C&N VANTAGE POINT

QUARTERLY MARKET RECAP & OUTLOOK | FOURTH QUARTER, 2023

MEET A TEAM MEMBER

CRAIG MORGENSTERN, CFA®, CFP®

VP / Senior Investment Officer

Craig Morgenstern is a Vice President, Senior Investment Officer and member of the firm's Investment Strategy team. He brings over 15 years of experience in investment strategy, portfolio management and financial planning to C&N. Craig has advised complex family groups and institutions on investment policy, portfolio construction, and tax-efficient implementation. He believes "a key differentiator of the C&N Wealth Management offering rests in its advisors' ability to advocate for their client's best interests, providing independent, objective, and conflict-free financial planning and wealth management services."

Craig is a CFA® charterholder, a member of the CFA Institute, and has obtained his CFP® certification. He earned bachelor's degrees in finance and accounting from the University of Maryland.

Craig maintains a deep commitment to the community serving on the Board of Trustees of The College of New Jersey Foundation as Treasurer and Finance Committee Chair, and as a member of the Board of Directors of Greenwood House, a local senior living facility. Craig resides in Newtown, PA with his wife, Brooke, two young daughters, and black Labrador, Te'a.

Key Equity Indexes - As of Quarter End	%YTD Return**	NTM P/E**	P/B**	Dividend Yield**
S&P 500	26.29	19.51	4.38	1.43
Russell 2000	16.93	21.90	1.83	1.35
Russell 1000 Growth	42.68	26.46	11.51	0.68
Russell 1000 Value	11.46	14.92	2.39	2.24
MSCI EAFE	18.85	13.28	1.75	3.04
MSCI EM	10.27	11.92	1.62	2.90

Sources: JP Morgan Weekly Market Recap; Northern Trust. Past performance does not guarantee future results, which may vary.
** As of 12/29/2023

Key Interest Rates	2023			
	3/31/23	6/30/23	9/29/23	12/29/23
2-yr Treasury Note	4.06	4.87	5.03	4.23
10-yr Treasury Note	3.48	3.81	4.59	3.88
30-yr Treasury Note	3.67	3.85	4.73	4.03
30-yr Fixed Mortgage	6.45	6.75	7.41	6.83
Corp. Bond Index	5.17	5.48	6.04	5.06
High-Yield Bond Index	8.59	8.58	8.98	7.80

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

2023 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	11.46%	26.53%	42.68%	11.28%	25.26%	39.78%	4.37%	4.28%	3.06%	Government
Medium	12.71%	17.23%	25.87%	12.45%	15.53%	19.50%	6.20%	7.29%	10.93%	Corporate
Small	14.65%	16.93%	18.66%	14.06%	15.76%	17.47%	12.17%	13.39%	16.55%	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 12/29/2023

MISSION ACCOMPLISHED?

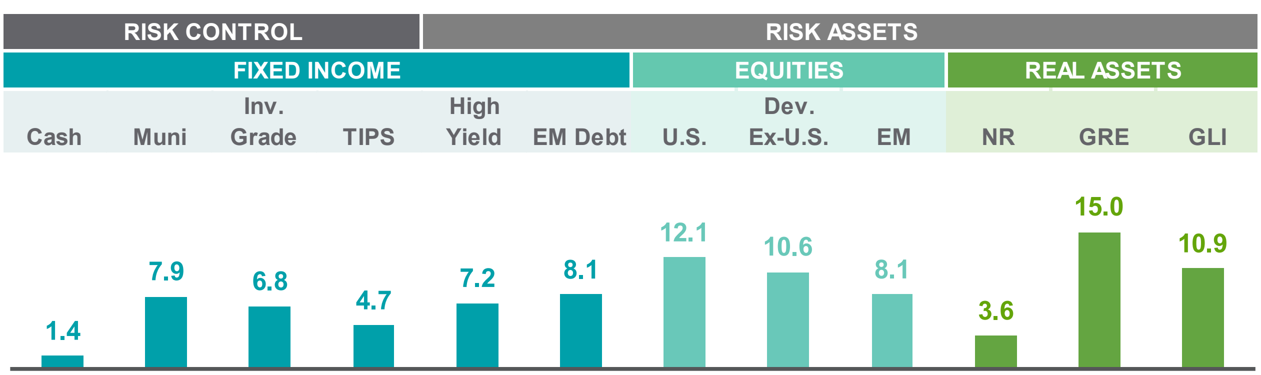
Entering 2024, the Federal Reserve appears set to proclaim inflationary mission accomplished – and in soft-landing fashion. Investors welcomed the Fed's evolving message on monetary policy, with global equity markets up 11% (12% in the U.S.) in the quarter. The strong finish to an already strong year was largely driven by the reversal of rising interest rates. After peaking at 4.99% on October 19, 10-year U.S. Treasury yields ended 2023 at 3.88% – interestingly, right near where they started the year. As we progress into 2024, investor attention may shift from the mission to tame inflation to the mission to calm geopolitical tensions.

Is the inflation mission fully accomplished yet? The Fed's preferred measure of inflation – Core Personal Consumption Expenditures (PCE) – has fallen to 3.2% from a cycle high of 5.6% while the six-month annualized inflation level actually sits below the Fed's 2% inflation target at 1.9%. The shift in inflation trends has been accompanied by a shift in "Fedspeak" – with Fed Chair Jerome Powell's cheerful holiday message after the December 13 Fed meeting receiving only modest pushback in subsequent speaking appearances from other Fed officials. Investors are now expecting six rate cuts in 2024, starting in March. That said, the Fed – per its Summary of Economic Projections – is collectively only calling for three cuts this year, while continuing to provide assurance they will see their mission through if inflation shows signs of moving higher again.

Geopolitics: Mission impossible? Should inflation maintain its current trajectory lower, investor attention will stray from monetary policy to focus more directly on ongoing geopolitical tensions – for which near-term resolution appears difficult. Most pressing at the moment is the free movement of goods through the Red Sea, which carries around 12% of global trade. As Iranian-backed Houthi rebels ramp up their attacks on Red Sea-faring vessels, companies (over concern for their employees) are rerouting ships and insurance providers (over concern for their capital) are declining to provide standard coverage. Should the conflict jump the Arabian peninsula to the Strait of Hormuz in the Persian Gulf – where around 20% of global oil passes – the geopolitical challenges will likely become much more acute. Complicating matters further, almost half of the world's 7.9 billion people will have an election in 2024. The election slate is headlined by the U.S. presidential cycle, kicking off on January 15 with the Iowa Caucuses. Just as important is the January 13 Taiwan presidential election, which risks refreezing recently thawed U.S.-China relations should the pro-independence Democratic Progressive Party nominee, Lai Ching-te, win (as expected). Any escalation in this cold war could quickly jump over the hot wars to the front of the queue as an area of investor concern – certainly with respect to the longer-term financial market outlook.

FOURTH QUARTER 2023 TOTAL RETURNS (%)

The reversal of rising interest rates led most asset classes to finish out 2023 in strong fashion.



	Cash	Muni	Inv. Grade	TIPS	High Yield	EM Debt	U.S.	Dev. Ex-U.S.	EM	NR	GRE	GLI
2023	5.1	6.4	5.5	3.9	13.4	12.7	26.2	17.8	12.1	4.1	10.8	6.8

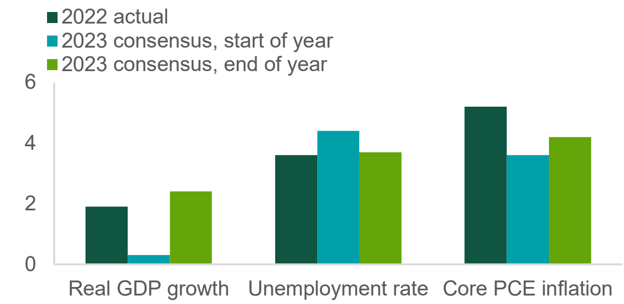
Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees.

KEY DEVELOPMENTS

Soft Landing in Sight?

U.S. economic resilience remained on center stage in 4Q with 2023 real GDP growth set to finish near 2.5% – a far cry from early-year fears of a recession. Much of the resilience ties back to the U.S. consumer – insulated to a degree from higher rates and supported by a firm labor market. Core inflation continued to move lower with goods deflation helping offset more sticky services inflation. Housing-related inflation is still elevated but it operates on a lag and future moderation is expected given trends in rent over the last year.

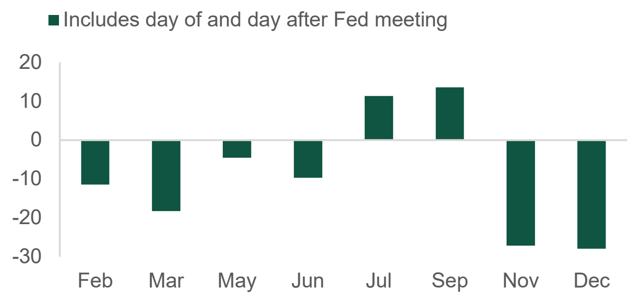
CONSENSUS U.S. ECONOMIC DATA (%)



Season's Greetings from the Fed

The Fed did little to dampen soft landing hopes and the easing in financial conditions. Fed officials expressed more optimism on inflation normalizing without major labor market disruption. In December, Fed Chair Powell implied the Fed is done hiking and offered an optimistic take on inflation progress – leading to sharp further declines in Treasury yields. Outside the U.S., the European Central Bank and Bank of England are also likely done hiking, but face a more delicate situation with weaker growth and higher inflation versus the U.S.

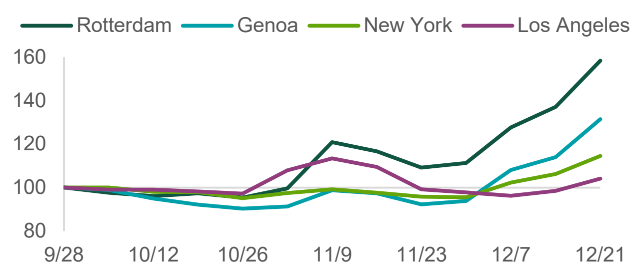
CHANGE IN 10-YEAR TREASURY YIELD (BPS)



Rising Geopolitical Risk

The brutal Hamas attack on Israel led to risk of a broad Middle East conflict and oil supply disruption. The war has been largely contained so far. But the Iran-aligned Houthis picked up attacks on shipping vessels in December, causing re-routing away from the Red Sea. Roughly 30% of container shipping flows through the Suez Canal, including many Asia-to-Europe routes. Although not unusual to see higher prices from Asia in 4Q given holiday trade flows, shipping rates on Asia-to-Europe routes surged, reflecting rising geopolitical risk.

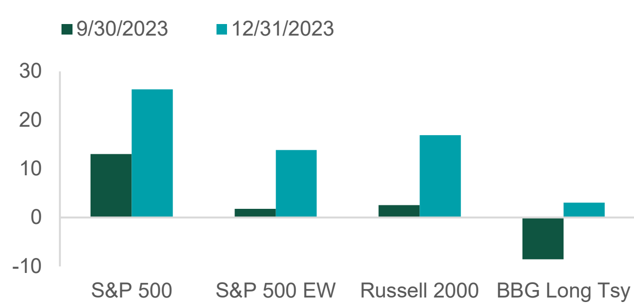
SHIPPING RATES: SHANGHAI TO… (INDEXED TO 100)



Sprint to the Finish Line

Equity market gains broadened in the last two months of 2023 with help from lower interest rates. The average U.S. stock performed well while previously lagging areas (e.g., small caps, regional banks, real estate, unprofitable tech companies) rebounded nicely. The "Magnificent Seven" stocks still held their ground, capping a fantastic run in 2023. This group accounted for roughly 60% of the S&P 500's 26% gain in 2023. Meanwhile, the sharp decline in rates helped long-term Treasuries avoid a third consecutive year of losses.

YEAR-TO-DATE RETURNS AS OF… (%)



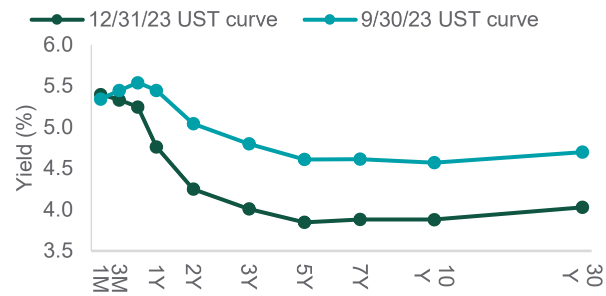
Source: Northern Trust Asset Management, Bloomberg, Drewry. Data as of 12/31/2023. BPS = basis points; EW = equal-weighted; BBG = Bloomberg; Tsy = Treasury. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

MARKET REVIEW

Interest Rates

Treasury yields moved sharply lower across the quarter after peaking at cycle highs in October. The 2-year yield declined ~80 basis points (bps), with the 10-year yield down ~70 bps. Investors pulled forward expectations for the first Fed rate cut to March (from July), with six cuts expected in 2024 (up from three). The Fed held its policy rate but its broader messaging indicated policy members expect a pivot to lower rates in 2024 as well. Specifically, its latest economic projections call for three rate cuts and a soft-landing-type backdrop in 2024.

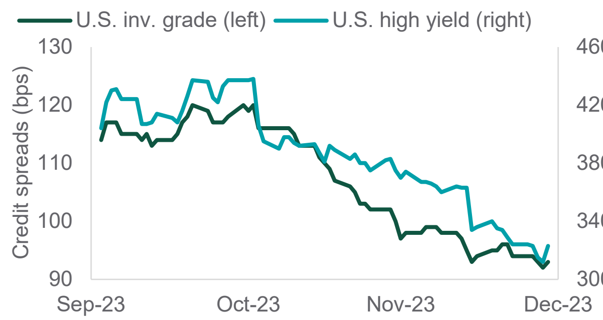
U.S. TREASURY YIELD CURVE



Credit Markets

It was a solid quarter for spread products with help from both lower government bond yields and tighter credit spreads. Investment grade (IG) and high yield (HY) credit spreads widened alongside summitting interest rates before spreads firmly tightened alongside the rate reprieve. IG and HY credit spreads narrowed 19 and 73 bps, respectively, with both finishing at levels tighter than long-term averages. From a return standpoint, IG fixed income produced an abnormally robust return of 6.8%. HY also delivered an outsized gain at 7.2%.

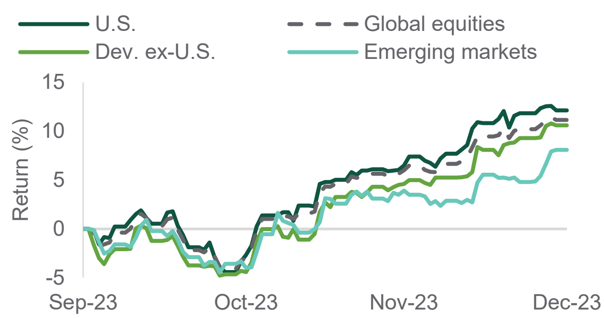
CREDIT SPREADS



Equities

Global equities finished the quarter with an 11.1% gain after surging 15% across November and December. All major regions partook in the rally as growing investor belief in benign inflation led to a dovish repricing in expectations for central bank activity. U.S. equities led the charge amid a durable macro backdrop that allowed for better market breadth. 2024 earnings expectations moved up, but most of the gains were valuation driven. U.S. valuations sit well above the long-term median, while non-U.S. prices are closer to historical norms.

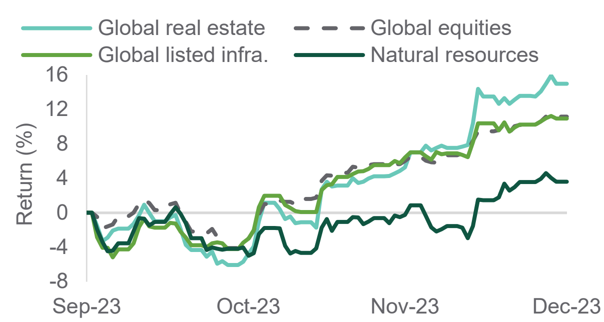
REGIONAL EQUITY INDICES



Real Assets

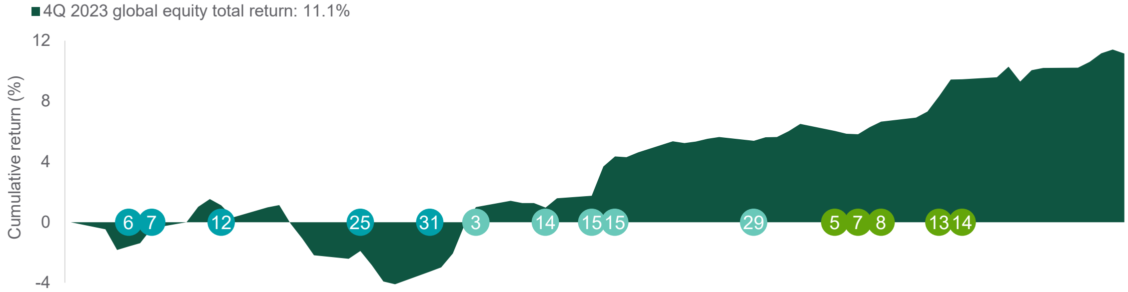
Real estate was a standout performer with a 15% gain. The interest rate rollover amid non-recessionary growth conditions were tailwinds for the asset class, which had lagged global equities the prior six successive quarters. With interest rate support, global infrastructure kept pace with global equities – a respectable outcome given its lower risk profile. Natural resources registered an underwhelming 3.6% gain, with weakness mainly within energy. War-related risk premiums were seemingly overpowered by future demand uncertainty.

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
6 A blowout increase in U.S. jobs added contributes to intermediate-to-longer term Treasury yields rising to levels last reached in 2007.	**3** U.S. equities post a 6% weekly gain and interest rates move sharply lower as the Fed stays on hold and U.S. hiring slows.	**5** Moody's lowers its outlook for China's credit rating to negative on debt concerns. Toward the end of the week, Politburo indicates more proactive fiscal policy in 2024.
7 Markets contend with new geopolitical risks after Hamas' surprise attack on Israel; broader escalation risks are contained during the quarter.	**14** U.S. inflation decelerates and is milder than expected, especially when accounting for upward impacts due to changes in health care accounting.	**7** Comments from BOJ Governor Ueda raise suspicion that the central bank may exit negative interest rates sooner than expected.
12 U.S. headline inflation rises more than expected as the 'super core' measure (core services ex-housing) posts a strong 0.6% monthly increase.	**15** President Xi and President Biden meeting is de-escalatory, though it gives little reason to believe that the longer-term strategic rivalry will change course.	**8** U.S. jobs report underscores ongoing strength while job openings data released the day before shows a declining supply shortfall.
25 The United Auto Workers (UAW) reaches tentative agreements with Ford Motors and Stellantis that include 25% wage hikes over roughly four years.	**15** The U.S. passes a short-term funding bill excluding wartime aid to keep the government funded for roughly two more months.	**13** Fed communication suggests rate hikes are done and rate cuts are expected in 2024.
31 The Bank of Japan (BOJ) introduces flexibility around yield curve control, now referring to a 1% yield as a "reference" rather than a "ceiling" for 10-year government bonds.	**29** Third quarter U.S. Gross Domestic Product is upwardly revised from 4.9% to 5.2% – the fastest pace in almost two years.	**14** The European Central Bank pushes against rate cut expectations; the Bank of England leaves its policy rate unchanged, though three of nine members vote for a rate hike.

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Prepared by Northern Trust Asset Management for Citizens & Northern Wealth Management.

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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SUPPORTIVE FUNDAMENTALS

Global markets were strong over the past month as “soft landing” supportive fundamentals and market conditions unfolded. Increasing confidence in moderating inflation drove significant changes in expectations for the Fed (pricing in earlier rate cuts), and a steep drop in long-term rates. Lower rates combined with still reasonably durable labor market and consumer spending conditions drove a re-rating upward of equity markets as the scenario of falling inflation and non-recessionary growth conditions over the next year became increasingly priced in.

The U.S. 10-year Treasury yield fell a remarkable 0.60% in November, driving a 9% rise in U.S. equities for the month. Futures pricing implies a market expectation that the Fed could cut rates as early as March (~45% chance), and rate cuts totaling over 1% over the next year. While we believe the movement lower in long-rates better reflects our view of fair value, we see a later start to rate cuts by the Fed given still durable macro fundamentals and a desire to ensure inflation has been tamed.

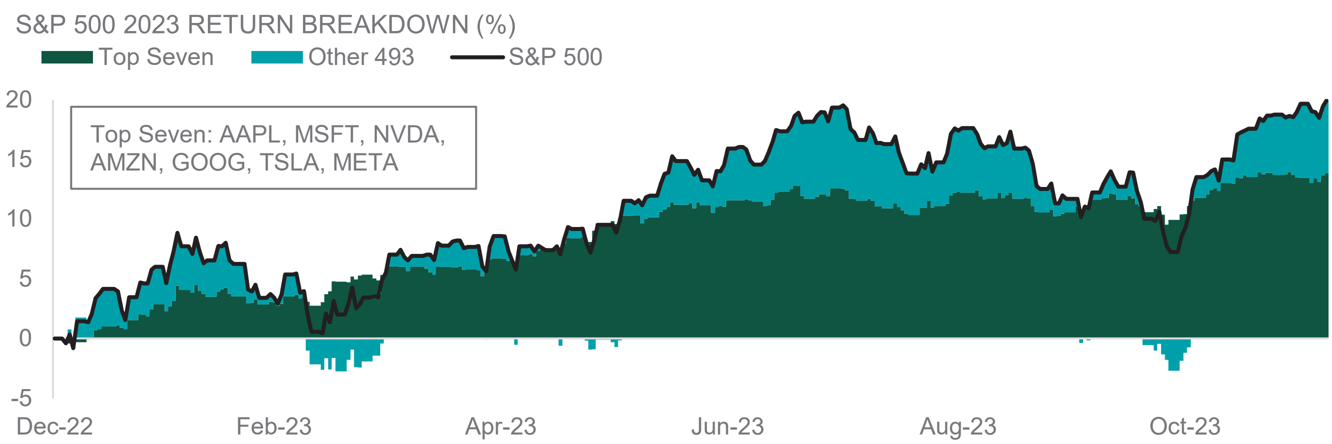
Notably, equity markets have seen a broadening of performance in the most recent rally. While gains earlier this year were driven almost entirely by mega-cap tech-related companies, other sectors and smaller companies are now participating. Key to absolute performance going forward will be if future gains in the non-tech parts of the market represent a churning of the market (mega-cap tech stocks are sold to fund investor interest in other names), or if those gains instead come from fresh capital.

We think absolute upside in equity markets will likely be limited by elevated valuations, but improvements in the macro backdrop have reduced the downside risks in the U.S. Economic conditions remain challenged in emerging markets, though material underperformance and much lower valuations now more fully reflect our concerns.

To reflect this, we narrowed the underweight to equities in our Global Policy Model this month, adding to U.S. equities from cash and to emerging market equities from natural resources. We stay materially overweight high yield, but our remaining underweight to stocks leaves us slightly underweight risk. By moving closer to neutral, we think investors have more appropriately priced the risk/reward in the market.

BREADTH EXPANSION

The U.S. equity market has seen a broadening of performance in the most recent rally.



Source: Northern Trust Asset Management, Bloomberg. Data from 12/31/2022 through 12/8/2023. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index. Past performance is no guarantee of future results.

C&N PORTFOLIO POSITIONING:

STILL NEUTRAL, BUT REDUCING OUR DEFENSIVE TILT

C&N Vantage Point
January 2024

Market Views:
U.S. Equities Are Fairly Priced. Expect Range-Bound Markets
Fed Will Begin Rate Cuts In The Second Quarter.
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 retain our overweight to this category as short-term rates remain attractive. This remains a source of funds for a targeted trade should opportunities develop in either fixed income or equities.
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 has moved below average. We maintain our neutral position for now as a near term recession is unlikely.
Risk Assets	Equities	**US Large Cap**			● -	We slightly reduced our value allocation, but still remain overweight value relative to growth. Value significantly lagged growth in 2023. We believe returns for value will be more favorable this year.
Risk Assets	Equities	**Developed Ex-US**	● -			We reduced foreign large cap to neutral and foreign small/mid to underweight; overall, we are slightly underweight. We see a more favorable outlook for the U.S. economy and domestic equities.
Risk Assets	Equities	**US Mid & Small Cap**		● +		We increased our allocation to neutral with a preference for mid cap. U.S. economic strength, expected Fed rate cuts, and underperformance relative to U.S. large companies support our positioning.
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, they provide a long-term inflation hedge when inflation moderates and current income is attractive. We remain neutral.
Risk Assets	Alternatives (Equity Based) & Real Assets	**Commodities/Natural Resources**			●	In general, commodities lagged in 2023. However, we maintain our slight overweight position as valuations are reasonable and commodities often provide a hedge against geopolitical risks.

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