C&N Vantage Point

Quarterly Market Recap & Outlook

Third Quarter, 2018

Citizens & Northern Bank
Trust and Financial Management Group
90 Main Street
Wellsboro, PA 16901
cnbankpa.com
570-724-0243

Philip A. Prough
Trust Investment Manager
PhilipP@cnbankpa.com

Jay Over
Trust Investment Officer
JayO@cnbankpa.com

This Quarter's Content

- Economic & Financial Indicators
- Quarterly Review
- Viewpoints
- C&N Portfolio Positioning
- Meet Our Experts

Key Interest Rates	2018			
	12/29/17	3/30/18	6/29/18	9/28/18
2-yr Treasury Note	1.89	2.27	2.52	2.81
10-yr Treasury Note	2.4	2.74	2.85	3.05
30-yr Treasury Note	2.74	3.06	2.98	3.19
30-yr Fixed Mortgage	4.16	4.69	4.84	4.97
Corp. Bond Index	3.26	3.77	4.02	4.07
High-Yield Bond Index	6.16	6.5	6.66	6.48

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

Key Equity Indexes - As of Quarter End	%YTD Return	NTM P/E	P/B	Dividend Yield
S&P 500	10.56	16.79	3.37	1.74
Russell 2000	11.51	22.24	2.12	1.18
Russell 1000 Growth	17.09	21.27	7.32	1.06
Russell 1000 Value	3.92	14.08	2.10	2.34
MSCI EAFE	-0.98	13.58	1.64	3.18
MSCI EM	-7.39	11.15	1.68	2.70

Sources: JP Morgan Weekly Market Recap
Past performance does not guarantee future results, which may vary.

2018 YTD 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	3.92%	10.49%	17.09%	0.62%	5.96%	11.66%	-0.23%	-0.81%	-5.79%	Government
Medium	3.13%	7.46%	13.38%	-0.15%	2.96%	5.09%	0.19%	-0.81%	-5.54%	Corporate
Small	7.14%	11.51%	15.76%	0.89%	4.71%	8.54%	4.22%	2.71%	0.23%	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.

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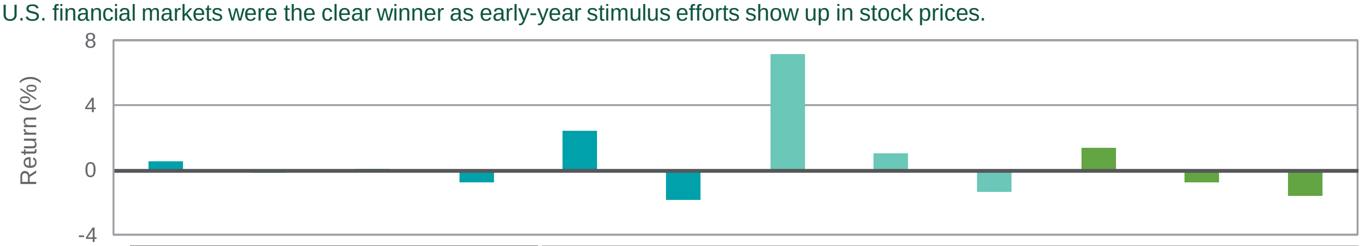
STARING CONTEST

A detailed internet search suggests the record for longest staring contest stands at 40 minutes, 59 seconds — a battle won by Fergal “Eyesore” Fleming over Steven “Stare Master” Stagg in 2012. But the staring contest between U.S. President Donald Trump and Chinese President Xi Jinping over trade policy has been going on for months now. The current tariff tally stands as follows: the U.S. has instated tariffs on $250 billion of goods, representing approximately half of the $505 billion of U.S. imports from China in 2017. Further, the U.S. has proposed — but not yet implemented — additional tariffs on another $267 billion of goods, which would essentially cover all Chinese imports going forward. In response, China has placed tariffs on $110 billion of goods. And, while China is running out of imports to tariff ($130 billion in 2017), it may pursue other avenues of retaliation — including making life difficult through the regulatory channel for those U.S. companies operating in China.

Who is winning the staring contest thus far? Early signs point to the U.S. The U.S. stock market is up 11% year-to-date, while China H shares (traded in Hong Kong) are down 7% and China A shares (traded on the mainland) are down 15%. Supporting U.S. financial markets has been the strength of its economy. Despite increasing trade war fears, U.S. growth has actually been accelerating of late, benefitting from the early-2018 fiscal stimulus (tax reform and government spending). In total, the realized amount of fiscal stimulus has far outpaced the potential amount of “trade drag” — $1 trillion to $130 billion (see the first section of the next page). Meanwhile, China has seen growth slow; the China purchasing manager index (PMI) has softened to 50.8 — suggesting a growth slowdown is well underway— while the U.S. PMI remains healthily in expansionary territory at 55.6. But China appears to be playing the long game, implementing short-term economic stabilizers — including lower taxes, increased credit and fiscal stimulus — to support growth as it waits out the current U.S. attack. Too much of China’s “Made in China 2025” vision to become a leader in value-add industries — including technology, energy and pharmaceuticals — requires opposing U.S. demands. The upcoming U.S. midterm election results will be instructive, both to China and investors globally, as to where this may go next. If Democrats regain control of Congress in some fashion, it may embolden China to maintain its stare and hold out for potential U.S. internal political distractions.

In fact, in this staring contest, it may be the Federal Reserve that ultimately blinks first. The Fed has been encouraged by U.S. growth acceleration and has made a case for continued steady rate hikes. But much of the rest of the world has suffered a growth slowdown — notably in Europe where the U.K. and the European Union are getting caught up in their own staring contest over Brexit. A Fed that pushes forward while other central banks stay accommodative may push the dollar higher, exacerbating concerns over emerging market ability to pay its debt (often in U.S. dollars). Any resulting emerging market contagion could ultimately lower global economic demand, hurting even the U.S. As such, with U.S. inflation well-anchored, the Fed may face increasing pressures to pause.

THIRD QUARTER 2018 TOTAL RETURNS
U.S. financial markets were the clear winner as early-year stimulus efforts show up in stock prices.



	RISK CONTROL				RISK ASSETS							
	FIXED INCOME						EQUITIES			REAL ASSETS		
	Cash	Muni	Inv. Grade	TIPS	High Yield	EM Debt	U.S.	Dev. Ex-U.S.	EM	NR	GRE	GLI
3Q 2018	0.5	-0.2	0.0	-0.8	2.4	-1.8	7.1	1.1	-1.3	1.3	-0.8	-1.6
YTD	1.3	-0.4	-1.6	-0.8	2.6	-8.1	10.6	-1.2	-7.9	5.1	-0.8	-4.6

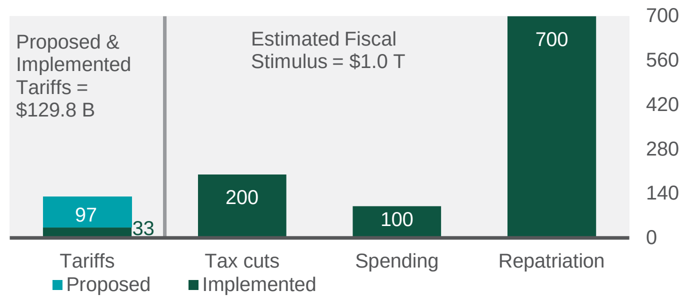
Source: Northern Trust Global Asset Allocation, Bloomberg. NR = Natural Resources; GRE = Global Real Estate; GLI = Global Listed Infrastructure.
Indexes are gross of fees and disclosed on last page.

KEY DEVELOPMENTS

U.S. Stimulus Trumps Tariffs So Far

Much focus is on the growing trade war and the potential impact to economic growth. But, thus far, the early-year fiscal package seems to be having more influence. In terms of size, the effective $130 billion "tax" from the implemented and proposed tariffs — $33 billion and $97 billion, respectively — pales in comparison to the $1 trillion combined stimulus from tax cuts ($200 billion), fiscal spending ($100 billion) and anticipated corporate cash repatriation ($700 billion). The indirect impacts are harder to quantify. Thus far, U.S. business and consumer confidence both remain high, but tariffs have only been in place for a few months versus the nine months that tax reform and fiscal spending have been at work.

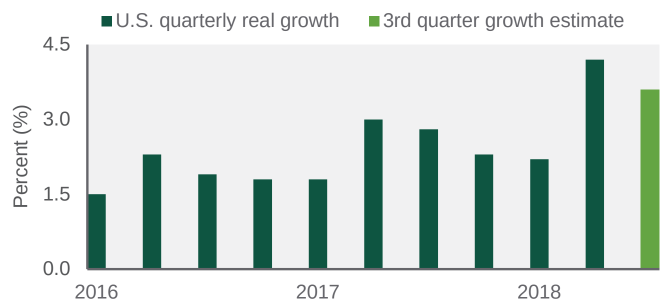
U.S. TARIFF VS. FISCAL STIMULUS IMPACTS



U.S. Growth Breakout?

Helped by the above, U.S. economic growth has, at least temporarily, moved into a new channel. The 4.2% second quarter growth and estimated 3.6% third quarter growth represents the best two-quarter performance for the U.S. economy since mid-2014. Can this level of growth persist? Simple demographics would argue no; that aging populations will temper demand while less net entrants into the workforce will limit economic potential. But technology would argue yes; that productivity, either pent-up or mismeasured, will allow for continued elevated demand without inflationary pressures. These structural forces will play out amid the interplay of trade wars and fiscal stimulus to determine the future U.S. growth trajectory.

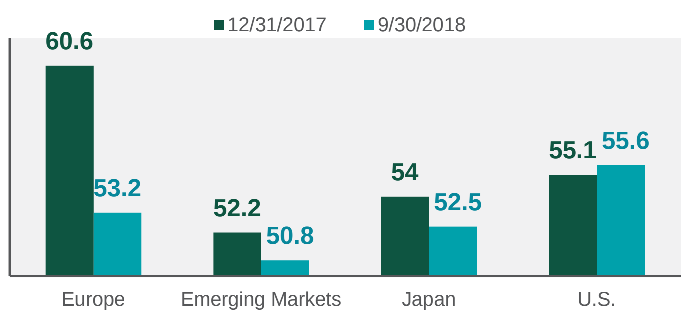
U.S. REAL ECONOMIC GROWTH



Global Growth Divergence

As U.S. economic growth has accelerated, economic growth in other parts of the world has slowed down. This is most noticeable in Europe. Coming into the year, Europe's growth was as robust as anywhere in the world, as judged by purchasing manager indexes (readings over 50 indicate economic expansion). Since then, European growth has slowed meaningfully, buffeted by ongoing confusion and brinkmanship in Brexit negotiations and adverse political developments, including the rise to power of a populist coalition in Italy. Other regions of the world have shown some slowdown as well, including Japan (though optimism on structural reform continues) and within emerging markets.

PURCHASING MANAGER INDEXES – THEN AND NOW



Currency Pressures

Emerging market risks resurfaced in the third quarter, with the Turkish lira down 37% and the Argentinian peso down 55% year-to-date (though, in an interesting comparison, bitcoin is down 54% on the year, meaning Argentinians would not have been much better off holding the digital currency). Problems in Argentina and Turkey are founded on poor governance and finances, but have been exacerbated by the trade concerns and global growth divergence (and resulting concern over continued Fed rate hikes previously described). Argentina – suffering the more dire economic situation – was able to meet the requirements for a $57 billion International Monetary Fund bailout, but the peso remains under pressure.

2018 SELECT CURRENCY MOVEMENTS

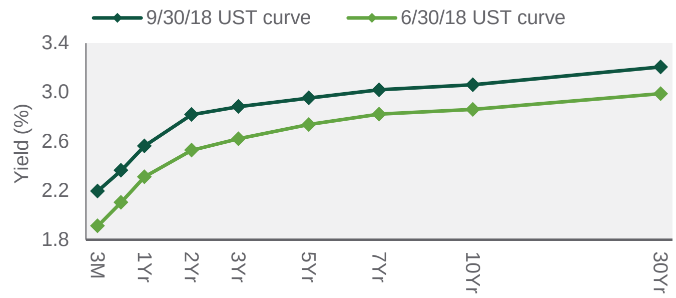
Source: Northern Trust Global Asset Allocation, Bloomberg, Atlanta Fed, Strategas.

MARKET REVIEW

Interest Rates

The U.S. yield curve moved higher and flattened slightly during the third quarter. Short-term rates rose by around 0.25%, in line with the quarter point Fed rate hike pushed through in September. Longer-dated rates rose a bit less, with the 10-year Treasury yield up 0.19% to end the quarter at 3.05%. The end result was a yield curve that moved closer to inverted territory. The 10-year Treasury yield minus the 2-year UST yield now sits at 0.24%. Absent a move higher in long-term rates — which has proven difficult this year, with the 10-year yield seemingly capped at around 3% — one or two more rate hikes will likely cause the first yield curve inversion since 2007. Currently, the Fed is telegraphing four rate hikes through 2019.

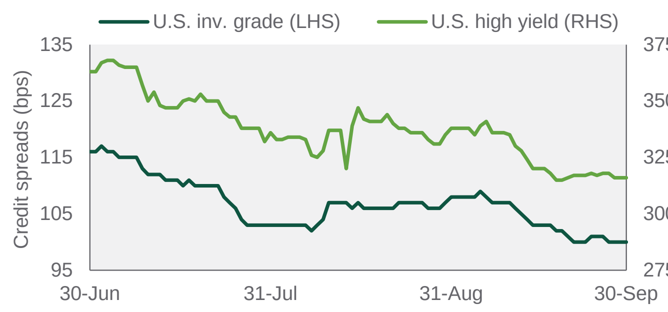
U.S. TREASURY YIELD CURVE



Credit Markets

Investment grade and high yield credit spreads showed a steady decline over the third quarter, in concert with the positive U.S. risk-taking environment. Spreads are benefiting from solid fundamentals (healthy balance sheets and, in the case of high yield, falling default rates) and favorable technicals (falling supply and steady demand). Investment-grade spreads now sit exactly at 1.0%, still off earlier-year lows of 0.8%. High-yield spreads have fallen to 3.2%, versus earlier-year lows of 3.1%. Despite falling credit spreads, investment-grade fixed income returns are negative on a year-to-date basis, dragged lower by higher interest rates. Meanwhile, high yield, having less interest rate sensitivity, is up 2.6% year-to-date.

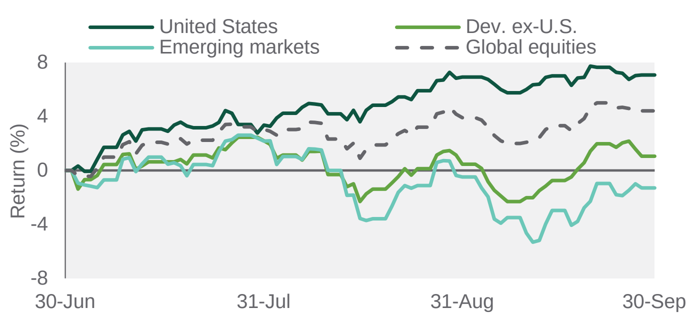
CREDIT SPREADS



Equities

Much of the strong global equity market performance in the quarter was courtesy of U.S. equities (up 7.1%) as the earlier-year tax reform kicked in, boosting both corporate earnings and consumer and business confidence. Developed markets outside the U.S. also managed a small quarterly gain (+1.1%), driven more so by Japan (helped by continued structural reform optimism) than by Europe (suffering from Brexit distractions). Emerging market equities were negative for the quarter (-1.1%) as investors processed ongoing trade war escalation and potential contagion from issues in Turkey and Argentina. Year-to-date, U.S. equities are up double-digits while non-U.S. equities languish in negative territory.

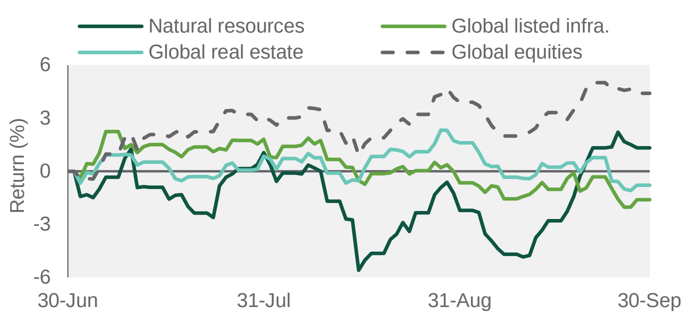
REGIONAL EQUITY INDICES



Real Assets

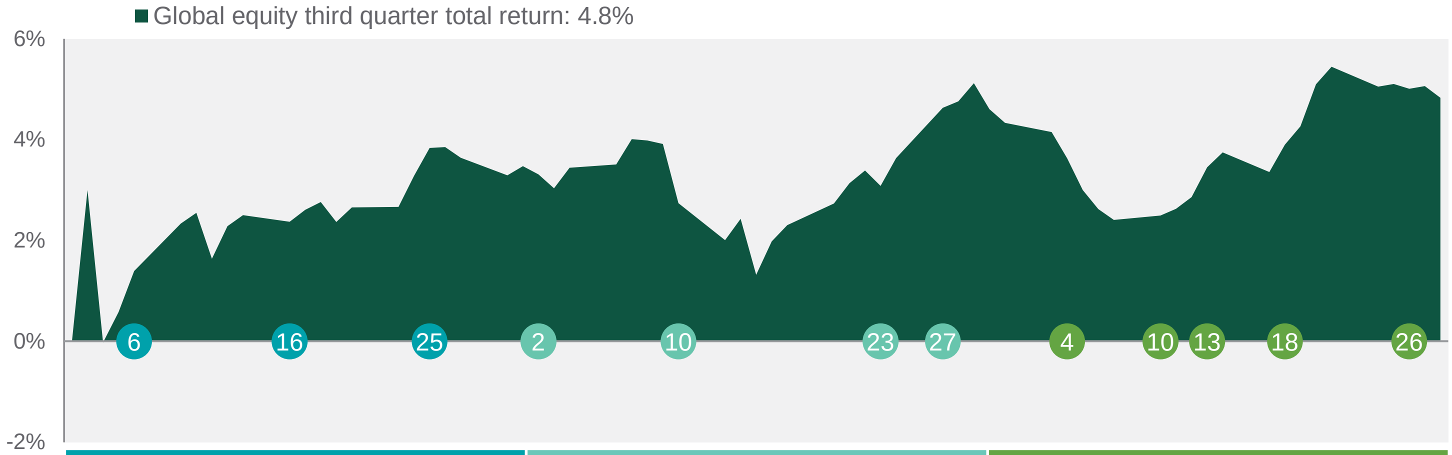
Real assets served as a drag to portfolio performance in the third quarter – all lagging global equities. Natural resources gained momentum towards quarter-end as the prospect of Iranian sanctions in an already tightening market pushed oil prices higher. This was enough to offset earlier quarter weakness and move the asset class into positive territory (+1.3%). Meanwhile, interest-rate sensitive global real estate and listed infrastructure returns were hurt by steadily increasing rates; both had negative returns during the quarter at -0.8% and -1.6%, respectively. Year-to-date, natural resources lead all real assets with a 5.1% return, followed by global real estate at -0.8% and global listed infrastructure at -4.6%.

REAL ASSET INDICES



Source: Northern Trust Global Asset Allocation, Bloomberg. UST = U.S. Treasury. Indexes are gross of fees.

MARKET EVENTS



JULY	AUGUST	SEPTEMBER
6 China matches U.S. tariffs on $34 billion worth of goods dollar for dollar – unofficially starting the trade war.	2 The Bank of England's interest rate hike places its main policy rate at 0.75%, the highest level since the financial crisis.	4 Amazon becomes second public company to hit $1 trillion market cap milestone.
6 Germany Chancellor Merkel reaches an agreement on migration with her coalition partners preventing the possibility of new elections.	2 Apple becomes first public company to top $1 trillion in market cap.	10 Far-right Sweden Democrats solidify position as country's third-biggest party with a vote share of 17.6%.
16 Trump and Russian President Vladimir Putin meet in Helsinki for the U.S.-Russia Summit where Putin denied meddling in the 2016 U.S. election.	10 The Turkish lira falls 16% against U.S. dollar amid financial health concerns; Trump doubles import tariffs on Turkish aluminum and steel.	13 Turkey's central bank raises lending rate by 625 basis points (bps) to 24% in an attempt to stem currency depreciation.
25 European Commission President Jean-Claude Juncker agrees to buying U.S. soybeans and liquefied natural gas to stop automobile tariffs.	23 U.S. imposes tariffs on $16 billion worth of Chinese goods, China retaliates with the same; tariffs on $100 billion of goods since July.	18 U.S. imposes tariffs on $200 billion of Chinese goods to go into effect on September 24. China retaliates with $60 billion in tariffs on U.S. goods.
25 Facebook shares plummet 20% following earnings call hinting at slower growth and margins even after earnings beat.	27 U.S. and Mexico reach an agreement to change parts of NAFTA; focus shifts to deal between U.S. and Canada.	26 Fed raises interest rates 25 bps, signals one more increase this year but removes "accommodative" from statement, viewed as dovish by some.

Indexes used: Bloomberg Barclays (BBC) 1-3 Month UST (Cash); BBC Municipal (Muni); BBC Aggregate (Inv. Grade); BBC TIPS (TIPS); BBC 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 (Em. Markets Equities); Morningstar Upstream Natural Resources (Natural Res.); FTSE EPRA/NAREIT Global (Global Real Estate); S&P Global Infrastructure (Global Listed Infra.)

Citizens & Northern Trust and Financial Management Group

For more information please contact:

Philip A. Prough, CFP
Trust Investment Manager
PhilipP@cnbankpa.com

Jay Over
Trust Investment Officer
JayO@cnbankpa.com

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REPERCUSSIONS

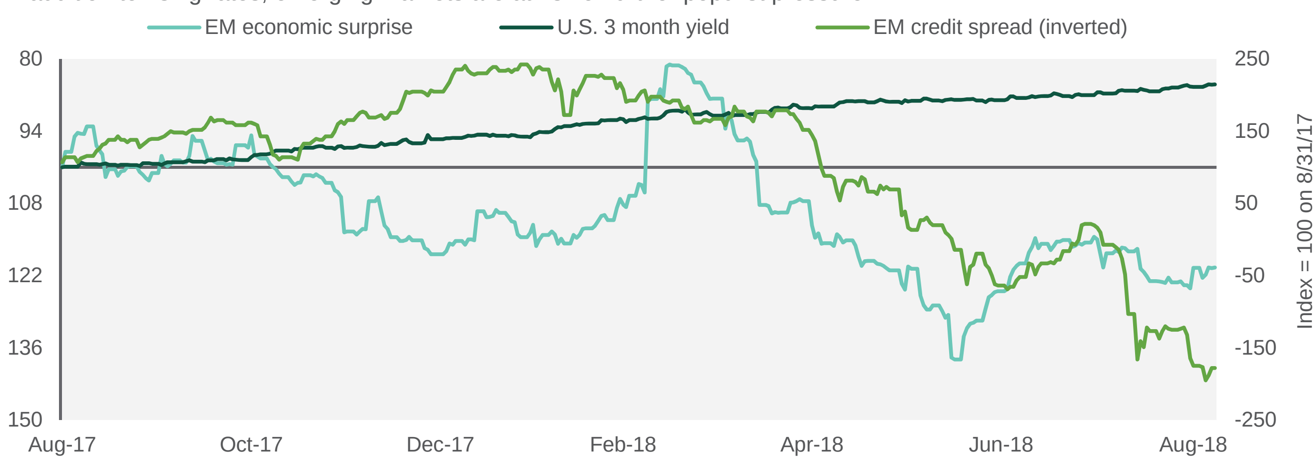
Higher U.S. interest rates, populist politics and trade concerns have been a significant headwind for emerging market assets this year. Populism's impact extends beyond the direct policies of individual emerging market economies, encompassing countries such as the United States that traditionally have been reliable counterweights to emerging market stresses. We think comparisons of the current environment to the emerging markets crisis of 1998 are overstated. Major emerging economies are much stronger today. However, populist politics has made the "backstop" from entities such as the International Monetary Fund much less certain. European politics are increasingly in the spotlight, with the new Italian government's budget plans under scrutiny, Brexit negotiations in full swing, and the European Parliament elections coming in May 2019. The appetite for bailing out foreign countries will not be high in coming years.

The impact of trade worries can be seen through the market performance of those economies most dependent on trade. In China, companies with the highest percentage of foreign revenues have lagged by 12 percentage points since February. European equities rely on emerging markets for roughly 25% of public company revenues. Meanwhile, the U.S. stock market has been a clear outperformer. The U.S. economy relies mostly on domestic consumption and U.S. businesses have benefitted from rising productivity and improved business confidence. We do continue to expect, however, that the current pace of growth is likely the high water mark and growth will slow globally in 2019.

We have been citing Rising Monetary Policy Dissent as our base case scenario in recent months. We think members of the Federal Reserve will increasingly express divergent opinions. In addition, we expect the Fed's intended rate path to increasingly conflict with market expectations. Our new risk case of Central Bank Tunnel Vision captures our view that the Fed may fail to account for how much its policy tightening is already pressuring financial markets as it continues to raise rates amid solid domestic growth. Recent comments from the president of the New York Fed, indicating a willingness to invert the yield curve, are not reassuring on this front. All in all, the outlook for risk taking has moderated as the year has progressed and we have increasingly focused on lower-risk risk assets such as U.S. equities and high yield bonds.

RISING PRESSURES

In addition to rising rates, emerging markets are at risk of further populist pressure.



Source: Northern Trust Global Asset Allocation, Bloomberg, Citi. Data from 8/31/2017 to 9/7/2018.

C&N PORTFOLIO POSITIONING: MODEST OVERWEIGHT TO RISK

C&N Vantage Points - October 2018

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Market Views:
Domestic Equity Fairly Valued. International Equities Becoming Attractive
Diversification Remains Paramount. Remaining Invested Is Important
A Sustained Market Correction Would Be An Opportunity

Market Risks:
Fed Rate Hikes Lead To A Flat Or Inverted Yield Curve
Trade War Risk Last Longer Than Expected
U.S. Political Dynamics. Brexit Negotiations

Risk Type	Asset Class	Sector Category	Under Weight	Neutral	Over Weight	Viewpoints
Risk Control	Cash/Cash Alternatives	Ultrashort Bonds			●	These sectors give us cash in the event of a market correction. With the Fed hiking rates and trade war risks rising, we move to overweight from rebalancing and await better opportunities.
	Alternatives (Fixed Based)	Absolute Return			●	With market uncertainties rising, we maintain a maximum allocation at this time. We strive forbetter-than-money-market returns while decreasing our overall risk profile and await opportunities.
		Inflation-Linked Bonds		●		We decreased duration in TIPS during 4Q17 to offset the Fed rate hike impact. Inflation expectations increased leaving TIPS fully valued. We move to neutral seeking to increase risk asset exposure.
	Fixed Income	US Investment Grade Bonds	●			We have a slight overweight to IG Corps and remain underweight to U.S. Govt bonds due to a tightening Fed and inflationary forces building. Overall, the category remains underweight.
		International Bonds	●			Foreign central banks continue to talk down their continuation of extraordinary policies which may leave this category stretched in its valuation.
		Emerging Markets Bonds			●	Spreads have widened recently, but EM fundamentals appear solid. Recent volatility has created opportunities. Risks appear country specific. The strong US Dollar is a headwind.
Risk Assets		High Yield Bonds		●		High-Yield's coupon remains attractive and tax reform will help companies, but spread tightening may hurt total return. Given the business cycle stage, we retain our neutral position favoring EM bonds.
	Equities	US Large Cap			●	Although fairly valued, we believe growth continues amidst a bumpy market. We retain an overall overweight but take profits when rebalancing.
		Developed Ex-US		●		Monetary policy transitioning has been slower than expected. Valuations are reasonable compared to the U.S. We continue to favor domestic equities but look to maintain our positions through rebalancing.
		US Mid & Small Cap			●	With tax reform, fiscal stimulus talks & the dollar decline less likely to impact them, we maintain our risk assets through this category. We will take some profits from recent run-ups.
		Emerging Markets		●		EM valuations becoming more attractive. Fundamentals have improved over the years but the recent dollar strength has been a headwind. We maintain our position through rebalancing.
	Alternatives (Equity Based) & Real Assets	Real Estate		●		Fundamentals remain solid for the REIT category, but a tightening Fed and tight spreads gives us caution. The risk/reward scenario leads us to maintain our allocation.
		Commodities/Natural Resource		●		Oil finding a base, a tightening Fed, building inflationary forces and a positive demand/supply story expected in metals and U.S. Shale oil in the coming years leads us to maintain our position.

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.

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Meet Our Experts

Matthew Landis

Regional Manager Financial Services Delivery

With more than seventeen years of industry experience, Matthew is a Certified Trust and Financial Advisor and holds several Pennsylvania Insurance Licenses. He successfully completed programs through The Cannon Financial Institute's Trust School and Retirement Sales School, as well as The Pennsylvania Bankers Association Trust School. Prior to joining Citizens & Northern Bank, he was employed by Gannon Associates and First Citizens Community Bank.

To further expand upon his financial and estate management expertise, in 2014, Matthew earned his Certificate of Accreditation as a Professional Minerals and Royalty Asset Manager. With his accreditation, Matthew partners with area mineral owners to ensure their oil & gas ownerships are being managed properly.