C&N Vantage Point

Quarterly Market Recap & Outlook

First Quarter, 2019

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This Quarter's Content

- Economic & Financial Indicators
- Quarterly Review
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- C&N Portfolio Positioning
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Key Interest Rates	2019			
	6/29/18	9/28/18	12/28/18	3/29/19
2-yr Treasury Note	2.52	2.81	2.52	2.27
10-yr Treasury Note	2.85	3.05	2.72	2.41
30-yr Treasury Note	2.98	3.19	3.04	2.81
30-yr Fixed Mortgage	4.84	4.97	4.94	4.45
Corp. Bond Index	4.02	4.07	4.24	3.64
High-Yield Bond Index	6.66	6.48	8.02	6.74

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

Key Equity Indexes - As of Quarter End	%YTD Return	NTM P/E*	P/B*	Dividend Yield*
S&P 500	13.65	16.44	3.24	1.89
Russell 2000	14.58	21.16	1.99	1.34
Russell 1000 Growth	16.10	20.47	6.96	1.17
Russell 1000 Value	11.93	13.91	2.04	2.52
MSCI EAFE	10.13	13.35	1.55	3.41
MSCI EM	9.95	12.12	1.57	2.71

Sources: JP Morgan Weekly Market Recap
Past performance does not guarantee future results, which may vary.
*Values as of 03/29/2019

2019 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	11.93%	14.00%	16.10%	9.90%	12.23%	14.74%	1.23%	1.59%	4.67%	Government
Medium	14.37%	16.54%	19.62%	11.88%	13.73%	15.09%	2.61%	3.82%	7.97%	Corporate
Small	11.93%	14.58%	17.14%	11.71%	13.72%	15.73%	5.74%	7.12%	10.07%	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.

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REINCARNATION

I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody. -James Carville, Political Advisor

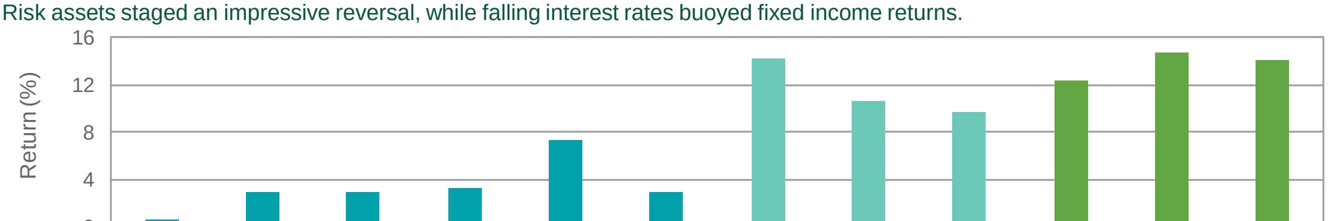
James Carville's famous 1994 quote was in reference to the pressure the bond market applied – through higher interest rates – on the Clinton administration to rein in government spending. Today, the bond market is back to its coercive tactics – but its focus is now on the Federal Reserve (Fed) and other central banks. The bond market's aim is to convince the global stewards of monetary policy that now is not the right time to continue any sort of monetary policy tightening. By bringing the yield curve dangerously close to inverted territory (and with help from the double-digit decline in global equity markets at the end of 2018), the bond market seems to have accomplished its objective. Central banks globally have been reincarnated as doves, now fully supporting easy monetary policy. Specifically, Fed officials have dramatically pivoted to a preference for zero rate hikes in 2019 and a large balance sheet for the foreseeable future. Meanwhile, the European Central Bank has also shelved plans for any rate hikes in 2019 and has introduced a new round of cheap financing for European banks.

The central bank reincarnation has been celebrated by investors. Global equity markets recouped all of their 2018 losses and are up 12.3% for the quarter. Credit spreads – both investment grade and high yield – have also recouped much of their late-year spike (though still remain modestly elevated vs. the multi-year lows seen in the third quarter of 2018). Interest rates across the world and across the yield curve have fallen. The 10-year U.S. Treasury yield has fallen from over 3% to 2.4%. German and Japanese 10-year bond yields are now back into negative territory. The combination of higher equity prices and lower interest rates has boded especially well for interest rate-sensitive asset classes. Global real estate enjoyed a 14.8% first quarter return, while global listed infrastructure was up 14.1%.

First quarter market performance implies investors have faith that the reincarnation of central banks will lead to the rebirth of the global economic expansion, which suffered a noticeable slowdown throughout 2018. Beyond central banks' newfound dovishness, investors are seeking resolution to the U.S.-China trade war and clarity on Brexit. The base case for both is best characterized by cautious optimism for a near-term agreement but lingering concerns over longer-term issues. For the U.S. and China, this means rolling back tariffs installed over the past year but ongoing debate over Chinese market access and company business practices. For the European Union (EU) and United Kingdom (UK), this means extending the Brexit deadline but continued deliberation on the ultimate EU-UK relationship. These issues don't need to be solved all at once – and won't. But incremental good news on these issues throughout 2019 and beyond would go a long way toward improving confidence and keeping the expansion alive. And that – not all the political noise – is what investors ultimately care about. After all, Carville also famously coined the phrase, "[It's] the economy, stupid."

FIRST QUARTER 2019 TOTAL RETURNS

Risk assets staged an impressive reversal, while falling interest rates buoyed fixed income returns.



	RISK CONTROL				RISK ASSETS							
	FIXED INCOME						EQUITIES			REAL ASSETS		
	Cash	Muni	Inv. Grade	TIPS	High Yield	EM Debt	U.S.	Dev. Ex-U.S.	EM	NR	GRE	GLI
1Q 2019	0.6	2.9	2.9	3.2	7.3	2.9	14.2	10.7	9.7	12.4	14.8	14.1
2018	1.8	1.3	0.0	-1.3	-2.1	-6.2	-5.2	-14.3	-14.7	-12.6	-6.3	-9.5

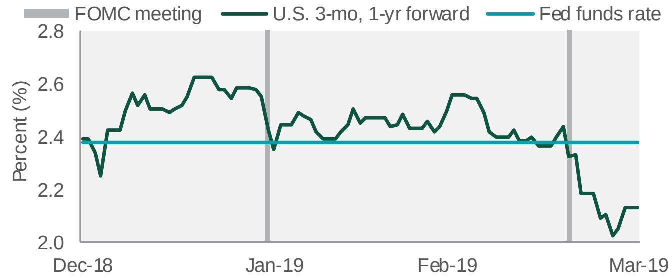
Source: Northern Trust Global Asset Allocation, Bloomberg. NR = Natural Resources; GRE = Global Real Estate; GLI = Global Listed Infrastructure.
Indexes are gross of fees and disclosed on last page. Past performance does not guarantee future results.

KEY DEVELOPMENTS

The Powell Pivot

Topping investors' list of concerns heading into 2019 was the Fed's determination to normalize monetary policy amid slowing global economic growth, fading inflationary pressures and a flattening yield curve. Many saw the Fed's four rate hikes in 2018 as one (or two) too many – and two more rate hikes in 2019 as detrimental to the global economic expansion. As such, investors very much welcomed the early-January Powell pivot to a message of monetary accommodation. At this point, it seems unlikely that the Fed pushes through any rate hikes in 2019. In fact, Fed fund futures are pricing in a lower Fed funds rate by year end (see chart) – with a 70% chance of at least one rate cut and a 28% chance of at least two.

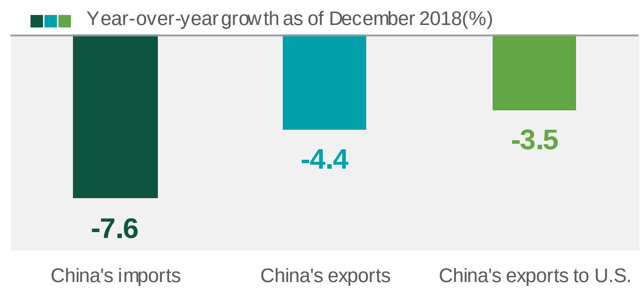
MARKET EXPECTATIONS FOR FED AT YEAR END



Let's Make a Trade Deal

Second on the list of investor concerns has been the ongoing trade war between the U.S. and China. In early December, when President Trump delayed additional tariffs, investors began to sniff out a deal between the world's two biggest economies and have been anxiously awaiting the details ever since. Driving the Chinese to the negotiating table has been the degradation in economic activity – including negative 2018 export and import growth (see chart). While a deal is in both sides' interest, there are still areas of contention – including the timing of tariff removal, Chinese purchase agreements (think soybeans, natural gas, etc.), deal enforcement, digital trade agreements and intellectual property protection.

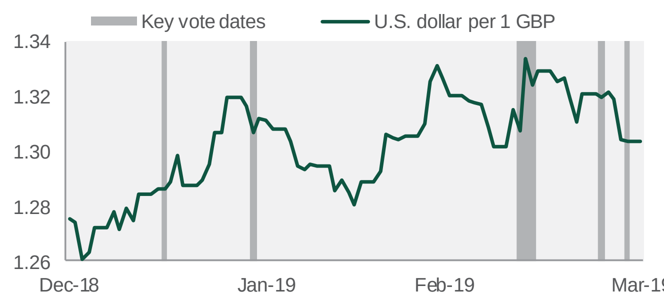
CHINA TRADE STATISTICS



Brexit Shenanigans

Brexit developments have been fast and furious these last few months. Although the House of Commons decisively rejected the Withdrawal Agreement (WA) twice, its failure to rally behind an alternative meant it failed to die. In the hope of bringing the WA back for a third vote (which also failed) Prime Minister Theresa May asked for an extension to the March 29 deadline. In response to that request the EU decided to give the UK a new deadline: it has until April 12 to choose whether it wants to leave with a deal, without a deal or request a much longer delay. Since the former two options remain decidedly unpopular it is likely a long delay will be requested although an accidental "No deal" cannot be ruled out.

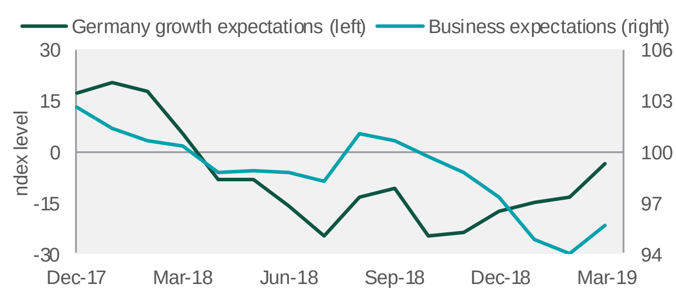
BRITISH POUND VS. U.S. DOLLAR & KEY VOTE DATES



Economic Growth Second Wind?

The above concerns have culminated in decelerating global economic growth. Looking at the data, purchasing manager indices (PMIs) – offering a real-time read on the state of the global economy – have shown steady declines the past year. Importantly, however, the PMIs are still signaling economic expansion – albeit slow. Looking ahead, the focus is on Europe, specifically Germany, given the size of the European economy (20% of global output vs. 25% for the U.S.), its recent pronounced slowdown and its exposure to China (helping to make sense of the Chinese economic black box). Recent signs are encouraging, with various German economic outlook surveys – from ZEW to Ifo – showing a potential inflection.

GERMANY FUTURE ECONOMIC EXPECTATIONS



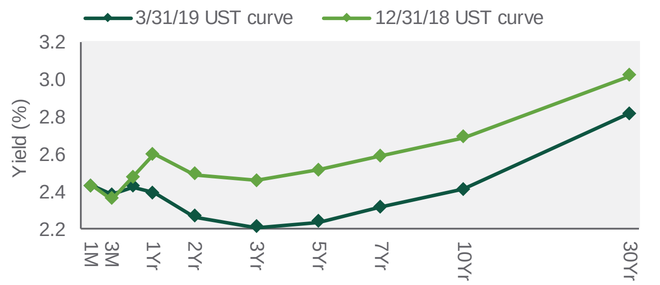
Source: Northern Trust Global Asset Allocation, Bloomberg. ZEW = Zentrum für Europäische Wirtschaftsforschung; Ifo = Ifo Institute for Economic Research (Munich).

MARKET REVIEW

Interest Rates

The U.S. yield curve shifted downwards during the quarter in recognition of a more dovish Fed but also in acknowledgment that the Fed may have more work to do. As noted on the previous page, investors are assigning a 70% probability that the Fed will have to retrace at least one of its rate hike steps during 2019. This has put an odd shape into the yield curve (sometimes referred to as a smile, though its certainly not something to smile about). Effectively, investors are willing to take a lower yield on, for instance, a five-year Treasury because of the now-ingrained assumption that holding shorter-term debt instruments carries with it the risk of reinvesting at lower rates when that bond matures.

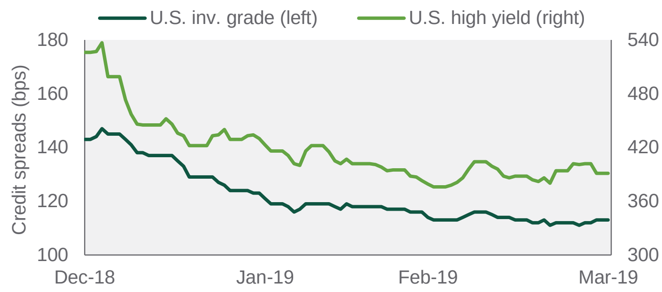
U.S. TREASURY YIELD CURVE



Credit Markets

Credit spreads have staged a significant rebound so far this year. This corroborates a view that the spike higher in spreads at the end of last year was collateral damage from the broader risk-off investor sentiment – and not an indictment of credit market fundamentals, which remained fairly solid. Specifically, with respect to high yield, default rates are low and interest coverage ratios are high. Further, from a technical perspective, investors will likely have less issuance to swallow this year, especially with less refinancing needs (only ~10% of high-yield issuance is due to be rolled over). This, combined with increased demand for yield, could bode well for high-yield returns in 2019, especially if recession can be avoided.

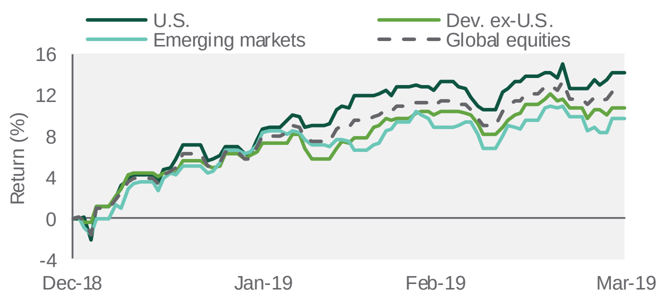
CREDIT SPREADS



Equities

Global equities had a solid start to 2019 – making up all of 2018's losses – though have encountered a bit of lost momentum more recently. With central banks now back in dove mode, the stock market's fate will depend primarily on fundamentals. Specifically, equity markets will need to see global economic growth shed its recent softening and reaccelerate. From a regional perspective, the U.S. has been at the top of the pack, benefitting from a still-solid domestic economy, while European and Japanese equities have suffered from lingering global recession worries. Emerging market returns have trailed. The Powell pivot provided necessary support, but investors still want more Chinese economic stability.

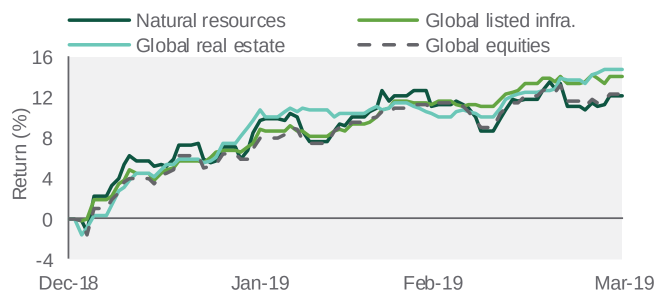
REGIONAL EQUITY INDICES



Real Assets

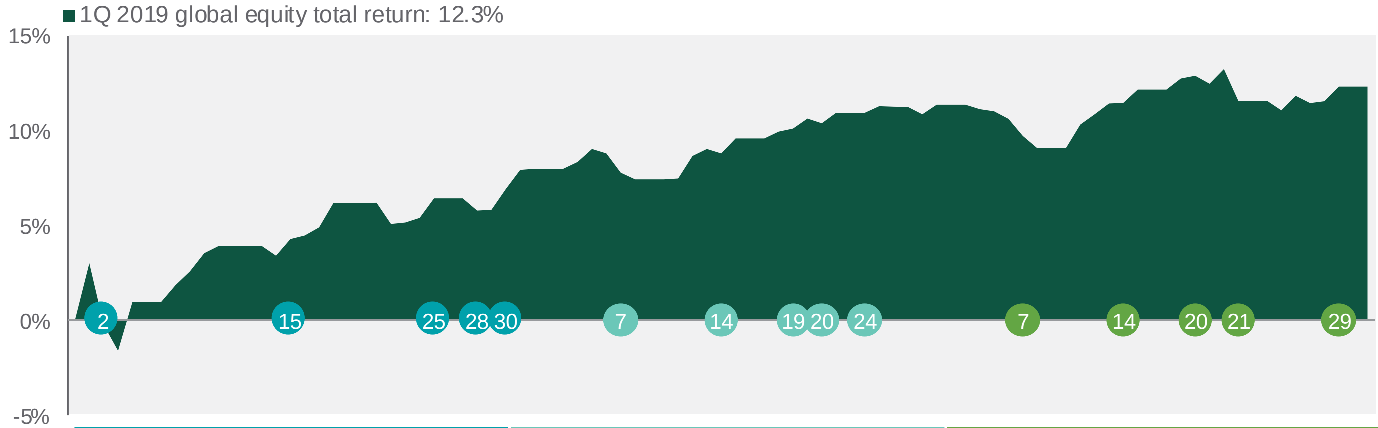
Global listed infrastructure (GLI) and real estate (GRE) provided nice diversification to the global portfolio in early 2019. Both rode the equity rally higher through the first part of the quarter. They then managed to preserve those gains into quarter-end when broader equities slumped – supported by lower interest rates. When rates fall, financing becomes cheaper and the search for yield increases, and both dynamics disproportionately help GLI and GRE. Meanwhile, natural resources mostly tracked global equity markets for the quarter. Concerns over softening global economic demand were offset by the dovish shift in monetary policy, which – all else equal – increases the value of hard assets such as commodities.

REAL ASSET INDICES



Source: Northern Trust Global Asset Allocation, Bloomberg. UST = U.S. Treasury. Indexes are gross of fees.

MARKET EVENTS



JANUARY	FEBRUARY	MARCH
2 Apple (AAPL) lowers revenue guidance for the first time in almost 20 years, citing weakness in China's economy as primary cause.	7 President Trump says he will not meet Chinese President Xi Jinping before the March trade deal deadline.	7 To support lower growth and inflation forecasts, the ECB makes cheap bank loans available and delays guidance on first rate hike.
15 Parliament rejects Prime Minister Theresa May's proposed Brexit deal by a vote of 432 to 202 – the heaviest defeat in the democratic era.	14 December retail sales surprises to the downside in the largest decline since 2009.	14 Chief trade representative Robert Lighthizer states that major hurdles lie ahead after U.S.-China trade meeting is pushed back into April.
25 President Donald Trump signs a decree to reopen the federal government after its longest shutdown ever – totaling 35 days.	19 Walmart (WMT) reveals best holiday sales growth in 15 years relieving investor concerns about the low December retail sales print.	20 The Federal Reserve leaves rates unchanged in the 2.25% - 2.5% channel and points toward zero rate hikes in 2019.
28 Caterpillar (CAT) cites slower Chinese growth and rising costs as it cuts forward guidance.	20 Minutes from the January Fed meeting reiterate the "patient" policy stance and discuss the end of balance sheet reduction.	21 The EU offers Theresa May a two-month extension to the Brexit deadline, conditional upon UK approval of a withdrawal vote.
30 The Fed lists low inflation and global economic risks in its decision to put interest rates on hold and end the balance sheet runoff early.	24 President Trump delays March 1 deadline preventing the escalation of tariffs from 10% to 25% on $200 billion worth of Chinese goods.	29 Theresa May's third attempt to pass a withdrawal agreement fails, creating the risk of an April 12 "no deal" Brexit.

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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LOOKING FORWARD

Financial markets are discounting mechanisms, and the global equity markets are currently discounting an improvement in growth as 2019 unfolds. The global rally in 2017 correctly anticipated the improvement in growth and earnings in 2018, while the market weakness in the later part of 2018 foreshadowed the current global economic slowdown. Since late December, however, markets have begun to price in better growth in countries such as China (Shanghai Composite up 24% ytd), Europe (Stoxx Europe 600 up 13% ytd in local currency) and the U.S. (S&P 500 up 13%). Within the U.S. market, companies with high international sales are outperforming those with a domestic focus by 6% this year and global cyclicals are outperforming defensive shares by 3%. The worrying signals from the credit markets late last year have also reversed, with spreads on investment grade and high yield bonds narrowing significantly.

While we weren't worried about the state of the credit markets, we did think investors were too optimistic about growth during 2018. The significant downgrade in optimism in the fourth quarter led us to upgrade our expectations for U.S. and emerging market growth in January. Is economic data accumulating that illustrates a growth pickup in 2019? Some evidence of improvement exists in the U.S., while the jury is still out for European and Chinese growth. The U.S. picture is hardly bulletproof, as highlighted by the weak February payroll report (job gains of just 20,000 compared to a 209,000 monthly average over the prior year). But other measures of the job market, including surveys of businesses, show more resilience. We haven't been expecting improvements to European and Chinese growth until the second half of 2019, so the current soft data isn't too surprising. Nevertheless, signs of stabilization will be a necessary support to the improved risk environment realized so far this year.

Politicians and central bankers have responded, belatedly, to the global slowdown. China is aggressively easing fiscal policy and working to stimulate the industrial side of its economy. The European Central Bank (which has only cut rates since 2011) has committed additional credit to the banking system, and the Federal Reserve has quickly swiveled to an easier posture since year-end. This turns the focus from central bankers to the politicians, with developments like U.S./China trade talks, Brexit and the European Parliamentary elections front and center. While we don't expect any of these events to present a sustained risk to the global financial markets, their political nature makes their outcomes less predictable.

ANTICIPATING A RECOVERY

The bounce in global equities is yet to be validated by improving global growth.

Source: Northern Trust Global Asset Allocation, Bloomberg. MSCI ACWI = Global equities. Economic surprise index is measured by Citi. Data from 8/31/2018 through 3/14/2019. Past performance does not guarantee future results.

C&N PORTFOLIO POSITIONING: MODEST OVERWEIGHT TO RISK

C&N Vantage Points - April 2019

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Market Views:
Equities Fairly Valued. Fixed Income More Challenging. Favor Quality & Growth In Equities. Diversification Remains Paramount. Active Rebalancing Decisions Are Important. Market Returns Will Be More Subdued Over The Coming Years.

Market Risks:
Yield Curve Inverted. Fed Mistakes. Slow Growth Becomes Recession. Trade Deal With China Is Insignificant. Trade War Extends To Europe. Brexit Mess. Europe Goes Into Recession Affecting All.

Risk Type	Asset Class	Sector Category	Under Weight	Neutral	Over Weight	Viewpoints
Risk Control	Cash/Cash Alternatives	Ultrashort Bonds			●	Slight overweight to cash. These sectors give us cash to be invested in risk assets in the event of market corrections. With the Fed on hold, we consider this a source of funds for further rebalancing.
	Alternatives (Fixed Based)	Absolute Return		●		We reduced our allocation and rebalanced into equities in January. We believe equities present better value when looking out 3 to 5 years. Since cash gives a competitive yield, we remain neutral.
		Inflation-Linked Bonds		●		Inflation expectations leave TIPS fairly valued. TIP forecasts have cross currents, led by Fed policy. We maintain our neutral position but would consider allocating these funds to other classes if warranted.
	Fixed Income	US Investment Grade Bonds	●			We have a slight overweight to IG Corps and remain underweight to U.S. Govt bonds. Overall, the category remains underweight. We look to maintain a neutral to slightly longer duration target.
		International Bonds	●			European risks (political and economic) abound. International macroeconomic environment is more bleak than U.S. and negative yields are abundant. We continue our underweight position.
		Emerging Markets Bonds			●	Spreads have tightened, but fundamentals remain solid. Risks appear country specific. With the Fed on hold, the strong US Dollar headwind may be receding. We retain a slight overweight to the category.
Risk Assets		High Yield Bonds			+	HY has started strong. Coupons remain attractive relative to other fixed income. Spread tightening may hurt total return, but with lower default rates, we'll take the coupon. We move to a slight overweight.
	Equities	US Large Cap			●	Large Caps are fairly valued but we believe growth grinds higher while dividends become a larger factor in total return. We favor quality & growth and are slightly overweight this category.
		Developed Ex-US		●		Valuations are reasonable compared to the U.S., but the macroeconomic environment is deteriorating. We continue to favor domestic equities but look to maintain our positions through rebalancing.
		US Mid & Small Cap			●	Like Large Caps, these categories are fairly valued, but we believe their growth and fundamentals will prevail. We remain slightly overweight and look to add to these positions, if needed, when rebalancing.
		Emerging Markets		●		EM valuations remain attractive. Fundamentals have improved and the Fed on hold helps to reduce the dollar strength headwind. We maintain our position through rebalancing and look to slightly increase.
	Alternatives (Equity Based) & Real Assets	Real Estate		●		Fundamentals remain solid and with the Fed's recent pivot, REITs have had a strong start to 2019. Given its recent performance, and expected Fed dovishness, we maintain our allocation.
		Commodities/Natural Resource		●		Oil prices have rebounded and the Fed pause helps too. But tariffs remain a concern. We moved to a more large-cap, higher quality exposure for this category in December. We maintain a neutral position.

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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First Quarter, 2019

Meet Our Experts

Michael G. Charles, CPA

Vice President & Tax Officer

A C&N employee since October 2001, Mike holds his Bachelor of Arts degree in financial accounting, graduating from Lycoming College in 1996. In his capacity as Tax Officer, he is responsible for tax planning and compliance for individuals, trusts, estates, closely held businesses and not-for-profit organizations. With previous experience in public accounting as well as over 17 years with C&N, he is able to provide a comprehensive approach to tax planning to help clients, their families and charitable beneficiaries achieve their short- and long-term goals.

Mike is a Certified Public Accountant (CPA) licensed in Pennsylvania. He is a member of the Pennsylvania Institute of Public Accountants (PICPA), is past president of its North Central chapter, and has served on its statewide Executive Council and Ethics Committee. He is a member of the Pennsylvania Bankers Association's State Government Relations Policy Committee and its Tax-Trust & Estate Advisory Committee.

Active in his community, Mike is a board member and past president of the Wellsboro Area Chamber of Commerce. He is actively involved with its finance, enhancement and PA State Laurel Festival committees. Mike lives in Wellsboro, PA, with his wife and daughter.