C&N VANTAGE POINT

QUARTERLY MARKET RECAP & OUTLOOK | FIRST QUARTER, 2023

MEET A TEAM MEMBER

MICHAEL B. ALLEN

Trust Tax Accountant

Michael joined the C&N Wealth Management Department in February of 2021. He enjoys helping clients with their tax preparation needs and strives to provide the best possible service. With 25 years of tax experience, Michael is a valuable member of the tax team. His attention to detail helps him not only prepare various tax returns, but also assist clients with tax saving ideas based on their individual situations. Michael believes in building trusted relationships with his clients, enabling him to answer their questions and provide solutions.

Michael graduated from Community Christian School and attended SUNY Adirondack and Messiah University. While at C&N, Michael attended the Cannon Financial Institute expanding his fiduciary tax knowledge. He has been an IRS Annual Filing Season Program Participant since its inception in 2014.

Living in the Wellsboro area, Michael also supports various area boards as treasurer including the Wellsboro Teen Center, Crossroads Family Worship Center, Keystone Wallyball Association, and Trinity Lutheran School.

Michael and his wife Carol enjoy spending time with their seven children playing board games, hosting family meals, launching model rockets, going camping, and attending various church events.

Key Equity Indexes - As of Quarter End	%YTD Return**	NTM P/E**	P/B**	Dividend Yield**
S&P 500	7.36	17.81	3.80	1.62
Russell 2000	2.63	20.34	1.93	1.39
Russell 1000 Growth	14.28	23.80	9.03	0.96
Russell 1000 Value	0.83	14.13	2.30	2.25
MSCI EAFE	8.47	12.82	1.67	3.14
MSCI EM	3.96	12.17	1.56	3.32

Sources: JP Morgan Weekly Market Recap; Northern Trust. Past performance does not guarantee future results, which may vary.
** As of 3/31/2023

Key Interest Rates	2023			
	7/1/22	9/30/22	12/30/22	3/31/23
2-yr Treasury Note	2.84	4.22	4.41	4.06
10-yr Treasury Note	2.88	3.83	3.88	3.48
30-yr Treasury Note	3.11	3.79	3.97	3.67
30-yr Fixed Mortgage	5.84	6.52	6.34	6.45
Corp. Bond Index	4.62	5.69	4.68	5.17
High-Yield Bond Index	8.86	9.7	8.99	8.59

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

2023 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	1.01%	7.46%	14.37%	0.78%	8.32%	16.18%	1.87%	2.27%	6.17%	Government
Medium	1.32%	4.06%	9.14%	1.55%	4.48%	8.36%	1.68%	2.50%	5.45%	Corporate
Small	-0.66%	2.74%	6.07%	1.83%	4.29%	6.83%	3.05%	3.57%	3.67%	High Yield

Source: Northern Trust, 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 3/31/2023

OK, ON AVERAGE

On average, the global economy looks to be "OK" – regional and sectoral areas of weakness being offset by other areas of relative strength; meanwhile, inflation seems contained in some areas albeit still raging in others. *On average*, the financial system is "OK" – concerns in some regional banks and other "one-off" issues (driven mostly by poor risk management) absorbable by the broader, still-healthy banking industry. And, *on average*, the global financial market outlook looks "OK" – global equity valuations are near the median valuation level of the past 25 years (~19 times last-twelve-months earnings).

But you are also "OK, on average" if you are six feet tall standing in a lake that averages five feet deep. That is, on average, you have no fear of drowning despite the fact that there are almost assuredly areas in that lake where you would be underwater. The key to successful investing is to appreciate potential financial and economic "deep spots" potentially masking what looks "OK" on the surface.

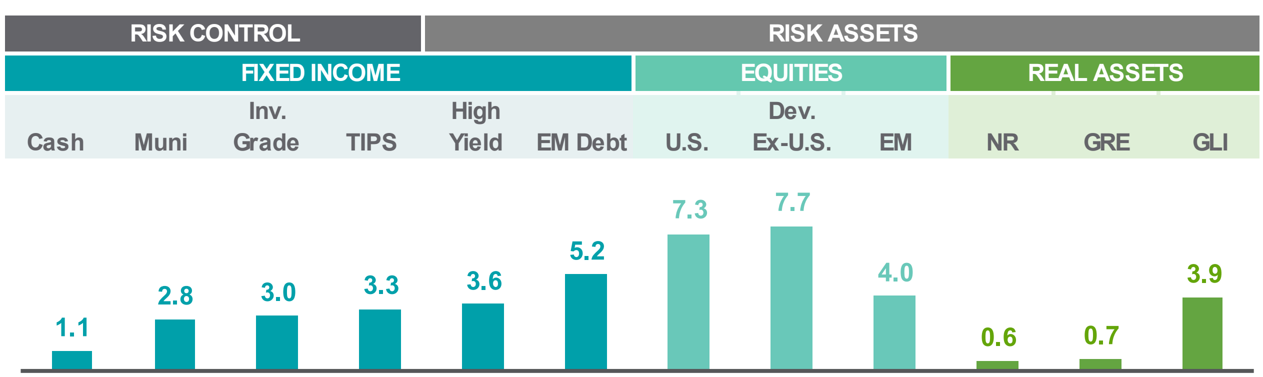
Growth and Inflation. *On average*, the global economy has displayed much resiliency in the face of geopolitical disruptions and higher interest rates. Global composite purchasing managers' indices (PMIs) sit at ~52 – modestly higher than the ~48 mark coming into 2023 and above the 50 mark that separates expansion from contraction. But underneath that modest expansion, we find a notable gap between the fairly hot service industry and the mostly tepid manufacturing industry; most notably the case in the United States, where the manufacturing PMI sits near 46 while the services PMI sits closer to 55. Growth disparities have led to inflation disparities, with core goods inflation already back below the Federal Reserve's 2% target but with core services inflation still stuck in the 6-7% range.

Central Banks and Credit Markets. Stubborn services inflation kept the Fed focused on rate hikes – until the failure of Silicon Valley Bank and resulting contagion forced one eye over to monitoring financial industry health. As such, *on average*, markets expect one more 0.25% rate hike before a Fed cutting cycle starts near year end. But that "average" is a combination of a higher rate trajectory should services inflation linger and a lower rate trajectory should bank stresses persist.

Financial Markets. When ostensibly benign average expected outcomes are masking a wide range of potential outcomes underneath, financial markets often respond with outsized volatility. One day, an inflation print below expectations can lead to "risk-on" markets as investors price in the end of the rate hike cycle; the next day, a headline suggesting another bank may be in trouble can mean "risk-off" markets as investors brace for impact. In these environments, it is especially important to keep adequate liquidity for spending needs so as to not be forced into selling "good assets on a bad day" while also maintaining proper diversification – not only among stocks and bonds but also real assets and other diversifiers.

FIRST QUARTER 2023 TOTAL RETURNS (%)

Strong returns across most financial market assets mask a quarter full of volatile swings – especially within bond markets.



	Cash	Muni	Inv. Grade	TIPS	High Yield	EM Debt	U.S.	Dev. Ex-U.S.	EM	NR	GRE	GLI
2022	1.5	-8.5	-13.0	-11.8	-11.2	-11.7	-19.2	-14.8	-19.5	10.3	-24.1	-0.2

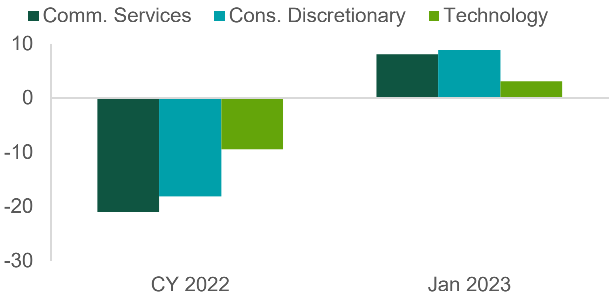
Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

KEY DEVELOPMENTS

Initial Inflation Optimism

Equities firmly rebounded in January with key support from increased investor optimism on the path of inflation and less communication from central bankers on further rate hikes. This led to a strong month of returns in the U.S. and also outside the U.S. with mild weather alleviating energy concerns in Europe and China's rebound from Covid-19 reopening. Equity performance in January was in many ways a reversal of 2022, where many 2022 laggards notably outperformed (see chart) and riskier parts of the market performed well.

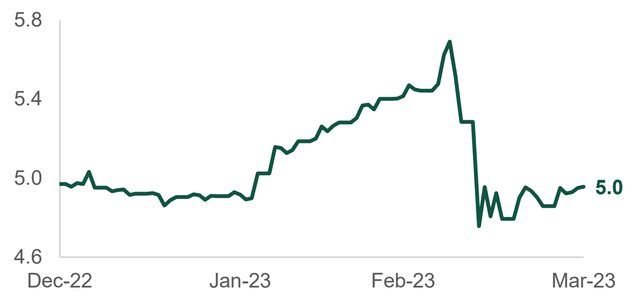
RELATIVE RETURNS OF VARIOUS SECTORS (%)



Not So Fast…

In February, economic data releases proved firmer than expected – more resilient on the growth front and stickier on the inflation side. A key tenet of the solid economic backdrop was strong labor markets where the unemployment rate fell to its lowest level since the late 1960s. In response, the equity market rally lost steam as investors reconsidered their inflation views and upwardly revised their expected trajectory for central banks. However, March's banking issues (see next section) unwound the increase in Fed expectations.

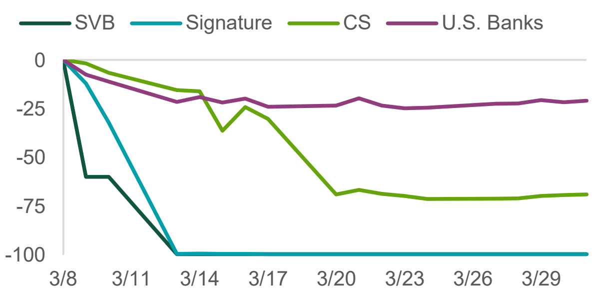
EXPECTED 2023 PEAK FED FUNDS RATE (%)



March Madness for Banks

In March, investor worries of more Fed rate hikes shifted to financial stability concerns. Initially, Silicon Valley Bank (SVB) suffered major deposit outflows before regulators took control of it (along with Signature Bank). U.S. policymakers quickly stepped in with emergency liquidity measures to help stabilize the banking sector. Credit Suisse (CS) was then under pressure the next week before being acquired by UBS with support from Swiss authorities. Overall, U.S. banks declined 25% in March (versus a 3.5% S&P 500 gain).

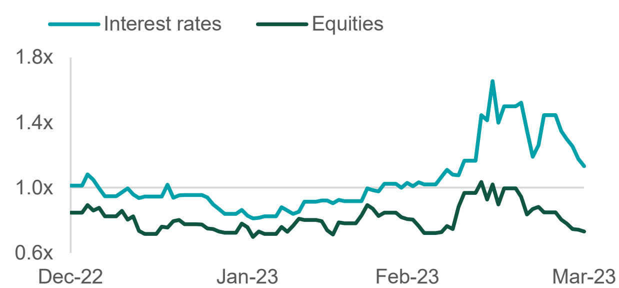
% RETURN SINCE ONSET OF SVB ISSUES (3/8/23)



Choppy Rates, Calmer Equities

The banking-related market reaction was more notable in interest rates versus equities. The S&P 500 initially lost only 3%, while interest rates saw historically high volatility. The 2-year Treasury yield dropped over 100 bps as investor Fed expectations reset lower (i.e., lower peak rate, more likely 2023 rate cuts). While systemic risks stabilized to some degree by late March, a number of implications are possible both near-term (tightening in credit conditions) and longer-term (bank regulation, profitability challenges for small-to-midsized banks).

VOLATILITY RELATIVE TO 2022 AVERAGE LEVEL



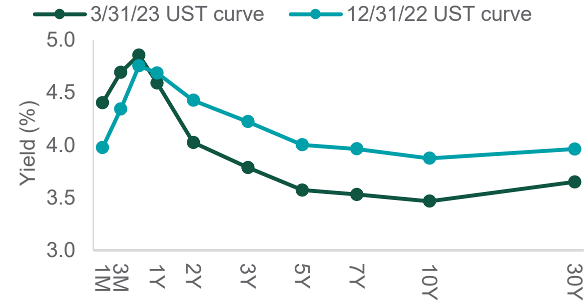
Source: Bloomberg. U.S. Banks = KBW Bank Index. Volatility: VIX Index for equities, MOVE Index for interest rates. Data as of 3/31/2023. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

MARKET REVIEW

Interest Rates

The Fed continued to tighten policy but is moving forward with more caution due to the potential for bank stresses to weigh on credit availability. That said, inflation remains a concern and the Fed's year-end policy rate forecast (5.1%) implies a hold-firm approach. Interest rates seesawed in a volatile manner during the quarter as investors struggled to ascertain the monetary policy outlook in the wake of hot inflation amid risks to financial stability. Interest rates across the curve ended lower with near-term yields declining the most.

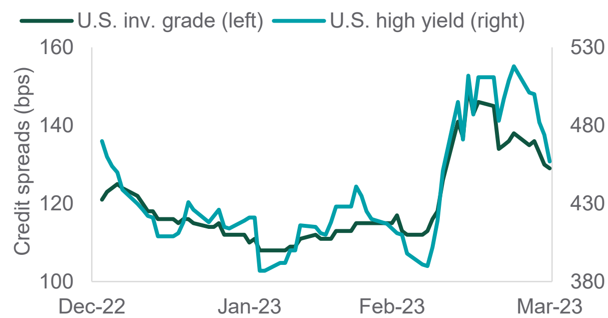
U.S. TREASURY YIELD CURVE



Credit Markets

Credit spreads floated up and down for most of the quarter before moving decidedly higher on banking sector strains. The bank shocks ramped up investor uncertainty on the health of corporate credit and drove wider risk premia across investment grade (IG) and high yield (HY). IG and HY credit spreads rose as much as 38 and 128 basis points (bps), respectively, before coming back in as perceived risks abated. IG spreads ended 8 bps wider, while HY finished 13 bps tighter. Current spreads for both are under recessionary levels.

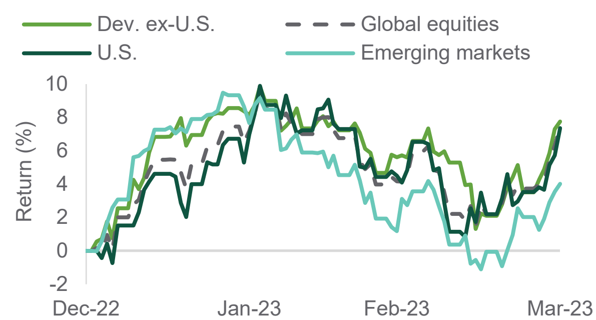
CREDIT SPREADS



Equities

Global equities brought solid gains (7.4%) as developed ex-U.S. equities (7.7%) and U.S. equities (7.3%) led the way while emerging market equities delivered a lower-but-strong return (4.0%). These gains may appear at odds given two of the largest U.S. bank failures ever, however, declining interest rates led to a reprieve in some of the most sizable areas of the markets (i.e., U.S. tech up 21.8%) which buoyed aggregate returns. Equity volatility paled in comparison to bond volatility, but there were still notable swings beneath the surface.

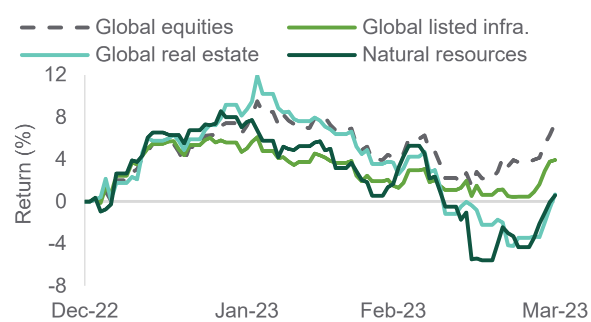
REGIONAL EQUITY INDICES



Real Assets

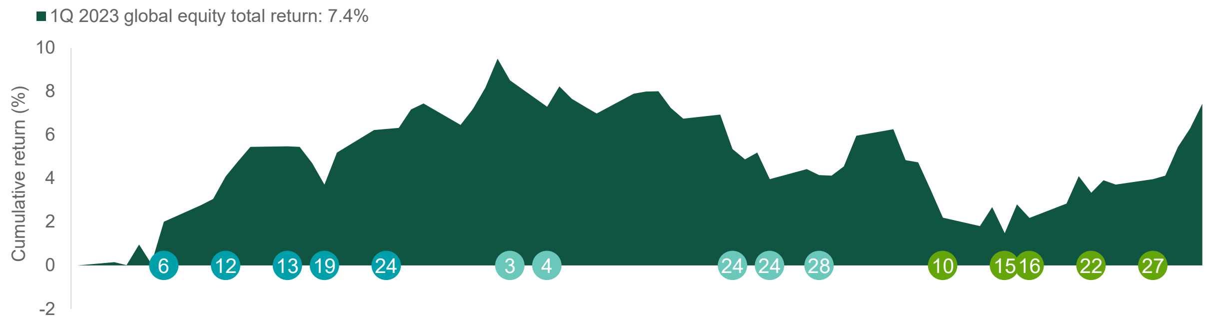
Real assets bore the brunt of weakness extending from both central bank tightening and banking strains as listed infrastructure (3.9%), global real estate (0.7%) and natural resources (0.6%) all lagged global equities. Listed infrastructure's interest rate sensitivity benefited from the decline in yields. Lower commodity prices hurt equity-based natural resources as demand concerns intensified on signs of global economic vulnerability. Real estate suffered from investor concerns on bank lending – mostly regarding commercial real estate.

REAL ASSET INDICES



Source: Bloomberg. Returns in U.S. dollars. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

MARKET EVENTS



JANUARY	FEBRUARY	MARCH
6 December U.S. jobs report shows continued strength but gradual cooling with slower job gains, increased participation and slower wage growth.	**3** A much stronger than expected U.S. jobs report triggers upward revisions in investor policy expectations (later intensified by the 2/14 CPI data).	**10** The second-biggest U.S. bank failure (Silicon Valley Bank, aka SVB) triggers a run on regional bank deposits and elevates financial stability risks.
12 Investors price in less central bank tightening after U.S. Consumer Price Index (CPI) cools year-over-year (y/y).	**4** Geopolitical frictions deepen after the U.S. shoots down a China surveillance balloon in U.S. airspace, though the market impact is contained.	**15** Bank turmoil continues after Credit Suisse (CS) shares plunge on perceived weakness and its ensuing deposit outflows force a rescue sale to UBS.
13 Q422 earnings season unofficially begins; earnings proceed to contract with broad-based weakness (ex-energy) and disappointing forward guidance.	**24** One-year anniversary of the Ukraine war; little progress has been made toward a peaceful resolve and escalation risks remain present.	**16** The European Central Bank moves ahead with a 50-bp rate hike, but aims to verbally assuage financial stability worries and removes forward guidance.
19 U.S. government reaches its $31.4 trillion borrowing limit and invokes extraordinary funding measures estimated to last until ~June–September.	**24** Core Personal Consumption Expenditures – the Fed's preferred inflation measure – unexpectedly accelerates to 4.7% from 4.3%.	**22** Amid bank turmoil but elevated inflation the Fed hikes its policy rate by 25 bps, softens language on future hikes and leaves its 2023 year-end Fed funds rate forecast unchanged at 5.1%.
24 U.S. and Europe flash Purchasing Managers' Indexes (PMIs) come in better than expected while 4Q U.S. Gross Domestic Product is solid at 2.9%.	**28** China PMIs top expectations and the expansionary threshold (50) as its reopening supports domestic growth.	**27** First Citizens Bank purchases SVB at a $16.5B discount, helping ease investor concern after a period of no new developments on further bank contagion.

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 / Chief Investment Strategist
PhilipP@cnbankpa.com

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

SIGNS OF STRESS

The surprise failure of Silicon Valley Bank (SVB) has brought fears of instability of the financial system, sending a shockwave of uncertainty across the capital markets. Very elevated volatility in Treasuries, including a dramatic drop in rates across the curve, highlight investor concerns regarding other potential “shoes to drop.” Equity markets have been more resilient, perhaps acknowledging critical differences to the financial crisis 15 years ago.

We do not think this is the same situation as the financial crisis of 2008. SVB was a unique institution exposed to relatively unique risks. While its failure has exposed underappreciated vulnerabilities, there are critical differences compared to 2008. Far more capital and liquidity combined with much better oversight have dramatically reduced systemic risk. The issues at SVB were “hidden in plain sight”, not accumulated through poor lending standards and off-balance-sheet or complex financial structures that magnified and obfuscated risks. Intervention from regulators to provide liquidity to banks should sufficiently protect the system, though financial markets will likely require the passage of time as proof.

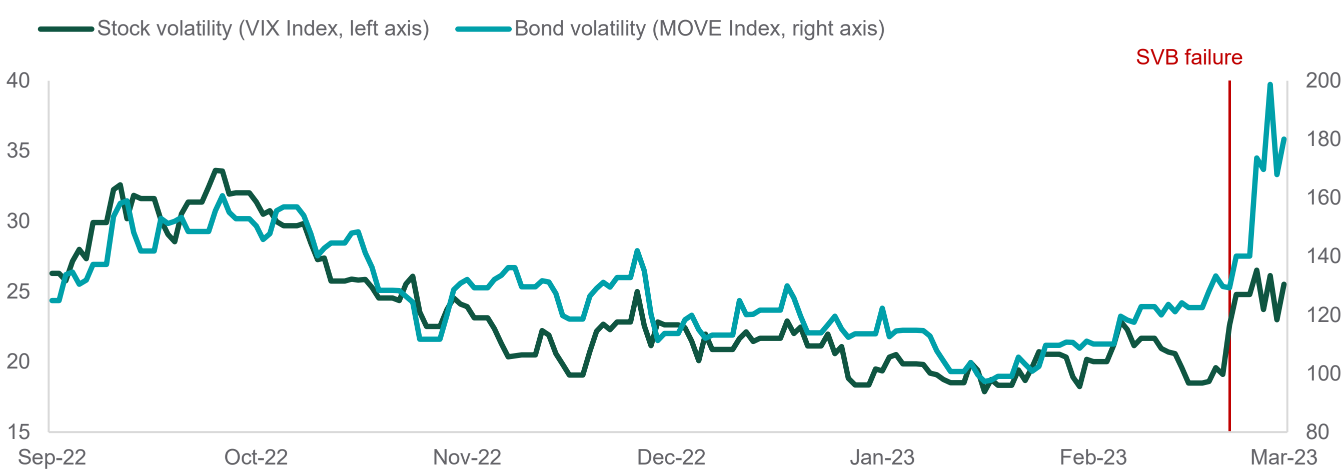
We expect global markets will cycle through a list of potential worries, keeping volatility high in the near term. Stocks have held up surprisingly well in aggregate, perhaps aided by the drop in rates and changing expectations regarding the path for the Fed, as it and other central banks walk the tightrope of maintaining vigilance on inflation while preserving financial stability.

The duration of this period of uncertainty will have implications on future growth and inflation – the longer this takes to resolve, the larger the drag as businesses and consumers wait out the storm. Meanwhile, the labor market remained strong in February with over 300k new jobs added while wage growth cooled. Producer prices came in lower than expected, hopefully a leading indicator of continued disinflation. In the absence of SVB’s issues, investors would likely have greeted all of this favorably.

We maintained our Global Policy Model allocations this month and see a restoration of market confidence as the base case. We think markets have priced in too negative of an outcome in the fixed income markets, and thus kept our underweight to investment grade bonds and overweight to high yield. Developed market equities appear to fairly price the balance of risks, so we remain neutral. We remain underweight emerging markets with an offsetting overweight to natural resources.

UNCERTAINTY

The SVB failure drove significant volatility in the bond markets. Stock volatility was elevated but notably more contained.



Source: Northern Trust Asset Management, Bloomberg. Silicon Valley Bank (SVB) failure on 3/10/2023. Data from 9/17/2022 through 3/17/2023.

C&N PORTFOLIO POSITIONING:
NEUTRAL TO RISK

C&N Vantage Point
April 2023

Market Views:
Equities Challenged Short Term. Bottoming Process Likely In Coming Months.
Diversification Remains Paramount. Markets Will Be Choppy.
Fed Likely One Rate Hike From Ending.

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 in either fixed income or equities.
Risk Control	Alternatives (Fixed Based)	**Absolute Return**	●			This is a bond alternative category. Given current yields, we believe core fixed income provides better risk/reward. We retain our underweight.
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**	●			YTD yields have fallen since March's bank turmoil. The risk/reward for bonds remains compelling and we look to add to duration as the Fed approaches the end of their rate hike cycle.
Risk Control	Fixed Income	**International Bonds**	●			Although the dollar has weakend YTD, US rate hikes are ending and the international hike cycles are not as well known. We retain our slight underweight and favor domestic bonds with their higher yields.
Risk Control	Fixed Income	**Emerging Markets Bonds**	●			Many EM economies are more susceptible to the impacts of inflation and slowing growth. We retain our slight underweight 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, but international's valuations are becoming more attractive.
Risk Assets	Equities	**Developed Ex-US**	●			We retain a slight underweight, but valuations are reasonable. We'll consider adding to this asset class if valuations remain compelling.
Risk Assets	Equities	**US Mid & Small Cap**		●		We retain our neutral position with a slight overweight to Value. We may trim these asset classes if our conerns for a slower economy increases.
Risk Assets	Equities	**Emerging Markets**	●			We maintain an underweight but valuations are reasonable. We continue to monitor China's re-opening.
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.

Wealth Management
90-92 Main Street
Wellsboro, PA 16901

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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

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