C&N VANTAGE POINT

QUARTERLY MARKET RECAP & OUTLOOK | THIRD QUARTER, 2022

MEET A TEAM MEMBER

KARMEN PERSING

Wealth Management Associate

Karmen has 24 years of banking experience. Eleven of those years have been spent at C&N as a Wealth Management Associate. She supports the members of our Wealth team by handling the back-office operations and duties. Being a supportive part of the Wealth Team and their clients have been a fulfilling role because of the relationships that have been created over the years.

Along with her daily responsibilities she is also involved in supporting the fellow WM Associates to help them grow in their position by sharing her years of knowledge, skills and by coordinating monthly team meetings. Bringing this group together is something she is very proud of and is happy to do.

“I feel that my role and roles like mine are imperative to a team in order for the team to keep moving forward and succeeding. C&N has always felt like home, and I have always felt valued. Can’t get any better than that.”

Karmen lives in Knoxville with her husband Scott and their three dogs. In their spare time they enjoy spending time with family and watching the wildlife that visit their property on daily basis.

Key Equity Indexes - As of Quarter End	%YTD Return**	NTM P/E**	P/B**	Dividend Yield**
S&P 500	-23.87	15.15	3.67	1.75
Russell 2000	-25.10	16.80	1.88	1.37
Russell 1000 Growth	-30.66	20.38	9.24	1.01
Russell 1000 Value	-17.75	12.09	2.17	2.39
MSCI EAFE	-26.76	10.99	1.52	3.58
MSCI EM	-26.89	10.40	1.53	3.63

Sources: JP Morgan Weekly Market Recap; Northern Trust. Past performance does not guarantee future results, which may vary.
** As of 09/30/2022

Key Interest Rates	2022			
	12/31/21	4/1//21	7/1/22	9/30/22
2-yr Treasury Note	0.73	2.44	2.84	4.22
10-yr Treasury Note	1.52	2.38	2.88	3.83
30-yr Treasury Note	1.9	2.44	3.11	3.79
30-yr Fixed Mortgage	3.27	4.8	5.84	6.52
Corp. Bond Index	2.36	3.67	4.62	5.69
High-Yield Bond Index	4.86	6.23	8.86	9.7

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

2022 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	-17.75%	-24.59%	-30.66%	-17.49%	-25.03%	-32.27%	-6.35%	-8.70%	-28.84%	Government
Medium	-20.36%	-24.27%	-31.45%	-23.28%	-27.49%	-33.15%	-7.43%	-11.81%	-29.43%	Corporate
Small	-21.12%	-25.10%	-29.28%	-21.65%	-26.65%	-31.81%	-9.36%	-14.11%	-25.52%	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 9/30/2022

PREPARING FOR WINTER

"Winter is Coming" was the name of the very first episode of HBO's very popular *Game of Thrones* television show; and it quickly set the plot for the series: After the longest summer in history (10-plus years), preparations are being made for an equally long (and harsh) winter.

Markets also enjoyed an unusually long "summer" in the form of a bull market that ran mostly uninterrupted from the end of the global financial crisis to the start of this year (only briefly interrupted by the pandemic). Certainly winter is literally coming; but is it also coming metaphorically?

Fighting white walkers. The overarching antagonist in *Game of Thrones* is the "white walkers" – the band of "undead" seemingly behind the impending long winter. Financial markets are not fighting mythical creatures (though it sometimes feels that way). But they are fighting the effects of persistent inflation. The most recent U.S. and European inflation prints came in at 8.3% and 10.0%, respectively. While supply chains are healing, energy supply has come under threat – due to both chronic underinvestment in traditional energy sources and, of course, the ongoing Russia-Ukraine war. The issue is most acute in Europe, where a cold winter may require increased energy rationing, affecting industrial activity. Higher energy bills are pressuring consumer spending – and energy relief packages, while helpful, only transfer the burden to government budgets, which must be paid back later (one way or another). All the while, there is a risk of further retrenchment of corporate capital expenditures.

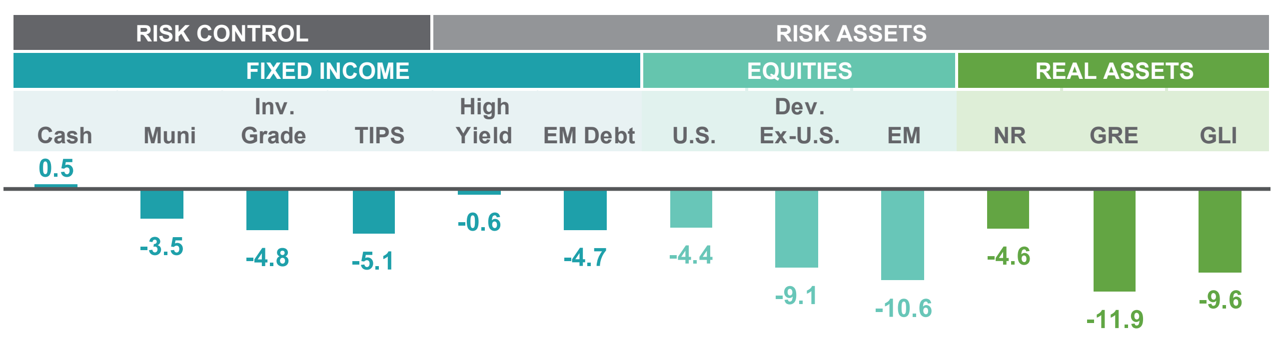
Unleashing dragons. In *Game of Thrones*, the most viable weapon against the white walkers were dragons. In financial markets, the most viable weapon against inflation is tighter monetary policy. The Fed has certainly been harnessing this weapon, enacting a total of 3% in rate hikes thus far this cycle, often doing so 0.75% at a time. Other central banks are also following suit, including the European Central Bank, which has now exited negative interest rate territory. Like the *Game of Thrones* dragons, monetary policy is an effective-but-blunt weapon – often times causing a recession in the process of bringing price increases back to target. We certainly face this possibility.

A real world game of thrones. In addition to the ongoing Russia-Ukraine war, other global power struggles are top of mind for investors. These include the ongoing tensions between China and Taiwan, alongside the increasingly aggressive actions from the likes of Iran and North Korea.

Waiting for Spring. There is no denying the geopolitical challenges and economic concerns. But, with stocks down over 24% year-to-date, and bonds down over 14%, financial markets have greatly adjusted to this new reality. Equity valuations have compressed meaningfully (see bottom of page 2) and the 10-year U.S. Treasury yield touched 4% for the first time in over a decade. Meanwhile, high yield bonds are offering nearly 10% yields against still-low default rates. Battles (whether against inflation or white walkers) may not be easy or quick – but, for those who have the patience, victory can come with spoils.

THIRD QUARTER 2022 TOTAL RETURNS (%)

It was another difficult quarter for global equities – and again risk-control assets (ex-Cash) provided negligible protection.



	Cash	Muni	Inv. Grade	TIPS	High Yield	EM Debt	U.S.	Dev. Ex-U.S.	EM	NR	GRE	GLI
YTD	0.6	-12.1	-14.6	-13.6	-14.7	-18.6	-24.7	-26.6	-26.5	-5.9	-29.4	-10.1

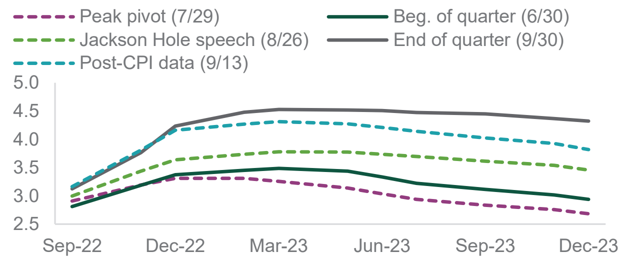
Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees.

KEY DEVELOPMENTS

Tighter for Longer

U.S. inflation has been more durable than expected, with implications for Fed policy (tighter for longer) and growth (weaker). Investors' dovish read of Fed Chair Powell's July press conference ("peak pivot" in chart) reversed course by the time of his late-August Jackson Hole speech, where he reaffirmed the Fed's laser focus on inflation. Yet another hot August Consumer Price Index (CPI) reading pushed the trajectory even higher. Ultimately, investors exited the quarter with a belief that meaningful Fed relief won't come until 2024 at earliest.

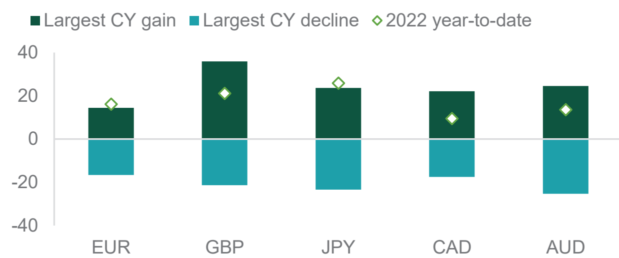
EXPECTED FED POLICY TRAJECTORY (%)



Long Live the U.S. Dollar

Fed tightening has led to a stronger U.S. dollar against currencies across the world, with 2022 showing record calendar year (CY) appreciation in some cases (see chart). Weaker currencies can help domestic company earnings but also challenge non-U.S. central bankers in an already-tough inflation backdrop. Most recently, in the U.K., this dynamic (in addition to poorly-timed fiscal stimulus plans) has dropped the British pound to levels not seen in more than 30 years. Meanwhile, the euro hit parity with the U.S. dollar for the first time since 2002.

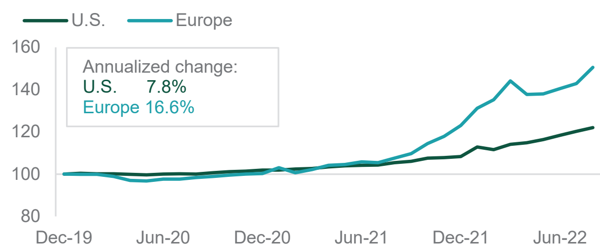
U.S. DOLLAR CURRENCY MOVES (%) VERSUS...



Energy Pains

Energy bills have been painful for many – but nowhere more so than in Europe. Russia reduced natural gas supply due to "maintenance" closures before shuttering the Nord Stream 1 pipeline completely in September. Concerns escalated later on as pipeline leaks were discovered – likely the result of sabotage. Massively elevated natural gas prices have led to consumer and industrial energy bills that are multiples higher than previous years. Storage reserves have been built but are still at risk of depletion in the event of a cold winter.

ELECTRICITY INFLATION – INDEXED TO 100



Resilient Earnings

Durable inflation, tighter monetary policy and geopolitical uncertainty have led to large losses in both equities and bonds year-to-date. Despite the volatility, developed market earnings expectations have proved resilient with 2022 earnings revisions still slightly above zero across the U.S. and Europe. Most of the negative returns have been driven by multiple compression (see chart). Emerging markets are a different story, where a deteriorating earnings outlook has accounted for roughly half of the year-to-date decline.

YEAR-TO-DATE RETURN BREAKDOWN (%)

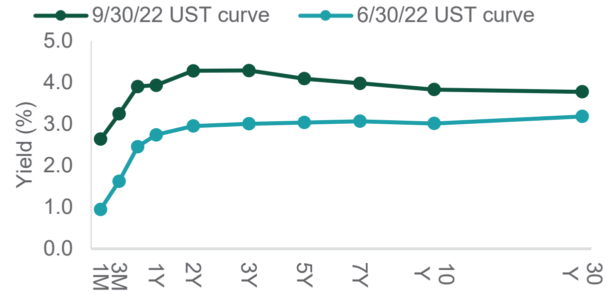
Source: Northern Trust Asset Management, Bloomberg. CY = calendar year. Data as of 9/30/2022.

MARKET REVIEW

Interest Rates

Higher and flatter: two key descriptors of global yield curve movements during the quarter. Two outsized (75) basis point (bp) hikes, updated projections indicative of "higher-for-longer" rates, and hawkish commentary made clear that the Fed is laser-focused on containing inflation. Global bond yields surged, mainly driven by higher real yields, as investor expectations for policy tightening adjusted upward. Growth concerns – a byproduct of tighter monetary policy – tempered the rise in longer-term yields, leading to flatter curves overall.

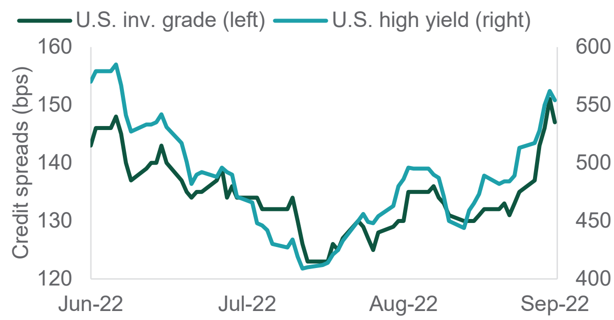
U.S. TREASURY YIELD CURVE



Credit Markets

Coming off of a period of massive spread widening, credit spreads contracted throughout July. There was some hope that peak inflation would soon allow central banks to ease tightening, thereby lowering the risk of policy-induced recession. As this narrative proved misguided, and policy-induced recession concerns restrengthened, credit spreads widened to near-to-just above beginning of quarter levels. High yield (-0.6%) outperformed investment grade fixed income (-4.8%), helped by less exposure to interest rate volatility.

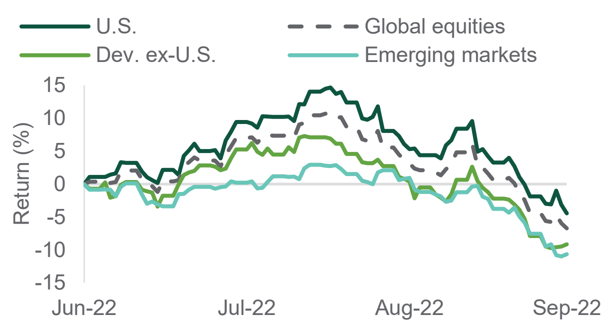
CREDIT SPREADS



Equities

Global equities initially rebounded on the back of better-than-expected earnings, a fall in inflation expectations and very depressed investor sentiment. However, equities ultimately ended the quarter with a 6.7% loss as rising interest rates weighed on valuations. U.S. equities, down 4.4%, performed the best of the major regions, followed by developed ex-U.S. equities (-9.1%) and emerging market equities (-10.6%). Non-U.S. equities more acutely suffered from energy headwinds (Europe), China struggles and U.S. dollar strength.

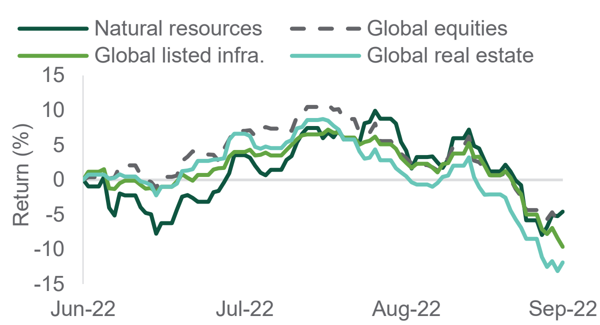
REGIONAL EQUITY INDICES



Real Assets

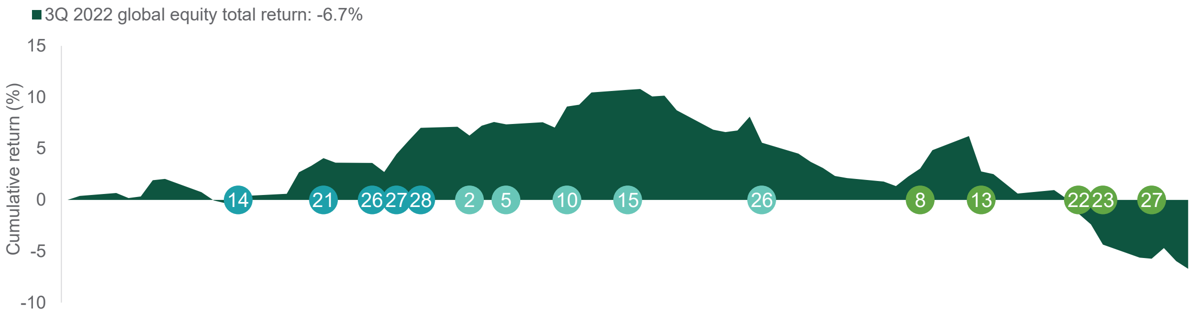
Natural resources (NR, -4.6%) outperformed global equities despite concern that restrictive monetary policy may suppress commodity demand. NR found some support from ongoing energy shortages and outperformed the other two real assets we track: global listed infrastructure (GLI, -9.6%) and global real estate (GRE, -11.9%). GLI returns were weighed down by interest rate volatility, though it did hold up better than GRE during the equity downturn. GRE lagged given rate volatility and elevated economic concerns.

REAL ASSET INDICES



Source: Northern Trust Asset Management, Bloomberg. Bp(s) = basis point(s). Returns in U.S. dollar terms. UST = U.S. Treasury. Indexes are gross of fees.

MARKET EVENTS



JULY	AUGUST	SEPTEMBER
14 Second quarter earnings season unofficially kicks off. Earnings and revenue eventually prove resilient, beating expectations by about 3% each.	**2** U.S. Speaker of the House, Nancy Pelosi, arrives in Taiwan. China responds with unprecedented military exercises near the island, though direct conflict is avoided.	**8** ECB hikes interest rates by 75 bps and communicates it is likely to continue tightening policy.
21 European Central Bank (ECB) exits negative rate regime via a 50-basis point (bp) rate hike and approves spread protection tool for activation if needed.	**5** Huge U.S. jobs report – 528k jobs added versus 250k expected – and accelerating wage growth raise Fed tightening expectations.	**13** U.S. CPI bucks downward trend, with the core reading accelerating 0.6% m/m, triggering one of the steepest one-day losses of the year for U.S. equities.
26 U.S. Senate reaches an agreement on the Inflation Reduction Act (signed into law on 8/16), a $700+ billion health care, tax and climate bill.	**10** U.S. headline and core Consumer Price Index (CPI) decelerate from the prior month, raising hope that "peak inflation" has arrived.	**22** Fed hikes rates by 75 bps; revised Summary of Economic Projections shows higher-for-longer rate expectations.
27 Federal Reserve raises its policy rate by 75 bps; equities respond favorably to Chair Powell's comments on data-dependent approach.	**15** China begins to deliver a string of policy easing measures, but there's a relatively muted financial market reaction given China's ongoing COVID and property sector headwinds.	**23** U.K. announces fiscal plans that include unfunded tax cuts that could cost up to 10% of U.K. GDP, leading to a surge in global bond yields led by gilts.
28 U.S. GDP contracts for a second straight quarter, marking a technical recession, but the labor market remains solid and corporate profits resilient.	**26** At Jackson Hole, Chair Powell notes restoring price stability may require a restrictive policy stance for some time and that history cautions against premature policy loosening.	**27** Following recent Ukrainian success, Nord Stream pipelines risk permanent closure due to "unprecedented" damage; Russia annexes parts of Ukraine.

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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GROWTH WEAKER BY DESIGN

A negative inflation surprise for the month of August and more hawkish Federal Reserve rhetoric dashed investor hopes that the end of the Fed's rate hike campaign was in sight. Instead, interest rates have moved higher and equity markets have moved lower. While commodities have been falling and goods inflation has eased, services inflation accelerated, driving up core inflation (6.3% y/y in August vs. 5.9% in July). This poses incremental challenges for the Fed, which strengthened its commitment to combating inflation, and the economic consequences it is willing to accept in exchange for price stability. Our base case calls for *Growth Weaker by Design* and an *Inflation-Focused Fed*, as the central bank endeavors to reduce the demand side of the equation to rein in inflation. We view *Sticky Inflation* as the dominant risk case for financial markets. The acceleration in core inflation this month could prove more challenging to correct, leaving the market still subject to disappointment. We also remain mindful of the *Eastern Threats* associated with Russia and the ever-present discord between the U.S. and China.

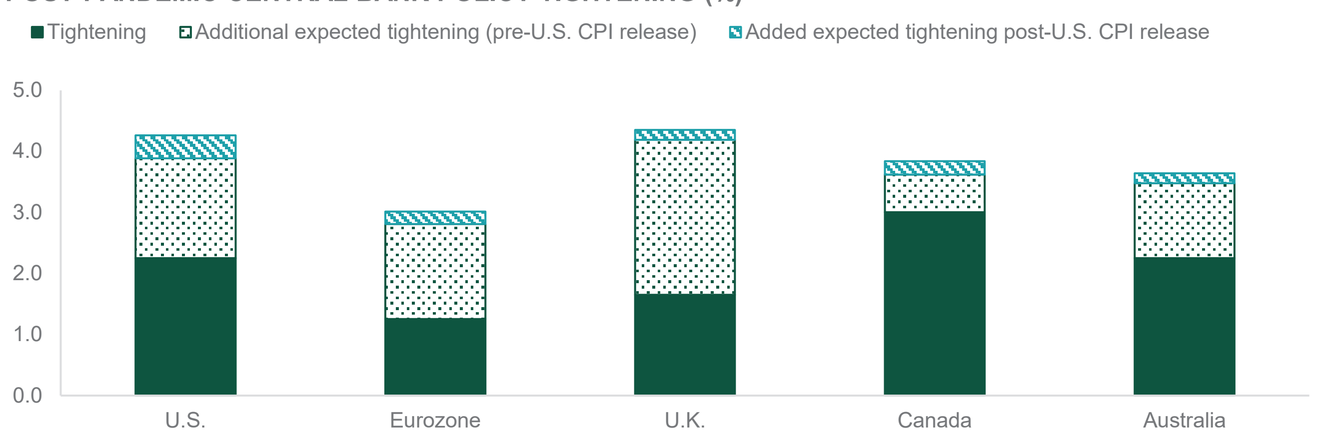
Equity and bond markets reacted materially to the likelihood of rate hikes extending into next year and the threat this incrementally restrictive policy poses. Rates increased significantly across the curve, weighted more heavily toward the front-end and further inverting the yield curve. Expectations for the peak Fed Funds rate rose 75 basis points (bps) in the past month, while 10-year Treasury yields added 65 bps – back to the June highs. The European Central Bank (ECB) also surprised with a larger than expected rate hike this month, though the dollar continued its upward climb. Higher rates combined with growing recession fears drove declines in equities – led lower by growth stocks – but remain above the year-to-date lows back in June. The S&P 500 fell 8%, the Russell 1000 Growth index dropped 10%, while non-U.S. markets held up somewhat better. We remain below consensus for corporate profits globally, reflecting our expectation for disappointing economic growth. Valuations for stocks near longer-term fair value alongside earnings estimates that we believe still need to fall leave us cautious.

We went further underweight emerging market equities in our Global Policy Model (GPM) this month, putting the proceeds in cash. Overall, the GPM continues its preference for U.S. assets – specifically high yield bonds, which we view as a "less risky" risk asset. Going forward, we expect elevated market volatility to remain as investors assess the path of inflation and the resulting reaction from global central bankers – notably the Fed and the ECB.

ARE WE THERE YET?

Recently stubborn inflation has extended the journey to peak central bank policy rates.

POST-PANDEMIC CENTRAL BANK POLICY TIGHTENING (%)



Source: Northern Trust Asset Management, Bloomberg. Expected tightening implied by futures and overnight index swaps. Pre-U.S. CPI data as of 9/9/2022; post-U.S. CPI data as of 9/14/2022. Data for the Aug-22 CPI release.

C&N PORTFOLIO POSITIONING:
NEUTRAL TO RISK

C&N Vantage Point
October 2022

Market Views:
Equities Challenged Short Term. Bottoming Process Likely In Coming Months.
Diversification Remains Paramount. Markets Will Be Choppy.
Fed Likely Raises Rates At November and December Meetings.

Market Risks:
Federal Reserve Miscalculations Or Miscommunications.
Actual Earnings Fall Short Of Estimates.
Inflation Increases From Current Elevated Levels.

Risk Type	Asset Class	Sector Category	Under Weight	Neutral	Over Weight	Viewpoints
	Cash/Cash Alternatives	**Ultrashort Bonds**			⊕	We added to our overweight in September from proceeds of our High Yield trim. This remains a source of funds for a targeted trade should opportunities develop.
Risk Control	Alternatives (Fixed Based)	**Absolute Return**	●			We retain our slight underweight to Absolute expecting interest rate hikes in 2022. Rising interest rates will likely be a headwind for this asset class.
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 have noticeably risen YTD given the selloff in bonds. The risk/reward for bonds has improved and we added to this asset class in September to bring our position to just underweight.
Risk Control	Fixed Income	**International Bonds**	⊖			A stronger dollar, anticipated rate hikes in the US, and increased recessionary worries in European economies have us trimming our postion to a slight underweight in favor of domestic bonds.
Risk Control	Fixed Income	**Emerging Markets Bonds**	⊖			Many EM economies are more susceptible to the impacts of inflation and the surging US dollar. We lower our allocation to a slight underweight in favor of domestic bonds.
Risk Assets	Fixed Income	**High Yield Bonds**		⊖		Coupons remain attractive relative to other fixed income asset classes and less issuance is expected in 2022, but deterioriating economics have us reduce our position to neutral.
Risk Assets	Equities	**US Large Cap**			●	We remain overweight to Value for its dividend focus and slightly underweight Growth. We continue to favor domestic over international. Overall, we remain slightly overweight in this category.
Risk Assets	Equities	**Developed Ex-US**	●			Valuations are reasonable but Europe is facing greater recessionary pressures than the U.S. due to the war. We maintain our slight underweight.
Risk Assets	Equities	**US Mid & Small Cap**		●		We retain our neutral position with a slight overweight to Value for the cyclical and rising interest rate trade that we expect to benefit financials.
Risk Assets	Equities	**Emerging Markets**	●			We maintain an underweight given multiple headwinds facing EM countries. The move reduces some portfolio risk while we await better opportunities within equities.
Risk Assets	Alternatives (Equity Based) & Real Assets	**Real Estate**		●		REITs have been hurt by the volatile rate environment; however, they provide a long-term inflation hedge when inflation moderates. We remain neutral but will likely add funds when rebalancing.
Risk Assets	Alternatives (Equity Based) & Real Assets	**Commodities/Natural Resources**			●	Natural Resources should benefit from elevated commodity prices. We maintain our overweight position given inflationary pressures we expect to persist throughout 2022.

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