C&N VANTAGE POINT

QUARTERLY MARKET RECAP & OUTLOOK | FOURTH QUARTER, 2021

MEET A TEAM MEMBER

DARCI BAIRD

CTFA, Senior Financial Consultant

A testament to her experience and dedication to her clients, Darci Baird has established herself as one of the area's leading Financial Consultants. With over 34 total years in the Financial Industry, Darci has cultivated a wealth of knowledge and experience, providing her clients with the best financial services available. She has been with Citizens & Northern Bank for 17 years and is currently Vice President, Senior Financial Consultant and Certified Trust and Financial Advisor. Darci graduated from Mansfield University and The Cannon Financial Institute's Trust School.

Committed to her community, Darci is actively involved in several organizations. Darci and her husband, John, have two grown children and three grandchildren and reside in Athens.

Key Equity Indexes - As of Quarter End	%YTD Return**	NTM P/E**	P/B**	Dividend Yield**
S&P 500	28.71	20.96	4.84	1.22
Russell 2000	14.82	23.35	2.48	0.92
Russell 1000 Growth	27.60	30.61	13.84	0.62
Russell 1000 Value	25.16	15.77	2.69	1.80
MSCI EAFE	11.78	15.24	1.89	2.54
MSCI EM	-2.22	12.56	1.84	2.38

Sources: JP Morgan Weekly Market Recap; Northern Trust. Past performance does not guarantee future results, which may vary.
** As of 12/31/2021

Key Interest Rates	2021			
	4/1/21	7/2/21	10/1/21	12/31/21
2-yr Treasury Note	0.17	0.24	0.27	0.73
10-yr Treasury Note	1.69	1.44	1.48	1.52
30-yr Treasury Note	2.34	2.05	2.04	1.9
30-yr Fixed Mortgage	3.33	3.2	3.1	3.27
Corp. Bond Index	2.28	2.08	2.13	2.36
High-Yield Bond Index	4.91	4.57	4.68	4.86

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

2021 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	25.16%	26.81%	27.60%	21.97%	22.67%	22.88%	-1.19%	-1.72%	-4.65%	Government
Medium	28.34%	22.58%	12.73%	21.85%	17.63%	12.32%	-0.47%	-1.00%	-1.13%	Corporate
Small	28.27%	14.99%	2.83%	21.12%	15.75%	10.28%	5.96%	5.00%	9.01%	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 12/31/2021

AND THE BAND PLAYED ON

The Titanic took approximately two hours and forty minutes from its initial iceberg collision to its foundering. The ship's band — hoping to help keep passengers calm — continued to play (waltzes and ragtime numbers*) for nearly all of that time, only stopping less than thirty minutes prior to the ship going under. Today's financial markets also keep "playing" amid threats of sinking economic prospects. Global equity markets gained 7% in the quarter (and 19% on the year) despite an ongoing pandemic and the 10-year Treasury yield closed out the year at a once unthinkable 1.5% despite high inflation (7%). How should we think about this heading into 2022?

The unsinkable Titanic. It was said "God himself could not sink this ship." With 16 airtight hull compartments — four of which could fill without the ship losing buoyancy — the claim seemed credible. Short of divine intervention, today's financial markets also seem unsinkable. Even in the face of 30-year inflation highs, corporate profit margins have increased and stock valuations remain elevated. A once-in-a-century pandemic has not slowed markets either; global equities are up 30% since COVID's start. Beyond healthy corporate fundamentals, low interest rates and well-functioning credit markets are providing a ballast. The current 1.5% yield on the 10-year U.S. Treasury (UST) is about as low as interest rates have gone. Outside of the worst of the pandemic (where the 10-year UST yield hit 0.5%), the all-time low is 1.4% (set in July 2016).

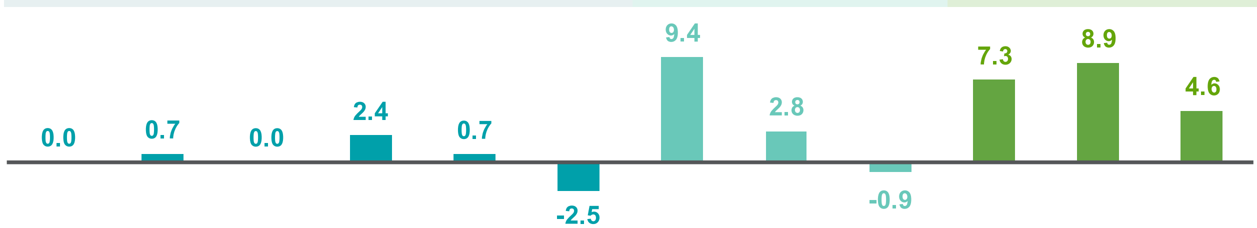
Watching out for icebergs. So, what could sink this ship? Federal Reserve action is high on the list. Should inflation persist and the Fed be forced to raise interest rates more than investors anticipate, stock markets could suffer. Investors are already braced for more restrictive central banks in 2022; consensus calls for the Fed to raise rates roughly three times in 2022 — so there is some cushion. Another obstacle for the economy to navigate is the reduced thrust from fiscal policy as the past two years of stimulus is not repeated. The consumer and investment engines will need to fire to fill the void.

The importance of being prepared. Perhaps due to overconfidence in the Titanic's ability to stay afloat, the ship was woefully short on lifeboats (about one-third of what was needed). As a result, of the 2,000+ passengers on board, only around 700 survived. Surviving a fall in the stock market comes down to ensuring sufficient risk-control assets (investment grade fixed income, inflation-linked bonds and cash) aligned with risk tolerance. Some question the ability for longer duration bonds to provide the same level of protection as they have historically given currently low interest rates with upside risk. But never have investment grade bonds been significantly correlated with stocks (>0.5); and, at the very least, these bonds would still provide significant downside protection.

**The last song played is widely believed to be "Nearer, My God, to Thee" but cannot be confirmed; some argue the bandleader (Wallace Hartley) would never have played such a solemn hymn.*

FOURTH QUARTER 2021 TOTAL RETURNS (%)

Most risk assets rebounded nicely in the fourth quarter — even in the face of ongoing pandemic and inflation headwinds.



	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
	0.0	0.7	0.0	2.4	0.7	-2.5	9.4	2.8	-0.9	7.3	8.9	4.6
2021	0.0	1.5	-1.5	6.0	5.3	-8.7	26.1	12.9	0.1	25.2	23.3	11.9

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

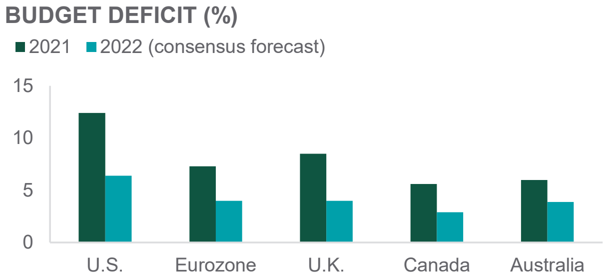
90 Main Street • Wellsboro, PA 16901 • (570) 724-0243 • www.cnbankpa.com • trust@cnbankpa.com

KEY DEVELOPMENTS

Time for the Consumer to Step Up

A key risk heading into 2022 is the need for the private sector — both the consumer and corporations (in the form of capital expenditures/investment) — to fill in for less government stimulus. As seen in the chart, budget deficits are set to be cut in half over the next year. While governments will still be spending, it's the year-over-year (y/y) change that impacts economic growth — and that y/y change will be negative. Incidentally, less government debt issuance also mutes the impact of reduced central bank purchase programs.

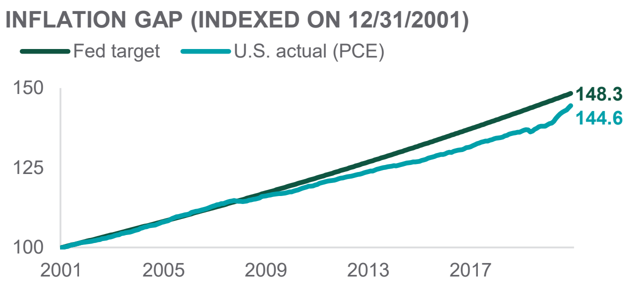
FISCAL DEFICITS AROUND THE WORLD



Inflation is Playing Catch Up

Last year brought us something we haven't seen in a while: Inflation. The broadest measure of U.S. inflation (Consumer Price Index) was up 7% last year, while the Fed's preferred measure (core Personal Consumption Expenditure) was up 5%. While something to watch, it's worth noting the U.S. (and most other countries around the world) are still playing catch up to the 2% trajectory most central banks target (see chart, showing the past 20 years). As such, central banks may be more tolerant of inflation — but not too tolerant.

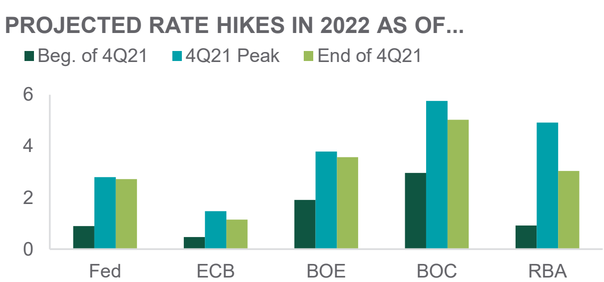
INFLATION'S 20-YEAR TRAJECTORY



Monetary Policy Expectations Have Gone Up

Because of higher inflation, investors have moved up their expectations for central bank tightening. Focusing on the Fed, its fourth quantitative easing program is scheduled to wrap up by March and markets have now priced in around three rate hikes in 2022. Other central banks — including the European Central Bank (ECB); Bank of England (BOE); Bank of Canada (BOC) and Royal Bank of Australia (RBA) — saw adjustments higher last quarter as well (see chart). Risk assets likely can tolerate some rate hikes, but not too many.

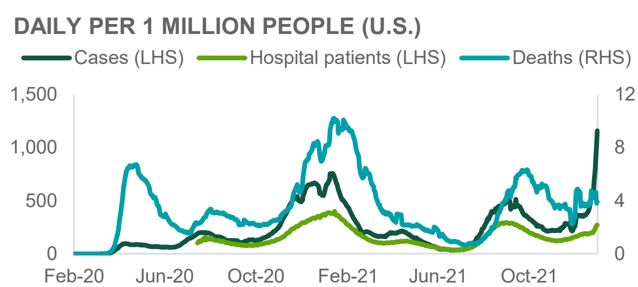
EXPECTED MONETARY POLICY IN 2022



COVID Deaths Not Going Up (as Much)

Unfortunately, the pandemic has been a "key development" for many of our quarterly reports over the last two years. The bad news is it made the list again due to the spike in cases driven by the Omicron variant. The better news is, thus far, hospitalizations and deaths have been much less severe. This fact, combined with a growing aversion to economic shutdowns and restrictions, allowed many risk assets to ignore this development. Going into 2022, COVID-19 is still something to watch, but not to be overly fearful of.

EVALUATING THE WAVES OF COVID-19



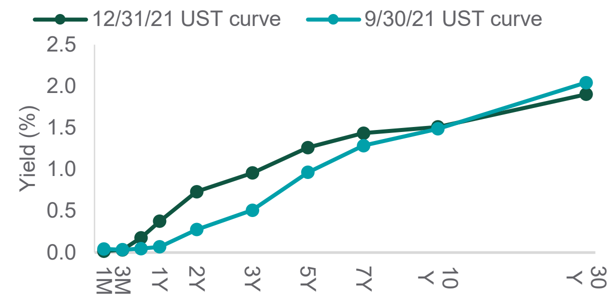
Source: Northern Trust Asset Management, Bloomberg, Our World In Data. LHS and RHS mean left-hand side and right-hand side, respectively. Data as of 12/31/2021.

MARKET REVIEW

Interest Rates

Front-end rates rose as the Fed reduced pandemic emergency measures and pulled forward its rate hike projections in response to upside inflation risks. The 2-year Treasury yield nearly tripled during the quarter. Despite elevated short-rate volatility, the long end of the Treasury curve refused to follow suit. Back-end yields fell as markets priced in more rate hikes, and longer term inflation expectations barely budged during the quarter. Higher short rates and stubborn long-end behavior leave a flatter curve heading into 2022.

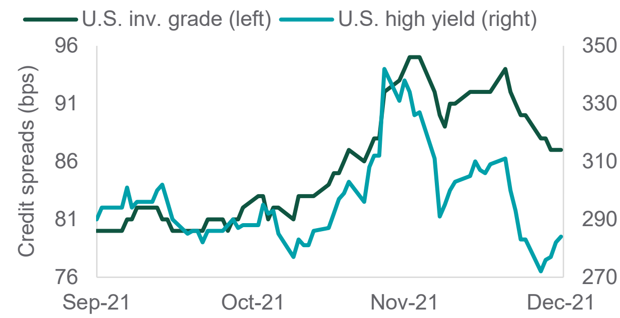
U.S. TREASURY YIELD CURVE



Credit Markets

Credit spreads widened during most of the quarter as heavy supply exacerbated performance headwinds that spilled over during periods of broader market volatility. Investment grade spreads recovered some but not all of that spread widening and ended the quarter 7 basis points (bps) wider. High yield spreads recovered all and more of the spread widening and ended 6 bps tighter. Credit risk proved to be more rewarding than interest rate risk as high yield returns outpaced investment grade returns in the quarter (and for the full year).

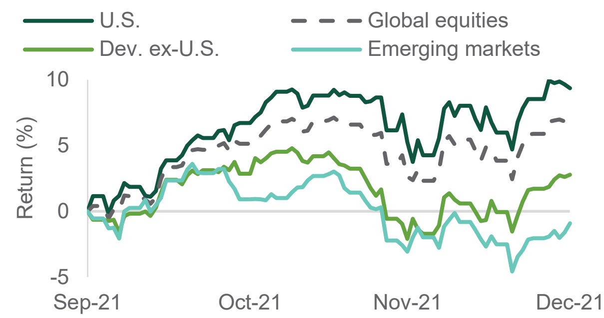
CREDIT SPREADS



Equities

Despite higher inflation and rising short-term interest rates, global equities finished the year strongly with a 6.8% quarterly return. Companies were largely able to pass on cost pressures, profit margins were durable and earnings marched higher. This was particularly true for U.S. companies, as U.S. equities returned 9.4%. Developed ex-U.S. equities reported similar earnings growth but greater Omicron-related pressure led to a more muted return (2.8%). Emerging market equities fell 0.9% on a mix of growth and regulatory headwinds.

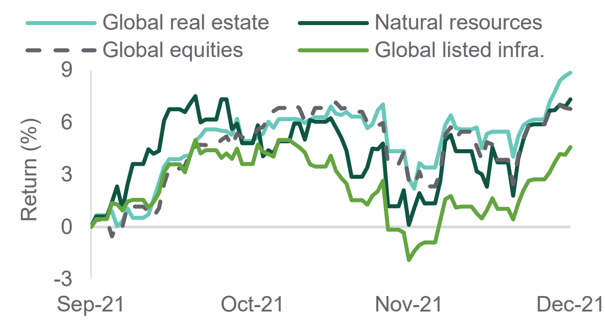
REGIONAL EQUITY INDICES



Real Assets

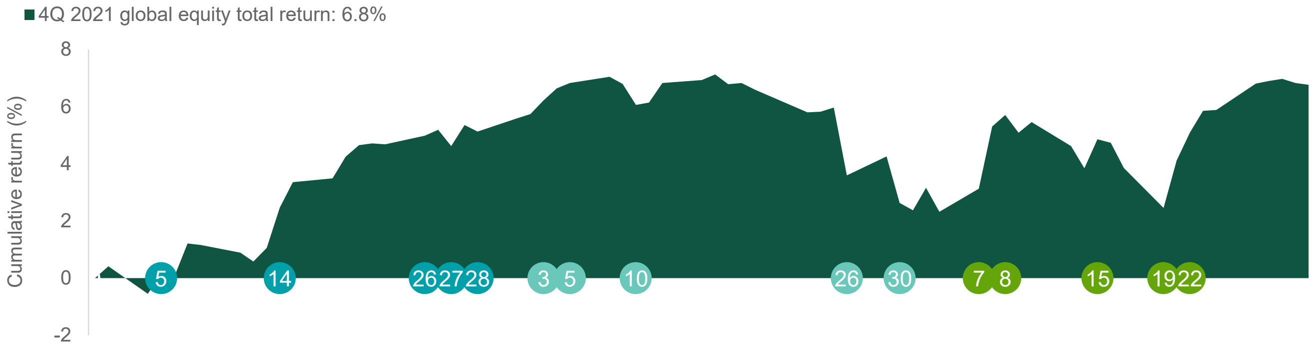
Global real estate (GRE) finished the year strongly with an 8.9% quarterly return. After a weak 2020, GRE outperformed global equities in 2021 with help from moderating virus headwinds and falling longer term interest rates. In fact, since the 10-year Treasury yield peaked in March, GRE has returned 22.9% on an annualized basis. Natural resources also returned more than global equities on the quarter (7.3%) as commodity demand held up and investors took a liking to the asset class' inflation protection properties.

REAL ASSET INDICES



Source: Northern Trust Asset Management, Bloomberg. Returns in U.S. dollar terms. UST = U.S. Treasury.

MARKET EVENTS



OCTOBER	NOVEMBER	DECEMBER
5 Global energy prices surge to new records as shortage fears mount.	**3** Fed announces it will begin tapering at a pace of $15 billion per month with the option to adjust the pace if needed.	**7** Congress announces compromise to lift debt ceiling (signed into law on 12/16/2021).
14 September Federal Reserve meeting minutes signal asset purchase tapering should begin later this year and potentially end by mid-2022.	**5** House of Representatives passes $555 billion bipartisan infrastructure bill (signed into law in mid-November).	**8** Pfizer-conducted lab study shows three doses of its vaccine offer similar protection against Omicron as two doses did for the original strain.
26 China 10-point plan on how it will address its economic challenges points to targeted stimulus and ongoing regulatory headwinds.	**10** U.S. CPI surprises to the upside at 6.2% year-over-year (y/y) and inflation pressures broaden.	**15** U.S. CPI rises to 6.8% y/y — the highest reading in over 30 years but in-line with expectations.
27 Bank of Canada votes to end quantitative easing and announces it is considering raising rates sooner than previously thought.	**26** South Africa warns of fast-spreading Omicron variant and World Health Organization labels it a variant of concern.	**19** Fed doubles the pace of tapering and new dot plot shows median projection of three rate hikes in 2022.
28 President Biden unveils new $1.8 trillion reconciliation framework that doesn't include direct corporate or personal tax rate hikes.	**30** In congressional testimony, Fed Chair Powell suggests accelerating tapering and retiring the word "transitory" (as it relates to inflation) is appropriate.	**22** Food & Drug Administration (FDA) authorizes Pfizer's COVID-19 treatment pill, Paxlovid.

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

TWIN PEAKS?

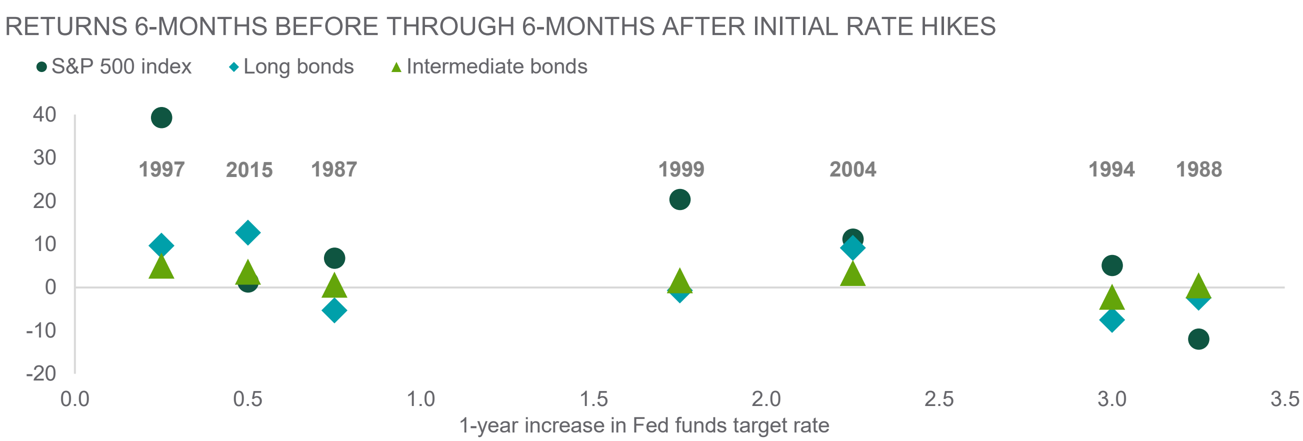
Equity markets ended 2021 on a strong note, following typical seasonal patterns. However, volatility in both interest rates and equities has picked up as of late. Real-time economic data is showing the negative effect of the Omicron variant, while persistently high inflation has pushed the Federal Reserve into a distinctly more hawkish stance. Market expectations of interest rate hikes have edged up in the last month, while volatility in interest rate markets has increased noticeably due to investor uncertainty. Financial market history can provide some comfort to investors, as the exhibit below shows. Equities, along with bonds, can perform well during interest rate hike cycles — especially when they are well-telegraphed. In the last seven rate hike cycles, stocks only generated a negative return during the 6-month period before and after the initial hike once — and that was accompanied by a whopping 3.25% increase in the Fed funds rate.

While we made no changes in our global policy model this month, our risk case around inflation did change significantly. Previously, we were concerned about Fed overreaction to inflation, while now we are concerned that persistent inflation could justify a more hawkish Fed. The first quarter of this year could see "twin peaks" in COVID and inflation, especially in the developed world. While the recent surge in the Omicron variant has dented current activity, that will likely subside faster than the risk of disruption in supply chains. COVID case counts in Asia haven't yet come close to the surge seen in the West — which represents a production risk in countries like China with a zero-COVID public health policy.

We continue to focus more on the implications of inflation than just on the level of overall prices. Corporate pricing power remains strong, offsetting increased costs and buttressing profit margins, earnings and stock prices. Bond markets have had a difficult month since the Fed pivot, but the 10-year Treasury yield of ~1.8% remains well-behaved and within our expected range of 1.5—2.0%. We think the Fed's accelerated timetable around tapering its asset purchases, and then the potential for shrinking its balance sheet (see our discussion in the interest rate section) will be executed with a close eye on the impact on fixed income markets. With nominal rates still low overall, we continue to underweight fixed income and favor risk assets in our global policy model. We expect developed markets to outperform emerging markets again in 2022, and we continue to favor high yield bonds over investment grade bonds due to their lesser interest rate sensitivity. Finally, global natural resources remains a favored asset class as a play on economic growth and constrained supply, and as a hedge against continued high inflation.

RATE HIKE RESILIENCY

Stocks can handle initial rate hikes well, while substantial rate hikes tend to have a more limiting impact.



Source: Northern Trust Asset Management, Bloomberg. Total returns for long bonds: Bloomberg U.S. Long Government/Credit Index; intermediate bonds: Bloomberg Intermediate U.S. Government/Credit Index. Data as of 1/14/2022.

C&N PORTFOLIO POSITIONING:
MAINTAIN MODERATE OVERWEIGHT TO RISK

C&N Vantage Point
January 2022

Market Views:
Equities Fairly Valued Short Term. Constructive On Equities Long Term.
Diversification Remains Paramount. Markets Will Likely Be Choppy.
Fed Likely Raises Rates Twice By Late Summer But Rates Likely Lower For Longer.

Market Risks:
Inflation Increases From Current Elevated Levels.
Federal Reserve Miscalculations Or Miscommunications.
Covid Leading To A Substantial Economic Slow Down

Risk Type	Asset Class	Sector Category	Under Weight	Neutral	Over Weight	Viewpoints
	Cash/Cash Alternatives	**Ultrashort Bonds**			+	We increased Ultrashort to a slight overweight favoring it over Cash. This remains a source of funds for a targeted trade should opportunities develop.
Risk Control	Alternatives (Fixed Based)	**Absolute Return**	−			We trimmed our Absolute to a slight underweight expecting interest rate hikes in 2022. Rising interest rates will likely be a headwind for this asset class.
Risk Control	Alternatives (Fixed Based)	**Inflation-Linked Bonds**	−			Inflation expectations impact TIPS pricing more than actual inflation. Expectations remained high througout the Fall. We trimmed further taking additional gains to go to slightly underweight.
Risk Control	Fixed Income	**US Investment Grade Bonds**	●			IG Corps spreads continue to be tight. We remain underweight to U.S. Govt bonds. Overall, we're underweight but continue to stay neutral on duration being opportunistic on rate rises.
Risk Control	Fixed Income	**International Bonds**		●		A stronger dollar, anticipated rate hikes in the US, and Covid-related impacts on international economies have us maintaining our neutral postion.
Risk Assets	Fixed Income	**Emerging Markets Bonds**		●		EM economies are more susceptible to the impacts of Covid, but they are more correlated to a global recovery. We maintain our neutral allocation.
Risk Assets	Fixed Income	**High Yield Bonds**		●		Coupons remain attractive relative to other fixed income and less issuance is expected in 2022. We remain neutral but look to add if valuations settle.
Risk Assets	Equities	**US Large Cap**			●	We remain overweight to Value for the cyclical trade. We added to Growth in May & August but trimmed the position in November taking gains. Overall, we remain overweight in this category.
Risk Assets	Equities	**Developed Ex-US**			+	Valuations are reasonable compared to the U.S. We added to our position for a slight overweight. Similar to Domestic, we look to add to Large Cap Growth if a pullback occurs.
Risk Assets	Equities	**US Mid & Small Cap**		−		We trimmed our slight overweight to neutral in November to increase quality (i.e. large caps) within the portfolio. Within this category, we added to small cap value for the cyclical trade.
Risk Assets	Equities	**Emerging Markets**		−		We trimmed EM to neutral given continued headwinds of Covid and China regulations. We'll use weakness to rebalance to our position and continue to monitor.
Risk Assets	Alternatives (Equity Based) & Real Assets	**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 remain neutral given our overweight to Large Cap Value but look to add sooner, not later.

Wealth Management
90-92 Main Street
Wellsboro, PA 16901

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cnbankpa.com | 570.724.0243

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

Jay M. Over
Investment Strategist
JayO@cnbankpa.com

Nicholas P. Cevette
Investment Associate
NicholasPC@cnbankpa.com