C&N Vantage Point

Quarterly Market Recap & Outlook
Third Quarter, 2017

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This Quarter's Content

- Economic & Financial Indicators
- Quarterly Review
- Quarterly Outlook
- C&N Portfolio Positioning
- Meet Our Experts

Key Interest Rates	2017 12/30/16	3/31/17	6/30/17	9/29/17
2-yr Treasury Note	1.2	1.27	1.38	1.47
10-yr Treasury Note	2.45	2.4	2.31	2.33
30-yr Treasury Note	3.06	3.02	2.84	2.86
30-yr Fixed Mortgage	4.41	4.33	4.13	4.11
Corp. Bond Index	3.38	3.33	3.2	3.17
High-Yield Bond Index	6.46	6.18	6.06	5.98

Sources: Northern Trust/JP Morgan

Key Equity Indexes - As of Quarter End	%YTD Return	NTM P/E	P/B	Dividend Yield
S&P 500	14.24	17.70	3.08	1.97
Russell 2000	10.94	25.17	1.51	1.23
Russell 1000 Growth	22.76	20.57	6.15	1.60
Russell 1000 Value	7.92	15.90	2.02	2.65
MSCI EAFE	20.47	14.76	1.65	3.03
MSCI EM	28.14	12.51	1.64	2.31

Sources: Northern Trust/JP Morgan

Economic Indicators Data	2017				2018				Q4 to Q4 Change			Annual Change		
	17:1a	17:2a	17:3f	17:4f	18:1f	18:2f	18:3f	18:4f	2016a	2017f	2018f	2016a	2017f	2018f
Real Gross Domestic Product (% change, SAAR)	1.2	3.1	1.5	2.6	2.1	2.1	2	2	1.8	2.1	2	1.5	2.1	2.2
Consumer Price Index (% change, annualized	1.5	0.1	3	1.9	1.9	1.9	1.9	2	1.8	1.7	2	1.3	2	1.8
Civilian Unemployment Rate (% average)	4.7	4.4	4.3	4.3	4.3	4.3	4.3	4.3				4.8*	4.4*	4.3*

a = actual, f = forecast, *= annual average | Source: Northern Trust U.S. Economic & Interest Rate Outlook

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THIRD QUARTER 2017

MARKET SNAFUS

The dictionary definition of a snafu is a disruptive setback or a muddled situation. But the underlying acronym SNAFU — Situation Normal: All "Fouled" Up — implies a slightly different connotation. This literal meaning of the military term is more suited to the investing world: "stuff" happens all the time but, absent an impact to underlying fundamentals, financial markets will see the situation as normal and carry on. Such was the case in the third quarter, where global equities managed an impressive 5.3% return (and are now up 17.8% for the full year) despite the mixed assortment of "snafus" investors faced.

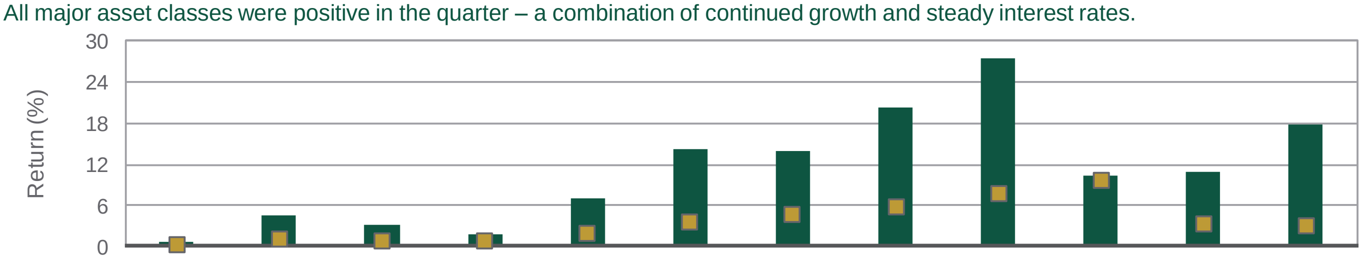
Front and center this quarter was the escalating rhetoric between President Donald Trump and North Korea leader Kim Jong Un. The situation has taken on greater gravity now that North Korea has further advanced its nuclear capabilities. Because of this fact — and the recalcitrant nature of the North Korean regime — it is likely to be resolved sooner than later. The spectrum of possible outcomes span from the positive (regime change) to the negative (military altercation) with more neutral outcomes in between (stricter economic sanctions). All of this will depend on the level of international cooperation. While waiting for more clarity on the North Korea situation, investors sorted through the economic impacts of a host of natural disasters throughout the world — including hurricanes in the United States, earthquakes in Mexico and typhoons in Asia. Meanwhile, political letdowns — whether it be stalled Brexit negotiations or repeated legislative failures in the United States — epitomize the literal meaning of SNAFU.

Investors have taken it all mostly in stride, accustomed to the "all fouled up" aspects of the world and focused on continued global economic momentum. Global purchasing manager indices indicate solid growth while already-healthy earnings expectations continue to be outpaced by actual results. Overall, business and consumer confidence remains high. Meanwhile, to use another military term, inflation remains MIA, missing in action. Year-over-year price increases remain below the 2% central banks target across most major economies — and do not seem to be gaining much traction. So long as inflation remains tame, central bankers can take a slow and steady approach to removing easy money policy and the current economic expansion can continue.

Global equities' 5.3% third quarter gain was heavily driven by the increasingly constructive investing environment of non-U.S. markets. Despite the election setback for German Chancellor Angela Merkel and ongoing Brexit uncertainty, support for the European Union (EU) remains high and economic momentum continues. In Japan, Prime Minister Shinzo Abe is capitalizing on rising approval ratings (helped by six straight quarters of economic expansion) by calling snap elections to consolidate power (October 22). Meanwhile, those doing business in China have reported continued strength ahead of the leadership reshuffle later this year. The U.S. economic environment remains solid as well but investors are still looking for legislative progress. A tax reform outline has been released, but without a willingness to compromise, any legislation will be DOA, dead on arrival.

THIRD QUARTER AND YEAR-TO-DATE 2017 TOTAL RETURNS

All major asset classes were positive in the quarter – a combination of continued growth and steady interest rates.



	FIXED INCOME						EQUITIES			REAL ASSETS		
	Cash	Muni	Inv. Grade	TIPS	High Yield	Emerg. Markets	U.S.	Dev. Ex-U.S.	Emerg. Markets	NR	GRE	GLI
■ YTD	0.6	4.7	3.1	1.7	7.0	14.3	14.1	20.3	27.4	10.3	10.8	17.9
■ 3Q17	0.3	1.1	0.8	0.9	2.0	3.6	4.6	5.9	7.7	9.7	3.4	3.1

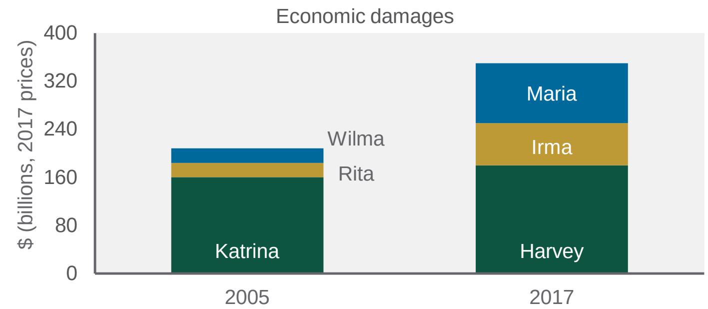
Source: Northern Trust Investment Strategy, Bloomberg. NR = Natural Resources; GRE = Global Real Estate; GLI = Global Listed Infrastructure.
Indexes are gross of fees and disclosed on last page.

KEY THEMES

A Time to Rebuild

The third quarter brought with it a number of natural disasters around the world. Typhoon Hato hit Hong Kong and a series of earthquakes hit Mexico. Then came Hurricanes Harvey, Irma and Maria. Beyond the saddening loss of life, economic damage from the three storms is likely to approach ~$350 billion — 1.5 times that of the 2005 hurricane season (see chart). While the dollar amounts seem large, financial markets did not have a strong reaction. The hurricanes' biggest impacts were to areas with dynamic economies that will rebuild quickly. In an environment of modest economic demand, low inflation and cheap financing, the overall impact may end up being a small net positive to the U.S. economy.

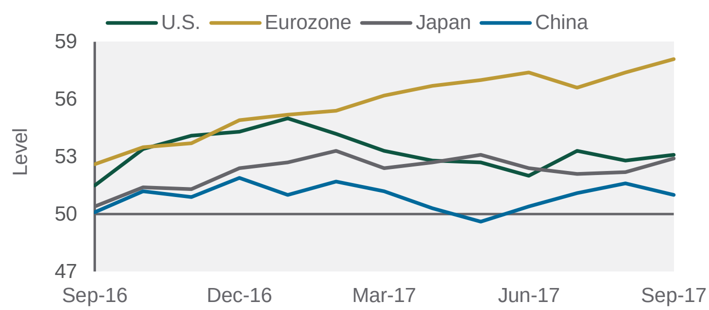
COMPARING THE 2005 AND 2017 HURRICANE SEASONS



Synchronized Global Growth

Amid the headlines of geopolitical tensions, natural disasters and legislative disappointments, the global economy continues to chug along. The purchasing manager indices (PMIs) of all major economies are healthily above 50 — the dividing line between expansion and contraction — led by Europe (see chart). Continued economic growth is allowing central banks to gradually remove easy money policies. The Fed's balance sheet wind down will begin in the fourth quarter while the European Central Bank is expected to soon announce its plans for asset purchase tapering. Given few inflationary pressures and central banks' desire to not upset the markets, any accommodation reductions will be very (very) gradual.

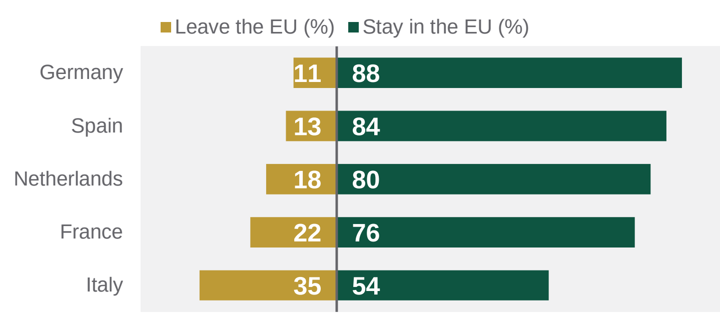
GLOBAL PURCHASING MANAGER INDICES



Shifting Political Leadership

While the Trump administration struggles to find its footing amid ongoing controversy, French President Emmanuel Macron has displayed a strong vision for both France (labor market reform) and the EU (further integration). Headlines focus on Macron's falling approval ratings and ongoing French protests, but pushback was expected given his reform agenda. Macron has a majority in the National Assembly and a strong rapport with German Chancellor Angela Merkel — necessary ingredients for change. Merkel faced a setback in the form of the euroskeptic AfD party's strong showing in recent German elections (now 13% of the Bundestag). But recent polls suggest broad and growing support for the EU (see chart).

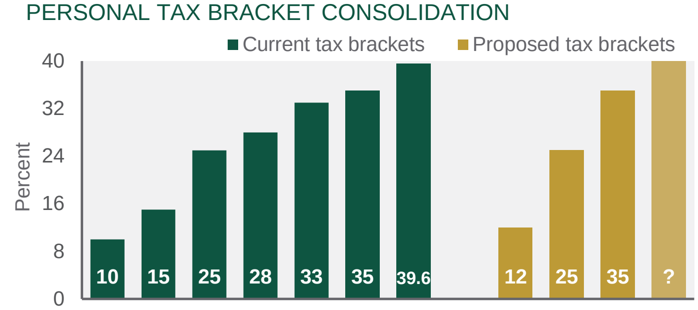
EUROPEAN UNION – CONSTITUENT PREFERENCE



Republican Pivot to Taxes

By quarter-end, efforts to repeal and replace the Affordable Care Act had failed. Republicans quickly turned to tax reform, looking for a legislative win. The effort has started off encouragingly with the release of a tax reform outline that would reduce the corporate tax rate to 20% and simplify personal tax brackets from the current seven to three or four (see chart); but work remains. Because the legislation is likely to use the filibuster-proof budget reconciliation process, a fiscal year 2018 budget outline must first be passed. Supporters will then need to compromise with fiscal conservatives (weary of debt) and lobbyists (tasked with defending tax breaks). Negotiations will likely extend for the rest of the year and into 2018.

PERSONAL TAX BRACKET CONSOLIDATION



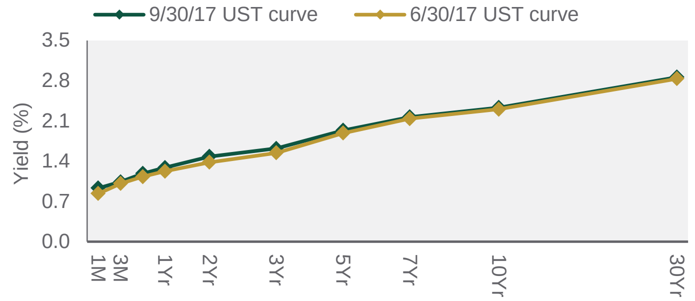
Source: Northern Trust Investment Strategy, fivethirtyeight.com, Bloomberg, Pew Research Center.

MARKET REVIEW

Interest Rates

Interest rates were mostly unchanged from where they began the quarter, masking some modest movement throughout the period. The 10-year U.S. Treasury reached an intra-quarter low of 2.04% on September 7 as inflation remained muted and future Fed rate hike expectations were pushed out. But interest rates rebounded towards quarter-end as inflation expectations nudged upwards, the Fed indicated it planned to raise rates one additional time in 2017 and Republican tax reform efforts gathered steam. Still helping to keep a lid on U.S. rates is demand from international investors, wherein the current 2.33% yield on the 10-year is higher than that of any major developed market other than Australia (or cash-strapped Greece).

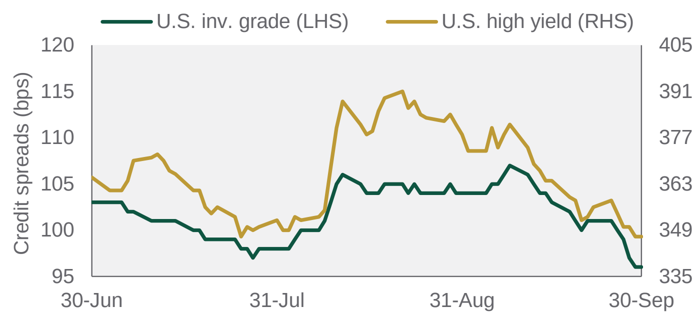
YIELD CURVE



Credit Markets

Credit markets meandered around flat with investment grade and high yield spreads finishing the quarter 0.07% and 0.18% tighter, respectively. Investment grade bonds managed a 0.8% quarterly return (3.1% year-to-date) driven primarily by the 1.4% (5.1%) return of the credit component, which benefited from solid fundamentals, positive investor sentiment and strong technicals. High yield bonds gained 2.0% (now up 7.0% for the year), overcoming mid-quarter technical issues, where supply briefly overwhelmed demand pushing credit spreads higher temporarily. Emerging market debt was strong for the quarter (up 3.6%, 14.3% year-to-date), but started to weaken toward quarter-end as the U.S. dollar reversed its downward slide.

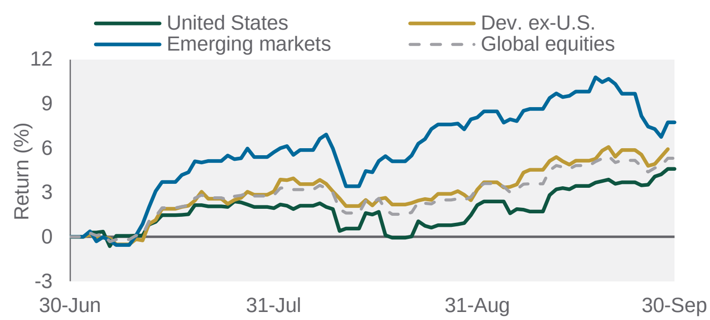
CREDIT SPREADS



Equities

Global equities continued their year-long trend wherein U.S. equities do well (up 4.6% in the quarter; up 14.1% for the year), developed ex-U.S. equities do better (5.9%; 20.3%) and emerging market equities do best (7.7%; 27.4%). A notable portion of the non-U.S. equities year-to-date outperformance has been driven by the weakness in the U.S. dollar. The year-to-date currency impact has equaled 7.5% for developed ex-U.S. equities and 4.2% for emerging market equities. Without the currency benefit, developed ex-U.S. and emerging market equities have realized year-to-date gains of 12.8% and 23.2%, respectively. Recent non-U.S. gains have put a small dent in the 50% U.S. outperformance over the past five years.

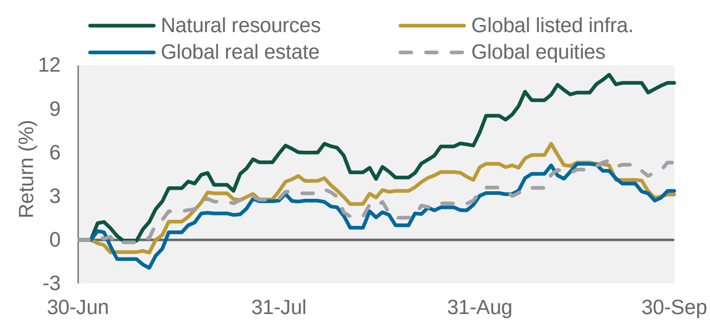
REGIONAL EQUITY INDICES



Real Assets

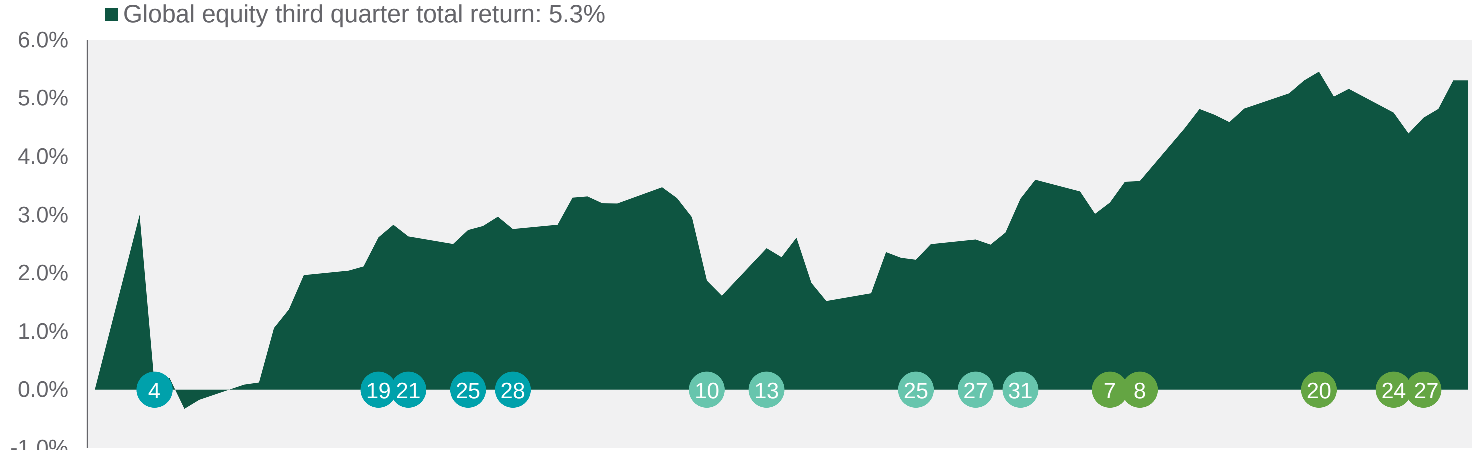
Natural resources regained momentum in the third quarter (+9.7%) after lagging other real assets and global equities for much of the year. OPEC oil production quotas have finally started to impact global supply while Gulf Coast refineries came back online quickly after Hurricane Harvey, resuming crude oil demand. Ongoing global growth should continue to support demand across the broader commodity complex though inventory levels remain elevated. Global real estate and listed infrastructure (GLI) returned 3.4% and 3.1%, respectively, underperforming global equities in the last month of the quarter as interest rates began to rise. Despite third quarter under-performance, GLI is the best returning real asset this year (+17.9%).

REAL ASSET INDICES



Source: Northern Trust Investment Strategy, Bloomberg. UST = U.S. Treasury. Indexes are gross of fees.

MARKET EVENTS



JULY	AUGUST	SEPTEMBER
4 With its 10th test of 2017, North Korea launches first intercontinental ballistic missile; new economic sanctions announced in response	10 The volatility index (VIX) reaches its highest level since the U.S. election as the United States responds to North Korea nuclear threats	7 ECB President Mario Draghi announces that the central bank will offer plans on tapering QE program in October; rates left unchanged
19 General Pierre De Villiers delivers his resignation to French President Macron after public dispute regarding military spending cuts	13 President Trump's response to the Charlottesville, Virginia protests leads to the dissolution of two White House business advisory councils	8 Trump and Democrat Congress leaders sign Hurricane Harvey/Irma relief aid bill combined with a 3-month debt ceiling extension
21 Global equities achieve daily gains for two straight weeks, hitting new record; tech sector surpasses dot com-era high — 17 years later	25 Fed's annual Jackson Hole retreat includes few direct comments on monetary policy, instead focusing on financial stability and globalization	20 The Fed announces that the unwind of its $4.5 trillion balance sheet will begin in October with maturity roll-offs; rates left unchanged
25 Greece returns to the capital markets issuing €3 billion of 5-year government bonds at 4.63%, the first public issuance since 2014	27 Harvey hits Houston area, the first major storm in a busy hurricane season costing lives and causing damage in Atlantic/Gulf area	24 German Chancellor Angela Merkel is re-elected for fourth term but overall results disappoint; right-wing AfD party takes 13% of Bundestag seats
28 John Kelly replaces Reince Preibus as White House Chief of Staff; White House Communications Director Anthony Scaramucci fired soon after	31 French President Macron announces labor market reforms, capping damages employers must pay for wrongful dismissals	27 "Big Six" tax reform outline includes reduction in corporate tax rates to 20% and a simplification of personal tax brackets (from 7 to 3, possibly 4)

Indexes used: Bloomberg Barclays (BBC) 1-3 Month UST (Cash); BBC Municipal (Muni); BBC Aggregate (Inv. Grade); BBC TIPS (TIPS); BBC High Yield 2% Capped (High Yield); JP Morgan GBI-EM Global Diversified (Em. Markets Fixed Income); MSCI U.S. Equities IMI (U.S. Equities); MSCI World ex-U.S. IMI (Dev. ex-U.S. Equities); MSCI Emerging Market Equities (Em. Markets Equities); Morningstar Upstream Natural Resources (Natural Res.); FTSE EPRA/NAREIT Global (Global Real Estate); S&P Global Infrastructure (Global Listed Infra.)

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PLENTY DURABLE

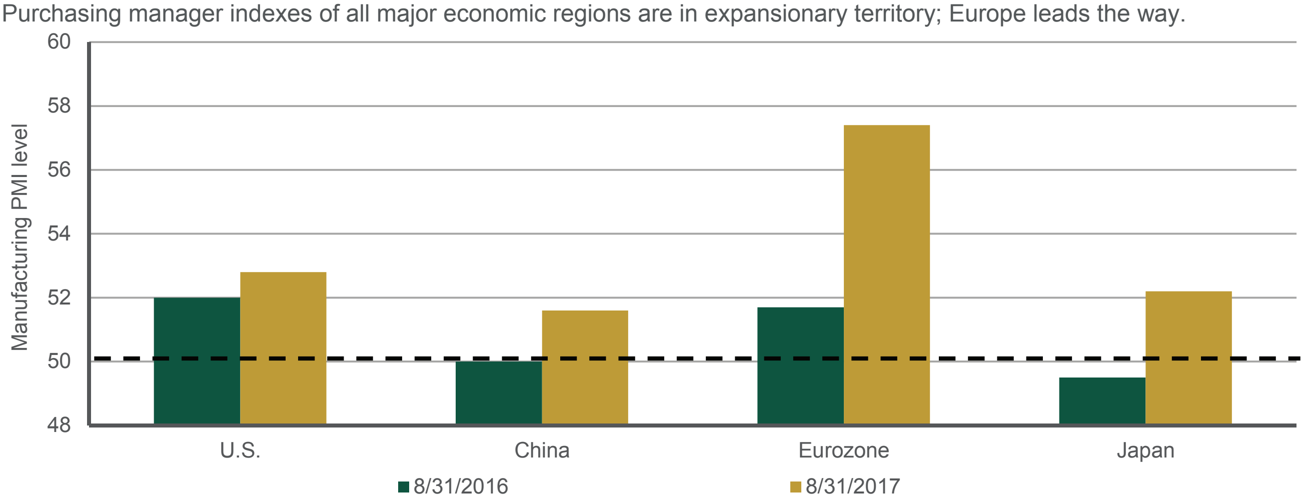
Stock market gains this year have been underpinned by improving corporate profits, so the outlook for growth remains paramount. Fortuitously, current indicators of global manufacturing have been solid. The United States and China have shown steady improvement, Japan's rebound has been stronger and Europe's gains have been downright impressive. Globally, the global manufacturing new orders index has increased from 50 to more than 54, while inventories have actually been declining. This bodes well for the global economy over the next year as companies rebuild inventories to meet current and future demand. Despite the positive economic environment, inflation has been heading lower. Investor expectations for inflation over the next 10 years – as judged by the Treasury Inflation Protected Securities (TIPS) markets – have dropped from 2.0% at the start of the year to just over 1.8% today. Because of technology's disinflationary effect on both supply and pricing of goods, we don't expect a sustained upturn.

So what could derail the expansion? We have identified four potential catalysts: North Korea, the Federal Reserve, a supply shock (such as in the oil markets), and a systemic financial market shock (such as a Chinese credit market crisis). North Korea and the Fed remain risk cases for us – we are concerned about them but we don't think the probability of a negative outcome is high enough to warrant portfolio changes. The risk of a supply shock seems remote, because few markets have tight supply/demand dynamics. The oil markets, in particular, seem well supplied. Finally, systemic financial shocks are highly unpredictable – but the better Chinese economic and financial market performance leads us to conclude this risk is relatively low during the next year.

Through year-end, we expect several key developments beyond the normal drumbeat of economic data. The United States avoided a government funding crisis this month thanks to President Donald Trump's deal with Democratic Congressional leaders, but this will need to be revisited in December. The German federal elections in late September are expected to result in Chancellor Merkel's fourth term, and then the focus will turn to reform within the European Union. Meanwhile, both the Fed and the European Central Bank (ECB) are expected to announce details on their plans to further reduce monetary accommodation. We currently don't expect any of these events to disrupt the positive financial market backdrop, which continues to rely more on economic developments than those of the monetary or political flavor.

BETTER GROWTH GLOBALLY

Purchasing manager indexes of all major economic regions are in expansionary territory; Europe leads the way.



Source: Northern Trust Investment Strategy, Bloomberg, Markit.
PMI = Purchasing Managers' Index. An index level above 50 indicates expansion; an index level below 50 indicates contraction.

C&N PORTFOLIO POSITIONING: MODEST OVERWEIGHT TO RISK

C&N Vantage Points - October 2017

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Market Views:
Slow To Moderate Growth Continues - Domestic Equity Valuations Will Remain Stretched
Diversification Remains Paramount. Remaining Invested Is Important.
A Market Correction Would Be An Opportunity

Market Risks:
Tax Cuts/Reform Is Minimal Or Substantially Delayed
Fed Rate Hikes Lead To A Flat Or Inverted Yield Curve
Geopolitical Risks & Trade War Risks Increase

Risk Type	Asset Class	Sector Category	Under Weight	Neutral	Over Weight	Viewpoints
Risk Control	Cash/Cash Alternatives	Ultrashort Bonds		●		These sectors give us cash in the event of a market correction. With the Fed hiking rates, we are opportunistic in redeploying these monies. Adding to Small Cap Value in 3Q is one example.
Risk Control	Alternatives (Fixed Based)	Absolute Return			●	In a low-rate environment, we maintain our increased exposure to these sectors to provide better-than-money market returns while decreasing our overall risk profile.
Risk Control	Alternatives (Fixed Based)	Inflation-Linked Bonds			●	TIPS appear fairly valued. Inflation expectations have begun to rise so we continue to monitor its impact. We may decrease duration to offset Fed rate hikes and capture more short-term inflation.
Risk Control	Fixed Income	US Investment Grade Bonds	●			We have a slight overweight to IG Corps and remain underweight to U.S. Govt bonds due to a tightening Fed and inflationary forces building. Overall, the category remains underweight.
Risk Control	Fixed Income	International Bonds	●			Foreign central banks are beginning to talk down their continuation of extraordinary policies which may leave this category stretched in its valuation.
Risk Control	Fixed Income	Emerging Markets Bonds		●		Spreads tightened by 65 bpts YTD. They are not expected to tighten much from current levels. EM bonds appear fairly valued. Potential Trump policies remain a cause for caution.
Risk Assets	Fixed Income	High Yield Bonds			●	Spreads tightened by 68 bpts YTD. The sector benefits from the "risk-on" trade. High-Yield's coupon remains attractive, but a flattening yield curve could impact our future bias to this sector.
Risk Assets	Equities	US Large Cap			●	Although fairly valued, with a pro-business Trump Administration, the bias is to the upside by year end. We move to a slight overweight in LCV and LCG and look to buy on market pullbacks.
Risk Assets	Equities	Developed Ex-US		●		Monetary policies are expected to remain supportive. Valuations are reasonable compared to the U.S. As political headwinds subside, this category's weighting may be re-assessed.
Risk Assets	Equities	US Mid & Small Cap		●		Mid Caps remain fully valued. SCG has outperformed. With tax cuts & a rate hike likely, we shift our bias toward value for both Small & Large Caps, where financial stocks tend to reside.
Risk Assets	Equities	Emerging Markets		●		Even after their recent outperformance, EM valuations and opportunities remain fair. Potential Trump Administration policies are a cause for caution as well as a strong dollar.
Risk Assets	Alternatives (Equity Based) & Real Assets	Real Estate		●		Fundamentals remain solid for the REIT category, but a tightening Fed and retail shopping center challenges create headwinds. The risk/reward scenario leads us to maintain our allocation.
Risk Assets	Alternatives (Equity Based) & Real Assets	Commodities/Natural Resource		●		Oil finding a base, a tightening Fed, building inflationary forces and a positive demand/supply story expected in metals in the coming years leads us to maintain our position and monitor it.

Note: Views are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.
Client portfolios may or may not be at the recommended weightings above due to, but not limited to: distributions, tax management limitations, systematic purchases, etc.

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Third Quarter, 2017

Meet Our Experts

Nate Gage

Vice President & Retirement Services Manager

Nate is the manager of Retirement Services and has been with C&N since October, 2006. Prior to joining C&N, he spent three years in various financial services firms and, before that, spent three years in the classroom teaching social studies to middle school students. He holds a Bachelor of Science degree in Secondary Education from Penn State and an MBA from the University of Southern Maine. Nate also holds a designation as "Qualified 401(k) Administrator" from the American Society for Pension Professionals and Actuaries and an "Accredited Investment Fiduciary" designation from Fi360.

The retirement services team at C&N provide comprehensive retirement services under one roof. The team handles plan administration, document drafting, compliance testing, investment selection and due diligence, and participant education and retirement income planning in-house. Clients value the fact that our comprehensive services make us the only partner that they need when it comes to their retirement plan. Through their "Will You Be Ready" campaign, C&N retirement services is focusing on measuring whether or not participants are on track to meet their retirement income needs and, if not, providing strategies to get them on track. "We are committed to providing personal retirement income planning for our participants to help them be able to answer yes when they are asked Will You Be Ready?"