C&N VANTAGE POINT

QUARTERLY MARKET RECAP & OUTLOOK | FOURTH QUARTER, 2022

MEET A TEAM MEMBER

MATTHEW L. BOWER

EVP / Chief Wealth Management Officer

As Chief Wealth Officer of C&N Banks Wealth Management Group, Matthew, along with an extremely talented team, is responsible for delivering a world class experience to our clients and the communities we serve with regard to their investment management and financial and estate planning needs. C&N has been committed to delivering this advice and guidance for decades and our passion and capability has allowed us to grow a clientele that consistently rates us as one of their most trusted advisors. Whether your investment or planning needs are simple or complex, our Advisors, and the entire Wealth Management team is more than prepared and capable to provide this advice to individuals, families and even your business and corporate retirement needs. Should you wish to learn more, just ask any C&N associate for an introduction to your local Wealth Advisor and we would be honored to help in any way.

Matthew is a graduate of Florida State University, receiving his B.S. in Political Science and Texas A&M University School of Law earning his Masters of Law and Certified Wealth Manager (CWM©) designation. He completed Stanford University Executive Leadership program and the American Bankers Association National Graduate Trust School receiving his Certified Trust and Financial Advisor (CTFA©) designation. He currently holds a Series 65 & 63 FINRA licenses. Matthew lives in Doylestown, PA with his wife Lori and daughters, Madeline and Ella.

Key Equity Indexes - As of Quarter End	%YTD Return**	NTM P/E**	P/B**	Dividend Yield**
S&P 500	-18.11	16.65	3.73	1.66
Russell 2000	-20.44	19.08	1.85	1.37
Russell 1000 Growth	-29.14	21.14	8.67	1.03
Russell 1000 Value	-7.54	13.95	2.34	2.17
MSCI EAFE	-14.01	12.08	1.58	3.20
MSCI EM	-19.74	11.65	1.55	3.37

Sources: JP Morgan Weekly Market Recap; Northern Trust. Past performance does not guarantee future results, which may vary.
** As of 12/30/2022

Key Interest Rates	2022			
	4/1/22	7/1/22	9/30/22	12/30/22
2-yr Treasury Note	2.44	2.84	4.22	4.41
10-yr Treasury Note	2.38	2.88	3.83	3.88
30-yr Treasury Note	2.44	3.11	3.79	3.97
30-yr Fixed Mortgage	4.8	5.84	6.52	6.34
Corp. Bond Index	3.67	4.62	5.69	4.68
High-Yield Bond Index	6.23	8.86	9.7	8.99

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	-7.54%	-19.13%	-29.14%	-4.98%	-17.96%	-29.69%	-5.47%	-7.77%	-29.26%	Government
Medium	-12.03%	-17.32%	-26.72%	-13.64%	-19.09%	-26.19%	-5.62%	-9.40%	-25.62%	Corporate
Small	-14.48%	-20.44%	-26.36%	-11.76%	-18.76%	-25.79%	-6.13%	-10.54%	-22.18%	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 12/30/2022

A MESSI YEAR

Congratulations to Argentina for winning their third World Cup, putting them behind only Brazil (5), Germany (4) and Italy (4)* for most World Cup titles. Team captain – and global superstar – Lionel Messi's only World Cup title certainly came during a messy year for financial markets. Despite healthy gains in the fourth quarter, financial markets were not completely able to fix the mess they had created for themselves throughout much of 2022. Global equities' 9.9% fourth quarter gain still left investors down 18.0% for the full year. And despite investment grade fixed income finally posting a quarterly gain (+1.9%), the usually safer part of the investor portfolio lost 13.0% in 2022. In fact, the only asset class outpacing the return of "risk-free" cash last year was natural resources (+10.3%) – and that was thanks to an incredibly strong fourth quarter (+17.2%).

Goal of the Century. For some (notably England fans), seeing Messi win his World Cup may bring back memories of Diego Maradona winning Argentina's second World Cup back in 1986. Maradona's performance in the quarterfinal match against England that year inspired former Bank of England Governor Mervyn King's "Maradona theory of interest rates." Called the *Goal of the Century*, Maradona went over half the field – evading five defenders – to put the ball in the net. King observed Maradona's path to the goal effectively took him in a straight line – and he was able to do so because the defenders expected him to go left or right. King theorized that central bankers could also "move in a straight line" (maintain steady monetary policy) so long as market participants *expected* more central bank activity. Bringing the analogy to present day, central banks – but especially the Federal Reserve – are greatly focused on regaining credibility such that they can "Maradona" the way through most of 2023. That is, the Fed is hopeful its strong message to the markets that they will extinguish inflation – along with a few more rate hikes – will allow them to finally take a straight line for the rest of 2023. Putting numbers and dates to the above, the Fed policy rate (currently at 4.5%) is expected to peak between 5% and 5.25% by either at or near the May Fed meeting.

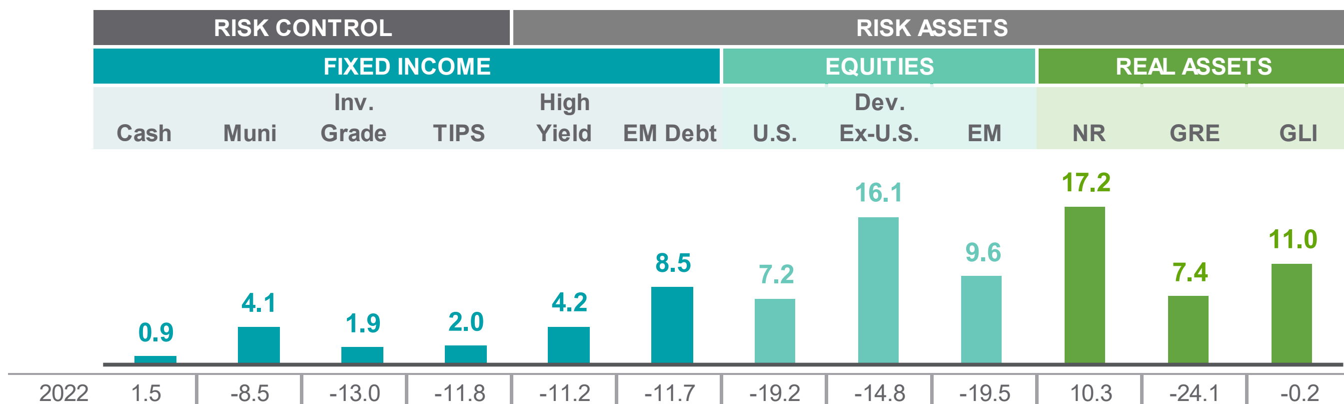
Hand of God. In fact, Maradona had two noteworthy goals in that 1986 quarterfinal match. The other – called the *Hand of God* – was a goal thought to be off Maradona's head but was actually off his hand (this was pre-VAR**). Sometimes you need a bit of luck. Certainly the Fed could use some luck in bringing inflation down toward its 2% target. The record pace of rate hikes in 2022 should assist – as should the invisible hand (not God's – Adam Smith's) as it continues to heal supply and demand mismatches. The supply/demand mismatch to watch at this point is in the labor markets, where Fed tightening has yet to notably slow hiring or overall labor demand. Should the Fed be able to quickly and effectively address the labor/wage issue, 2023 could be less Messi and more Maradona.

*Rounding out the list of previous World Cup winners: Uruguay (2), France (2), England (1), Spain (1)

**Video Assistant Referee

FOURTH QUARTER 2022 TOTAL RETURNS (%)

Financial markets rebounded in the fourth quarter, yet most major asset classes still ended with double-digit losses in 2022.



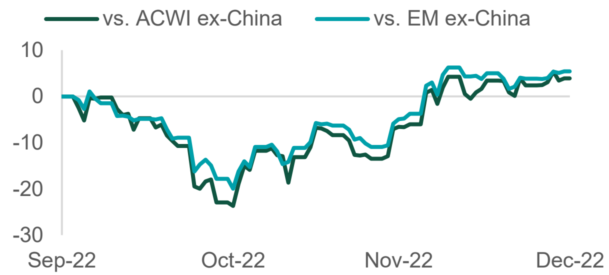
Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees.

KEY DEVELOPMENTS

China Changes Course

A negative investor reaction to the readout from China's Party Congress involving a more state-led economic approach pushed China equity markets down more than 15% in October. However, China equities sharply reversed course and outperformed other regions for the quarter as policymakers announced a number of moves pivoting away from zero-Covid policies (less testing, quarantines, travel restrictions, etc.). Despite the reopening, the near-term growth outlook remains fairly uncertain given public health risk from the virus.

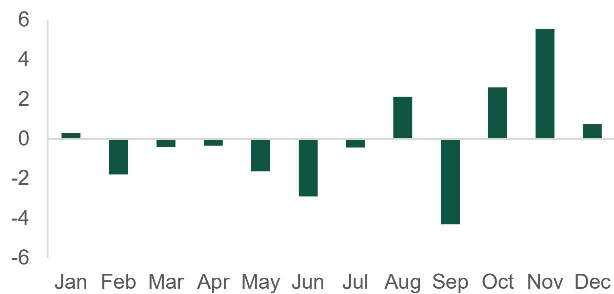
CHINA EQUITIES RELATIVE PERFORMANCE (%)



Inflation Still in the Spotlight

Inflation retained its spot as a key area of focus for investors in the fourth quarter. In the U.S., Consumer Price Index (CPI) inflation reports were generally the most market-moving data releases in 2022. Inflation data released in the quarter was more favorable with deceleration in headline and core figures from both year-over-year and month-over-month standpoints – with equity markets responding favorably to this (see chart). However, lingering strength on wage growth and the services side of the economy remains a concern.

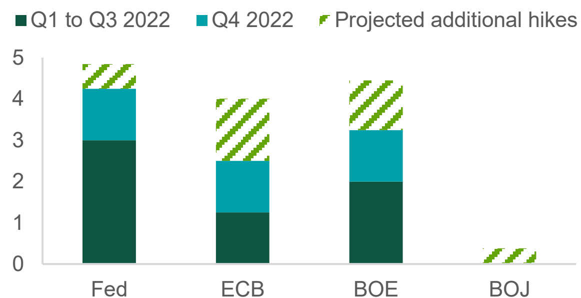
S&P 500 RETURNS ON DAY OF U.S. CPI RELEASE (%)



Approaching the Destination

2022 was a year of historic central bank tightening with many central banks raising rates by 3% or more. In the fourth quarter, central banks slowed the pace of tightening, with investor debate shifting to the peak level of policy rates and the duration of restrictive policy. The Fed and European Central Bank (ECB) both raised rates by 1.25% in the quarter while the Bank of Japan (BOJ) surprised investors by widening its target rate bands for yield curve control; implying an exit from its ultra-accommodative policy is more likely in 2023.

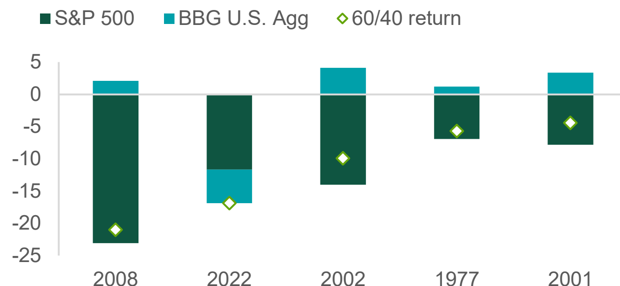
CENTRAL BANK TIGHTENING (%)



60/40 Struggles

Despite some gains in the fourth quarter, 2022 was a rough year for investors with double-digit losses in both equity and fixed income markets. Inflation, central bank tightening and rising interest rates played a key role in the losses for both equities and fixed income, while equities were further hit by growth concerns and geopolitical uncertainty. In a historically weak year for a 60/40 portfolio mix (second only to 2008), 2022 was the only year where bonds did not play a diversifying role to help offset material losses in equities.

HISTORICAL ANNUAL RETURN BREAKDOWNS (%)



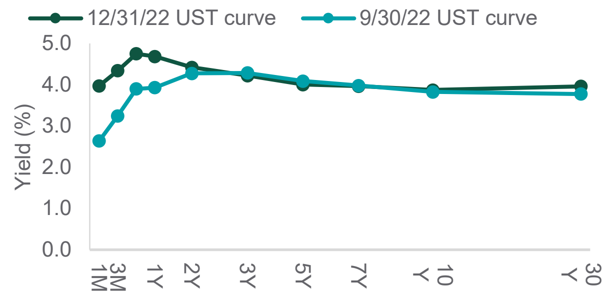
Source: Northern Trust Asset Management, Bloomberg (BBG). Top chart uses MSCI indices. EM = emerging markets; UST = U.S. Treasury. Data as of 12/31/2022.

MARKET REVIEW

Interest Rates

After hiking 75 bps in November, the Fed executed a "hawkish deceleration" in December. It downshifted to a 50-bp pace, but simultaneously raised its projected year-end 2023 rate to 5.1%. While 75-bp hikes may no longer be the status quo, price stability is still the Fed's top priority. Short-term Treasury yields rose on ongoing tightening, while the rise in longer yields lost steam as investors priced in an upcoming pause in the rate cycle as well as the economic impacts of the tightening. The Treasury curve is deeply inverted headed into 2023.

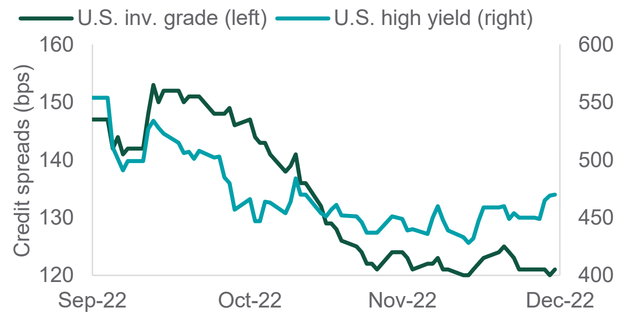
U.S. TREASURY YIELD CURVE



Credit Markets

Barring a swift move higher in early-to-mid October as investors tried to assess the Fed policy trajectory, credit spreads contracted for most of the quarter. Credit sentiment improved as central banks beginning to pivot toward less aggressive policy tightening raised hope that adverse-case default scenarios can be avoided. High yield (+4.2%) outperformed investment grade fixed income (+1.9%). High yield benefited from its higher starting point yield, less direct exposure to interest rate volatility and greater leverage to corporate resilience.

CREDIT SPREADS



Equities

Global equities gained 9.9% as a relief rally took hold. Fundamentals held up relatively well, while valuations rose as sentiment turned more positive on signs of receding inflation risk and greater monetary policy certainty. While the rally was broad-based, stocks with resilient fundamentals did particularly well. Regionally, non-U.S. equities (dev. ex-U.S. equities up 16.1% and emerging market equities up 9.6%) bested U.S. equities (up 7.2%), helped by more market friendly central bank activity, a declining dollar and a reopening China.

REGIONAL EQUITY INDICES

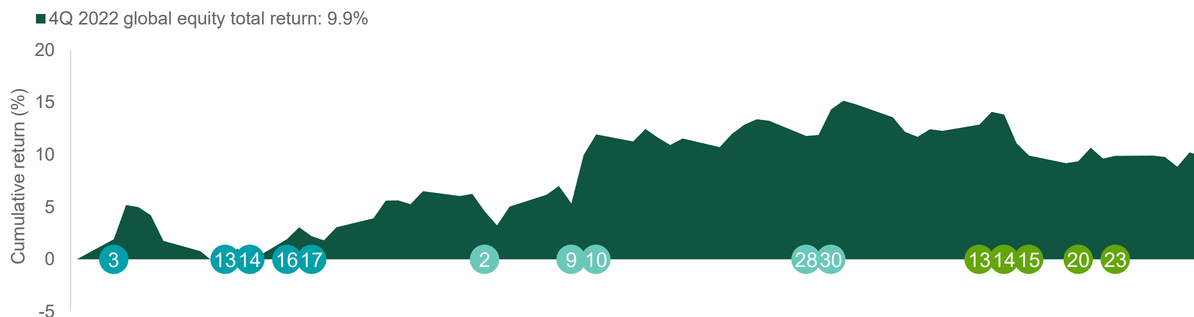
Real Assets

Natural resources (NR) closed out its standout year with a strong quarter, gaining 17.2% versus 11.0% for global listed infrastructure (GLI) and 7.4% for global real estate (GRE). NR benefited from strong fundamentals, tight commodity supply and a better demand outlook due to China's reopening as well as the potential for less central bank headwinds moving forward. GLI was also helped by energy-related exposure, albeit less than NR. GRE underperformed global equities, with office and residential sector weakness serving as a drag.

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



OCTOBER	NOVEMBER	DECEMBER
3 Global Manufacturing Purchasing Managers' Index falls into contractionary territory for the first time since mid-2020.	**2** Fed hikes 75 bps and Chair Powell indicates that the peak rate may end up being higher than previously thought.	**13** Sam Bankman-Fried, former CEO of major cryptocurrency exchange FTX, is charged with fraud following FTX's collapse that shook the crypto industry.
13 U.S. Consumer Price Index (CPI) accelerates month-over-month with core services particularly strong.	**9** U.S. midterm elections produce split government with Democrats retaining Senate control and Republicans later clinching a House majority.	**14** Fed downshifts to a 50-bp rate hike but emphasizes commitment to price stability by raising its projected year-end 2023 policy rate to 5.1%.
14 Third quarter earnings season unofficially kicks off; proceeds to deliver results a touch above expectations, but 2023 estimates trend down.	**10** U.S. CPI decelerates more than expected month-over-month, sparking a ~5% rally in U.S. equities on the day.	**15** European Central Bank hikes 50 bps (with a third of members opting for 75 bps), guides ongoing rate hikes and start to quantitative tightening in March.
16 China National Congress begins; President Xi secures a third five-year term and later consolidates power within the Chinese Communist Party.	**28** Protests against zero-Covid policies erupt across China, eventually leading to a pivot away from most of its restrictions.	**20** Bank of Japan loosens yield curve control by allowing the 10-year yield to rise up to 50 bps (previously 25 bps).
17 Spillover risks from U.K. fiscal crisis decline after Chancellor Hunt reverses proposed tax cuts (Prime Minister Truss is later replaced by Rishi Sunak).	**30** Equities rise following a speech from Fed Chair Powell that indicates that the central bank could soon begin slowing interest rate increases.	**23** U.S. Congress enacts a $1.7 trillion 2023 funding bill – a modest boost to the deficit that pales in comparison to Covid-era stimulus.

• Not FDIC Insured • Not Financial Institution Guaranteed • Not A Deposit • Not Insured By Any Federal Government Agency • May Lose Value

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).

C&N Wealth Management

For more information please contact:

Philip A. Prough, CFP
SVP/Senior Investment Officer
PhilipP@cnbankpa.com

Jay M. Over, CFA, CIPM
Trust Investment Officer
JayO@cnbankpa.com

IMPORTANT INFORMATION. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. Northern Trust and its affiliates may have positions in and may effect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, and its accuracy and completeness are not guaranteed. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor. Opinions and forecasts discussed are those of the author, do not necessarily reflect the views of Northern Trust and are subject to change without notice.

This report is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors.

Past performance is no guarantee of future results. Performance returns and the principal value of an investment will fluctuate. Performance returns contained herein are subject to revision by Northern Trust. Comparative indices shown are provided as an indication of the performance of a particular segment of the capital markets and/or alternative strategies in general. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index. For additional information on fees, please refer to Part 2a of the Form ADV or consult a Northern Trust representative.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc. Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K, NT Global Advisors, Inc., 50 South Capital Advisors, LLC, Belvedere Advisors LLC, Northern Trust Asset Management Australia Pty Ltd, and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.

© 2022 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.

Powered by

©2022. All Rights Reserved.

A PIVOTAL YEAR

2023 will likely be a turbulent year as inflation and monetary policy fears pivot to a weak global economy, but also to lower inflation and central bank pauses. We see some fundamental downside risk but sentiment upside.

Central banks in the developed world have simultaneously hiked interest rates by roughly 2-4% each — at the fastest pace in the past 40 years. Such a move is a firm headwind to economic growth, and the full economic consequences of this massive tightening of financial conditions are still to come. Our base case is for Europe to slip into recession given its greater exposure to elevated energy prices, for the U.S. to slow down meaningfully and for emerging markets to remain troubled by China's struggles.

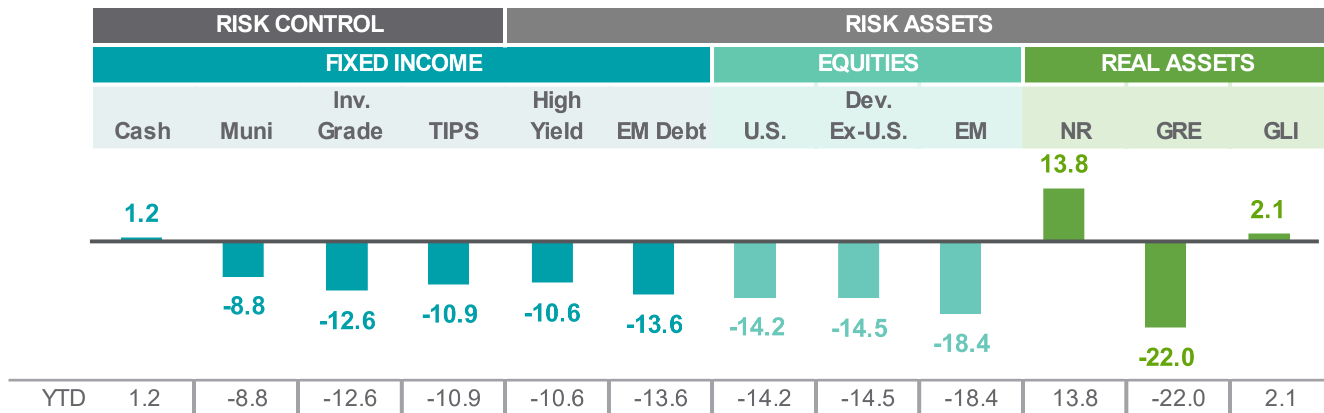
The combination of interest rate hikes and slower growth have started to push down inflation trends. And central banks are, by their own admission, close to interest rate levels where policy is considered tight. As the rate cycle nears an end, and as monetary policy uncertainty and inflation risk dissipate, investor sentiment might turn more positive. The labor market will be closely watched as evidence of inflation's ability to approach central bank targets. In light of these cross-currents, we have a neutral position in developed equities as downside earnings risk to a disappointing economy is balanced against a likely improvement in sentiment as conditions trough in 2023. We acknowledge the potential for a China "re-opening" trade to take hold, but see the process as uneven and muddied by other structural challenges. In the meantime, our overweight to natural resources should benefit from any improvement in China growth.

Looking ahead, the full weight of the cumulative effect of higher rates has yet to be felt in the economy, but health of consumer, corporate and financial institution balance sheets provide reason to believe a recession should be shallow and short-lived. Therefore, financial markets will likely have to balance the immediacy of disappointing global growth against the backdrop of greater certainty on central bank policy, a reduction in interest-rate volatility and the potential of a return to growth later in the year.

This balancing act won't be easy as investors are likely to be repeatedly reminded of the economic headwinds and continued struggles in emerging markets. Even more, we think inflation will struggle to get back to central bank targets, keeping some or perhaps several at their plateau longer than market expectations. Nonetheless, it is important to respect the forward-looking nature of financial markets and clear and decisive signs that inflation has been tamed could trigger a positive turn in sentiment even when growth is still weak. Investors should pay special attention to the labor markets, as we expect they will act as the main battleground for the debate around the outlook for inflation.

FEW PLACES TO HIDE - YEAR-TO-DATE TOTAL RETURNS (%)

It was a difficult year for stocks, and in atypical fashion bonds failed to provide much protection.



Source: Northern Trust Asset Management, Bloomberg. Year-to-date returns through 11/30/22. Past performance is no guarantee of future results. Indexes are gross of fees. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index. Muni=municipal bonds; Inv. Grade=Investment Grade Bonds; TIPS=Treasury Inflation Protected Securities; EM=Emerging Markets; Ex-US=not including the US; NR=Natural Resources; GRE=Global Real Estate; GLI=Global Listed Infrastructure. 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).

C&N PORTFOLIO POSITIONING:
NEUTRAL TO RISK

C&N Vantage Point
January 2023

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

Market Risks:
Actual Earnings Fall Short Of Estimates.
Federal Reserve Miscalculations Or Miscommunications.
Inflation Does Not Decline Meaningfully.

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.
Risk Control	Alternatives (Fixed Based)	**Absolute Return**	⊖			We further trimmed Absolute Return in November to underweight. This is a bond alternative category. Given yield increases throughout 2022, we believe core fixed income provides better risk/reward.
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 and November to remain 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 retaining our slight underweight position and favoring domestic bonds.
Risk Control	Fixed Income	**Emerging Markets Bonds**	●			Many EM economies are more susceptible to the impacts of inflation and slowing growth. We lowered our allocation to a slight underweight in September 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 is still average. We maintain our neutral position as the economy shows signs of slowing.
Risk Assets	Equities	**US Large Cap**			⊕	We are overweight Value for its dividend focus and slightly underweight Growth. We continue to favor domestic over international. We made a small add to Value in November to increase quality exposure.
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 further trimmed this asset class in November but remain at a 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. We trimmed Mid Cap in November to increase our quality exposure via Large Value.
Risk Assets	Equities	**Emerging Markets**	●			We maintain an underweight given multiple headwinds facing EM countries, including China's COVID uncertainty.
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**			●	Natural Resources should benefit from elevated commodity prices. We maintain our overweight position given inflationary pressures we expect to persist throughout 2023.

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

Wealth Management
90-92 Main Street
Wellsboro, PA 16901

QUARTERLY MARKET RECAP & OUTLOOK FOURTH QUARTER, 2022

C&N VANTAGE POINT

Wealth Management
90-92 Main Street
Wellsboro, PA 16901

cnbankpa.com | 570.724.0243

Philip A. Prough, CIMA®, CFP®
SVP/Chief Investment Strategist
PhilipP@cnbankpa.com

Jay M. Over, CFA, CIPM
Investment Strategist
JayO@cnbankpa.com

LISTEN TO THE LATEST C&N VANTAGE POINT PODCAST

C&N Vantage Point provides an in-depth look at C&N's Wealth Management investment and financial planning strategies. Discussions include our current portfolio positioning, outlook for the month and thoughts on the markets.

cnbankpa.com/Vantage

Scan with phone

Some products are not FDIC insured or guaranteed, not a deposit or other obligation of the bank, not guaranteed by the bank and are subject to investment risk, including the possible loss of the principal amount invested and are not insured by any other federal government agency.