



C&N

VANTAGE POINT

QUARTERLY MARKET RECAP & OUTLOOK | THIRD QUARTER, 2020

MEET A TEAM MEMBER



JANICE WARD, CFP®

Chief Wealth Management Officer

Janice joined C&N Wealth Management group in June 2020 and recently moved to her new home in Wellsboro. In her role as Chief Wealth Management Officer, she's been working closely with Debbie Scott, who expects to retire at the end of this year.

With over 35 years of management and leadership experience, Janice has spent the last 15 years in bank wealth management groups, most recently serving as SVP, Wealth Advisor & Senior Fiduciary Officer for Berkshire Bank Wealth Management in Lenox, Massachusetts. In that role, she was responsible for outstanding client service standards, business development, financial planning and oversight of all fiduciary activities.

Janice is a licensed attorney in both Massachusetts and New York. She received her Juris Doctor from Western New England University and her BSBA from Massachusetts College of Liberal Arts. In 2012, she obtained her designation as a Certified Financial Planner. As the co-founder of the Berkshire County Estate Planning Council, she also served as its President for 5 years.

"I am fortunate to have the opportunity to work side-by-side with Debbie, who has provided over 20 years of great leadership for this team. I recognize I have big shoes to fill but I am committed to maintaining the superior level of expertise, outstanding service, trust and confidence that all of our clients have come to expect from C&N. I look forward to working with the team and our clients long into the future."

Key Equity Indexes	%YTD Return*	NTM P/E*	P/B*	Dividend Yield*
S&P 500	5.13	21.42	3.56	1.74
Russell 2000	-6.76	36.75	1.84	1.61
Russell 1000 Growth	23.28	30.15	10.06	0.80
Russell 1000 Value	-11.13	17.29	2.04	2.61
MSCI EAFE	-6.71	17.23	1.50	2.67
MSCI EM	-0.89	14.69	1.64	2.35

Sources: JP Morgan Weekly Market Recap & Northern Trust. Past performance does not guarantee future results, which may vary.
*As of 10/02/2020

Key Interest Rates	2020			
	12/27/19	3/31/20	7/1/20	10/2/20
2-yr Treasury Note	1.59	0.23	0.16	0.13
10-yr Treasury Note	1.88	0.7	0.68	0.7
30-yr Treasury Note	2.32	1.35	1.43	1.48
30-yr Fixed Mortgage	3.99	3.47	3.29	3.05
Corp. Bond Index	2.85	3.49	2.14	2.06
High-Yield Bond Index	5.97	9.99	6.86	6.08

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

2020 YTD STYLE PERFORMANCES**

Equity Size	US Equity Style			MSCI World Style			US Fixed Income Maturity			Quality
	Value	Core	Growth	Value	Core	Growth	Short	In-termed.	Long	
Large	-11.13%	6.18%	23.28%	-14.36%	2.18%	20.06%	4.33%	5.96%	20.77%	Government
Medium	-11.32%	-1.10%	14.45%	-15.97%	-1.89%	10.27%	4.25%	5.66%	8.35%	Corporate
Small	-19.01%	-6.76%	5.02%	-17.35%	-5.28%	7.05%	-1.19%	-0.02%	12.22%	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 10/02/2020

CLIMBING A WALL OF WORRY

“Climbing a wall of worry” is a popular phrase, (over) used by investors when equity markets go up against an economic backdrop of uncertainty. And it was certainly uttered ad nauseam during the third quarter, as global equity markets gained over 8% and have rallied 50% from March lows — despite ongoing pandemic fears, U.S. election uncertainty and high geopolitical tensions. After hearing the above phrase one time too many, we thought it fitting to use other excessively-used phrases to answer the most asked questions during the third quarter.

First, what has been behind the six-month rally?

More buyers than sellers. This is a controversial phrase as some rightly note that, for each trade, there is exactly one buyer and one seller. But it is clear that buyer demand has pushed prices higher fairly constantly since March 23. Where did the buyers — and their money — come from?

Lots of cash on the sidelines. Money market funds sit at \$4.4 trillion — down from the May peak of \$4.8 trillion but up from \$3.6 trillion at the beginning of the year. In large part, the increase came from the Federal Reserve and its creation of \$3 trillion in new “money,” technically new bank reserves. A chunk of that money initially went into money market funds; but, as the economy stabilized, started to shift into stocks, pushing equity valuations higher.

With all this Fed money to support equity markets, isn’t the recent pullback a great entry point?

The easy money has already been made. To be clear, there is no “easy money” to be made. If it were “easy,” any mispricing would be immediately removed. Decisions on portfolio allocation are just as “hard” now as they were on March 23. Global equities are now priced at 20 times expected-next-12-month earnings (37% above the average of the past two decades), offering a 2.0% dividend yield. These valuations are cheap compared to the alternative (0.7% 10-year U.S Treasury yield), but look expensive against the increasingly uncertain outlook. U.S. equities — specifically, tech companies — have recently experienced buyer exhaustion, potentially suggesting the central bank-induced equity market rally is ending.

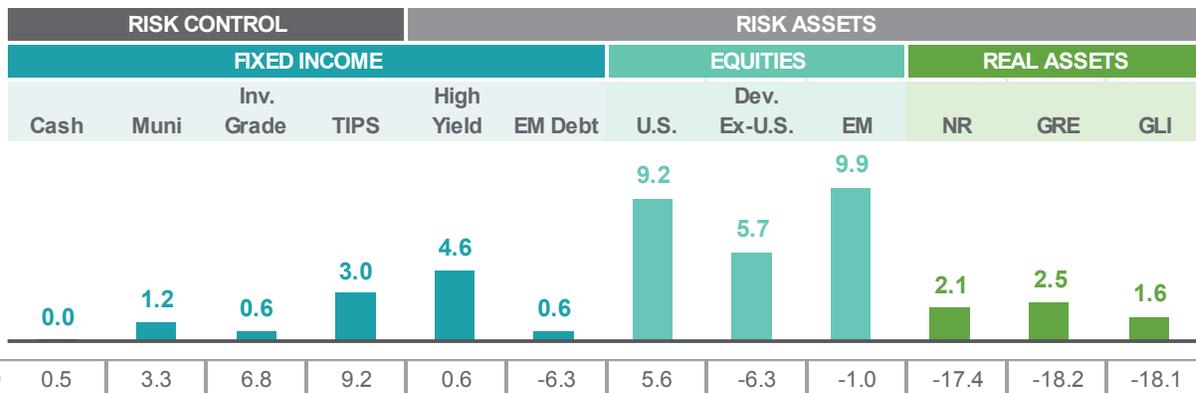
So what are investors to do?

Take a wait and see approach. This is a favorite of the financial industry (because it doesn’t require commitment to a specific view), but many investors feel this is all they can do right now. Equity valuations are high, but interest rates are low — providing some justification. The economy is slowing after an impressive rebound, but the market is not the economy. This is best epitomized by technology firms, which seem recession-proof given attractive earnings profiles and piles of cash on hand.

The devil is in the details. The third quarter requires further analysis. We address some of the major developments starting on the next page.

THIRD QUARTER 2020 TOTAL RETURNS (%)

Positive financial market returns continued despite a still-wobbly economic foundation.



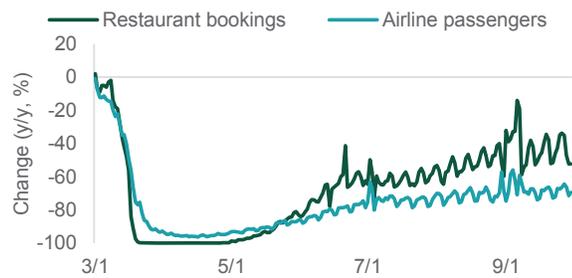
Source: Northern Trust Asset Management, Bloomberg. NR = Natural Resources; GRE = Global Real Estate; GLI = Global Listed Infrastructure. Indexes are gross of fees and disclosed on last page.

KEY DEVELOPMENTS

The Return to “Normalcy”

The digital age gives real-time reads on the economic recovery. Two metrics that best describe the current situation are the year-over-year restaurant bookings and airline passengers. The chart reveals a few things: 1) we are nowhere near normal; 2) the pace of the return to normal has slowed; and, 3) what was once normal may be forever changed (less eating out and less business flights). Not only is the timeline for full economic recovery uncertain, but the contours of the post-recovery economy are uncertain as well.

REAL-TIME READS ON THE ECONOMY

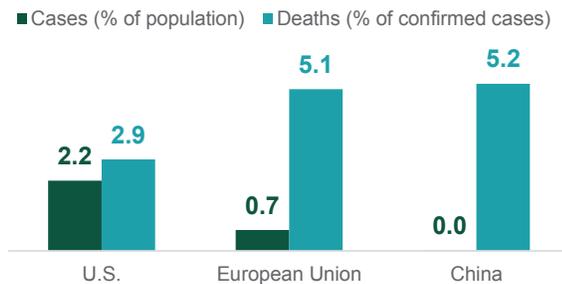


Pandemic Resiliency

The pandemic has proven resilient and COVID-19 cases are on the rise again. Thankfully, deaths have not been showing a commensurate rise*; meanwhile, social distancing policies are better balancing the need for pandemic control with the need for economic activity. The chart provides the up-to-date statistics — with the caveat that death rates are likely overstated due to underreported cases and cross-region comparisons are complicated by varying data collection procedures.

*most likely driven by a combination of more/better testing; increased understanding of the virus; and hospital bed availability

CURRENT COVID STATISTICS



Market/Economy Dichotomy

The U.S. consumer has been hit harder by the pandemic than the European consumer — for both pandemic-related (increased U.S. cases) and structural (bigger European safety net) reasons. But the market is not the economy. U.S. equities (led by tech stocks) continued to outpace European equities in the quarter. This outperformance occurred despite dollar weakness against the euro (a potential signal of relative economic weakness). Separately, it has given a boost to the “euro project,” strengthening Europe’s hand in Brexit talks.

U.S. EQUITIES UP, DOLLAR DOWN



Gold Bugs Are Back

Aggressive actions by central banks globally have led some to fear U.S. dollar debasement and speculate that higher inflation is on its way — increasing demand for gold. Interestingly, fixed income investors couldn’t agree less, signaling faith in the dollar and that inflation will remain low. The result is that both gold and long-term government bonds have returned over 20% on the year. Meanwhile, bitcoin — the digital alternative to “paper money” — has also seen increased demand, up 50% this year but still down 44% from all-time highs.

2020 RETURNS FOR VARIOUS ‘CURRENCIES’



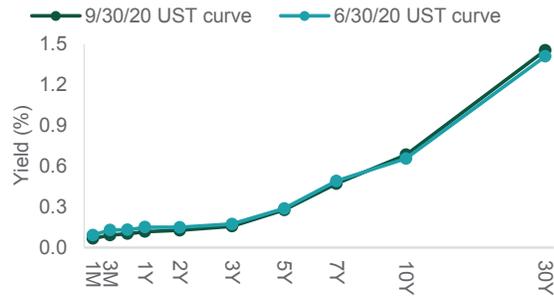
Source: Northern Trust Asset Management, Bloomberg. Chart 2 COVID-19 data as of 9/30/2020. Population: U.S. & China 12/31/2019, Europe 12/31/2018

MARKET REVIEW

Interest Rates

The Fed adopted a soft inflation averaging strategy and vowed not to raise interest rates solely because the economy is at maximum employment. Fed members repeatedly called for more government aid, noting downside risks to the growth outlook without continued fiscal support. The U.S. yield curve barely moved from historically low levels. Market participants question the central bank's ability to spur 2% inflation given virus-driven growth disruptions, structural disinflationary forces and Congress' reluctance to agree on further aid.

U.S. TREASURY YIELD CURVE



Credit Markets

Credit spreads continued to tighten as investment grade and high yield spreads fell 14 basis points (bps) and 108 bps, respectively. Investor demand for credit was strong given a search for yield and confidence in continued Fed support. Reduced levels of distressed bonds alongside improved corporate fundamentals also aided demand. High demand has been helpful in balancing record levels of supply. Still, credit spreads remain above early-2020 levels and crept up late in the quarter as virus outbreaks clouded corporate outlooks.

CREDIT SPREADS



Equities

The path of least resistance was mostly higher as sharp economic gains drove global equities up 8.3%. Despite vaccine progress, the stock market advance lost steam in the latter stages of the quarter. Global equities finished 5.3% below the quarter's high largely due to accelerating virus cases and dwindling policy stimulus amid signs of slowing economic gains. Despite political uncertainty and a swift correction in tech stocks, U.S. equities outpaced all major regions. Developed ex-U.S. equities struggled to keep up amid virus troubles.

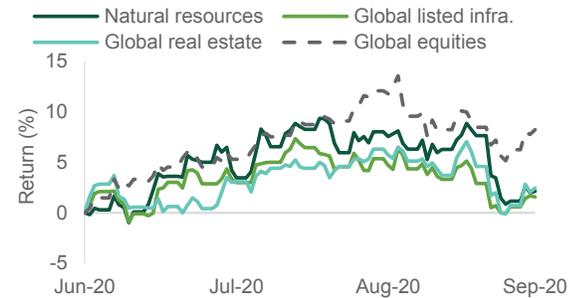
REGIONAL EQUITY INDICES



Real Assets

Of the real assets we follow, global real estate (GRE) performed the best, gaining 2.5% (notably below the 8.3% return from global equities). Natural resources trended above GRE and global listed infrastructure for much of the quarter, but later fell from pressure on the oil and gas industry as U.S. election uncertainty and pandemic pressures grew. A vaccine is likely needed for real assets to narrow their performance gap with global equities, as low interest rates and valuations have failed to be a catalyst for strong gains this year.

REAL ASSET INDICES



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

MARKET EVENTS

■ 3Q 2020 global equity total return: 8.3%



JULY	AUGUST	SEPTEMBER
<p>14 U.S. President Donald Trump removes Hong Kong's special trading status in response to China's new Hong Kong security law.</p>	<p>8 Trump signs executive order to extend unemployment benefits and defer payroll tax.</p>	<p>15 U.S. House of Representatives Speaker Nancy Pelosi announces the House will remain in session until another fiscal support package passes.</p>
<p>20 Oxford-AstraZeneca vaccine trial results in positive preliminary data.</p>	<p>12 Democratic presidential candidate Joe Biden selects Senator Kamala Harris as running mate.</p>	<p>16 The Fed — through committee member projections — suggests policy rates will remain near 0% through 2023.</p>
<p>20 The European Union agrees to €750 billion stimulus package to support countries damaged by COVID-19.</p>	<p>13 Israel and UAE reach agreement to work towards fully normalized relations.</p>	<p>23 The U.S. House of Representatives passes short-term spending bill to keep the government funded through Dec. 11.</p>
<p>28 The Fed extends the emergency lending programs through the end of 2020.</p>	<p>26 China practices military drills in the South China Sea, heightening tensions with the U.S.</p>	<p>29 The COVID-19 pandemic death toll reaches 1 million globally.</p>
<p>30 Second quarter U.S. economic GDP data is published — the 33% contraction sets post-WWII record.</p>	<p>27 The Fed updates its inflation-targeting policy and rate hiking criteria at Jackson Hole symposium.</p>	<p>29 In one of the biggest layoffs of the COVID-19 era, Disney announces employee cuts of 28,000.</p>

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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AN INTERESTING FALL

The relentless run in risk assets over the last five months finally faded a bit in early September, as the S&P 500 fell nearly 8% and the tech-heavy NASDAQ fell 11%. This year's returns have been heavily influenced by the predominance of large technology stocks (in both U.S. and emerging markets), as the five largest U.S. stocks (all tech companies) are up 42% year to date while the remaining 495 stocks in the S&P 500 are down a cumulative 3%. Supporting the view that this is more likely a normal correction than the start of something more damaging, the credit markets have been well behaved. High-yield spreads increased only 25 basis points during this period, while oil prices (which directly hit spreads) fell \$6 during this time. While there are many theories about the origin of the sell-off (excess options activity; U.S.-China tensions; worry about the election; rising COVID-19 cases), we think it is more productive to analyze what we think matters to markets going forward. In that vein, we focus here on the economic recovery, the outlook for COVID-19 and the upcoming U.S. elections.

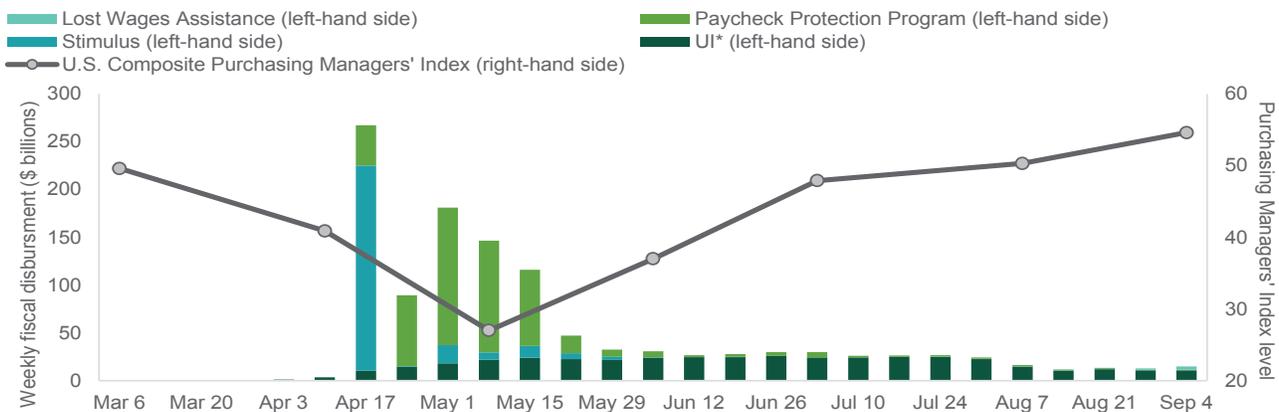
Global economic momentum has continued, with most recent data releases showing steady improvement, albeit with occasional pockets of softness. After a historic economic decline in the second quarter (31% in the U.S. and 47% in Europe) the third quarter looks increasingly

certain to show a robust rebound. The national statistics can be somewhat backward looking, but our more real-time indicators of consumer spending and business optimism such as the NFIB survey of small businesses and the IFO survey in Germany, show continued improvement. With COVID-19 case levels above where health professionals wanted them to be before the start of the flu season in the Northern Hemisphere, markets will focus on the risk of increasing cases. Countries such as Australia and Israel have recently reinstated lockdowns to contain increasing case counts.

It will be an interesting final four months of the year as markets wrestle with the economic outlook in addition to the need for further fiscal stimulus in the U.S. ahead of the November 3rd national elections. Our base case is that an additional stimulus plan does get passed – smaller in scope but more targeted to immediate consumption. A meaningful rise in COVID cases may lead to more self-enforced social distancing, as opposed to broad lockdowns, somewhat reducing the economic impact. With so much waiting to be resolved in a short period of time, we don't think it is a time for big bets on the market. In markets like these, it is most important to reaffirm one's portfolio construction and ability to weather the potential for sustained volatility ahead.

FADING FISCAL, RISING GROWTH

Fiscal stimulus cushioned the initial blow; additional is still needed despite better growth.



Source: Northern Trust Global Asset Allocation, Evercore ISI, Treasury, Census, SBA, BEA. *UI: unemployment insurance relative to same week last year. Most recent month-end Purchasing Managers' Index values, levels above (below) 50 are expansionary (contractionary). Week-end fiscal values through 9/4/2020.



C&N PORTFOLIO POSITIONING: MODEST OVERWEIGHT TO RISK

C&N Vantage Point
October 2020



Market Views:

Equities Fairly Valued But Don't Short This Market. Fixed Income Remains Challenged. Diversification Remains Paramount. Active Rebalancing Decisions Are Important. Markets Will Be Choppy. Long Term Investors Need To Stay Invested.

Market Risks:

Economic Uncertainty From Coronavirus. Volatility Remains High. Markets Want More Stimulus. It May Not Come Or Be Too Little. Political Uncertainty.

Risk Type	Asset Class	Sector Category	Under Weight	Neutral	Over Weight	Viewpoints
Risk Control	Cash/Cash Alternatives	Ultrashort Bonds			●	We maintain a slight overweight to Ultrashort. This is a source of funds for a targeted trade should equities decline sharply from current levels. It's also a source of funds for further rebalancing.
	Alternatives (Fixed Based)	Absolute Return		●		We reduced our allocation last year. We believe equities represent better value looking out 3 to 5 years. This has been a source of funds during recent rebalancings. We remain neutral.
		Inflation-Linked Bonds				+
Risk Control	Fixed Income	US Investment Grade Bonds	●			We continue to favor IG Corps given Fed support and spreads. We remain underweight to U.S. Govt bonds. Overall, we're underweight and we look to maintain a neutral duration target.
		International Bonds		+		Although negative yields are abundant, the macroeconomic environment is improving. Recent stimulus has helped even though it was not as aggressive as the U.S. response. We moved to neutral during 3Q.
		Emerging Markets Bonds		●		Fed rate cut to zero should help cap US dollar strength in the future, which should help EM bonds. EM shows signs of a quicker virus recovery. We maintain our neutral allocation.
Risk Assets	Equities	High Yield Bonds		●		Coupons remain attractive relative to other fixed income. Spreads widened with the virus-related and energy sector issues. HY held up better than expected. We maintain our neutral allocation.
		US Large Cap		-		Large Caps maintain their favored status, but Big Tech may be ahead of itself. We believe growth grinds higher through 2021, but we trim our growth position in late 3Q to neutral based on valuations.
		Developed Ex-US		●		Valuations are reasonable compared to the U.S. and the economic environment becoming more stable. We continue to favor domestic, but look to add due to valuations.
		US Mid & Small Cap			●	These categories are appealing on a valuation basis. We believe the economy rebounds into 2021. Additional fiscal stimulus will help. We added to Small Cap Value for the cyclical recovery play in 3Q.
		Emerging Markets				●
Alternatives (Equity Based) & Real Assets		Real Estate		●		A rate cut to zero is a positive for the long term. But severe virus economic impact is a negative for the short term. We maintain a neutral stance given the uncertainty of government stimulus effectiveness.
		Commodities/Natural Resources		●		Oil prices have stabilized, for now. A second surge of coronavirus could impact global demand, if it happens. We maintain a neutral position believing an economic rebound may start later this year.

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. NOT FDIC INSURED / MAY LOSE VALUE / NO BANK GUARANTEE



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