C&N VANTAGE POINT

Quarterly Market Recap & Outlook | Second Quarter, 2020

Meet A Team Member

Jamie Butters, AIF®

Vice President / Director of Financial Services Support

James D. Butters, Vice President and Director of Financial Services Support, has been with C&N Wealth Management since 1999. Jamie, a native of Liberty, PA, graduated from Mansfield University with a Bachelor of Science in Business Administration in May of 1999.

Jamie and his Financial Services Support staff work very closely with Wealth Management's administrative, investment and retirement plan services staff to ensure that customers receive continued excellent service.

Jamie also coordinates relationships with external vendors to enhance C&N's commitment to provide a wide array of financial services products.

"Our department mission statement 'Our clients will always be our primary focus' is the focal point for our Support staff. We strive to enhance our client's experience by providing efficient services to our internal staff as well as our end clients, through systems such as our on-line access for wealth management clients and retirement plan participants. Unlike many Support departments in other organizations, our Support staff often interacts with clients directly to assist them with their matters. This team approach allows our staff to focus on client service and the C&N client experience."

Key Equity Indexes	%YTD Return*	NTM P/E*	P/B*	Dividend Yield*
S&P 500	-2.13	21.88	3.37	1.86
Russell 2000	-13.54	55.11	1.75	1.79
Russell 1000 Growth	11.79	30.30	9.10	0.86
Russell 1000 Value	-16.04	18.08	1.94	2.75
MSCI EAFE	-9.69	17.99	1.49	2.80
MSCI EM	-6.93	14.88	1.58	2.56

Sources: JP Morgan Weekly Market Recap & Northern Trust. Past performance does not guarantee future results, which may vary.
*As of 07/02/2020

Key Interest Rates	2020			
	9/27/19	12/27/19	3/31/20	7/02/20
2-yr Treasury Note	1.63	1.59	0.23	0.16
10-yr Treasury Note	1.69	1.88	0.7	0.68
30-yr Treasury Note	2.13	2.32	1.35	1.43
30-yr Fixed Mortgage	4.02	3.99	3.47	3.29
Corp. Bond Index	2.94	2.85	3.49	2.14
High-Yield Bond Index	6.27	5.97	9.99	6.86

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**

	US Equity Style			MSCI World Style			US Fixed Income Maturity			
Equity Size	Value	Core	Growth	Value	Core	Growth	Short	In-termed.	Long	Quality
Large	-16.04%	-1.80%	11.79%	-16.64%	-3.90%	9.61%	4.20%	5.77%	20.79%	Government
Medium	-18.00%	-8.57%	5.76%	-21.12%	-8.68%	1.75%	3.42%	4.52%	7.48%	Corporate
Small	-24.89%	-13.54%	-2.61%	-22.44%	-12.51%	-2.58%	-4.76%	-3.70%	5.83%	High Yield

Source: Goldman Sachs Asset Management Market Monitor & Oppenheimer Markets Review At-a-Glance US Equity Style Returns - Russell Indices
Past performance does not guarantee future results, which may vary. **As of 07/02/2020

DOVES AND BULLS AND BEARS OH MY

What a year 2020 has been. In the first quarter, global stock markets went from all-time market highs to a bear market (conventionally defined as a 20% equity market drop) in just 22 days, falling 34% in the process. Since then, through the end of the second quarter, global equities have rallied 38%, flirting with the start of a new bull market. The rally has been supported by massive global fiscal stimulus and central banks comprised of overly accommodative doves (those favoring easy monetary policy) — in this case, extremely dovish policy. At the start of the crisis, the Federal Reserve was growing its balance sheet through asset purchases by over $100 billion per day. Thus far, the Fed has increased the size of its balance sheet by $3 trillion to $7 trillion. Central banks around the world — such as the European Central Bank — have also been extremely dovish in their monetary policy. Dovish monetary policy and aggressive global fiscal stimulus when mixed with reopening economies have proven potent, leading to the stock market returns we have seen thus far. But can this continue?

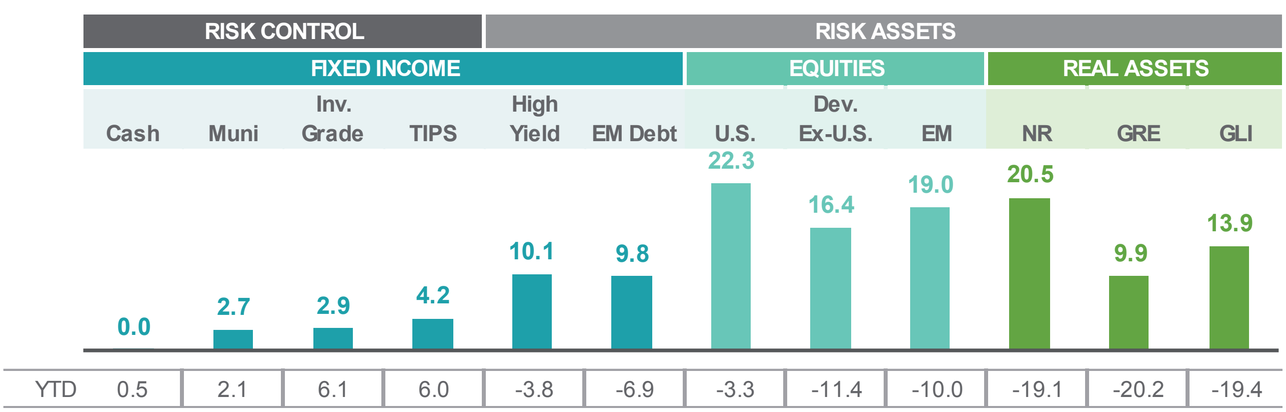
What the Bulls say. Don't underestimate the power of uber-aggressive monetary and fiscal policy, especially as the economy regains traction. U.S. new daily virus cases may be rising but daily deaths are falling, which may be the stat most important to consumers considering a return to "normal" spending behaviors. Also, discovery and production of a vaccine quicker than expected represents an upside surprise that could provide another boost to global equity markets. Valuations may be stretched but are supported by Fed statements that ZIRP (zero interest rate policy) will continue through at least 2022. In this TINA (there is no alternative) environment, stocks are the place to be.

What the Bears say. Equity markets have bounced too far too fast leading to unjustifiably high valuations even in a low interest rate environment. There are still too many risks before we can call an end to the virus-induced bear market. While Europe and China seem to have COVID-19 under control, U.S. cases are rising once again, and we may see states reinforce "stay at home" policies. Fiscal stimulus measures were only designed to replace lost economic activity, and may fall short if the pandemic continues. Even if the worst of the pandemic is over, we are dealing with growing China-U.S. tensions; relations are at their lowest point since the Nixon administration. Finally, we have the U.S. presidential election to consider. A Biden presidency and a Democratic sweep of Congress may lead to a rollback of the Trump administration tax and regulatory policy that helped propel stocks in recent years.

The Wizard of Oz (the inspiration for the report title) is said to be filled with metaphors on the economic and political upheaval of the time. We are going through a similar upheaval now. How this new environment is navigated by consumers and corporations will go a long ways towards determining whether the bulls or bears are right.

SECOND QUARTER 2020 TOTAL RETURNS (%)

Markets rebounded sharply in the second quarter but are still mostly negative year-to-date.



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.

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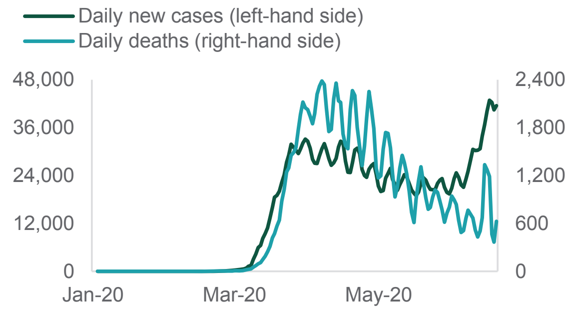
KEY DEVELOPMENTS

Coronavirus Second Wave?

COVID-19 cases have come in geographic waves. First it was China, then Europe and finally the U.S. However, while China and Europe seem to have their cases under control, the U.S. has experienced a reacceleration within its borders. Thus far, however, this has not stopped the stock market recovery rally. Investors are now focusing more on deaths than cases. And, while new cases have trended up, daily deaths continue to decline. As long as daily deaths decline, economies may remain open, pushing stocks higher.

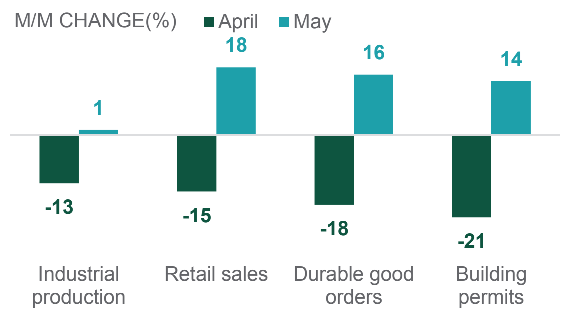
U.S. COVID-19 DAILY CASES AND DEATHS



The Bounceback

Reopened economies yield rebounding economic statistics. After a dismal April, where many stats were down sharply, most data snapped back nicely in May. Industrial production has been slow to start up again – but, importantly, retail sales increased 18% vs. April. Other data points have shown a similar rebound. May's rebound was not totally expected given how subdued economic activity had become. Continued improvement in the months ahead will paint a fuller picture. Early June economic data has been encouraging.

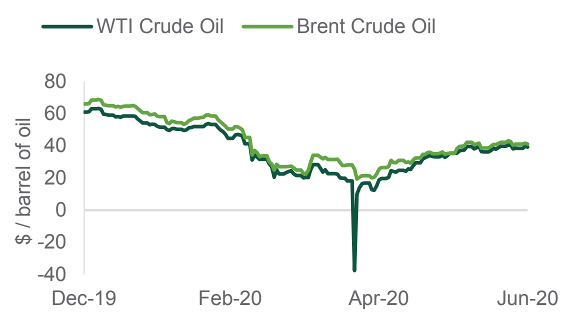
SELECT U.S. ECONOMIC STATISTICS



Oil Market Dysfunction

West Texas Intermediate Crude futures hit an unprecedented -$38 in April. Oil supply and demand dynamics are bad, but not this bad. Instead this was very much a technical phenomenon (Europe's Brent Crude futures better reflected economic reality). Futures contract holders are expected to take delivery at expiration. Generally, contracts are unloaded to those who actually want the oil, but storage facilities were mostly full. As such, investors unloading contracts had to actually pay to avoid oil showing up on the doorstep.

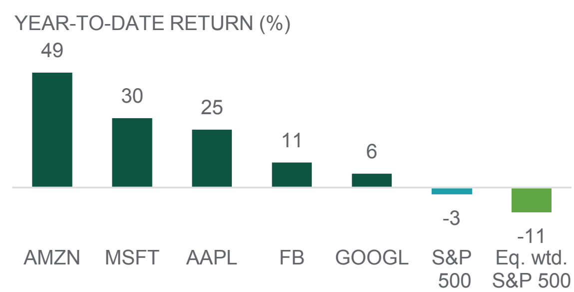
SELECT OIL FUTURES CONTRACT PRICING



Big Tech Reigns

Despite having a hard time dealing with COVID-19 spread, U.S. stock markets have done the best year-to-date. Much of that can be attributed to the "big 5" U.S. tech companies (Amazon, Microsoft, Apple, Facebook and Google). These companies represent 22% of the S&P 500 (and 12% of the MSCI ACWI), and they all have had positive returns in 2020. For a sense of these stocks' impact, the S&P 500 is down 3% year-to-date; meanwhile the equal-weighted S&P 500 (reducing the impact of the "big 5") is down 11%.

SELECT STOCK AND INDEX YEAR TO DATE RETURNS



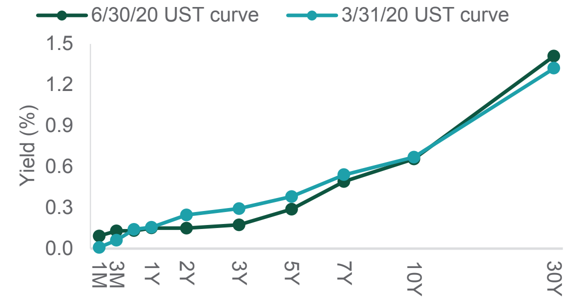
Source: Northern Trust Asset Management, Bloomberg. Top chart: data is 3-day rolling average. Data through 6/30/2020. Past performance does not guarantee future results.

MARKET REVIEW

Interest Rates

The Fed's steadfast commitment to using its full toolkit to support economic growth left the U.S. yield curve largely unchanged during the quarter. Fed officials are now projecting no rate hikes through 2022 as the central bank aims to put the economy on track for full employment. Massive Treasury issuance lifted yields on short-term debt securities a tad from historic lows, though markets absorbed the supply rather easily. In sum, U.S. interest rates remained moored at low levels by COVID-19 growth disruptions and a dovish Fed.

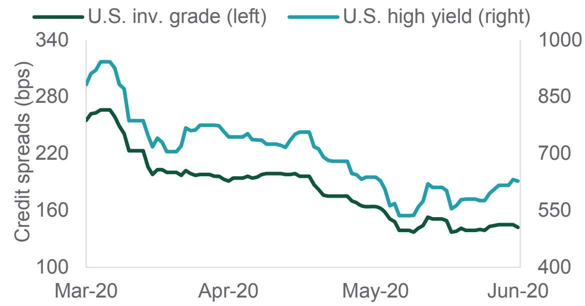
U.S. TREASURY YIELD CURVE



Credit Markets

Fed support for fixed income markets helped reverse a majority of the year's credit spread widening driven by liquidity challenges. While credit conditions notably improved — high yield spreads declined from the quarter's high of 942 basis points (bps) to 627 bps — there is still room for normalization as high yield and investment grade spreads remain above early-2020 levels. Higher quality securities within the high yield space led the improvement as economic growth concerns continued to weigh on lower-rated securities.

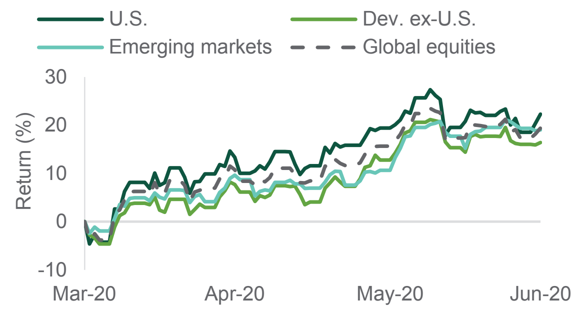
CREDIT SPREADS



Equities

In a remarkable rebound from the largest quarterly decline since 2008, global equities shot up 19.4%. Equity returns grew on the back of tremendous policy support and a pickup in economic activity alongside eased lockdown restrictions. Virus outbreaks in areas of the developing world and U.S. threatened gains, but still failed to reverse the risk-on rally. While all major regions participated in the rebound, U.S. equities led the pack (22.3%) as investors showed a willingness to pay a historically high price for resilient U.S. companies.

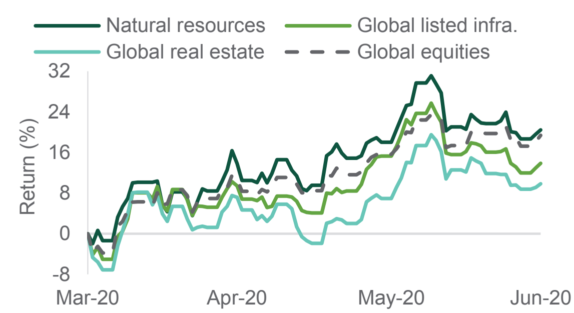
REGIONAL EQUITY INDICES



Real Assets

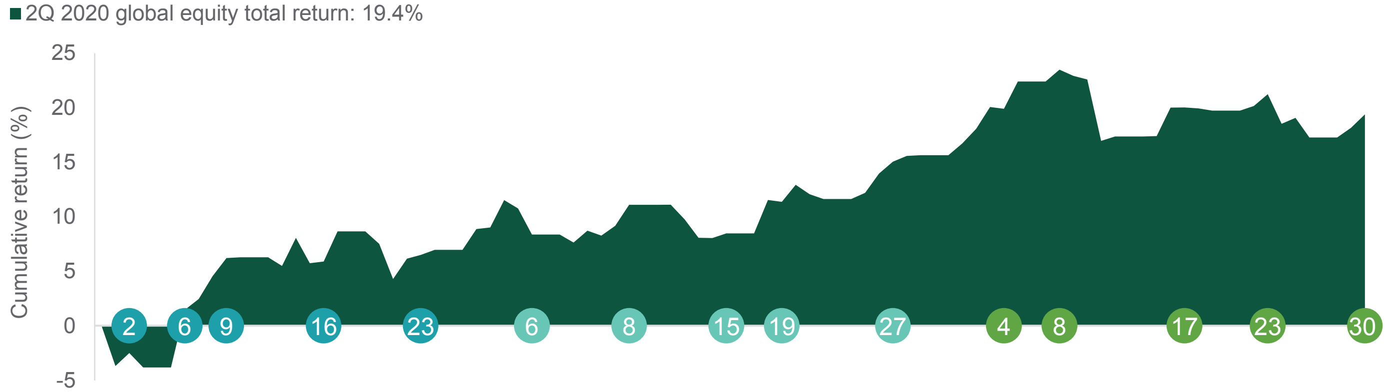
Hopes that global stimulus and economic re-openings will revive demand for natural resources, in conjunction with some normalization of oversupply in oil markets, lifted natural resources 20.5%. Global real estate and global listed infrastructure participated in the quarter's risk-asset rebound, but not nearly to the extent of natural resources and global equities. Asset values in certain property segments within global real estate remain under pressure from virus-driven impairment (e.g. retail, office, hotel and resorts).

REAL ASSET INDICES



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

MARKET EVENTS



APRIL	MAY	JUNE
2 Four months after the first case surfaced in China, confirmed COVID-19 cases reach one million globally.	**6** Trial data on COVID-19 drug Remdesivir shows faster recovery time for virus patients by an average of 31%.	**4** The European Central Bank expands its Pandemic Emergency Purchase Program by €600 billion, extending the program into 2021.
6 The Federal Reserve announces three new emergency lending facilities designed to implement the CARES Act.	**8** April's U.S. labor report reveals a rise in the unemployment rate to 14.7% and 20.5 million lost jobs due to lockdown restrictions.	**8** The S&P 500 goes positive for the year, riding a wave of unprecedented monetary and fiscal stimulus.
9 European Union finance ministers agree to a €540 billion coronavirus rescue package.	**15** U.S.-China trade tensions renew as the U.S. announces tighter restrictions on supplying chips to China's telecommunications company Huawei.	**17** The Federal Reserve announces that it will buy corporate bonds included in a diversified custom index until credit markets show sustained improvement.
16 President Trump outlines plan for reopening economy, placing the emphasis on states to make individual decisions.	**19** France and Germany agree to support a €500 billion European Union aid package for worst hit countries.	**23** U.S. COVID-19 confirmed cases and hospitalizations continue to rise at a faster pace in Arizona, Florida, California, and Texas.
23 Congress passes new fiscal relief supplement to the CARES Act worth $484 billion aimed at replenishing funds for small businesses and hospitals.	**27** Hong Kong loses special trading status with the U.S. as the U.S. stated that Hong Kong is no longer politically autonomous from China.	**30** Following a spike in U.S. COVID-19 cases, Europe extends the travel ban on U.S. citizens.

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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VIEWPOINTS July 2020

OVER-OPTIMISM?

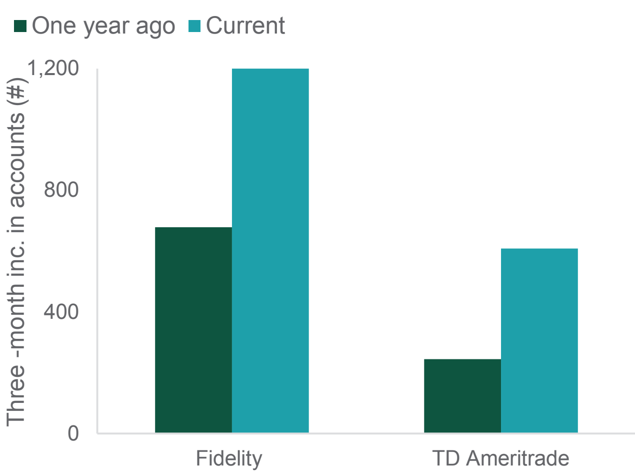
Global financial markets have rocketed back from their late-March lows, with the S&P 500 briefly in positive territory for the year. Why are the financial markets performing so much better when the economy is still so weak? Financial markets employ discounting mechanisms, seeking to anticipate events six to twelve months in advance. There hasn't been much need to anticipate the impact of monetary policy as it has been extraordinarily fast and broad-based in providing support to the financial and real economy. Fiscal policy has helped consumers globally to bridge their lost income as unemployment levels are at steep recession levels. But renewed animal spirits have also contributed to the market's performance, as indicated by the involvement of the retail investor. As shown below, the number of new accounts at leading online brokers has ballooned this year, and traders have driven hard-to-comprehend price gains in newly bankrupted companies. As Sir John Templeton once opined, "bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria".

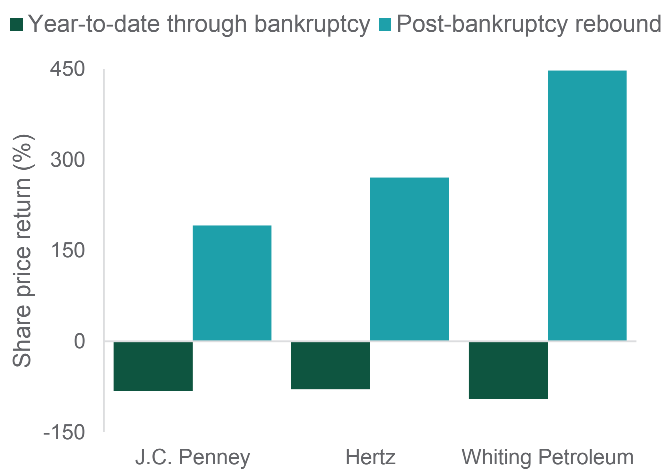
The strong market rebound has led to elevated valuations across equity markets at a time when the global economy is only in the early stages of reopening. Strong U.S. job gains in the month of May were a big surprise, and we also saw improvement in the Canadian and Australian labor markets. Eighty percent of those Americans who lost jobs in March and April cited the loss as temporary, likely setting the stage for the strength of these gains. The insured unemployment rate, however, remains at a very high level of 14%.The pace of economic recovery from here will increasingly be influenced by consumer behavior instead of government policy, as consumers are still expressing hesitancy to undertake activities like flying or sending their children to school.

We reduced the recommended tactical risk in our global policy model again this month, shifting 4% out of U.S. equities and into a combination of investment-grade and high-yield bonds. This now puts us moderately underweight risk as we are concerned the stock market is overly optimistic about the growth outlook over the next year. A key risk is that policy support will prove insufficient in the face of a second wave of COVID-19. Our other risk case is an upside one – that the stock market has it right, and that earnings growth will positively surprise and end up justifying current high valuations.

RETAIL OPTIMISM

Retail stock market activity has jumped, including speculating on bankrupt companies.





Source: Northern Trust Global Asset Allocation, Bloomberg, Wall Street Journal. Brokerage accounts shown in 1,000's; TD Ameritrade current brokerage accounts as of 3/31/2020, Fidelity current brokerage accounts as of 5/31/2020. Hertz, J.C. Penney, Whiting Petroleum bankruptcy declaration dates 5/22/2020, 5/15/2020 and 4/1/2020, respectively. Post-bankruptcy rebound starts the day of the stock price trough after bankruptcy declaration date. Data through 6/11/2020.

C&N PORTFOLIO POSITIONING: MODEST OVERWEIGHT TO RISK

C&N Vantage Point
July 2020

Market Views:
Equities Show Long Term Appeal. 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 Extreme.
Government Stimulus Ending.
Political Uncertainty.

Risk Type	Asset Class	Sector Category	Under Weight	Neutral	Over Weight	Viewpoints
	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.
Risk Control	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.
Risk Control	Alternatives (Fixed Based)	Inflation-Linked Bonds		●		Inflation expectations fell in February given decline in oil prices and rising U.S. dollar. We lowered our allocation to neutral at that time. We'll monitor government stimulus and its impact but maintain neutral.
Risk Control	Fixed Income	US Investment Grade Bonds	●			We added to IG Corps given their spread versus Treasuries. We remain underweight to U.S. Govt bonds. Overall, we're underweight and we look to maintain a neutral duration target.
Risk Control	Fixed Income	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.
Risk Control	Fixed Income	Emerging Markets Bonds		●		Fed rate cut to zero should help cap US dollar strength in the future, which should help EM bonds. Sharp declines in commodity prices offset this positive. We maintain our neutral allocation.
Risk Assets	Fixed Income	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.
Risk Assets	Equities	US Large Cap			●	Large Caps maintain their favored status. We believe growth grinds higher late in 2020 and into 2021. We maintain our slight overweight but look to trim as valuations extend.
Risk Assets	Equities	Developed Ex-US		●		Valuations are reasonable compared to the U.S. and the economic environment becoming more stable. Virus-related impact delays this. We continue to favor domestic, but add during rebalancing.
Risk Assets	Equities	US Mid & Small Cap			●	These categories are appealing on valuation and a cyclical recovery basis. We believe the economy rebounds late in 2020 and into 2021. We look to add to these positions, if needed, when rebalancing.
Risk Assets	Equities	Emerging Markets			●	With the Fed rate cut to zero and China showing signs of virus bottoming, EM valuations remain attractive. We maintain our slight overweight.
Risk Assets	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.
Risk Assets	Alternatives (Equity Based) & Real Assets	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.

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QUARTERLY MARKET RECAP & OUTLOOK SECOND QUARTER, 2020

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