C&N VANTAGE POINT

Quarterly Market Recap & Outlook | First Quarter, 2021

Meet A Team Member

Doris Merrick

Vice President & Senior Trust Tax Officer

Doris Merrick joined C&N in 2020 as Vice President and Senior Trust Tax Officer, bringing over 29 years of experience and knowledge to the Wealth Management team. Doris is a licensed CPA in North Carolina, a licensed attorney in New Jersey and North Carolina and earned the designation of Certified Fiduciary and Investment Risk Specialist (CFIRS) from the Cannon Financial Institute. Prior to joining C&N, she was a Trust and Estates Manager at a CPA firm in Madison, New Jersey for 9 years. In her role as Senior Trust Tax Officer, she provides client-centered personal and fiduciary tax services.

Doris earned her BS in Accounting from Hunter College, her MBA in Tax from New York University, and her JD from the University of Maryland. She is a member of the American Bar Association and State CPA Society. She spends her free time as organist at her local church, and volunteers for CASA in Morris County, NJ. Doris lives with her husband, Bruce Yeatman, and has one adult son, Philip.

"It is increasingly important for our clients to be aware of, not just the basic tax rules, but also strategies to help them build and preserve their hard-earned assets. I am proud to be part of such a dedicated and talented team."

Key Equity Indexes - As of Quarter End	%YTD Return**	NTM P/E**	P/B**	Dividend Yield**
S&P 500	7.43	22.08	4.15	1.42
Russell 2000	14.40	31.25	2.56	0.94
Russell 1000 Growth	2.55	29.66	11.32	0.74
Russell 1000 Value	12.30	18.31	2.50	1.96
MSCI EAFE	3.81	17.18	1.76	2.26
MSCI EM	4.77	15.14	2.07	1.85

Sources: JP Morgan Weekly Market Recap; Northern Trust. Past performance does not guarantee future results, which may vary.
** As of 04/02/2021

Key Interest Rates	2021			
	7/2/20	10/2/20	12/21/20	4/1/21
2-yr Treasury Note	0.16	0.13	0.13	0.17
10-yr Treasury Note	0.68	0.7	0.93	1.69
30-yr Treasury Note	1.43	1.48	1.65	2.34
30-yr Fixed Mortgage	3.29	3.05	2.86	3.33
Corp. Bond Index	2.14	2.06	1.79	2.28
High-Yield Bond Index	6.86	6.08	4.97	4.91

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

2021 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	11.20%	5.90%	0.90%	9.50%	4.90%	0.20%	-0.48%	-1.54%	-12.93%	Government
Medium	13.00%	8.10%	-0.60%	10.30%	5.70%	-0.30%	-0.58%	-2.14%	-9.00%	Corporate
Small	21.20%	12.70%	4.90%	12.50%	9.50%	5.60%	1.96%	0.77%	-1.62%	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 03/31/2021
***As of 03/26/2021

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WHAT'S PRICED IN?

Investing is a complicated endeavor. Predicting the future is hard enough; understanding what markets have priced in is just as hard – and just as important. Nobel Laureate – and University of Chicago behavioral economics professor – Richard Thaler conducted an interesting study providing some insights on the matter. The *Financial Times* allowed him to publish a contest asking for a number from 0 to 100. The guess closest to two-thirds of the average of *all* entries was crowned winner. This clever contest forced entrants to consider all others' views – as all investors must do to outperform the broader financial market.

Three specific answers showed up most often. The "first-level thinker" gave the third most popular answer – 33. The thinking: Because the average random response is likely 50, the winning answer should be 33 (two-thirds of 50). Meanwhile, the "second-level thinker" reasoned – if all respondents are "first-level thinkers" – the winning answer should be 22 (two-thirds of 33). In fact, this was the most popular answer. But why stop there? The really "smart" contestants answered 1 (second most popular response). These entrants, Thaler concluded with humor, had "too much economics training." Average contestants did not go that many levels deep. The winning answer was lucky number 13 (two-thirds of 20), closely approximating "third-level thinking" (fairly common across repeat experiments).

What constitutes first/second/third-level thinking in financial markets is not so straightforward – and can be very fluid, as investors respond to each other in real time. Let's give it a shot anyway.

First-level thinkers. Those answering 33 likely focus on the robust economic recovery. Global purchasing manager indices (a real-time read on the economy) have overcome last year's dip and then some. Those looking for work are starting to find it, pushing consumer confidence higher. Also, the recovery is getting a shot in the arm; literally from vaccines and figuratively from the $1.9 trillion stimulus bill.

Second-level thinkers. Those taking the next step flag the coming inflation. But inflation risks seem transitory – and only bother investors if they bother the Federal Reserve (Fed). This has not been the case. In fact, the Fed is embracing (some) higher inflation and remaining extremely accommodative by any historical standards.

Third-level thinkers. But, finally, what's priced in? Broad equity valuations appear elevated but reasonable given (still) very low global interest rates. In fact, some areas of the financial markets – value stocks, many non-U.S. equity regions and natural resources – arguably look attractive.

Too much economic training? Other areas of the market do look stretched. Be aware of the risks but also be careful not to dismiss their prospects entirely. Bitcoin has defied the "experts", up 100%+; while the GameStop saga has left the "smart money" with sizable losses this year.

Conclusion: Think, but don't overthink. And, if shorting the market, be sure to remember some old advice: Markets can stay irrational longer than you can remain solvent*.

**Quote attributed to economist John Maynard Keynes, who surprisingly never won a Nobel prize (he died in 1946, before the economics award was first handed out in 1969 – and posthumous awards are not given).*

FIRST QUARTER 2021 TOTAL RETURNS (%)

Risk taking has been rewarded; market laggards have become leaders – notably natural resources.

	RISK CONTROL		RISK ASSETS									
	FIXED INCOME						EQUITIES			REAL ASSETS		
	Cash	Muni	Inv. Grade	TIPS	High Yield	EM Debt	U.S.	Dev. Ex-U.S.	EM	NR	GRE	GLI
1Q21	0.0	-0.4	-3.4	-1.5	0.9	-6.7	6.3	4.3	2.9	11.8	5.6	3.0
2020	0.5	5.2	7.5	11.0	7.0	2.7	21.1	8.8	18.8	0.7	-8.0	-5.8

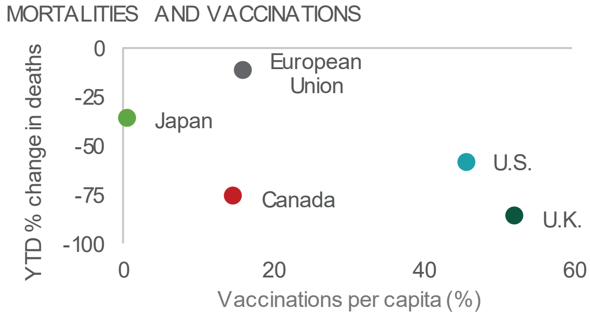
Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees.

KEY DEVELOPMENTS

Controlling COVID

From a health perspective, there is still much to be done to address COVID-19, especially as new strains push cases higher. From an investment perspective however, the pandemic is mostly behind us. There is clear evidence that vaccines are working (see chart). And, in short order, any U.S. citizen who wants a shot can have one. European citizens must stay patient for now. But production is ramping to get the continent back on track. As the pandemic comes under control, economies are reopening – and recovering.

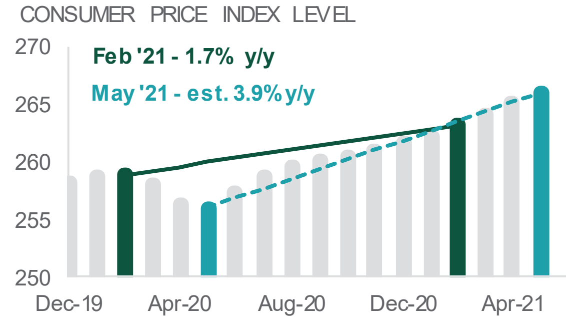
VACCINE EFFECTIVENESS



Controlled Inflation

The economic recovery is pushing inflation higher. But, unlike the pandemic, inflation may control itself. Inflation readings will surely rise in the next few months; but this is more driven by last year's falling prices than this year's rising prices. Because inflation is generally quoted in year-over-year (y/y) terms, last May's price nadir may be this May's y/y inflation zenith (see chart). After May, inflation numbers will likely recede; future price increases will be hard pressed to maintain the past year's recovery/stimulus-driven fast pace.

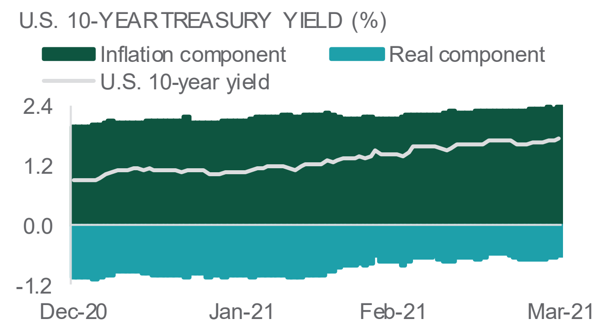
YEAR-OVER-YEAR INFLATION COMPARISONS



Yield Curve Control?

Rising inflation and the gradual return to economic normality have pushed interest rates higher. The 0.8% year-to-date increase in the 10-year U.S. Treasury yield represents a 0.5% increase in real yields and a 0.3% increase in inflation expectations (see chart). Investors don't necessarily mind higher inflation by itself; they mind central banks (over) reacting to higher inflation. On this front, the Fed has provided words of comfort. Easy money continues, while more forceful yield curve control could come if rates march much higher.

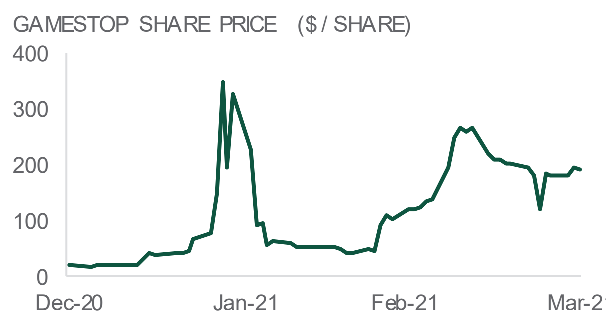
10-YEAR TREASURY YIELD DECOMPOSITION



Out of Control Speculation

Equipped with stimulus checks and assisted by easy money, day traders are back. Many stocks have been targeted, but GameStop is best known (at least now). Hedge funds heavily shorted the (ostensibly) doomed retailer, only for small investors to collectively push the price higher. Those short had to cover (buy up) stated positions (pushing prices higher yet). The madness is ongoing. GameStop (a sub-$1 billon company just last December) is now worth $13 billion (roughly the same market value as COVID-19 vaccine maker Novavax).

THE SPECULATION POSTER CHILD



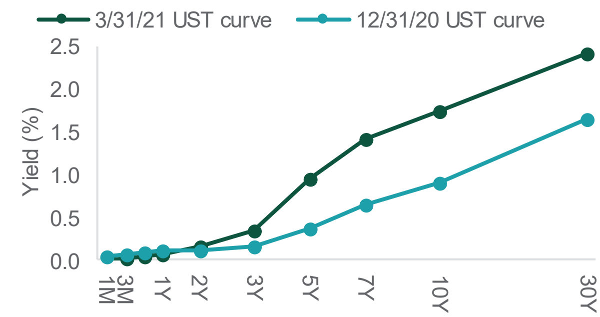
Source: Northern Trust Asset Management, Bloomberg. YTD = year-to-date. Chart 2: data through 2/28/2021, May '21 is NT estimate. Data as of 3/31/2021 for all other charts.

MARKET REVIEW

Interest Rates

The Fed made no major policy changes as it stressed the difficulty of realizing persistently higher inflation. Investors challenged the Fed's ability to maintain ultra-accommodative policy against a backdrop of rapidly improving economic activity boosted by huge stimulus. This Fed-investor dichotomy led to a steeper U.S. yield curve with shorter-maturity yields holding firm while investors pushed longer-dated yields above pre-virus levels. Government bond yields faced upward pressure globally, but real yields are still stimulative overall.

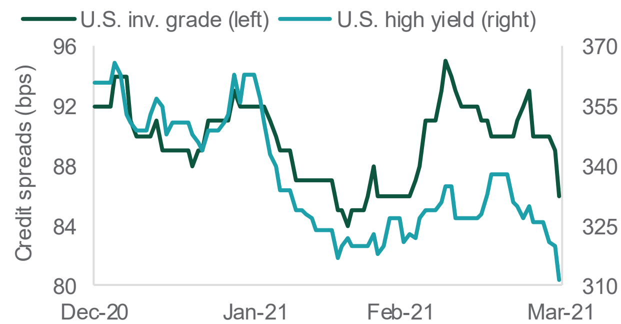
U.S. TREASURY YIELD CURVE



Credit Markets

The improving economic growth trajectory pushed up future corporate earnings expectations. As is often the case, this led to some spread tightening. Investment grade and high yield spreads fell 6 and 50 basis points, respectively. Vaccine-led normalizing economic activity and bolstered corporate liquidity helped by added fiscal stimulus slowed corporate defaults. Rising interest rates and less room for spread compression – spreads are near all-time lows – weighed on returns in credit-sensitive securities, but fundamentals remain strong.

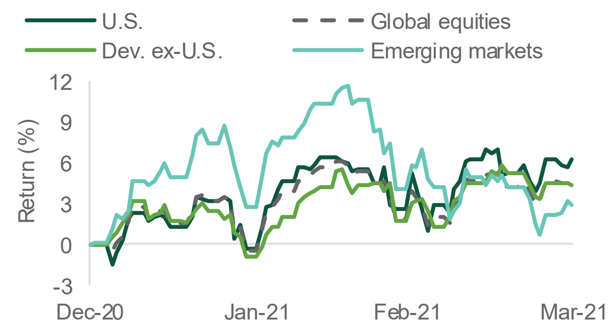
CREDIT SPREADS



Equities

The 4.7% global equities return masks a big rotation into stocks likely to benefit from economic reopening, such as value and cyclicals, and out of pandemic winners. U.S. equities led the major regions with a 6.3% gain driven by leading vaccinations. Despite Europe's ongoing virus troubles, developed markets outside the U.S. benefited from cyclical exposure and rose 4.3%. Overall, rising interest rates and inflation concerns weighed on equity returns, but inoculation, economic reopening and stimulus tailwinds proved powerful.

REGIONAL EQUITY INDICES



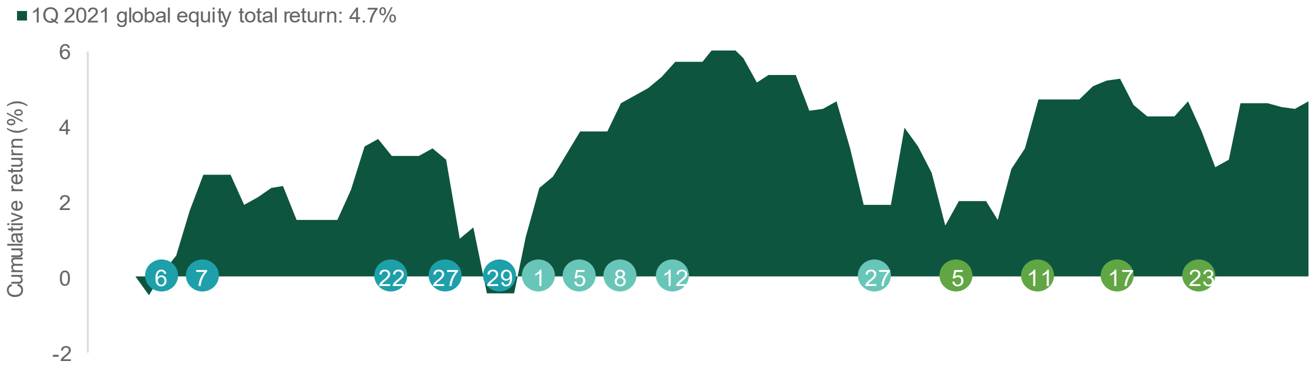
Real Assets

Natural resources returned 11.8%, outperforming global equities for the second straight quarter. After years of underperformance, revived returns stem from improved energy fundamentals and increasing appreciation of the industrial metals that will be necessary to support green energy initiatives. Rising interest rates weighed on global real estate (GRE) and global listed infrastructure (GLI). Still, GRE outpaced global equities as property sector valuations hit hardest by the virus improved, while GLI was buoyed by cyclical exposure.

REAL ASSET INDICES

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

MARKET EVENTS



JANUARY	FEBRUARY	MARCH
6 Democrats win control of U.S. Senate after the Georgia Senate run-off.	**1** The number of American vaccine recipients exceeds the number of Americans who have tested positive for the virus.	**5** Accelerating vaccinations and decelerating hospitalizations contribute to a better-than-expected February jobs report.
7 NYSE delists three Chinese telecommunications stocks to comply with an executive order from the Trump administration.	**5** Congress passes a budget blueprint for a reconciliation bill, opening the door for more COVID-19 relief (a bill is later signed on March 11).	**11** President Biden signs $1.9 trillion virus relief bill which includes stimulus payments, state and local aid and extended unemployment benefits.
22 President Biden signs executive orders to boost COVID-19 aid and expand worker protections.	**8** OPEC+ supply restraints and renewed demand drive oil prices higher, eventually settling above $60/barrel for the duration of the quarter.	**11** The European Central Bank declares intent to expand asset purchases in the next quarter to stabilize real bond yields.
27 GameStop (GME) rises 135% on the back of "short squeeze" trades attributed to retail buying.	**12** CBOE Volatility Index reaches lowest level since pandemic started as the U.S. inches closer to a stimulus package.	**17** The Federal Reserve upgrades 2021 growth forecast and reiterates accommodative policy.
29 Johnson & Johnson (JNJ) reports 66% global efficacy for its single-dose vaccine.	**27** The U.S. Food and Drug Administration issues Emergency Use Authorization for Johnson & Johnson's (JNJ) COVID-19 vaccine.	**23** A container ship stuck in the Suez Canal blocks passage to roughly 10% of worldwide shipping traffic.

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 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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STIMULATING

The big U.S. fiscal stimulus package, along with further easing action by the European Central Bank (ECB), have combined to bolster the growth outlook while also increasing the focus on inflationary pressures. This past week, U.S. President Joe Biden signed the $1.9 trillion American Rescue Plan Act of 2021, providing stimulus checks, extended unemployment benefits, aid to states and municipalities and other payments. We estimate roughly $800 billion will be spent this fiscal year – most of which will stimulate second- and third-quarter growth – with an additional $300 billion spent next year (see chart below). This is coming at a time when the Federal Reserve isn't objecting too loudly to the recent rise in interest rates as the economy rebounds. In contrast, the ECB expressed its displeasure at the recent rise in rates by boosting its asset purchase programs to support the European recovery, which is lagging that of the U.S. It is noteworthy that we upgraded our outlook for European political leadership this month, as we are encouraged by the developments in the German leadership race and the appointment of Mario Draghi as Prime Minister of Italy.

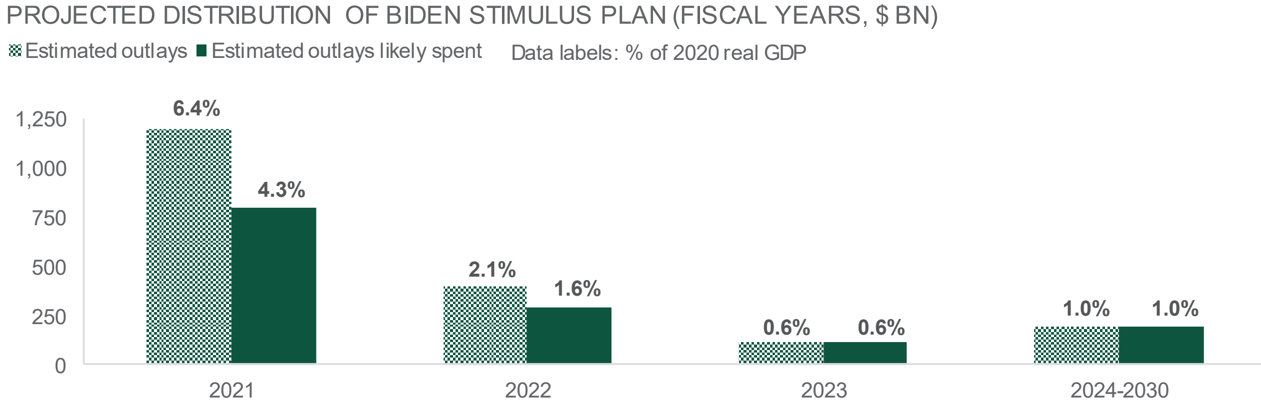
Beyond the stimulus being enacted, the global economy continues its reopening momentum. Of the major economies hit hardest by the virus, the U.S. and U.K. are leading vaccination progress and estimates of herd immunity in the U.S. are now centering on mid-2021. The February U.S. jobs report was a positive surprise, bolstering the near-term growth outlook. The European growth outlook is bifurcated; manufacturing has shown notable strength while services are weakened by health policy constraints. Chinese growth remains robust, which may be why the government felt comfortable warning against the potential of financial market risks.

With all this stimulus on top of improving global growth, will inflation finally resurface and dampen risk appetites? We think the continued imbalance of supply and demand, along with the acceleration of automation and digitalization trends during the pandemic, will prevent a sustained rise in prices. Remember that the unemployment rate fell below 4% in 2020 without rekindling labor market inflation, which is key to recurring inflation. We continue to focus on our *Market Laggard Relief* base case, in which the assets that underperformed in 2020 (such as energy stocks, financials and other value stocks) will perform much better. A new risk case, however, is that investor optimism could be hampered by a change in narrative from the Fed, pressured by the impact of fiscal policy. Looking out over the next year, we remain overweight risk assets, spread broadly across risk markets, funded by an underweight in risk-control assets.

SPEND SOME, SAVE SOME

The headline number is massive, but its impact will be somewhat muted by savings and deferral.

PROJECTED DISTRIBUTION OF BIDEN STIMULUS PLAN (FISCAL YEARS, $ BN)



Source: Northern Trust Global Asset Allocation, Congressional Budget Office (CBO). Estimated outlays are CBO estimates, estimated outlays likely spent are Northern Trust estimates.

C&N PORTFOLIO POSITIONING:
MAINTAIN MODERATE OVERWEIGHT TO RISK

C&N Vantage Point
April 2021

Market Views:
Equities Fairly Valued Short Term. Constructive On Equities Long Term.
Diversification Remains Paramount. Markets Will Likely Be Choppy.
Rates Likely Lower For Longer. Longer Maturities May Be Nearing Top Of Range.

Market Risks:
Inflation Stays High For Longer Than We Expect.
Federal Reserve Miscalculations Or Miscommunications.
Tax Increases Larger Than Expected.

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 believe equities represent better value looking out 1 to 3 years. This has been a source of funds during recent rebalancings. We remain neutral.
		Inflation-Linked Bonds			●	Inflation expectations began rising in late summer 2020. Housing prices have risen sharply. A Democratic tax increase or an infrastructure bill could be inflationary. We maintain a slight overweight.
	Fixed Income	US Investment Grade Bonds	●			IG Corps spreads have tightened. We remain underweight to U.S. Govt bonds. Overall, we're underweight but continue to stay neutral on duration taking advantage of recent rate rises.
		International Bonds		●		Although negative yields are abundant, the macroeconomic environment is improving. European vaccination response it was not as successful as the U.S. We maintain a neutral stance.
		Emerging Markets Bonds		●		EM bond yields may have room for additional spread tightening. A weakening dollar is also supportive. EM is more correlated to a global recovery. We maintain our neutral allocation.
Risk Assets		High Yield Bonds		●		Coupons remain attractive relative to other fixed income. Valuations have risen. We remain neutral to maintain a barbell approach within fixed income.
	Equities	US Large Cap		●		Value has significantly outpaced Growth YTD. Higher interest rates may be a hurdle for Growth. We remain overweight to Value for the reopening trade but look to add to Growth when opportunities arise.
		Developed Ex-US		●		Valuations are reasonable compared to the U.S. International Growth becoming more attractive. We look to add to Large Caps due to valuations and trim Small Caps due to recent outperformance.
		US Mid & Small Cap			●	We added to Small Cap for the cyclical recovery play in 3Q20. These categories finished strong in each of the last two quarters. We will consider trimming given their recent outperformance.
		Emerging Markets			●	EM is more correlated to the global recovery. With the Fed rate cut to zero and China's quicker recovery from the virus, attractive. We maintain our slight overweight.
	Alternatives (Equity Based) & Real Assets	Real Estate		●		A zero Fed Fund's Rate is a positive for the long term. But a pull forward of remote working is a negative in the short term but data centers continue its strong demand. We remain neutral.
		Commodities/Natural Resources		●		Oil prices have stabilized. A successful U.S. vaccination plan has been positive for commodities. We remain neutral favoring Large Cap Value as our cyclical play.

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