



# C&N VANTAGE POINT

QUARTERLY MARKET RECAP & OUTLOOK | FIRST QUARTER, 2022

## MEET A TEAM MEMBER



### EDWARD PENNER

*Financial Consultant  
and Trust Officer*

Edward has spent five years with C&N imparting his expertise to each and every client he serves. He uses a wholistic view of a client or prospect's finances to build strong relationships and navigate their financial needs. Through the wholistic planning process Edward assist individuals and families with retirement income needs and building a legacy for future generations of beneficiaries. Edward is currently an Assistant Vice-President and Financial Consultant and Trust Officer.

Edward holds a B.S. from Mansfield University and an MBA from Southern New Hampshire University, as well as Series 7 and 66 registrations. Ed and his wife, Jody, enjoy camping and spending time with their two daughters and one son.

Key Equity Indexes - As of Quarter End	%YTD Return**	NTM P/E**	P/B**	Dividend Yield**
S&P 500	-4.27	19.52	4.35	1.31
Russell 2000	-6.58	21.26	2.25	1.01
Russell 1000 Growth	-8.75	26.90	11.81	0.69
Russell 1000 Value	-0.26	15.37	2.55	1.87
MSCI EAFE	-6.24	13.74	1.73	2.88
MSCI EM	-6.59	12.08	1.74	2.53

Sources: JP Morgan Weekly Market Recap; Northern Trust. Past performance does not guarantee future results, which may vary.  
\*\* As of 04/01/2022

Key Interest Rates	2022			
	7/2/21	10/1/21	12/31/21	4/1/22
2-yr Treasury Note	0.24	0.27	0.73	2.44
10-yr Treasury Note	1.44	1.48	1.52	2.38
30-yr Treasury Note	2.05	2.04	1.9	2.44
30-yr Fixed Mortgage	3.2	3.1	3.27	4.8
Corp. Bond Index	2.08	2.13	2.36	3.67
High-Yield Bond Index	4.57	4.68	4.86	6.23

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\*\*

Equity Size	US Equity Style			MSCI World Style			US Fixed Income Maturity***			Quality
	Value	Core	Growth	Value	Core	Growth	Short	In-termed.	Long	
Large	-0.26%	-4.75%	-8.75%	-0.01%	-4.70%	-9.17%	-3.70%	-4.61%	-10.36%	Government
Medium	-1.28%	-5.15%	-12.07%	-2.52%	-6.76%	-12.14%	-4.00%	-5.56%	-11.19%	Corporate
Small	-1.53%	-6.58%	-11.62%	-1.66%	-6.11%	-10.65%	-2.82%	-4.56%	-10.76%	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 4/1/2022

# THE WAR TO END ALL WARS

Such was the assessment originally applied to “The Great War” that ran from 1914 to 1918 – a war so violent and so bloody the world was convinced nothing so horrific could or would ever happen again. The world was wrong. Two decades later the world was thrust into a second “great war” from 1939 to 1945. Today – this time seven decades later – the international community is, again, confronting a geopolitical crisis with possibly long-ranging ramifications. What will history have to say about this barbaric invasion? First and foremost, it will mourn for the Ukrainian people; they deserved none of this. But history should also identify several enduring geoeconomic trends that were either born out of, or accelerated by, this unnecessary conflict.

**Private power.** This is the first war wherein the private sector played a pivotal role in its outcome. Social media – a peace-time source of conflict – has been a war-time force for good, providing a direct window into the horrors of war thanks to the recording devices now in people’s pockets. Tech companies – from Microsoft to Starlink (a division of SpaceX) – have served in the war effort, either preventing or providing internet access depending on the circumstance. Other major companies – Coca-Cola, Disney, McDonald’s, Nike, etc. – showcased their unique source of economic power, pulling their influential brands out of Russia (in many cases, ahead of official sanctions).

**Deglobalization.** Populism – which can be sourced back to the financial crisis – represented the first sustained hit to globalism. The pandemic – and resulting supply chain

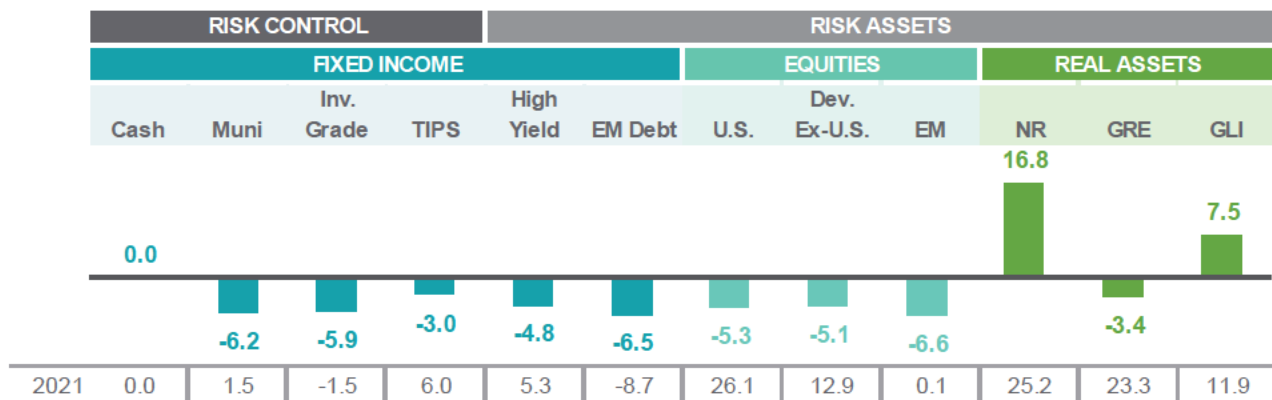
impairment – took the next whack. The war in Ukraine may be strike three. The current world order – installed at the end of World War II and fortified by the West’s Cold War victory – is under attack. The West-East wedge has never been bigger, and many countries are recognizing that global dependence (think energy) equals untenable vulnerability. This is not the first “peak global” episode. Global trade (as a % of activity) also rose and fell ahead of World War I – and took 60 years to regain pre-WWI levels.

**Decentralization.** While deglobalization hits the economy, the financial world braces for decentralization. And nothing is more central to global finance than the U.S. dollar – the world’s “reserve currency” since World War II. U.S. dollars represent ~90% of global financial transactions and ~60% of global central bank holdings. That incumbency can make it hard for the dollar to be displaced anytime soon, but risks do exist. Central banks eye cryptocurrency, while geopolitics may also be a disruptor. Example: The U.S. cut Russia’s access to \$0.6 trillion it holds at the Federal Reserve<sup>1</sup> – a tactical win but strategic misstep? Russia’s heinous actions justified the response – but other central banks must now wonder if this could happen to them.

**Opportunity amid chaos?** This war is unlikely to be the last – and its impact will echo for years. Uncertainty often causes fixation on the negative, but opportunities also arise. Much investment may be needed in coming years (supply chain reorientation as one example). As we wait, a well-diversified portfolio can protect against incoming fire.

## FIRST QUARTER 2022 TOTAL RETURNS (%)

Financial markets are weathering the geopolitical storm relatively well; natural resources have been the big beneficiary.



Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. <sup>1</sup>Sanctions on Russia’s Central Bank Deal Direct Blow to Country’s Financial Strength 2/2022

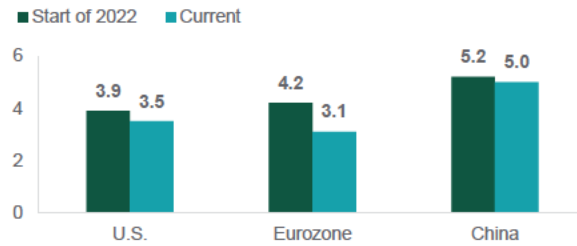
## KEY DEVELOPMENTS

### War Implications: Growth

The advent of war on the European continent has negatively impacted 2022 regional economic growth expectations to varying degrees. Europe is most directly impacted (other than Russia). China – already dealing with another COVID-19 breakout (due to a zero-COVID policy and less effective vaccines) – is at risk of second-order effects should it provide support to Russia. The U.S. is less impacted – both due to its much smaller reliance on foreign natural resources and its greater economic momentum entering the war.

### SELECT REGIONAL ECONOMIC GROWTH REVISIONS

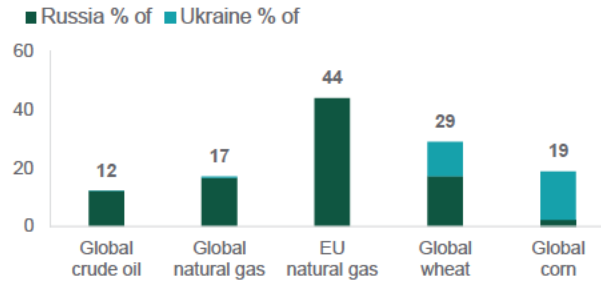
#### EXPECTED 2022 REAL GDP GROWTH (Y/Y %)



### War Implications: Inflation

Any expectations (or hopes) that inflation was still transitory took a big hit with Russia's invasion of Ukraine. Beyond the notable – and now at risk – amount of oil and natural gas coming from Russia, the prospect of reduced global crop production this growing season is a real risk. Russia/Ukraine planting of wheat (29% of global harvest) may be disrupted and farmers are dealing with shortages in global fertilizer supply (of which Russia produces ~8%). Ukraine and Russia are also major producers of several industrial metals.

### RUSSIA-UKRAINE GLOBAL SHARE OF...

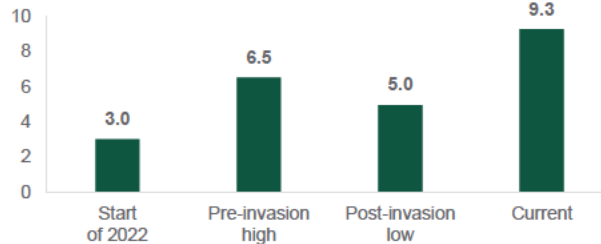


### War Implications: Monetary Policy

The Federal Reserve is walking a tightrope, trying to balance the war's inflationary impacts with the war's effect on investor sentiment and market functioning. As seen in the chart, full-year 2022 rate hike expectations have whipped around a bit. But, as we end the quarter, the market seems more sympathetic to the inflation argument – currently expecting a total of nine-plus rate hikes over the course of 2022. With one rate hike in place and only six more meetings this year, markets anticipate a couple of 0.5% hikes will be in the mix.

### EXPECTED 2022 TOTAL RATE HIKES AT KEY DATES

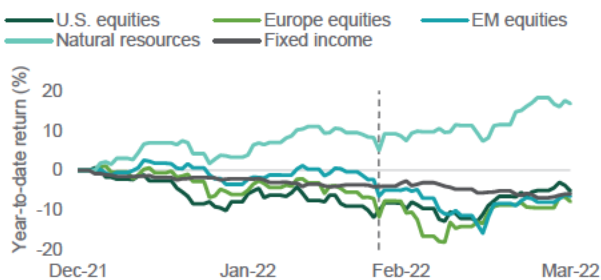
#### PROJECTED 2022 FED RATE HIKES



### War Implications: Financial Markets

While we cover the implications of key developments on the next page, at a high level, we note financial markets often overreact in the near term and underreact in the intermediate-to-longer term. We saw that play out this quarter. The chart shows the initial post-war drop in equity markets (notably in Europe) before recovering much of that heading into Q2. Conversely, natural resources extended pre-war gains before consolidating. But the geopolitical ramifications are likely not over – and investors should be prepared for more volatility.

### MARKET ACTION PRE- AND POST-RUSSIA INVASION



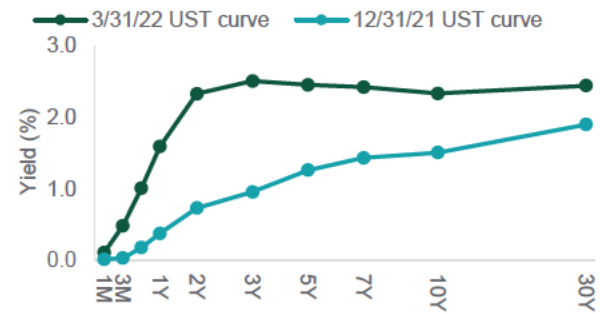
Source: Northern Trust Asset Management, Bloomberg, BP Statistical Review, Eurostat, EIA, IEA. Data as of 3/31/2022.

## MARKET REVIEW

### Interest Rates

The Russia-Ukraine war accelerated the upward trend in Treasury yields as its inflationary impacts aroused a more hawkish Fed. The Fed executed a 25 bp hike and signaled a will to restore price stability at the expense of economic growth if needed. Short-end yields soared on higher rate hike expectations. Long-end yields rose, though to a lesser extent due to lower economic growth prospects and quantitative easing impacts. Real rates remain low, but parts of the curve are inverted. Whether the Fed can execute a soft landing remains to be seen.

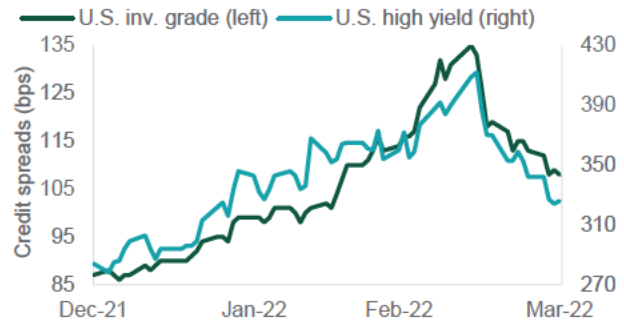
### YIELD CURVE



### Credit Markets

Investment grade (IG) and high yield (HY) credit spreads widened 21 and 42 bps, respectively. Wider spreads were mainly a result of higher interest rates, elevated financial market volatility and broader risk-off sentiment – all three of which intensified at the onset of Russian-Ukrainian conflict. Spreads came in as worst-case war outcomes became less likely. Overall, HY bonds generally fared better than IG bonds given lower interest rate exposure, a solid income yield and a higher energy sector weight (~13% versus ~8% for IG).

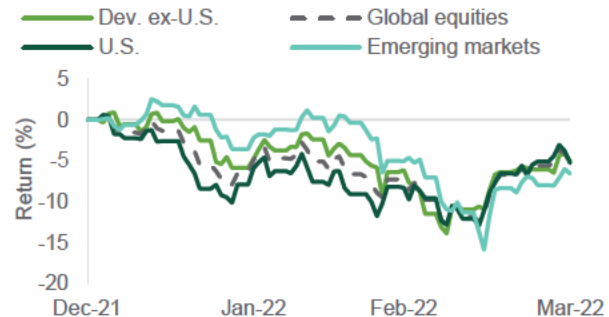
### CREDIT SPREADS



### Equities

Corporate earnings held up well, but lower valuations led to a 5.3% decline for global equities. Equity markets rotated toward value in response to higher inflation, rising interest rates and more hawkish central bank behavior. Ergo, Europe equities (more value-oriented) bested U.S. equities (more growth-oriented) despite temporary underperformance at the onset of the Russia-Ukraine war. Developed ex-U.S. equities (-5.1%) finished slightly ahead of U.S. equities (-5.3%), while emerging market equities lagged both regions (-6.6%).

### REGIONAL EQUITY INDICES



### Real Assets

Real assets earned their stripes during the quarter. With a 16.8% gain, natural resources (NR) handily beat the 5.3% loss from global equities. The commodity supply disruption caused by Russia's invasion of Ukraine bolstered NR's case as a geopolitical and inflation hedge. Listed infrastructure (+7.5%) also materially outperformed global equities due to its lesser market (equity) exposure, notable energy sector tilt and inflation protection properties. Global real estate (-3.4%) tracked global equities for the most part but ended 1.9% ahead.

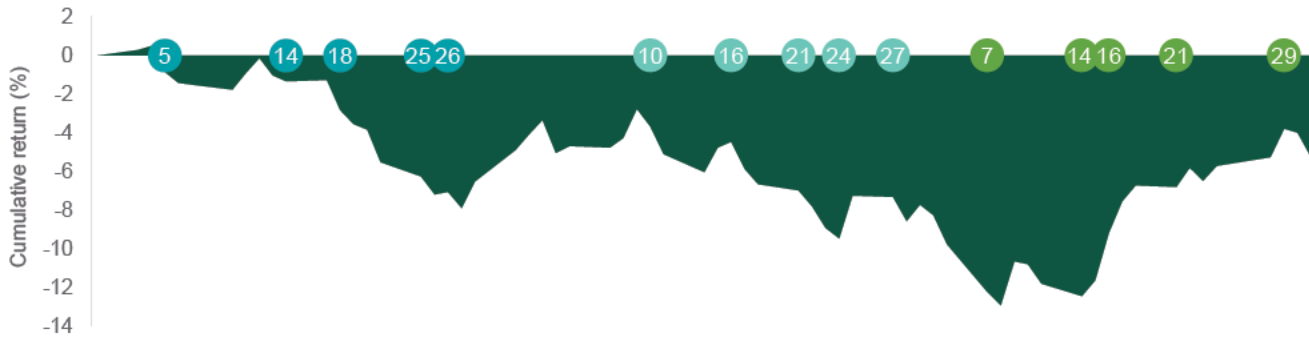
### REAL ASSET INDICES



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

## MARKET EVENTS

■ 1Q 2022 global equity total return: -5.3%



JANUARY	FEBRUARY	MARCH
<p><b>5</b> December Fed meeting minutes tilt hawkish, pointing to rate hikes and quantitative tightening on the horizon.</p>	<p><b>10</b> U.S. Consumer Price Index (7.5% y/y) is higher than expected and shows continued price pressures across goods.</p>	<p><b>7</b> Equities decline and oil reaches 2008 highs as the West considers Russian energy sanctions (U.S. later bans all Russian energy imports).</p>
<p><b>14</b> Fourth quarter earnings season unofficially kicks off; U.S. earnings proceed to finish up 31% year-over-year (y/y), but the results do not lead to broad upward revisions in earnings estimates.</p>	<p><b>16</b> Fed meeting minutes confirm it will likely raise its policy rate in March and that participants expect the pace of rate hikes to be faster than in 2015.</p>	<p><b>14</b> China equities decline on COVID, geopolitical and regulatory risks, but later bounce back after authorities pledge support for China's capital markets.</p>
<p><b>18</b> U.S. equities begin to waver on the back of materially higher interest rates year-to-date.</p>	<p><b>21</b> Russian President Putin recognizes independence of breakaway regions in eastern Ukraine and sends "peace-keeping" forces into the territories.</p>	<p><b>16</b> The Fed lifts rates 25 bps, signals six more hikes in 2022 and revises 2023 projection up to 2.8% from 1.6%.</p>
<p><b>25</b> Economic data shows Omicron is weighing on economic activity, but health data increasingly supports that its severity is not as bad as once feared.</p>	<p><b>24</b> Russia launches a full-scale invasion of Ukraine, including an attack on Kyiv in what President Putin calls a "special military operation."</p>	<p><b>21</b> Chair Powell triggers bond selloff after signaling a readiness to hike rates in 50 bp increments and restrict growth if needed to restore price stability.</p>
<p><b>26</b> Fed signals it will soon raise its policy rate and confirms asset purchases will end in March; hawkish Powell press conference pushes up Treasury yields.</p>	<p><b>27</b> Western nations announce major sanctions on Russia, sending the Russian ruble down close to 30%.</p>	<p><b>29</b> Russia says it will reduce military activity and focus on the liberation of the Donbas region; separately, 2- and 10-year Treasury yields invert intraday.</p>

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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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# RATE ANGST

The U.S. bond market just exited its worst quarter in years, with Treasuries down 5.6%, corporate bonds down 7.4% and a broad municipal bond index down 6.2%.<sup>1</sup> After shaking off the rise in inflation in 2021, a swing in the outlook for Federal Reserve policy led to a jump in interest rates this year with the 10-year Treasury yield increasing from 1.51% to 2.71% currently. The Fed entered this year only expecting to hike rates three times, leading to a year-end Fed funds rate below 1.00%. The persistence of high inflation has now led the market to price in nearly 10 hikes with a Fed Funds rate over 2% by year-end. Central banks seek to tighten financial conditions to slow growth and therefore hopefully inflation – and as shown below 30-year mortgage rates have jumped from ~3.3% at the start of the year to 5.0% currently. That should likely lead to some eventual cooling in the pace of housing price rises.

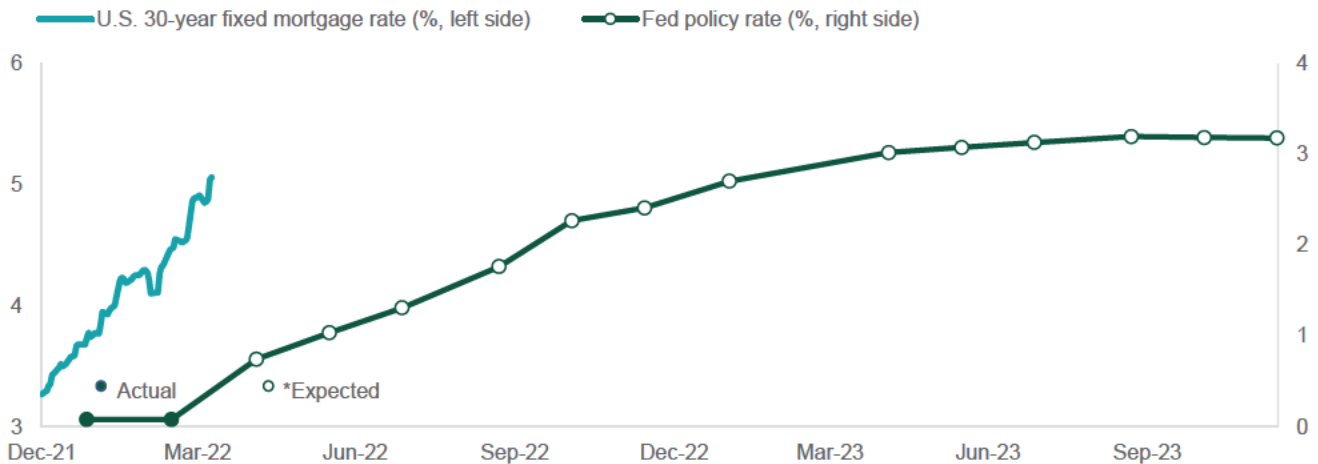
Unfortunately, the war in Ukraine remains a core risk as the humanitarian crisis continues and signs of war atrocities are rising. This is only increasing the resolve of the West, which boosts momentum toward further Russian sanctions. Major supply shocks are in some respects still to unfold, but as shown by the 20% rise in wheat prices since February 23rd markets are reflecting the perceived eventual impacts.<sup>2</sup> Further military escalation remains a

risk case, with the potential for the use of unconventional weapons or further geographic incursions. Our base case scenario envisions a long, drawn-out affair without clear resolution.

In the wake of persistent inflation, the Ukraine war, and lingering COVID problems, global growth is slowing. Europe is at risk of recession, and China is suffering from the effects of COVID-related shutdowns. U.S. growth is holding up relatively better, and nominal growth in the second quarter could hit 10%. A risk case for us is the global slowdown leaking into the U.S., leading to disappointing growth. Nevertheless, U.S. growth looks better insulated than Europe or China and we resultingly favor U.S. equities over developed ex-U.S. and emerging market stocks. We also continue to favor natural resources equities, which have provided significant benefit to portfolios this year as commodities are benefitting from shortages and inflation concerns. Finally, we continue to like high yield bonds due to their attractive yield and strong fundamentals. The sharp tightening of credit spreads over the last month should give some comfort to those worried that an inversion of the yield curve is a certain sign about impending recession.

## LONG RISE, BUT IMMEDIATE IMPACT

While the Fed may take a year to raise rates by 2%, mortgage yields have already made that move.



Source: Northern Trust Asset Management, Bloomberg. \*Market implied rate using 30-day Fed funds futures for planned Fed meeting dates from 12/31/2021 through 12/31/2023. Mortgage rate is daily fixed national average from Bankrate.com. Data as of 4/8/2022. <sup>1</sup>Bloomberg, 3/31/2022. <sup>2</sup>Bloomberg, 2/23/2022-4/8/2022.



# C&N PORTFOLIO POSITIONING: MAINTAIN MODERATE OVERWEIGHT TO RISK

C&N Vantage Point  
April 2022

**Market Views:**

Equities Fairly Valued Short Term. Constructive On Equities Long Term. Diversification Remains Paramount. Markets Will Likely Be Choppy. Fed Is Behind The Curve. Likely Raises Rates At Least Six Times in 2022.

**Market Risks:**

Inflation Increases From Current Elevated Levels. Federal Reserve Miscalculations Or Miscalculations. Russia/Ukraine Conflict Escalates

Risk Type	Asset Class	Sector Category	Under Weight	Neutral	Over Weight	Viewpoints
Risk Control	Cash/Cash Alternatives	Ultrashort Bonds			●	We retain our slight overweight favoring Ultrashort over Cash. This remains a source of funds for a targeted trade should opportunities develop during market volatility.
		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.
		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 Assets	Equities	US Investment Grade Bonds	●			IG Corps spreads have widened recently and are beginning to look more attractive. We remain underweight to U.S. Govt bonds. Overall, we're underweight but continue to stay neutral on duration.
		International Bonds		●		A stronger dollar, anticipated rate hikes in the US, and Covid-related impacts on international economies have us maintaining our neutral position.
		Emerging Markets Bonds		●		EM economies are more susceptible to the impacts of Covid, but they are more correlated to a global recovery. Russia/Ukraine war is a potential headwind. We maintain our neutral allocation.
		High Yield Bonds			+	Coupons remain attractive relative to other fixed income asset classes and less issuance is expected in 2022. We added to this asset class in January to reduce our overall risk asset profile.
		US Large Cap			●	We remain overweight to Value for the cyclical trade and slightly underweight Growth. We trimmed Value for Natural Resources. Overall, we remain slightly overweight in this category.
Risk Assets	Equities	Developed Ex-US			●	Valuations are reasonable. We trimmed Mid/Small to neutral for our High Yield add. We remain slightly overweight but assess the Russia/Ukraine war impacts and will consider reducing our position further.
		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.
		Emerging Markets		●		We remain at neutral given continued headwinds of Covid and China regulations. We'll use weakness to rebalance into our position and continue to monitor.
		Real Estate		●		REITs can be a good inflation hedge when inflation moderates. We remain neutral but look to add.
Risk Assets	Alternatives (Equity Based) & Real Assets	Commodities/Natural Resources			+	Natural Resources should benefit from elevated commodity prices. We added to our position in January given inflationary pressures we expect to persist throughout 2022.

Note: Views are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector. Client portfolios may or may not be at the recommended weightings above due to, but not limited to: distributions, tax management limitations, systematic purchases, etc. NOT FDIC INSURED / MAY LOSE VALUE / NO BANK GUARANTEE



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