighed on real rates and market inflation expectations retreated from highs, resulting in a flatter yield curve.

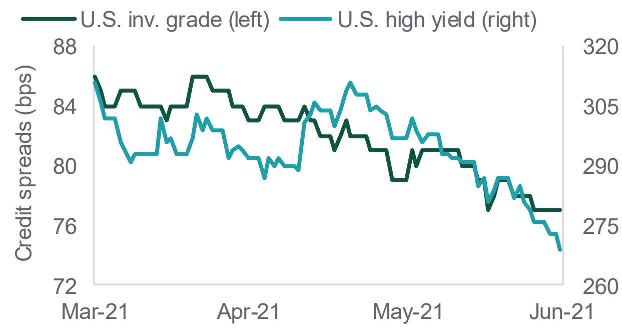
U.S. TREASURY YIELD CURVE



Credit Markets

Helped by the reopening of the global economy, strong corporate earnings fed into improving recovery rates and overall better corporate fundamentals. Credit flows were very supportive as the low interest rate backdrop left investors eager to pick up yield. Investment grade and high yield spreads fell 9 and 42 basis points to levels not reached in over 10 years. Companies have taken advantage of high demand for yield by pushing out maturities. This and the low interest rate backdrop leaves corporations in a fundamentally healthy position.

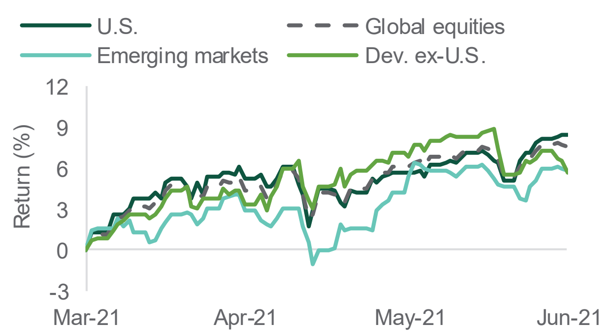
CREDIT SPREADS



Equities

Global equities gained 7.5% as improving economic growth, policy support and strong earnings overcame peak growth, excess inflation and policy mistake fears. U.S. equities outpaced global equities with an 8.5% return. As government bond yields settled, U.S. equities — and growth stocks in particular — rebounded from mid-quarter pressure. Emerging market equities trailed global equities as policymakers carefully navigated a credit slowdown. Economic reopening has not been trouble-free, but it has underpinned risk asset growth.

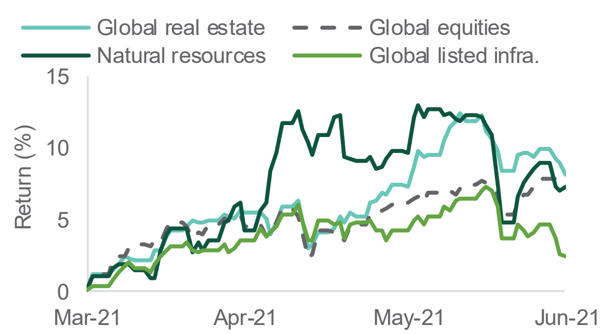
REGIONAL EQUITY INDICES



Real Assets

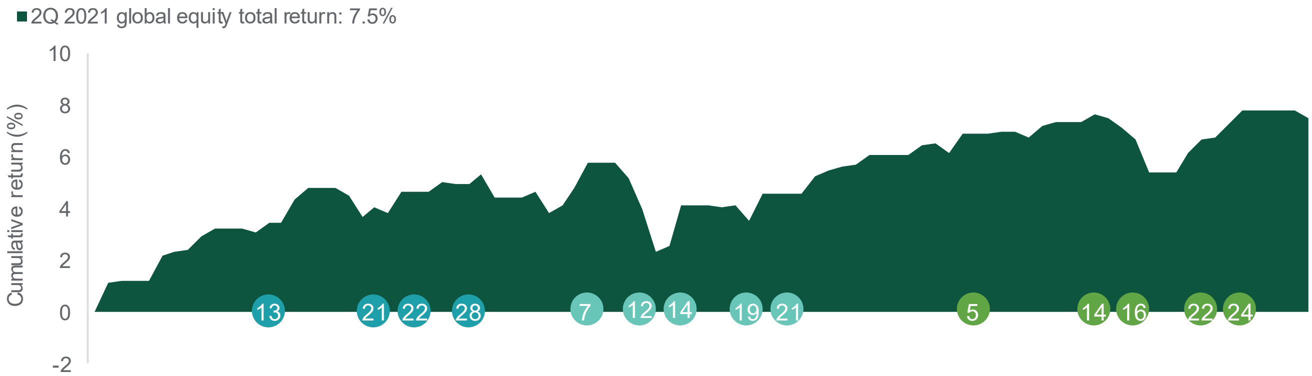
Global real estate advanced 8.1% as investors sought exposure to the cyclical recovery and interest rates settled at the low ends of recent ranges. Global natural resources benefitted from rising inflation risks; however, it ultimately slightly underperformed global equities as investors became more at ease that inflation will be transitory and the Fed hinted at a possible end to easy policy down the road. As expected in a risk-on environment, global listed infrastructure posted a positive but somewhat underwhelming return (2.3%).

REAL ASSET INDICES



Source: Northern Trust Asset Management, Bloomberg. Returns in U.S. dollar terms. UST = U.S. Treasury. Indexes are gross of fees.

MARKET EVENTS



APRIL	MAY	JUNE
13 U.S. pauses Johnson & Johnson vaccine administration to investigate safety issues involving blood clots.	**7** U.S. jobs report significantly disappoints expectations with only 266k jobs added and a 0.1% tick up in the unemployment rate to 6.1%.	**5** The G-7 agrees to back minimum global tax rate of at least 15% — though much work remains to be done to effect such a global policy change.
21 Bank of Canada becomes the first major central bank to announce it will begin tapering.	**12** U.S. core CPI reaches 3.0% year-over-year and 0.9% month-over-month — the highest monthly increase since 1982.	**14** U.K. delays lifting virus restrictions by four weeks amid new cases tied to the more-contagious Delta variant.
21 ECB leaves policy unchanged, insists it's premature to talk about tapering and emphasizes its readiness to provide ongoing support.	**14** The Centers for Disease Control and Prevention (CDC) lifts most mask mandates for fully vaccinated individuals.	**16** Fed further “talks about talking about” tapering; Summary of Economic Projections show median forecast of two rate hikes by late-2023.
22 News leaks that the Biden administration seeks to raise capital gains tax for wealthy investors to 39.6%.	**19** Fed meeting minutes reveal appetite amongst some members to begin discussing tapering upon further economic improvement.	**22** In a speech to Congress, Fed Chair Powell emphasizes the transitory nature of inflation and need for policy patience in order to achieve employment goals.
28 President Biden officially announces details of part two of his infrastructure agenda — the $1.8 trillion American Families Plan.	**21** With most S&P 500 companies having reported, first quarter earnings growth is expected to finish around 50% y/y (highest growth rate since 2010).	**24** Biden administration agrees on a $1.2 trillion bipartisan infrastructure bill ($0.6 trillion in new spending) over eight years — still faces tough legislative path.

C&N Wealth Management

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PASSING THE BATON

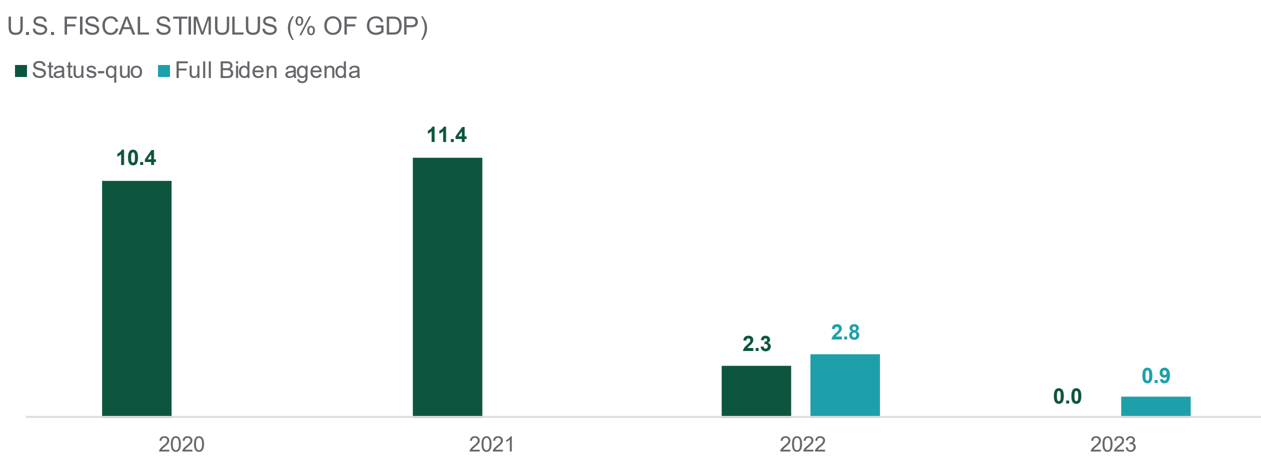
The stock and bond markets look ahead at least six months, discounting what investors think are the most likely outcomes for growth, inflation and other key inputs. So it is critical to differentiate between what is likely behind us, what is the current state of affairs, and how things will likely differ six-to-12 months from now. COVID-19 has increasingly become a non-issue to the markets, as more vaccinations are leading to reopening in the West and even struggling countries like India and Brazil have registered double-digit equity market gains. The current economy features red-hot growth and surging prices. Growth hasn't been a market concern, as high savings rates, low capital expenditures and ongoing reopening have underpinned investor confidence. This has left plenty of attention to be trained on the outlook for inflation – and investors need to assess more than just forecasts.

With recent inflation reports in the U.S. that have been higher than professional forecasters expected, observers may be puzzled by the benign reaction in the financial markets. The Fed has said it expects inflation to be transitory, and we have regularly stated our view that prices will settle down after the reopening-led surge. So far, at least, the markets are agreeing as the 10-year Treasury yield and inflation breakevens have steadily fallen since their peaks in late March. While we take some comfort from this market behavior, the downside risks of higher inflation are such that it remains our top risk case. If inflation doesn't upset the apple cart, what might? It has become clear that it is much easier to shut down a global economy than it is to reopen one. Not only have bottlenecks created inflationary pressures, they could also slow growth as the supply of goods and labor falls short.

Labor markets have shown a slower-than-expected return of workers, which constrains the growth outlook but also extends the duration of easy monetary policy and economic expansion. This is a case where "bad news is good news" for the financial markets. This underpins our base case theme of a *Bumpy – but Shock-Absorbed – Recovery*. Our other base case of *Market Laggard Runway* captures our view that prior lagging groups – like value stocks – have further to run as the economic expansion gains traction. Our risk cases include the potential for higher-than-expected inflation, along with a *Dropped Growth Baton* – where the expected large fiscal drag in 2022 isn't sufficiently offset by burgeoning consumer and corporate demand. All in all, we made no changes in our global policy model this month and remain overweight risk assets and underweight fixed income.

FADING FISCAL, RISING PRIVATE DEMAND?

Plunging fiscal stimulus will need to be offset by rising private demand.



Source: Northern Trust Global Asset Allocation, Strategas. Fiscal year data.

C&N PORTFOLIO POSITIONING:
MAINTAIN MODERATE OVERWEIGHT TO RISK

C&N Vantage Point
July 2021

Market Views:
Equities Fairly Valued Short Term. Constructive On Equities Long Term.
Diversification Remains Paramount. Markets Will Likely Be Choppy.
Rates Likely Lower For Longer.

Market Risks:
Inflation Stays Elevated For Longer Than We Expect.
Federal Reserve Miscalculations Or Miscommunications.
Political Dynamics (Tax, Reconciliation & Infrastructure Bills)

Risk Type	Asset Class	Sector Category	Under Weight	Neutral	Over Weight	Viewpoints
	Cash/Cash Alternatives	Ultrashort Bonds		−		We move Ultrashort to neutral. This remains a source of funds for a targeted trade should opportunities develop. We trimmed this category to fund other category overweights.
Risk Control	Alternatives (Fixed Based)	Absolute Return		●		We believe equities represent better value looking out 1 to 3 years. This has been a source of funds during recent rebalancings. We remain neutral.
Risk Control	Alternatives (Fixed Based)	Inflation-Linked Bonds			●	Wages are showing moderate increases and trending higher. Housing prices have risen sharply. A Democratic tax increase or an infrastructure bill could be inflationary. We maintain a slight overweight.
Risk Control	Fixed Income	US Investment Grade Bonds	●			IG Corps spreads have tightened even further. We remain underweight to U.S. Govt bonds. Overall, we're underweight but continue to stay neutral on duration being opportunistic on rate rises.
Risk Control	Fixed Income	International Bonds			+	The macroeconomic environment is improving. European economies are lagging the U.S. by 1 to 2 quarters. We move to a slight overweight based on spread valuations compared to US Corporate Bonds.
Risk Control	Fixed Income	Emerging Markets Bonds		●		EM bond yields may have room for additional spread tightening. EM is more correlated to a global recovery. We maintain our neutral allocation.
Risk Assets	Fixed Income	High Yield Bonds		●		Coupons remain attractive relative to other fixed income. Valuations have risen. We remain neutral to maintain a barbell approach within fixed income.
Risk Assets	Equities	US Large Cap			+	Value has significantly outpaced Growth YTD. We remain overweight to Value for the cyclical trade but added to Growth in May taking us to an overweight in this category.
Risk Assets	Equities	Developed Ex-US		●		Valuations are reasonable compared to the U.S. International Growth becoming more attractive. We look to add to Large Caps due to valuations and trim Small Caps due to recent outperformance.
Risk Assets	Equities	US Mid & Small Cap			●	These categories finished strong in each of the previous quarters. We trimmed are positions in May to fund our Large Growth and EM positioning, reducing these to a slight overweight.
Risk Assets	Equities	Emerging Markets			●	EM is more correlated to the global recovery. We expect vaccination rates will improve and this will further boost economic growth. We maintain our slight overweight.
Risk Assets	Alternatives (Equity Based) & Real Assets	Real Estate		●		A zero Fed Fund's Rate is a positive for the long term. But a pull forward of remote working is a negative in the short term but data centers continue its strong demand. We remain neutral.
Risk Assets	Alternatives (Equity Based) & Real Assets	Commodities/Natural Resources		●		Oil prices have surged. Precious metals, agriculture and natural resources remain high but have been trending lower over the past month. We remain neutral favoring Large Cap Value as our cyclical play.

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Quarterly Market Recap & Outlook Second Quarter, 2021

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