# C&N VANTAGE POINT

QUARTERLY MARKET RECAP & OUTLOOK | FOURTH QUARTER, 2024

## MEET A TEAM MEMBER

### PHILIP PROUGH, CIMA®, CFP®

*Chief Investment Strategist & Senior Vice President*

Chief Investment Strategist Philip Prough has been with C&N's Wealth Management Group for 25 years. Philip graduated with honors from Lycoming College with a B.A. in Accounting and obtained his MBA from Colorado State University. He has been in the financial services industry for 32 years. In addition to his formal education, Philip is a CIMA® designee, CFP® designee, and holds PA and NY insurance licenses.

Philip has been involved in portfolio management at the client or department level for over 27 years. He leads the Investment Committee where asset allocation and investment recommendations are made. "I enjoy the challenge of researching, constructing and executing portfolio recommendations. Helping clients meet their financial goals, whether it's through investments or financial planning, is how our team gauges its success. That allows us to take a holistic approach to our client's needs so we can tailor recommendations to their personal situation."

Philip lives in Wellsboro and enjoys outdoor recreation activities.

| Key Equity Indexes - As of Quarter End | %YTD Return** | NTM P/E** | P/B** | Dividend Yield** |
|---|---|---|---|---|
| S&P 500 | 26.90 | 21.82 | 5.02 | 1.20 |
| Russell 2000 | 12.20 | 24.54 | 1.07 | 1.26 |
| Russell 1000 Growth | 36.15 | 29.61 | 13.18 | 0.51 |
| Russell 1000 Value | 15.23 | 16.32 | 2.66 | 2.02 |
| MSCI EAFE | 4.96 | 13.82 | 1.82 | 3.02 |
| MSCI EM | 8.79 | 12.09 | 1.76 | 2.25 |

Sources: JP Morgan Weekly Market Recap; Northern Trust. Past performance does not guarantee future results, which may vary.
** As of 12/27/2024

| Key Interest Rates | 2024 | | | |
|---|---|---|---|---|
| | 3/29/24 | 6/28/24 | 9/27/24 | 12/27/24 |
| 2-yr Treasury Note | 4.59 | 4.71 | 3.55 | 4.31 |
| 10-yr Treasury Note | 4.2 | 4.36 | 3.75 | 4.62 |
| 30-yr Treasury Note | 4.34 | 4.51 | 4.1 | 4.82 |
| 30-yr Fixed Mortgage | 6.93 | 6.93 | 6.69 | 7.28 |
| Corp. Bond Index | 5.3 | 5.48 | 4.69 | 5.37 |
| High-Yield Bond Index | 7.83 | 8.09 | 7.22 | 7.65 |

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 | | |
|---|---|---|---|---|---|---|
| Equity Size | Value | Core | Growth | Value | Core | Growth |
| Large | 15.21% | 26.34% | 36.15% | 16.93% | 19.85% | 22.48% |
| Medium | 13.87% | 16.47% | 24.25% | 14.71% | 14.07% | 13.17% |
| Small | 8.13% | 12.18% | 16.37% | 11.04% | 11.41% | 11.77% |

## YTD U.S. FIXED INCOME PERFORMANCES***

| Bloomberg Benchmark | Return |
|---|---|
| Treasury Index | 0.58% |
| Aggregrate Index | 1.25% |
| High Yield Bond Index | 8.19% |
| Municipal Bond Index | 1.05% |

Source: Bloomberg. US Equity Style Returns are Russell Indices. Past performance does not guarantee future results, which may vary.
**As of 9/27/2024
***All returns represent total returns as of 12/31/2024

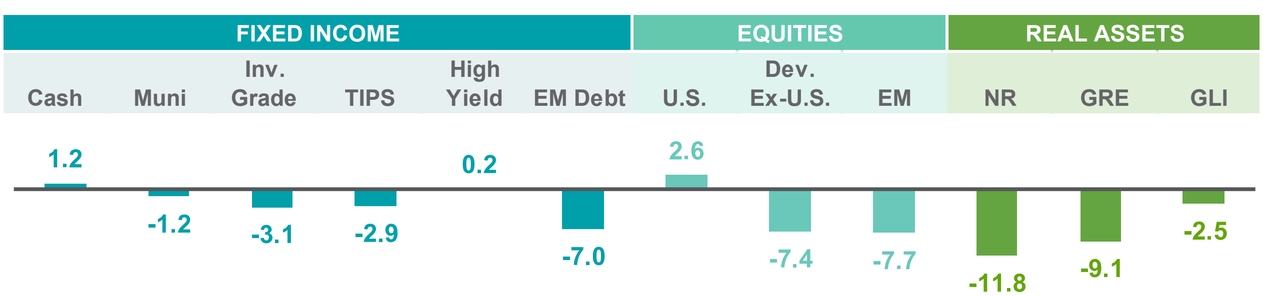
# RIDING THE MOMENTUM

**Supportive macro fundamentals.** From an economic lens, the fourth quarter held some key similarities to the rest of 2024. The U.S. continued to grow at a solid pace that beat expectations, activity in Europe remained weak with dispersion across countries, and China's challenges persisted. Meanwhile, most major central banks continued cutting policy rates. Despite the aspects of resemblance to recent quarters, there were also some notable shifts with lasting implications. After an eventful race, Donald Trump was elected the 47th president of the U.S. The change in government is in store for early 2025, but markets have already started to discount the implications. During the quarter, investors started to more seriously consider inflation risks from potential policies of the incoming administration. Amid these risks, a resilient economy and slower progress in inflation data, the Federal Reserve signaled a more cautious approach to rate cuts moving forward. The December dot plot estimated just two rate cuts in 2025 versus four previously. In regions where the balance of economic risks appears more skewed to the downside, such as Europe and China, there is still a fair degree of expected policy loosening. Hamstrung by low economic growth and political challenges in France and Germany, the European Central Bank is expected to deliver roughly five more rate cuts in 2025. In China, the Politburo issued additional changes to its policy language and signaled more stimulus is on tap in the year ahead.

**Weaker quarter outside of U.S. equities.** Fourth quarter asset class returns were mostly negative though this was overshadowed to a degree by ongoing optimism around U.S. equities. Interest rates moved up across the curve most notably in the leadup to the U.S. election and after the December Fed meeting. This left broader fixed income indexes in negative territory for the quarter. High yield fixed income benefited from a constructive credit backdrop – leaving it slightly higher overall in 4Q. U.S. equities drifted slightly upwards in October before reacting favorably to the cleaner-than-expected GOP sweep U.S. election outcome. Areas like small cap equities, cyclical sectors and regional banks saw the strongest reaction. However, equities began to fade in December with a step lower following the December Fed meeting. The Magnificent 7 group held up well while many other parts of the market faded in a weak finish to a strong year for U.S. equities. The Magnificent 7 accounted for more than all of the S&P 500's 4Q gain and over half of the index's 25% gain in 2024. Outside the U.S., equities struggled with headwinds from a less-robust economic backdrop, some political uncertainty and additional policy risk (e.g., tariffs) from the U.S. election outcome – on top of drag from dollar strength. Both emerging markets and non-U.S. developed market equities trailed the U.S. by around 10% in 4Q. Real assets also lagged with more weakness in natural resources and global real estate while global listed infrastructure fared better given its favorable exposure towards increased power demand.

## FOURTH QUARTER 2024 TOTAL RETURNS (%)

U.S. equities capped off a strong year of performance, especially relative to most other major asset classes.




| | Cash | Muni | Inv. Grade | TIPS | High Yield | EM Debt | U.S. | Dev. Ex-U.S. | EM | NR | GRE | GLI |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2024 | 5.3 | 1.1 | 1.3 | 1.8 | 8.2 | -2.4 | 23.8 | 5.0 | 7.6 | -8.3 | 3.2 | 15.1 |

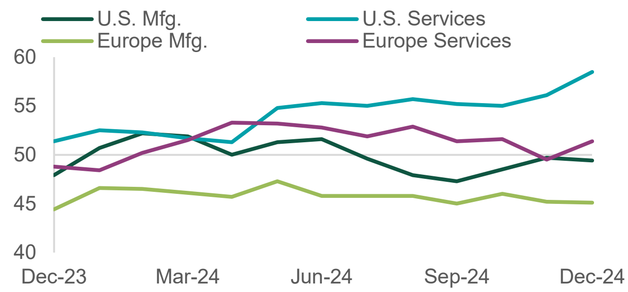
Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

## KEY DEVELOPMENTS

### U.S. Resilience on Repeat

U.S. economic resilience continued in 4Q, bolstered by a solid consumer and labor market backdrop. Investor concerns tilted more towards upside inflation risk versus downside growth risk. Europe's growth outlook was more muted with drag from weaker conditions and political uncertainty in core economies (e.g., Germany, France) outweighing more robust activity in peripheral countries. China's economic environment showed some signs of improvement while policymakers indicated more monetary and fiscal policy support in December.

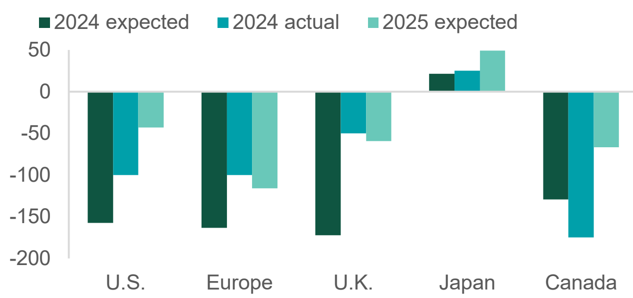
PURCHASING MANAGER INDEXES




### Monetary Easing Continues

Rate cuts from major developed market central banks continued in 4Q. The policy paths have not been uniform with the Fed looking to slow the pace of cuts, the Bank of England pursuing a more gradual pace of cuts and the European Central Bank considering accelerated easing. This reflects how policymakers are choosing to balance considerations around some degree of slowing growth and still-elevated inflation. Overall, central banks cut noticeably less than investors were anticipating heading into 2024.

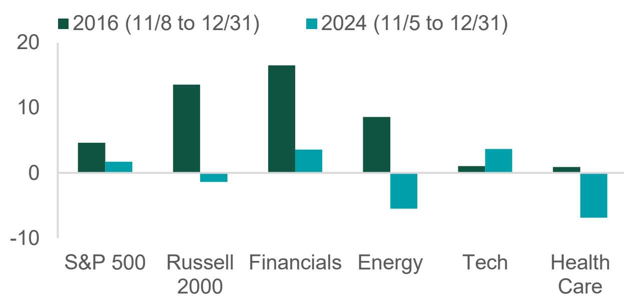
CENTRAL BANK POLICY MOVES (BPS)




### U.S. Election Caps a Busy Year of Voting

Wrapping up a tough year at the polls for incumbent parties, the U.S. election results were clearer than many expected with a GOP sweep outcome. Cyclical areas of the market (e.g., small caps, regional banks) performed well initially post-election. Relative to 2016, the financial market reaction was directionally similar but of a lower magnitude and less sustained across the rest of the year. This reflects a number of factors with a key one being how the U.S. growth and inflation mix is quite different from 2016.

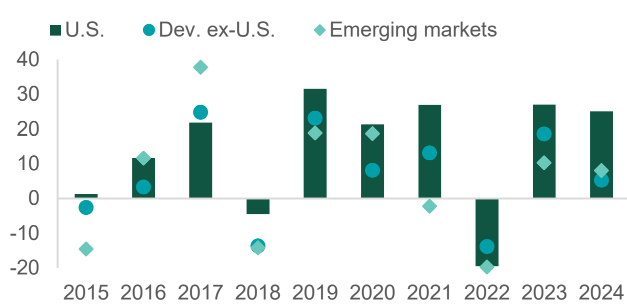
POST-ELECTION EQUITY RETURNS (%)




### Ongoing Optimism on U.S. Equities

4Q intensified divergence in regional returns observed earlier in 2024. U.S. equities outpaced their non-U.S. peers by double digits in 4Q, leaving them with a ~20% advantage in 2024 in dollar terms. This was aided by a combination of more favorable economic and corporate fundamentals, continued strength in megacap tech and dollar strength as well as less risk from the U.S. election outcome. 2024's U.S. equities return marks the fifth out of the past six years of both strong double-digit gains and outperformance versus the major non-U.S. regions.

CALENDAR YEAR EQUITY RETURNS (%)



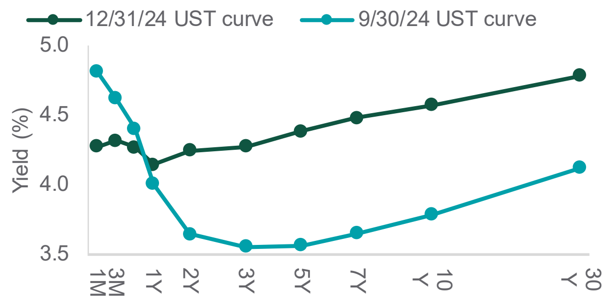

Source: Northern Trust Asset Management, Bloomberg, S&P Global. Data as of 12/31/2024. Note: sectors shown are S&P 500 sectors in third chart; fourth chart: indexes shown are MSCI indexes for each region. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

**MARKET REVIEW**

## Interest Rates

The Treasury curve regained a more normal upward-sloping shape as most interest rates notably increased during the quarter. The Fed lowered its policy rate by 50 bps total, but it also signaled a more cautious approach to future rate cuts and raised its estimate of the long-run neutral rate. Rising bond yields coincided with a mix of healthy economic growth, slightly firmer inflation prints and higher risk premiums that materialized around the outcome of the U.S. Presidential election. The 10-year yield is now about 40 bps below last year's high of 5%.

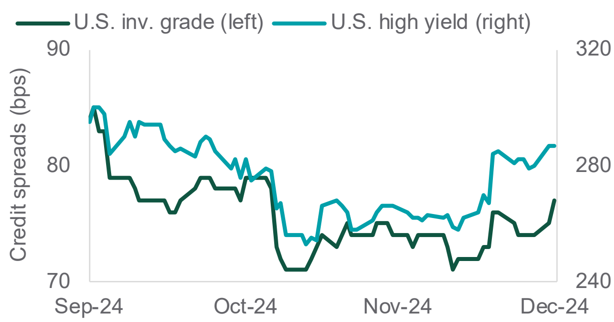
**U.S. TREASURY YIELD CURVE**




## Credit Markets

Investment grade spreads tightened 7 bps to 0.77%, which marks one of the lowest end-of-quarter levels in decades. High yield spreads tightened 8 bps to 2.87%, which is also very tight by historical standards. The December Fed meeting led to some volatility, however, overall, credit markets remained consistent with a sound financial market backdrop. In terms of returns, investment grade fixed income lost 3.1% versus a 0.2% gain for high yield as the increase in interest rates weighed on higher duration asset classes.

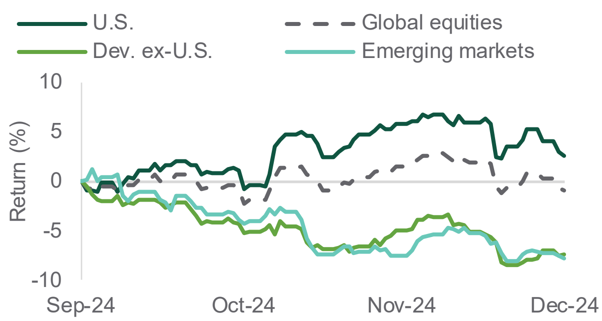
**CREDIT SPREADS**




## Equities

U.S. equities exhibited strong regional leadership with a 2.6% gain versus a 7.4% loss for developed ex-U.S. equities and 7.7% loss for emerging markets. Economic and corporate earnings growth underpinned another solid quarter for the U.S. that was threatened at times by rising bond yields and episodes of sharp volatility. The tech rally persisted alongside strong performance for higher-beta cyclical stocks versus defensives. The non-U.S. regions struggled with headwinds from a strong U.S. dollar and shaky economic momentum.

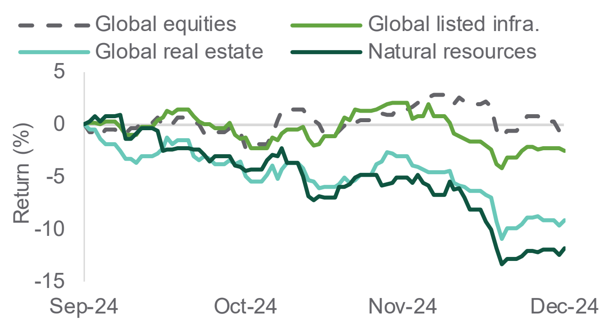
**REGIONAL EQUITY INDICES**




## Real Assets

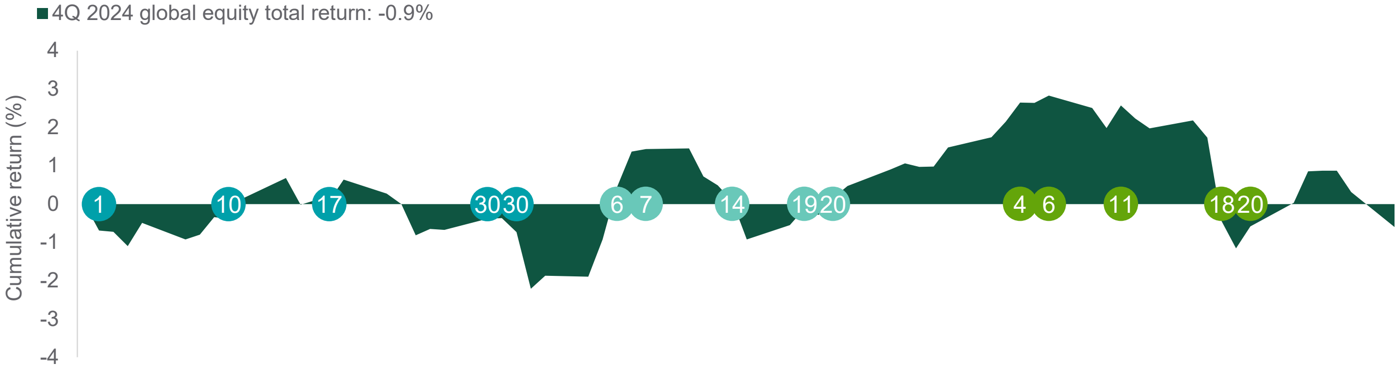
It was a weak quarter for real assets with listed infrastructure (-2.5%), real estate (-9.1%) and natural resources (-11.8%) all lagging global equities (-0.9%). Despite the pickup in bond yields, listed infrastructure showed some resilience as energy infrastructure performed well in response to potential policies of the incoming Trump Administration. Real estate traded lower with higher interest rates. Natural resources saw broad-based weakness at the sector level given a tepid global growth backdrop and ongoing struggles in China.

**REAL ASSET INDICES**




Source: Bloomberg. Returns in U.S. dollars. Indexes are gross of fees. Past performance is not indicative or a guarantee 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




| OCTOBER | NOVEMBER | DECEMBER |
|---|---|---|
| 1 Tensions between Israel and Iran ratchet up, including Israel's ground invasion in Lebanon targeted at Hezbollah. Oil prices temporarily surge in response. | 6 Donald Trump wins the U.S. presidential election. The initial market reaction suggests relief from incremental policy clarity and limited concern on the broader economic growth picture. | 4 French prime minister Michel Barnier loses a vote of no confidence in the National Assembly, the first time a French premier has been forced out since 1962. |
| 10 U.S. inflation surprises to the upside and initial claims jump to 258,000 from 225,000, likely reflecting an impact by Hurricane Helene. | 7 The Fed cuts its policy rate by 25 bps as broadly anticipated for the second cut of the year. Fed messaging points to no change in the near-term policy outlook. | 6 The November U.S. employment data bounces back from temporarily distorted levels in October. |
| 17 Strong September retail sales leads to an upgrade in third quarter U.S. economic growth estimates. | 14 Fed Chair Powell states that "the economy is not sending any signals that we need to be in a hurry to lower rates". | 11 U.S. Core CPI increases 0.3% m/m or 3.3% year-over-year (y/y). Over the past three months, core CPI increased at an annualized rate of 3.7%. |
| 30 The U.S. economy expands at a healthy pace of 2.8% in the third quarter. The composition of growth is strong. | 19 The Biden administration lifts restrictions to allow Ukraine to use U.S.-provided long-range missiles to strike targets deep into Russian territory. Russian attacks on Ukraine intensify. | 18 The Fed delivers a hawkish rate cut. The median projection in the Fed's updated Summary of Economic Projections (SEP) shows two rate cuts in 2025 versus four previously. |
| 30 Microsoft (MFST) beats earnings estimates but provides disappointing guidance. | 20 Nvidia (NVDA) beats revenue and earnings expectations. Guidance for the current quarter is in-line with expectations. | 20 The Brazilian real and equity markets suffer significant losses over growing concerns of the country's debt. |

**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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# HIGH HOPES, SOLID GROUNDS

We believe the macroeconomic outlook for the U.S. in 2025 is solid and promising. Analysts project a GDP growth rate of around 2.4%, driven by a combination of strong consumer spending, robust private sector balance sheets, and a historically strong labor market. The Federal Reserve is expected to continue its easing cycle, with interest rate cuts likely to support economic expansion.

Inflation is anticipated to remain within manageable levels, with core PCE inflation projected to slow to 2.2% by late 2025. This easing of inflationary pressures will allow the Federal Reserve to maintain accommodative monetary policies, further bolstering economic growth.

With regards to the stock market, 2024 showcased remarkable performance, with the S&P 500 surging by approximately 28% year-to-date, which would mark its best annual performance since 2019. This strong performance was driven by a combination of factors, including robust corporate earnings, lower inflation rates, and a series of interest rate cuts by the Federal Reserve. The post-election rally further boosted investor confidence, leading to record highs and significant gains across various sectors.

Looking ahead to 2025, the tech cycle remains a central theme. The continued advancement in artificial intelligence (AI) and other innovative technologies is expected to drive further growth in the tech sector. Additionally, expectations are high for more than 12% earnings growth next year, fueled by strong IT capital expenditure and technological innovation.

Geopolitical risks loom large in 2025, with tensions in regions like the Middle East and Asia potentially disrupting global supply chains and impacting investor sentiment. These uncertainties could lead to increased costs for the U.S. defense budget, as the government seeks to bolster national security and respond to international threats. The Department of Defense has already proposed a $849.8 billion budget for 2025, reflecting the need to address these geopolitical challenges.

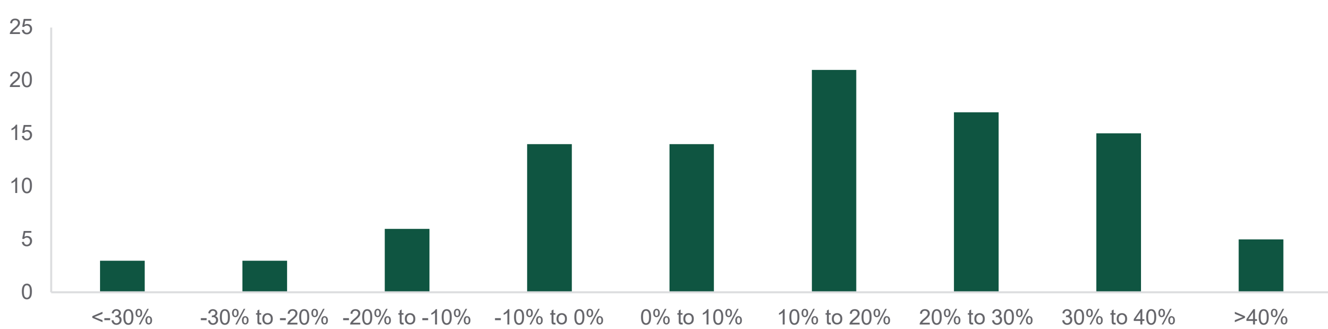
European economies are still stuck in the mud – fiscal consolidation remains a focus and a potential drag on growth, while political instability in France and Germany is ongoing. The fiscal outlook in China is improving, but domestic consumption continues to face headwinds.

Overall, we maintained a preference for equities over fixed income on the basis that the macroeconomic backdrop will remain supportive. Within equities, TAA continues to prefer the U.S. versus other regions given a better economic backdrop, healthier corporate fundamentals, and lower net downside risk from policies floated by the incoming U.S. Administration. Within fixed income, the committee believes high yield remains attractive given its starting yield of ~7% and an expectation of low defaults.

**UNEXPECTED, YET FREQUENT: STOCK MARKET SURGES NEARLY 30%**

Strong U.S. stock market performance was not expected in 2024, but it fell in line with historical data.

NUMBER OF ANNUAL U.S. STOCK MARKET RETURNS SINCE 1927




Source: Northern Trust Asset Management, Bloomberg. Annual total return data from 12/31/1926 through 12/29/2023. S&P 500 index. Numbers from Ibbotson until 1988. Past performance is not indicative or a guarantee of future results.

# C&N PORTFOLIO POSITIONING:

## SLIGHTLY ABOVE NEUTRAL IN EQUITIES

C&N Vantage Point
January 2025

**Market Views:**
U.S. Equities Are Fairly Priced. Markets Are Due For Consolidation.
Fed Slower To Cut Rates In 2025. Rates Stay Higher For Longer.
Remain Diversified. New Fiscal And Tax Policy Impacts Unknown.

**Market Risks:**
Earnings Decline And Price Multiples Contract Accordingly.
Persistent Inflation And Hotter Labor Market Halts Fed Cuts.
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 reduced in October to fall back to neutral. With Fed rate cuts and a solid economy, we favored TIPS and Investment Grade Bonds. |
| 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** | | | ⊕ | We added to TIPS in October to take advantage of favorable breakeven levels bringing the asset class to a slight overweight. |
| Risk Control | Fixed Income | **US Investment Grade Bonds** | | | ⊕ | Yields provide respectable entry points as bonds try to establish equilibrium. Subsiding inflation and Fed rate cuts are countered by a solid U.S. economy and increased U.S. government debt issuance. |
| 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** | | ⊕ | | EM Bonds became more attractive given their year-to-date underperformance. We added slightly to the category in October to bring it to neutral. |
| 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 slightly reduced to fund our EM Bond trade, but remain at neutral. |
| Risk Assets | Equities | **US Large Cap** | | | ● | In October, we added to growth to bring to neutral and lowered our overweight in value. Overall, we remain slightly above neutral favoring domestic large caps over international. |
| Risk Assets | Equities | **Developed Ex-US** | ● | | | We retain a slight overweight to foreign large cap via our exposure to foreign large value. We retain our underweight to foreign small/mid keeping our slight underweight to the overall category. |
| Risk Assets | Equities | **US Mid & Small Cap** | | | ● | We added to small cap value in October keeping the category at overweight. Mid caps and small 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's stimulus has provided short-term momentum but dollar strength and geopolitical concerns have us favor domestic equities. |
| Risk Assets | Alternatives (Equity Based) & Real Assets | **Real Estate** | | ● | | Fed rate cuts have provided momentum to REITs and current income is attractive. We remain neutral capturing the recent outperformance but cautious that longer term yields will decline much further. |
| Risk Assets | Alternatives (Equity Based) & Real Assets | **Commodities/Natural Resources** | | ● | | We retain our neutral stance 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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C&N Vantage Point provides an in-depth look at C&N's Wealth Management investment and financial planning strategies. Discussions include our current portfolio positioning, outlook for the month and thoughts on the markets.

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