C&N Vantage Point

Quarterly Market Recap & Outlook

FirstQuarter, 2018

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This Quarter's Content

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

Key Interest Rates	6/30/17	9/29/17	12/29/17	2018 3/30/18
2-yr Treasury Note	1.38	1.47	1.89	2.27
10-yr Treasury Note	2.31	2.33	2.40	2.74
30-yr Treasury Note	2.84	2.86	2.74	3.06
30-yr Fixed Mortgage	4.13	4.11	4.16	4.69
Corp. Bond Index	3.20	3.17	3.26	3.77
High-Yield Bond Index	6.06	5.98	6.16	6.50

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	-0.76	16.35	3.24	1.96
Russell 2000	-0.08	22.38	2.08	1.51
Russell 1000 Growth	1.42	19.45	6.62	1.60
Russell 1000 Value	-2.83	14.20	2.03	2.65
MSCI EAFE	-1.41	13.76	1.67	3.16
MSCI EM	1.47	12.08	1.72	2.36

Sources: JP Morgan Weekly Market Recap
Past performance does not guarantee future results, which may vary.

2018 YTD 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	-2.83%	-0.69%	1.42%	-3.38%	-1.40%	0.71%	-0.40%	-0.75%	-3.29%	Government
Medium	-2.50%	-0.46%	2.17%	-2.04%	-0.73%	0.18%	-0.80%	-1.50%	-4.05%	Corporate
Small	-2.64%	-0.08%	2.30%	-2.36%	-0.55%	1.24%	0.41%	-0.76%	-2.52%	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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WHAT TO DO WITH THE PUNCH BOWL?

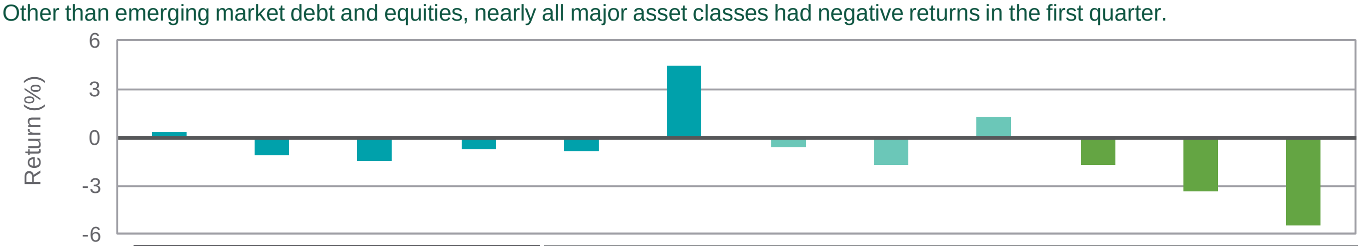
It is William McChesney Martin, U.S. Federal Reserve Chair from 1951-1970, who is credited for the often-used metaphor that central banks are “in the position of the chaperone who ordered the punch bowl removed just when the party was really warming up.” The “punch bowl,” of course, is accommodative monetary policy — and central banks globally look increasingly set to take on the responsibility of removing it after two years of steady global economic growth acceleration. The Federal Reserve (Fed) just raised policy rates for the third time in the past year — and has hinted that it may be looking to raise rates two (possibly three) more times in 2018. Meanwhile, the European Central Bank and the Bank of Japan are at least beginning to think about where they could pack away their punch bowls after being prominently displayed centerpieces for most of the past decade.

However, the data suggest the party-goers may not be that overserved. While economic growth has certainly accelerated, inflation measures across all major regions have not. The U.S. is the closest to the widely-used 2% inflation target at 1.6% (using core personal consumption expenditures as our inflation proxy, the preferred measure of the Fed). Core inflation in Europe is lower at 1.0% and core inflation in Japan is lower still at 0.5%. Some argue its just a matter of time before the juice catches up with us; that traditional warning signs of inflationary pressures — such as tightening labor markets — are flashing red. However, others are downplaying those traditional metrics. They argue that some of these metrics are as irrelevant today as the punch bowl in the famous quote (honestly, does a Millennial even know what a punch bowl is?). They note that the once-strong relationship between unemployment and inflation — the so-called Phillips Curve — has shown little correlation over the past 20 years.

As we wait for the inflation picture to come into better focus, concerns are growing that President Donald Trump is beginning to take a few sips from the protectionist punch bowl. Antennae first perked up at late-January’s Global Economic Forum in Davos, Switzerland, where U.S. Commerce Secretary Wilbur Ross stated that the U.S. “was done being a patsy on trade.” The topic became headline news when the U.S. announced a set of tariffs — first on steel and aluminum and then more-directed tariffs on China in response to unfair business practices. Since then, several countries have been exempted from the steel and aluminum tariffs and negotiations between the U.S. and China are underway, seeking a trade compromise that will have less impact on the global economy. Time will tell.

With economic growth on solid footing, it is these two uncertainties — monetary and trade policy — that drove the volatile markets in the first quarter of 2018. Nearly all asset classes are slightly negative thus far this year (exceptions being emerging market equities and debt). If central banks can get it “right” — slowly and appropriately reducing accommodative monetary policy — and trade disagreements can be settled, the economic party may be able to continue throughout 2018. If not, it could be time to go home (and into safer asset classes).

FIRST QUARTER 2018 TOTAL RETURNS
Other than emerging market debt and equities, nearly all major asset classes had negative returns in the first quarter.



	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 2018	0.3	-1.1	-1.5	-0.8	-0.9	4.4	-0.6	-1.7	1.3	-1.6	-3.3	-5.5
2017	0.8	5.4	3.5	3.0	7.5	15.2	21.3	25.8	37.3	22.7	15.0	20.1

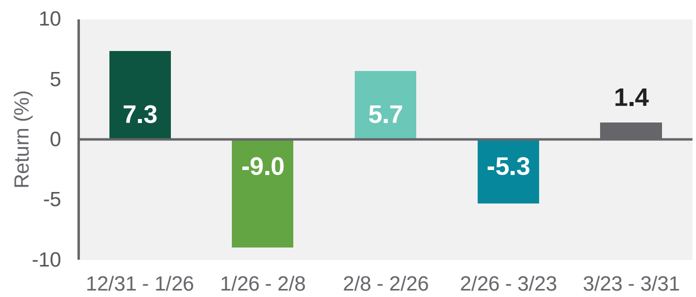
Source: Northern Trust Investment Strategy, Bloomberg. NR = Natural Resources; GRE = Global Real Estate; GLI = Global Listed Infrastructure. Indexes are gross of fees and disclosed on last page.

KEY DEVELOPMENTS

The Return of Volatility

First quarter global equity market returns can be broken down into five fairly distinct periods. First came the euphoria period (dark green, 7.3% return) — a carry over from 2017, where nothing could go wrong in the global economy or financial markets. Then came the inflation fears (light green, -9.0% return), driven by concerns of an overheating U.S. labor market and a faster-acting Fed. Next came inflation reassurance, (light blue, 5.7% return) as actual inflation data failed to match higher inflation fears. Then, just when all seemed calm, tariff tiffs started (dark blue, -5.3% return) as the Trump administration ratcheted up its protectionist rhetoric. We have since limped to the end of the quarter with a 1.4% return (grey).

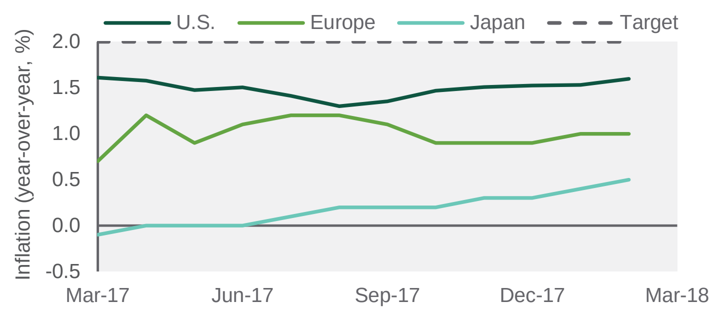
FIRST QUARTER GLOBAL EQUITY RETURN BREAKOUT



Stuckflation Continues

For all the talk of higher consumer prices, there has been very little action in the underlying inflation indexes. U.S. year-over-year core inflation topped out at 1.9% in mid-2016 and has been in a range of 1.3 to 1.6% over the past year. January's 2.9% year-over-year wage growth data point led some investors to believe higher inflation was on the way — but that data point was subsequently revised down to 2.8% and, with February's release, fell to 2.6%. Europe and Japan are having an even harder time generating inflation. Europe has not had year-over-year inflation higher than 1.2% in the past five years. Japan has flirted with deflation over the past two decades. Recent euro and yen currency strength has not helped either region.

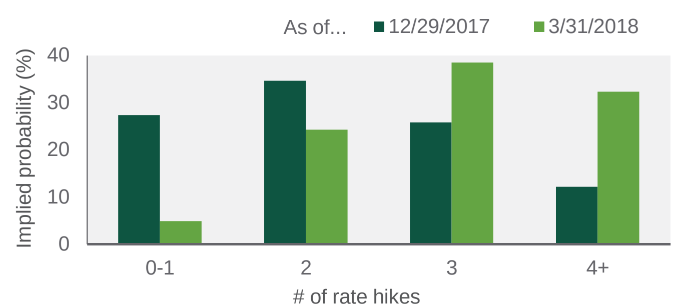
MAJOR ECONOMIC REGION INFLATION LEVELS



Shifting Monetary Odds

Despite the lack of inflationary pressures, the Fed seems to be on a mission to get back to at least some semblance of monetary policy normalization. Coming into the year, the Fed projected it would hike rates three times in 2018. Investors weren't convinced, assigning a 62% chance that the Fed would achieve only two or less. A rate hike in March and continued Fed insistence that more rate hikes were on the way have forced investor expectations slightly higher. Fed fund futures (see chart) are now implying a 70% chance the Fed gets it's three hikes (or more) this year. Beyond 2018, the question is where does the Fed want to be in the long-run — the so-called neutral rate. Currently, the Fed believes this to be ~3.0% (five rate hikes away).

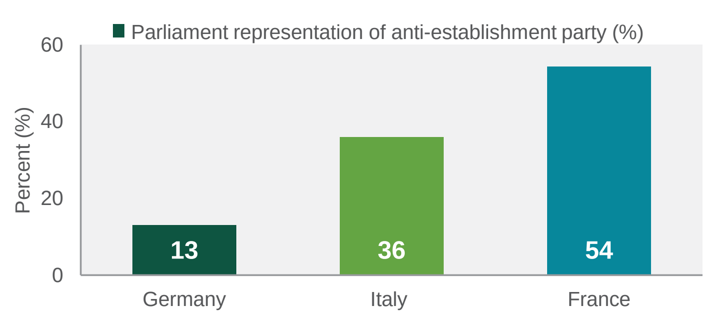
EXPECTED NUMBER OF 2018 FED RATE HIKES



Populism's Death Greatly Exaggerated

The recent Italian parliamentary elections show that populism is alive and well in Europe. The populist Five Star Movement now represents 36% of the Italian parliament and could play a key role in the next government. Meanwhile, German Chancellor Angela Merkel was forced into another "grand coalition" government that will receive meaningful opposition from the anti-establishment AfD (Alternative for Germany), which now holds an unprecedented 13% of parliament. However, in a sign that anti-establishment does not necessarily mean anti-productive, French President Emmanuel Macron and his En Marche! party (54% of parliament) continue to make progress on reforming the historically rigid French economy.

EUROPEAN POPULIST REPRESENTATION



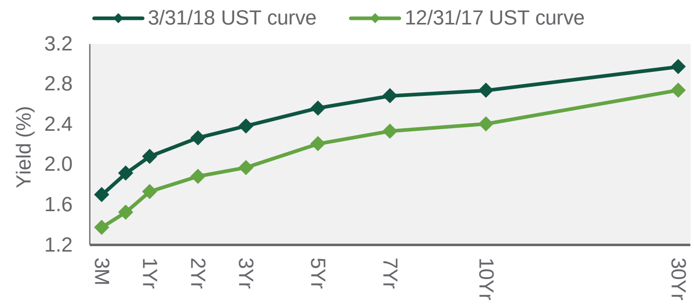
Source: Northern Trust Global Asset Allocation, Bloomberg, Government Websites.

MARKET REVIEW

Interest Rates

Over the full quarter, U.S. interest rates moved higher across the yield curve in nearly parallel fashion. But the start-to-end shift higher masked some fairly significant variation in yield curve steepness. Investors came into the year worried about the potential for an inverted yield curve (when longer-term rates are below short-term rates, generally a harbinger for recession). By mid-February, investors grew concerned that the yield curve was too steep and began to fear it was portending higher inflation. By the end of the quarter, the yield curve had flattened back out — beyond where it started the year in fact. That is, while the 10-year yield was up nearly 0.4%, it rose less than short-term interest rates did.

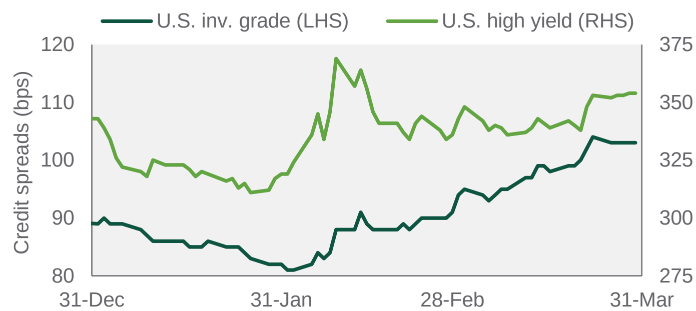
YIELD CURVE



Credit Markets

Both investment grade and high yield credit spreads widened in the first quarter. But the spread widening was mostly technical in nature — a supply/demand imbalance — and not a sign of deteriorating fundamentals. Overall credit demand weakened as corporations sold holdings to prepare for cash repatriation in response to tax policy changes and non-U.S. investment fell as currency hedging costs rose. In a sign that fundamentals remain sound, high yield held up better than investment grade fixed income — down only 0.9% vs. investment grade's 1.5% decline. Also signaling global economic health, emerging market debt had the best return of all major asset classes — up 4.4% — assisted by the weakening dollar.

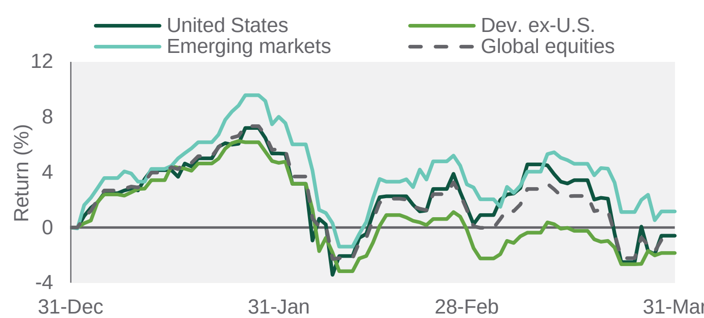
CREDIT SPREADS



Equities

As noted in the top section of page 2, global equities went through some fairly distinct phases in the first quarter. But the dispersion between U.S., developed ex-U.S. and emerging market equities was fairly tight and relative performance was fairly constant. U.S. equities had a strong January before giving all of its gains back in February and ending the quarter down slightly. Developed ex-U.S. equities mostly tracked U.S. equities, though began to lag towards the middle of the quarter as investors feared some of Europe's economic momentum was beginning to slow. Emerging market equities managed to stay in positive territory for most of the quarter, benefitting from economic stability and overall dollar weakness.

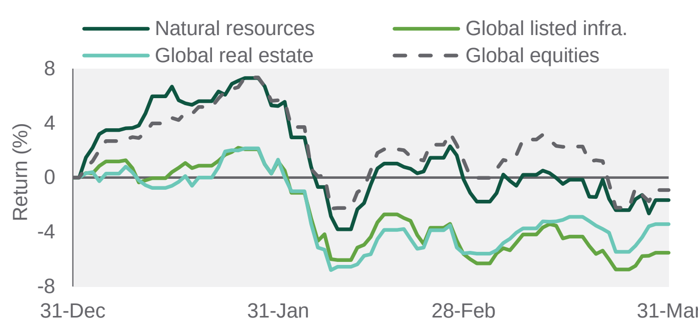
REGIONAL EQUITY INDICES



Real Assets

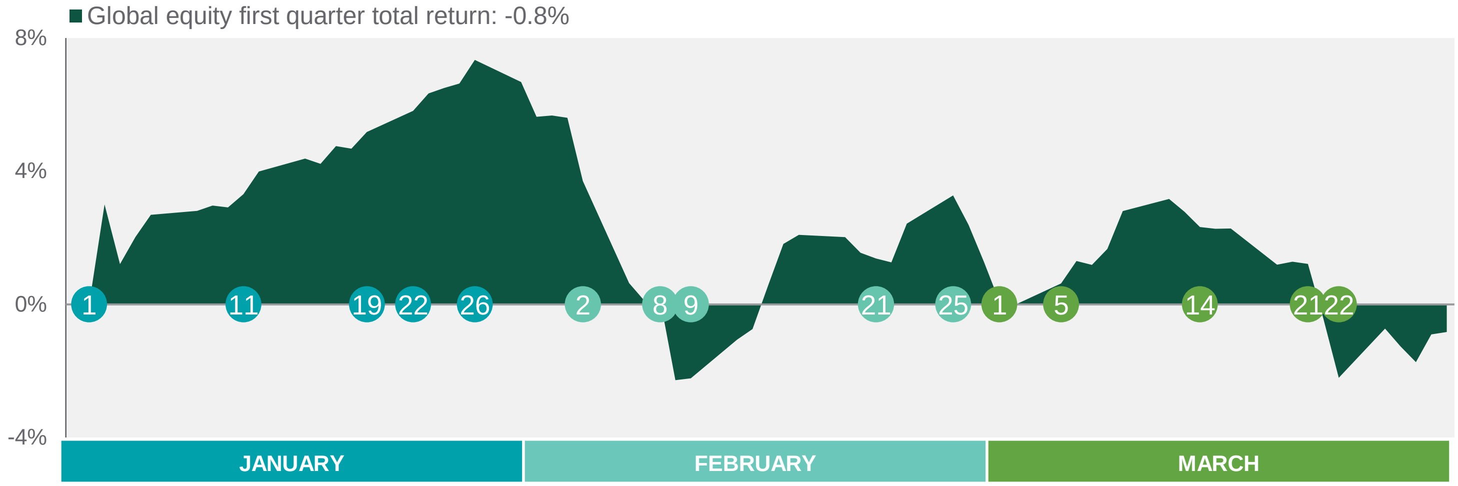
Real assets underperformed global equities in the first quarter, with negative returns across the board. Natural resources were the best performing real asset, but still recorded a negative 1.6% first quarter return. Oil prices meandered between $60 and $65 per barrel and steel/aluminum tariff announcements did not have a meaningful or lasting impact on the asset class in aggregate. Global real estate (GRE) and listed infrastructure (GLI) lagged from the start as fixed income yields moved higher, hurting these interest-rate sensitive assets. GRE and GLI ended the first quarter with the worst returns of all major asset classes — down 3.4% and 5.5%, respectively — but did provide some downside protection toward quarter's end.

REAL ASSET INDICES



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

MARKET EVENTS



JANUARY	FEBRUARY	MARCH
1 Kim Jong Un declares North Korea a nuclear power, increasing tensions with the U.S. and leading to increased economic sanctions.	2 U.S. January year-over-year wage growth comes in at 2.9%, prompting investor concern that high inflation is around the corner.	1 The U.S. announces plans to impose 25% and 10% tariffs on steel and aluminum imports, respectively; later announces some exemptions.
11 China becomes wary of U.S. Treasurys as Beijing officials recommend slowing (possibly halting) purchases; U.S. interest rates rise.	8 Markets correct by 10% after going nearly 100 straight weeks without a 10% drawdown (on average a 10% correction happens every 34 weeks).	5 Italy's Five Star Movement has a strong general election showing; meanwhile, Germany forms another grand coalition.
19 U.S. government shuts down for three days — the fourth time in the past 25 years — before a short-term spending bill is agreed upon.	9 The U.S. government briefly shuts down for the second time in three weeks before Congress passes a two-year budget bill.	14 Larry Kudlow is announced as National Economic Council Director after Gary Cohn resigns, the fifth White House departure in two weeks.
22 U.S. imposes tariffs on solar panels and washing machines of 30% and 50%, respectively — the first of three tariff announcements during Q1.	21 The 10-year U.S. Treasury spikes to just shy of 3%, hitting a four-year high of 2.95% before falling back to 2.74% by quarter's end.	21 The Federal Reserve increases rates to the 1.50% - 1.75% channel, but maintains expectations for three rate hikes in both 2018 and 2019.
26 President Trump's Davos speech is seen as less hawkish than feared on trade. The dollar falls while global equity markets hit quarter highs.	25 China abolishes rule stating the president can only serve two five-year terms, allowing President Xi Jinping the possibility of life-long leadership.	22 The U.S. announces $60 billion in tariffs on Chinese imports in industrial and technology areas in retaliation for alleged intellectual property theft.

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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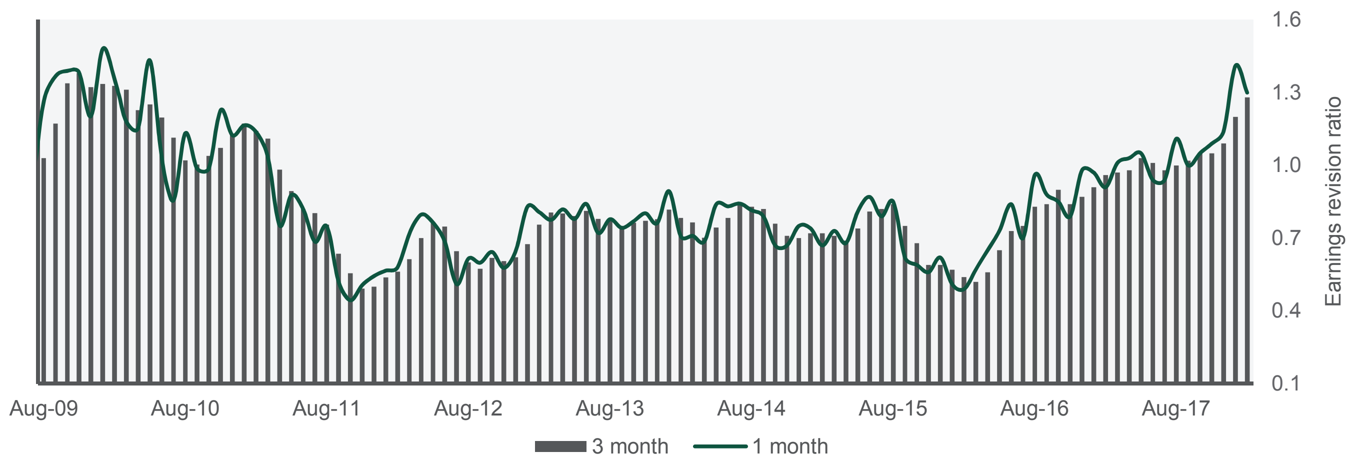
TARIFF TIFFS

No longer is it just inflation and interest rates dominating investor focus. The growth side of the economy has come into question in the wake of the U.S. government's decision to impose tariffs on imported steel and aluminum. The details of the tariffs are still being finalized as we go to press, including the ability of countries to apply for exemptions in coming weeks. As North American Free Trade Agreement (NAFTA) partners, Canada and Mexico have been specifically exempted from this tariff, but do face the ongoing NAFTA renegotiations. In the background, the ongoing Section 301 review of China's intellectual property practices will likely surface as an issue in coming months. It is unclear whether "tariff tiffs" will turn into a full blown trade war, but the collateral damage so far includes Gary Cohn, the White House's top economic advisor. The credentials and policies of his replacement will be an important guidepost on how this issue will evolve over the next year.

Meanwhile, the global economy may actually have gained a little momentum mid-quarter. Corporate activity indicators have edged up, with stronger U.S. readings offsetting a modest slowing elsewhere. Corporate profitability continues to shine, as shown below. The ratio of earnings estimate increases to decreases has reached levels we haven't seen since 2009 and 2010. This does start to beg the question – has economic optimism reached its peak? With U.S. tax cuts not even hitting reported earnings yet, it seems a little early for that conclusion, but we will be actively debating it in coming months.

While a hot wage number in the January U.S. labor report stoked inflationary concerns last month, the just-released February report has provided some balm as wage gains decelerated and new workers entered the workforce. Core inflation in the United States remains stuck at 1.5%, is just 1.0% in Europe and is barely measurable at 0.1% in Japan. The continued stickiness of prices is constraining central bankers, although more so in Europe and Japan than in the United States. The European Central Bank (ECB) made a very minor adjustment in its recent statement to acknowledge some economic improvement, while the head of the Bank of Japan has led the market on a goose chase in recent weeks. The Federal Reserve has the clearest path, as the debate is mostly centered on whether we have two or three (or four?) hikes this year. We are in the "two hike" camp, and think that hikes beyond that will only happen in a positive climate of good economic growth, steady inflation and a willing market.

AS GOOD AS IT GETS?
Global earnings revisions reach heights last seen in 2009 and 2010.



Source: Northern Trust Investment Strategy, Bank of America Merrill Lynch. Data through 2/28/2018.

C&N PORTFOLIO POSITIONING: MODEST OVERWEIGHT TO RISK

C&N Vantage Points - April 2018

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Market Views:
Domestic Equity Fairly Valued. Small & Mid Cap Become More Appealing
Diversification Remains Paramount. Remaining Invested Is Important
Don't Be Afraid Of Volatility. A Sustained Market Correction Would Be An Opportunity

Market Risks:
Too Much Stimulus Creates Unintended Consequences
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 if a sustained pullback occurs.
	Alternatives (Fixed Based)	Absolute Return			●	With market uncertainties rising, we maintain a maximum allocation at this time. We strive for better-than-money-market returns while decreasing our overall risk profile and await opportunities.
		Inflation-Linked Bonds		⊖		We decreased duration in TIPS during 4Q17 to offset the Fed rate hike impact. Inflation expectations increased leaving TIPS fully valued. We move to neutral seeking to increase risk asset exposure.
	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.
		International Bonds	●			Foreign central banks continue to talk down their continuation of extraordinary policies which may leave this category stretched in its valuation.
		Emerging Markets Bonds			⊕	Spreads remain tight, but EM fundamentals are solidifying and valuations are improving. EM economies are posed to outperform which bodes well for debt issuers. We move to overweight at this time.
Risk Assets		High Yield Bonds		⊖		High-Yield's coupon remains attractive and tax reform will help companies, but spread tightening may hurt total return. Given the business cycle stage, we move to a neutral position favoring EM bonds.
	Equities	US Large Cap			●	Although fairly valued, we believe growth continues. S&P 500 earnings growth will be rewarded long term but expect a bumpy ride. We retain an overweight and look to buy on sustained market pullbacks.
		Developed Ex-US		●		Monetary policies are expected to transition given improved economic trends. Valuations are reasonable compared to the U.S. We continue to favor U.S. given tax reform and recent pullback.
		US Mid & Small Cap			⊕	With tax reform, fiscal stimulus talks & the dollar decline less likely to impact them, we increase our risk assets through this category. We believe it's an opportune time compared to Large Caps.
		Emerging Markets		●		EM valuations and opportunities remain fair. Fundamentals have improved but trade war risks have risen given tariff threats and NAFTA negotiations. We remain neutral given the uncertainties.
	Alternatives (Equity Based) & Real Assets	Real Estate		●		Fundamentals remain solid for the REIT category, but a tightening Fed and tight spreads gives us caution. The risk/reward scenario leads us to maintain our allocation.
		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.

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First Quarter, 2018

Meet Our Experts

Larry Alderson
CFP®, CTFA, VP/Trust Sales & Services Manager

Larry is a local industry veteran with extensive knowledge and expertise in all facets of financial planning. With over 20 years in the financial services industry, he has been with C&N since 1999 and is currently the Trust Sales & Services Manager, a role in which his personal goal of helping people is fulfilled day in, day out. He believes that "superior service" means getting to know our clients, understanding what is truly important to them, and helping them put a plan together to accomplish those very personal desires.

Larry is an Honor Graduate of Cannon Financial Institute, Trust Schools 1, 2, & 3. He has also completed the College for Financial Planning Professional Education and the American Bankers Association Private Wealth Management School. In addition to holding the designation of both Certified Trust and Financial Advisor (CTFA) and Certified Financial Planner practitioner (CFP), he also holds Security Licenses Series 7 – General Securities Representative and Series 63 – Uniform Securities Agent, as well as Life, Accident, Health and Property Casualty Insurance Licenses. Larry served as a member of the Pennsylvania Bankers Association Advisory Committee on Financial Planning from 2002 through 2004.

Larry is known to be an exceptionally active member of his community. He was appointed and/or elected to Pike Township Board of Supervisors from 1992 through 2011. He is also an active member of the Rome Presbyterian Church, Past President of Athens Rotary, a member of LeRay Lodge #471 F. & A.M., a member of the Financial Planning Association, and has been a member of the Finance and Investment Committee for the Community Foundation for the Twin Tiers since its inception in 2002.