# C&N VANTAGE POINT

Quarterly Market Recap & Outlook | Second Quarter, 2024

## Meet A Team Member

### Lynne Smith, CPA

*AVP / Trust Tax Officer*

Lynne joined the C&N Wealth Management team in October 2013, bringing a combined 30 years' experience in the areas of tax planning and compliance, fiduciary administration, estate planning and investment syndication. She is a 1999 graduate of Elmira College with a Bachelor of Science in Accounting, and is a Certified Public Accountant (CPA), licensed in the Commonwealth of Pennsylvania.

"In past ten years, I have seen radical changes and uncertainty in tax law. As a tax specialist, I have to work diligently to stay on top of these changes to meet our clients' needs. We are walking into another era of uncertainty as the current tax law is set to sunset on January 1, 2026. It is more important than ever for our clients to evaluate their estate planning as well as tax planning strategies.

I appreciate C&N's holistic approach to our client relationships. Our clients are fortunate to have a team supporting our financial advisors to provide investment and tax planning to meet our clients' needs. I am constantly reminded of the depth of knowledge of this team."

Lynne lives in Wellsboro, PA with her husband Douglas and has two grown sons.

| Key Equity Indexes - As of Quarter End | %YTD Return** | NTM P/E** | P/B** | Dividend Yield** |
|---|---|---|---|---|
| S&P 500 | 15.29 | 21.01 | 4.59 | 1.28 |
| Russell 2000 | 1.73 | 21.74 | 1.88 | 1.33 |
| Russell 1000 Growth | 20.70 | 28.41 | 11.88 | 0.63 |
| Russell 1000 Value | 6.62 | 15.28 | 2.41 | 2.14 |
| MSCI EAFE | 5.75 | 13.94 | 1.83 | 2.82 |
| MSCI EM | 7.68 | 12.39 | 1.66 | 2.26 |

Sources: JP Morgan Weekly Market Recap; Northern Trust. Past performance does not guarantee future results, which may vary.
** As of 6/28/2024

| Key Interest Rates | 2024 | | | |
|---|---|---|---|---|
| | 9/29/23 | 12/29/23 | 3/29/24 | 6/28/24 |
| 2-yr Treasury Note | 5.03 | 4.23 | 4.59 | 4.71 |
| 10-yr Treasury Note | 4.59 | 3.88 | 4.2 | 4.36 |
| 30-yr Treasury Note | 4.73 | 4.03 | 4.34 | 4.51 |
| 30-yr Fixed Mortgage | 7.41 | 6.83 | 6.93 | 6.93 |
| Corp. Bond Index | 6.04 | 5.06 | 5.3 | 5.48 |
| High-Yield Bond Index | 8.98 | 7.8 | 7.83 | 8.09 |

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

## 2024 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 | 6.62% | 14.24% | 20.70% | 6.89% | 13.26% | 19.04% | 0.71% | 0.21% | -5.01% | Government |
| Medium | 4.54% | 4.96% | 5.98% | 3.22% | 3.35% | 3.70% | 1.56% | 1.00% | -3.39% | Corporate |
| Small | -0.85% | 1.73% | 4.44% | -0.03% | 1.49% | 3.00% | 2.83% | 2.65% | -0.97% | High Yield |

Source: Northern Trust, 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 6/28/2024

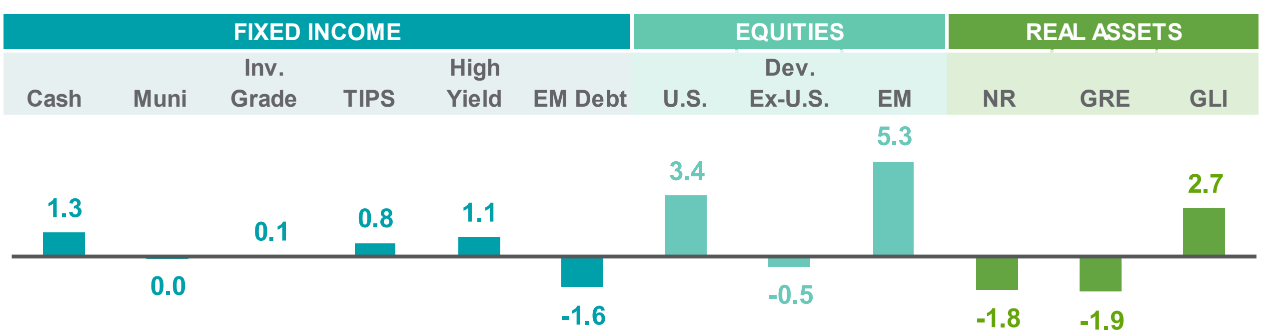
# SOFT LANDING

**A supportive macroeconomic backdrop.** After exceeding expectations for most of the prior year, patches of sequentially softer U.S. growth data undershot upwardly revised projections during the quarter. However, the *relative softness* was not to be confused with *absolute weakness* as growth levels remained healthy overall. Indeed, consensus projects that second quarter real Gross Domestic Product (GDP) will come in at 2.0%. This would be a step down from the 2023 exit rate (3.4%), but above the Fed's estimate of long-run GDP (1.8%). While the global growth impulse remained weak, there were some signs that U.S. growth leadership may be broadening to other regions. Specifically, global manufacturing and trade continued to show signs of improvement. Perhaps the most important macro development during the quarter was the resumption of disinflation. After exiting the first quarter at 4.5%, the 3-month annualized change in U.S. core inflation eased to 3.3% in the most recent data. More broadly, developed market inflation is still elevated and most major central banks remain committed to lowering it. While investors slightly reduced their expectations for rate cuts during the quarter, the base case remains for easier central bank policies than in recent years. Lastly, fiscal policy was back in the spotlight with elections heating up globally. Markets did not have enough information to make adjustments beyond contained initial reactions, but this could change as the outcomes and policies are firmed.

**Decent quarter for financial markets.** Modest gains in fixed income were accompanied by somewhat more varied performance across equities and real assets – with U.S. equities still near the leaderboard. Fixed income returns were largely supported by coupon payments given sizeable initial headwinds from higher Treasury yields in April, followed by a partial reversal throughout May and June. While the overall credit backdrop remained quite firm, credit spreads were slightly higher across investment grade and high yield. Regional equity performance trends diverged as U.S. markets pushed higher with technology-driven gains while the recovery in China and strong performance in India and Taiwan helped emerging market equities finish as the top-performing major asset class. Non-U.S. developed markets struggled later in the quarter as French equities dipped due to election uncertainty while Japan was a drag throughout most of the quarter. U.S. megacap tech performance continued to be a point of focus with strong 50%-plus earnings growth in 1Q earnings season along with a healthy dose of optimism around AI. Overall, the "Magnificent 7" group accounted for essentially the entire S&P 500 second quarter gain and about 60% of the year-to-date return. Within real assets, global listed infrastructure outpaced both global natural resources and global real estate with a key boost from the utilities segment amid investor optimism on an AI-driven increase in power demand in the future.

**SECOND QUARTER 2024 TOTAL RETURNS (%)**

The 60/40 portfolio continued to push higher on the back of strong equity market performance.




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| YTD | 2.7 | -0.4 | -0.7 | 0.7 | 2.6 | -3.7 | 13.6 | 4.8 | 7.6 | 0.4 | -2.4 | 4.0 |

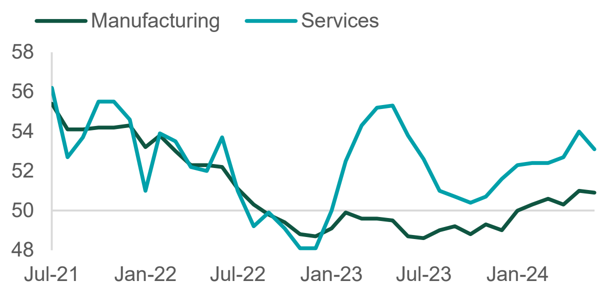
Source: Northern Trust Asset Management, Bloomberg. Data from 3/31/2024 through 6/30/2024. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees. Past performance and historical trends are not predictive of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

**KEY DEVELOPMENTS**

## Steady Macro Backdrop in 2Q

The global growth backdrop incrementally improved in 2Q with a combination of resilient-but-moderating U.S. economic activity and some firming in data coming out of Europe and China off a weaker starting point – buffered by improvement in global trade and manufacturing. Resumption of disinflationary trends in U.S. inflation data was well-received by investors. This was a closely-watched area heading into the quarter by the Federal Reserve and investors alike given the hotter-than-expected inflation data in early 2024.

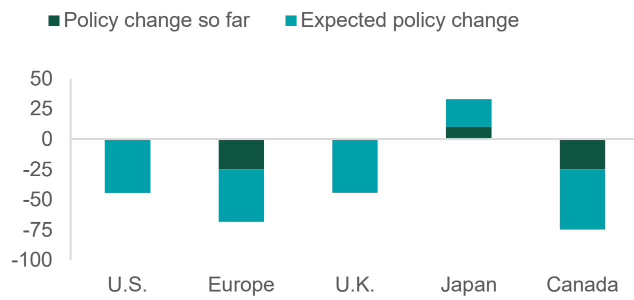
**GLOBAL PURCHASING MANAGER INDEXES**




## Rate Cuts Commence

Central bankers largely retained a patient approach with a bias towards rate cuts. The Bank of Canada and the European Central Bank both cut rates by 25 basis points in June with markets expecting the Bank of England and Federal Reserve to follow soon (perhaps August/September). Despite some movement in early 2Q, market expectations stabilized around 50-75 basis points of anticipated easing in 2024 from most major central banks. Meanwhile, the Bank of Japan held policy in 2Q with further tightening expected.

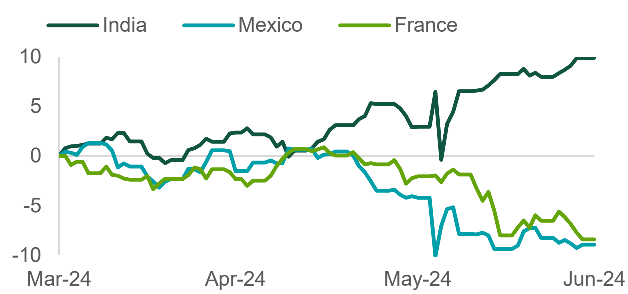
**EXPECTED 2024 CENTRAL BANK ACTIVITY (BPS)**




## Election Volatility

Election news in 2Q included a smaller-than-expected win for Modi's party in India and a wider-than-expected win for Mexico's incumbent party. The spotlight turned to France after President Macron unexpectedly declared a parliamentary election after a weak showing for his party in the EU elections. The uncertainty led to weakness in French equities. The bumpy market reactions highlight the difficulty in investing around election outcomes, with investors often more focused on longer-term implications such as fiscal policy.

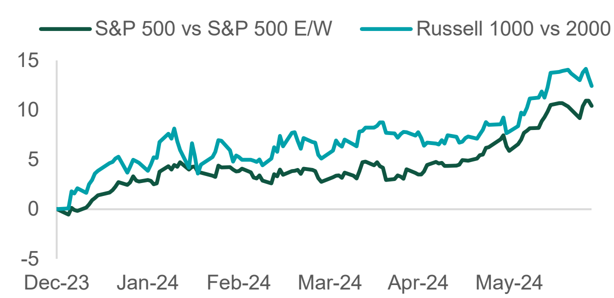
**2Q2024 RETURNS IN LOCAL CURRENCY (%)**




## Big Tech Leading the Way

Optimism around artificial intelligence remained a key driver for U.S. equities with more areas of the markets benefitting such as utilities (increased AI-related power demand). Megacap tech companies gained steam in June – leaving market concentration top of mind for investors. The S&P 500 gained 4.3% in 2Q versus losses for both the Russell 2000 (-3.3%) and the equal-weighted S&P 500 (-2.6%). The S&P 500 gain was narrow – with standout returns from NVIDIA (+37%) and Apple (+23%) contributing almost 75% of that gain.

**2024 YTD RELATIVE PERFORMANCE (%)**



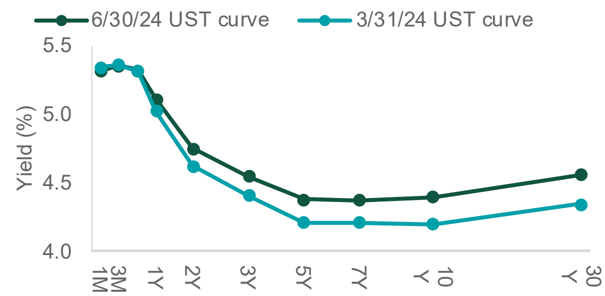

Source: Northern Trust Asset Management, Bloomberg. Data as of 6/30/2024. Note: in the third chart, performance proxied by the MSCI index for each respective country; E/W = equal-weighted. Past performance and historical trends are not predictive of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

## MARKET REVIEW

### Interest Rates

After rising ~40-50 basis points (bps) in April, Treasury yields turned lower but still ended the quarter up 13 bps (2-year yield) and 20 bps (10-year yield). The turn lower coincided with incremental labor market easing and resumed disinflation. The Fed made no major policy changes during the quarter. It continued to convey a cautious and data-dependent approach to rate cuts, with little interest in further tightening. The prospect of a global easing cycle held in tact, with central banks in Europe and Canada cutting rates during the quarter.

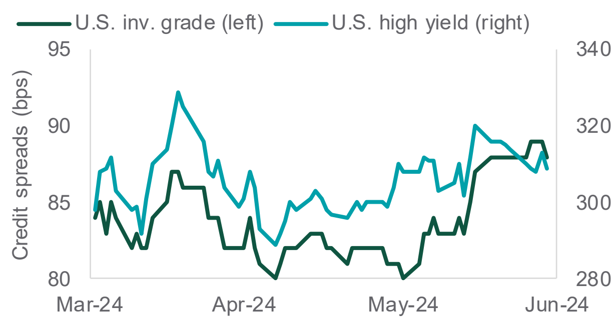
**U.S. TREASURY YIELD CURVE**




### Credit Markets

After widening in April alongside interest rate volatility, credit spreads snapped back and ended the quarter only slightly wider. Investment grade (IG) spreads widened 4 bps to 88 bps and high yield (HY) spreads widened 11 bps to 309 bps. Spreads for both areas still sit tighter than start-of-year levels and comfortably below historical averages. From a return standpoint, IG fixed income gained 0.1% and HY was up 1.1%. Higher quality credits modestly outperformed, while all-in-yields continued to drive most of the return at the index levels.

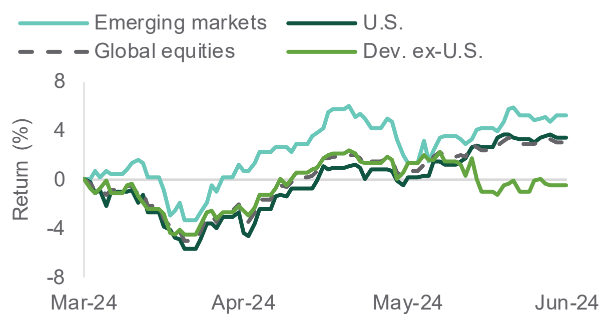
**CREDIT SPREADS**




### Equities

After inflationary pressures in April led to a ~5% sell-off, global equities rebounded to finish the quarter up 3.0%. Above-trend economic growth, disinflation traction and more favorable monetary policy supported the third consecutive quarter of equity gains. Emerging markets (+5.3%) led the major regions and China posted its first quarterly gain since early 2023. The U.S. (+3.4%) was not far behind, with its gains concentrated in large cap growth. Developed ex-U.S. equities lost 0.5%. They were keeping pace until French election risks surfaced.

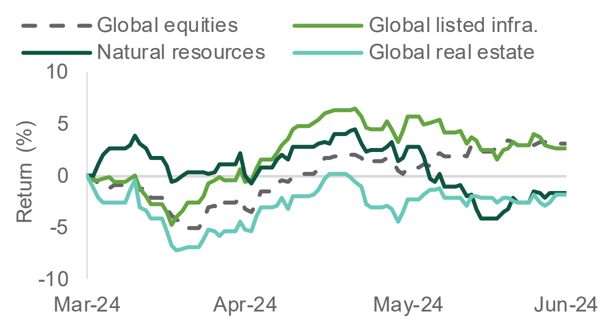
**REGIONAL EQUITY INDICES**




### Real Assets

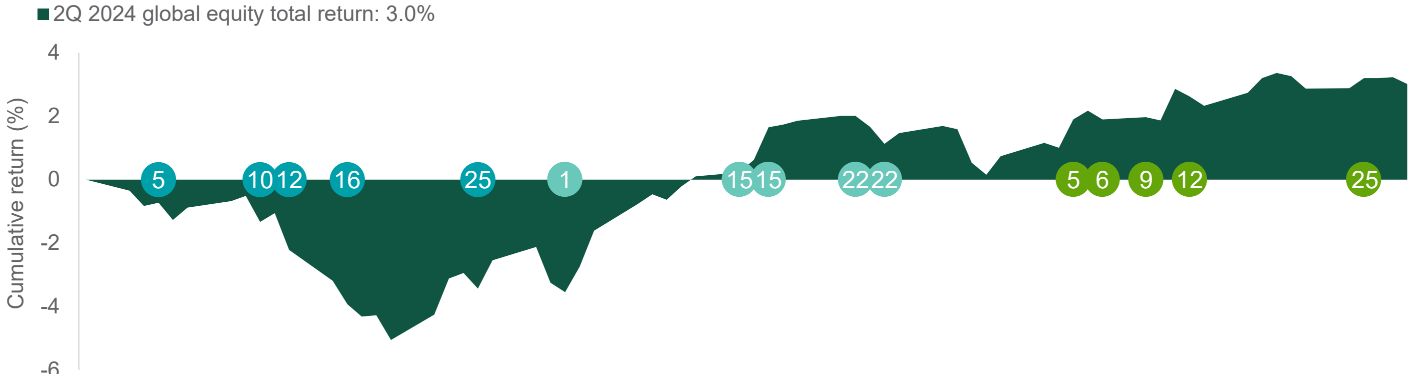
Listed infrastructure (+2.7%) was the only real asset that kept up with global equities. It had gained over 6% at one point, but its momentum faded. Investor focus on artificial intelligence (AI) was a potential tailwind given the infrastructure buildout that will likely be needed to support AI usage. Natural resources (-1.8%) had been outperforming with support from metals, but that turned in May along with lower energy prices. Global real estate (-1.9%) fell deeper into negative year-to-date territory with office and industrials notable detractors.

**REAL ASSET INDICES**




Source: Bloomberg. Returns in U.S. dollars. Indexes are gross of fees. Past performance and historical trends are not predictive of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

## MARKET EVENTS




| APRIL | MAY | JUNE |
|---|---|---|
| 5 U.S. jobs data portray ongoing labor market strength as payrolls gain 303k, the unemployment rate ticks down to 3.8% from 3.9%, and wage growth remains elevated at 4.1%. | 1 In the post-meeting press conference, Fed Chair Powell outlines several of the likely policy scenarios – none of which include rate hikes. Jobs data eases across the same week. | 5 The Bank of Canada (BOC) lowers its target rate by 25 basis points (bps) to 4.75%, becoming the first G7 central bank to ease policy this cycle. |
| 10 U.S. Consumer Price Index (CPI) comes in hotter than expected for the third month in a row. Headline accelerates and core CPI doesn't budge at 3.8% year-over-year (expected 3.7%). | 15 U.S. inflation resumes moderation. While still hot at 0.3% month-over-month, this represents a step down from 0.4% the prior three months. | 6 The European Central Bank follows the BOC with a 25-bp cut that brings its deposit rate to 3.75%. Eurosystem staff upwardly revises 2024 and 2025 inflation projections. |
| 12 Iran warns of retaliation against Israel after an attack on an Iranian consulate. Iran proceeds to launch drones and missiles toward Israel over the weekend, though fallout is contained. | 15 China announces a broader property rescue package. Support measures include loans for unsold home purchases and easier requirements for homebuyers. | 9 A rightward shift in the EU parliament prompts French President Macron to call for a snap election. French and European equities weaken as investors await voting outcomes. |
| 16 Federal Reserve Chair Powell comments that it will likely take "longer for confidence after recent data", which shows a "lack of further progress on inflation". | 22 NVIDIA reports another quarter of strong AI-driven results. The 'Mag 7' contributes over 7 percentage points of the broader S&P 500's 6% year-over-year (y/y) earnings growth in Q1. | 12 U.S. CPI eases with core CPI ex-Shelter decelerating to 1.9% y/y. On the same day, the Fed convenes and makes no policy changes. Chair Powell acknowledges recent inflation progress. |
| 25 First quarter U.S. Gross Domestic Product slows below expectations but underlying demand remains solid in aggregate. | 22 U.K. core CPI eases less than expected. Services CPI ticks down to 5.9% y/y – not nearly as much as expected (5.4% y/y). | 25 Inflation data for Australia and Canada tops expectations. Both central banks will analyze one more inflation print before their next policy meeting. |

**Prepared by Northern Trust Asset Management on behalf of Citizens & Northern Wealth Management.**

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Indexes used: Bloomberg (BBG) 1-3 Month UST (Cash); BBG Municipal (Muni); BBG Aggregate (Inv. Grade); BBG TIPS (TIPS); BBG 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 IMI (Em. Markets Equities); S&P Global Natural Resources (Natural Resources); MSCI ACWI IMI Core Real Estate (Global Real Estate); S&P Global Infrastructure (Global Listed Infrastructure).


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# RATE CUTS BEGIN

The European Central Bank and Bank of Canada cut rates this month, signaling that the monetary easing cycle is likely underway as long as inflation comes down. The two central banks have diverged from the Fed, but we believe the Fed is also likely to cut rates later this year. Monetary tightening is likely behind us, with the exception of Japan.

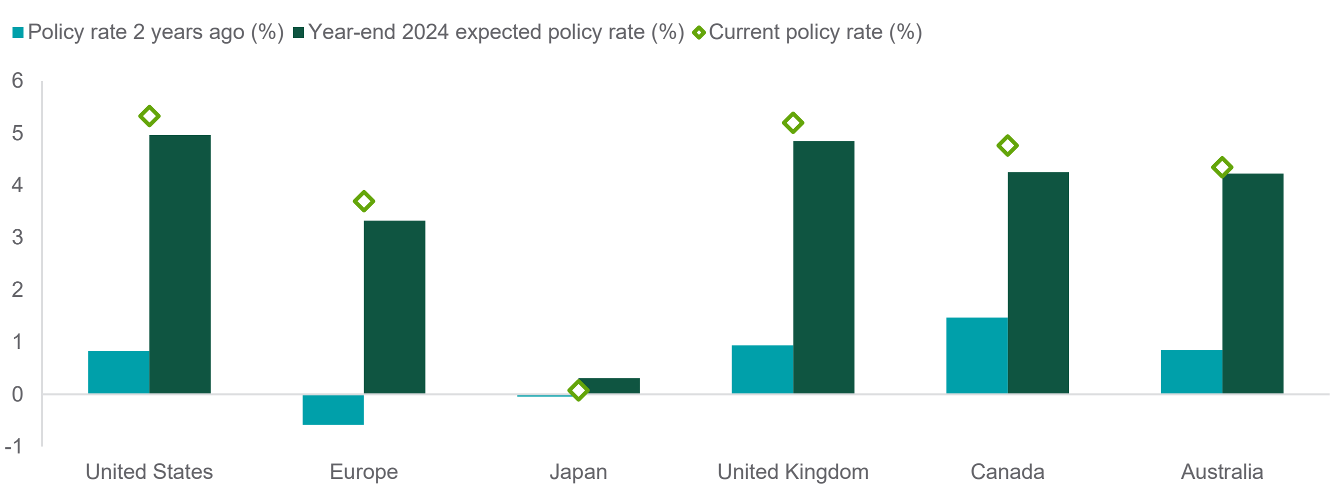
In the U.S., we remain focused on inflation and the labor market. There are some soft spots in the labor market with the unemployment rate rising by 0.4 percentage points on a three-month average basis. But, as seen in the most recent May payroll report, job gains are still running well above the breakeven rate for the U.S. economy (estimated to be ~100-125k), which was helped by immigration flows on the margin. Economic growth is normalizing from the red hot pace of the past two quarters. Progress on inflation has been spotty, but it has resumed in the most recent readings. We expect inflation to continue to get closer to the Fed target by the end of the year. With this backdrop, our fixed income team expects about two cuts this year.

Global Purchasing Managers' Index (PMI) readings are in expansion after being below 50 for two consecutive years. Europe is out of recessionary territory and expected to show positive growth this year. Euro Area inflation ticked up in May and puts into question the pace of easing, but the bias is still to cut rates further for the remainder of the year. Japan is an outlier where we are encouraged to see inflation pick up. This allows for the Bank of Japan to consider tightening policy after decades of deflationary fears. Inflation is stickier in the U.K. and rate cuts expectations have been pushed back but not abandoned. China's economy is showing reliance on exports but not showing much improvement in the property segment which is keeping consumer activity subdued. We expect the ongoing housing downturn to remain a multi-year drag on growth, and continue to think that more policy easing will be necessary to stabilize China's property sector.

There were some election surprises this month, but we did not think there was enough information from these events in terms of changes to fiscal policy to warrant a portfolio adjustment. Earnings revisions are positive and revision breadth is increasing. Looking ahead we see about 12% earnings growth in the U.S. and 11.7% globally. This bodes well for improvement across sectors and globally, potentially broadening the rally. We made no changes to our asset allocation positions this month – we prefer equities over bonds, high yield bonds over investment grade, and we are underweight natural resources.

### THE WORST OF TIGHTENING HAS PASSED?

Policy rates are expected to ease moving forward, representing a very different policy environment than the past two years.




Source: Northern Trust Asset Management, Bloomberg. Market expectations implied by futures and overnight index swaps. Data as of 6/7/2024.

# C&N PORTFOLIO POSITIONING:

## SLIGHTLY ABOVE NEUTRAL IN EQUITIES

C&N Vantage Point
July 2024

**Market Views:**
U.S. Equities Are Fairly Priced. Markets Are Due For Consolidation.
Fed Will Begin Rate Cuts By Year End.
Remain Diversified. Rotation In Equity Leadership Likely.

**Market Risks:**
Earnings Decline And Price Multiples Contract Accordingly.
Rate Cuts Do Not Materialize. Inflation Remains Persistent.
Geopolitical Risks Escalate And Pressure Financial Markets.

| Risk Type | Asset Class | Sector Category | Under Weight | Neutral | Over Weight | Viewpoints |
|---|---|---|---|---|---|---|
| | Cash/Cash Alternatives | **Ultrashort Bonds** | | | ⊖ | We trimmed but retain our overweight as Fed rate cuts may be nearing. This remains a source of funds for a targeted trade with an eye on adding to equities preferred. |
| Risk Control | Alternatives (Fixed Based) | **Absolute Return** | ● | | | This is a bond alternative category. Given current yields, we believe core fixed income provides better risk/reward. We retain our underweight. |
| Risk Control | Alternatives (Fixed Based) | **Inflation-Linked Bonds** | ● | | | Inflation expectations impact TIPS pricing more than actual inflation. Expectations are leveling. We remain slightly underweight preferring US Large Value and Natural Resources as inflationary hedges. |
| Risk Control | Fixed Income | **US Investment Grade Bonds** | | ● | | Yields provide respectable entry points. Subsiding inflation and expected Fed rate cuts argue for lower yields but increased U.S. government debt issuance will likely provide a floor for yield declines. |
| Risk Control | Fixed Income | **International Bonds** | ● | | | U.S. yields are higher than yields of most foreign developed markets. The U.S. economy is also stronger than most foreign developed economies. We stay underweight international bonds. |
| Risk Control | Fixed Income | **Emerging Markets Bonds** | ● | | | Many EM economies are more susceptible to inflation, slowing growth, and geopolitical concerns. Spreads have tightened. We retain our slight underweight favoring the risk/reward of domestic bonds. |
| Risk Assets | Fixed Income | **High Yield Bonds** | | ● | | Yields remain attractive relative to other fixed income asset classes, but the spread to Treasuries remains below average. We maintain our neutral position believing a near term recession is unlikely. |
| Risk Assets | Equities | **US Large Cap** | | | ⊕ | We added slightly to growth but remain overweight value to help provide balance to the portfolio while keeping the portfolio positioned for a possible leadership rotation. |
| Risk Assets | Equities | **Developed Ex-US** | ⊕ | | | We add to foreign large value to become slightly overweight to foreign large cap. We retain our underweight to foreign small/mid keeping our slight underweight to the overall category. |
| Risk Assets | Equities | **US Mid & Small Cap** | | | ⊕ | We add to mid cap from our utlrashort sale, taking us to overweight for the category. Mid caps offer growth exposure at reasonable valuations and Fed cuts may be more impactful for this category. |
| Risk Assets | Equities | **Emerging Markets** | ● | | | We maintain an underweight but valuations are reasonable. China remains an area of concern but other emerging market countries, such as India and Mexico, present opportunities. |
| Risk Assets | Alternatives (Equity Based) & Real Assets | **Real Estate** | | ● | | REITs have been hurt by the volatile rate environment; however, Fed rate cuts may provide opportunity and current income is attractive. We remain neutral but will consider adding depending on rates. |
| Risk Assets | Alternatives (Equity Based) & Real Assets | **Commodities/Natural Resources** | | ⊖ | | We reduce our overweight to neutral favoring foreign large value and U.S. large growth as a better blended approach to inflation tempering and an economy showing signs of cooling. |

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