Canandaigua National Trust Company

QUARTERLY PERSPECTIVE

SPRING 2021

2021 Economic Growth and Recovery

The first quarter of 2021 continued the march upward for equity markets, as a broad rally lifted most indices higher for the period. The combination of a $1.9 trillion U.S. fiscal package, a broader rollout of COVID-19 vaccines and expectations for an eventual complete economic reopening created a formula that boosted riskier assets to new heights while bonds stalled in the wake of rising interest rate fears. U.S. small and mid-cap equities, along with REITS, led the way during the quarter that ended with many equity indices returning 30% or more since the bottom of the pandemic sell-off in March 2020.

Market Returns	1st Quarter 2021	12 Month Trailing Returns
S&P 500 Index	6.2%	56.4%
Russell 1000 Value Index	11.3%	56.1%
Russell 1000 Growth Index	0.9%	62.7%
Russell 2000 Index	12.7%	94.9%
Dow Jones US Real Estate Index	10.0%	36.7%
MSCI EAFE (net) Index	3.5%	44.6%
MSCI Emerging Markets (net) Index	2.3%	58.4%
Bloomberg Barclay's US Aggregate Bond Index	-3.4%	0.7%

Source: Zephyr StyleADVISOR

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Leveraging over 25 years of experience in the Wealth Management industry, Laurie oversees the Wealth Solutions team, which includes Trust, Investment Management and Financial Planning. She is responsible for the creation and implementation of the solutions within the team and ensuring the delivery of the highest quality of service for our clients.

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Some inflationary concerns emerged during the quarter, as bond yields rose quickly while the market anticipated the Fed tightening monetary policy and as surveys of purchasing managers and small businesses showed the highest price increases and inflationary pressures in more than a decade. However, the consensus view is that this is a short-term issue and not a long-term trend, as unemployment remains well above pre-pandemic levels. The Fed has indicated that there would need to be a sustained period of inflation above 2.5% before starting to tighten policy. Although there has been evidence of an uptick in inflation, core inflation remains muted, and the Fed will likely continue to be accommodative to aid in the continuation of the recovery.

Meanwhile, another interesting trend emerged over the course of the quarter, which many value investors have been anticipating for several years: technology heavy growth stocks sold off, while cyclical value stocks came into favor. The MSCI World Value Index gained over 10% in the first quarter of 2021, while the MSCI World Growth Index remained flat. Interest rates were at least a part of the reason, as technology stocks are regarded as "long duration," as the expectation is that they will grow their earnings over the longer term. The unexpected increase in bond yields has some investors worried that growth stocks may be overvalued, as the increase in the discount rates makes their future earnings less attractive. Value, in contrast, appears cheaper in an environment where long-term interest rates remain low and sectors such as financials can benefit from the steepening in the yield curve. In addition, the U.S. stimulus will also boost earnings

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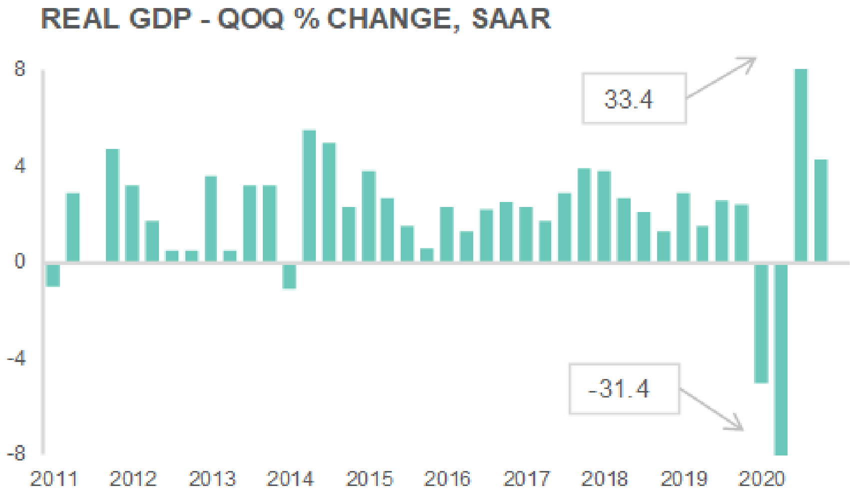
in the cyclical sectors, such as materials and industrials, which are a major contributor to value indices. Despite strong earnings from growth companies, the value factor remains cheap relative to the growth factor, and it is likely this will continue to create opportunities for value investors. It is important to realize, however, that this outperformance may moderate as long-term rates stay near historical lows.



QOQ: Quarter over quarter SAAR: Seasonally annually adjusted rate
Source: Northern Trust Asset Management. Data as of 3/2021.

While valuations of international equities continue to appear more attractive than U.S., the lack of a rapid vaccine rollout and lesser fiscal stimulus has caused a lag relative to the U.S. in terms of economic performance. Yet, it is likely that the post-lockdown recovery will be very strong, and GDP in the Eurozone is expected to bounce back by as much as 5% following last year's nearly 7% decline. Emerging markets have also seen strength due primarily to China's exit from lockdown and continued recovery. This, combined with more reasonable valuations and ancillary benefits to many countries from the U.S. stimulus, could lead to strong performance for international equities for the latter half of 2021.

It cannot be overlooked that the combination of the $1.9 trillion emergency fiscal package enacted in March is likely to lift the U.S. budget deficit to the largest peacetime deficit in history (relative to the size of the economy). In addition, President Biden has proposed another plan that is aimed at bolstering infrastructure and providing aid for domestic manufacturing and low- to middle-income workers (among other things). How this unfolds is yet to be seen, given the drastic division in Congress and sharp disagreement on taxation and spending between the two parties. Survey data shows public support for infrastructure spending, so it is likely that a plan of some magnitude will be approved. But, the scope, and how to pay for it, remains in question.

Despite continued uncertainty regarding the pace of the recovery, we remain in an environment where—at least for the foreseeable future—the United States and many other economies remain primed for growth. U.S. GDP projections for 2021 have been as high as 7%, while the Fed is expected to continue to be accommodative. The stimulus package continues to provide support for the consumer, while the vaccine availability increases every week. We already are seeing an uptick in travel bookings, consumer spending and job growth. In many cases, earnings appear to be recovering faster compared with prior recessions. While volatility remains an ever-present specter, the prospects for another decent year for equities remain intact.

As always, a well-diversified portfolio structured to meet your personal goals is the best antidote for the worries that markets will always bring. Do not hesitate to contact your relationship manager with any questions you may have about investments or financial planning. We remain committed to your long-term success and hope to provide you with peace of mind during these challenging times.