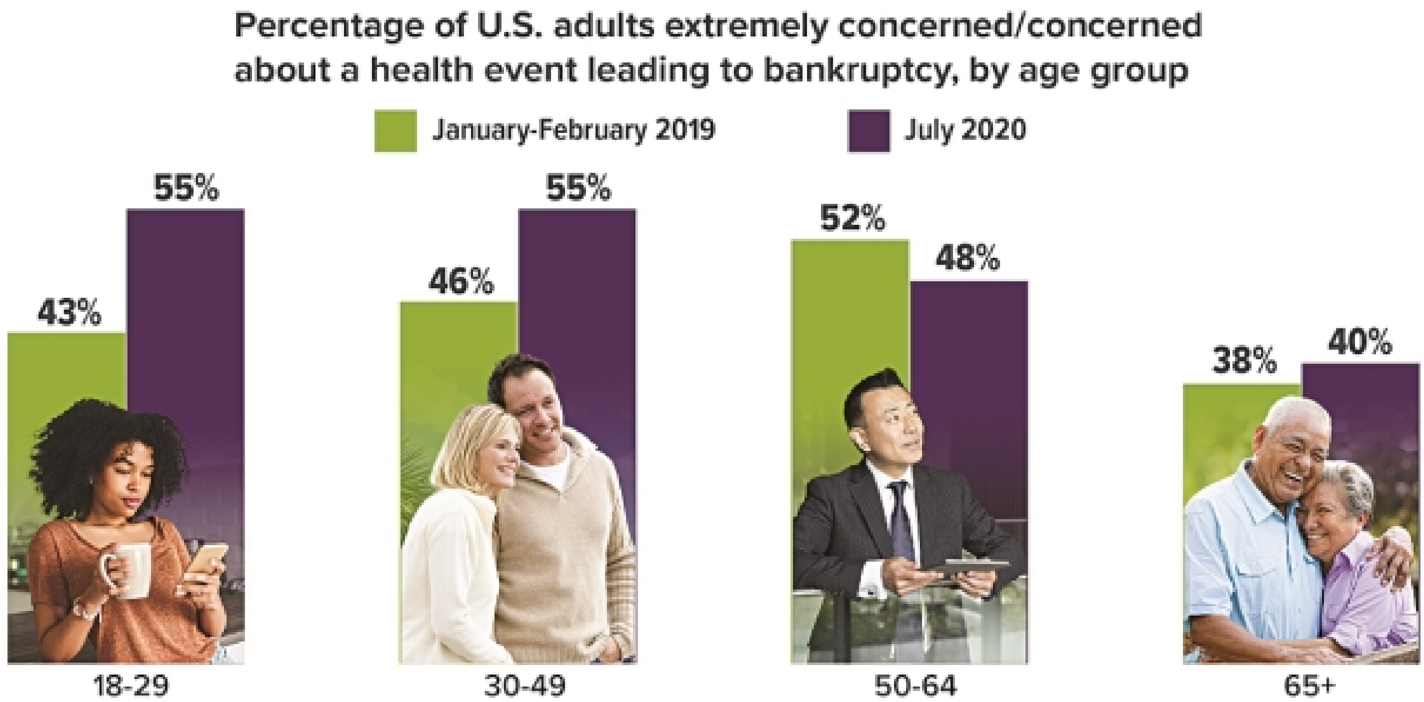
Farmers Trust Company

John D. Stewart, CFA
Chief Investment Officer
Farmers Trust Company
42 McClurg Rd • Boardman • OH • 44512
330-743-7000
stewartj@Farmerstrustco.com • farmerstrustco.com

Please make sure to read John Stewart's article "Market Melt-Up!" below.

Half of U.S. Adults Fear Health-Related Bankruptcy

In July 2020, half of U.S. adults were concerned that a major health event in their household could lead to bankruptcy, compared with 45% in early 2019. Health-related bankruptcy fears increased significantly for younger people.



Source: Gallup, 2020

Market Melt-Up!

The stock market is currently in full "melt-up" mode. Believe it or not, the term melt-up is a widely recognized term used in finance to describe a "sharp improvement in the performance of the stock market." After a quick 3% pullback in the final week of January, the S&P 500 index has risen nearly 6% in the first seven trading days of February, and is up more than 20% since the end of October. Sounds a lot like the aforementioned definition. Smaller company stocks are doing even better, as the Russell 2000 index demonstrates with a gain of 9% in the past week and 50% since the end of October. It is also interesting to note that prior market darlings like Apple and Amazon have lagged the broader market, showing only fractional gains during the first six weeks of the new year. Regular readers may recall that our July 2019 newsletter featured the same headline as above, but with a question mark. This time around there is no such room for ambiguity. The primary cause of the market's levitation is the ample liquidity being provided via monetary and fiscal stimulus with a lot more expected to be on the way. Combine that with an economy that is experiencing an acceleration in its growth trajectory and you have a recipe for rising stock prices.

While everyone is busy watching the stock market, they may be missing the budding bull market in commodities. Everything from crude oil to corn to copper and lumber have all been on the rise. As well as the stock market has done, a broad index of commodities has more than doubled the performance of the S&P 500 index so far this year. Turns out the monetary and fiscal largess isn't just helping stocks. It is also putting significant downward pressure on the U.S. dollar, which in turn puts upward pressure on everything priced in dollars – including commodities. After a nearly 15-year bear market in commodities, we believe the recent strength in commodities has staying power and exposure to the asset class adds meaningful diversification to investors' portfolios.

With investors partying like it's 1999, what could go wrong? The most likely risk factor at this point would be a combination of stronger inflationary pressures and rising interest rates. Those two things are obviously interrelated, and the former is something that we have been warning against for some time now. While the 10-year Treasury rate is up 25% since the beginning of the year, it is still exceedingly low by historical standards at just 1.15%. Low interest rates have justified equity market valuations that are at the upper end of historical ranges, but it may be a bit early to worry about interest rates undermining stock prices at this point. If the 10-year rate moves above 1.5% we'll start to keep a closer eye on things; that would put it at a level that exceeds the dividend yield on the S&P 500 index.

Are Value Stocks Poised for a Comeback?

Growth stocks have dominated the market for the last decade, led by tech giants and other fast-growing companies. While it's possible this trend may continue, some analysts think that value stocks may have strong appeal during the economic recovery.[1]

No one can predict the market, of course. And past results are never a guarantee of future performance. But it may be helpful to consider these two types of stocks and the place they hold in your portfolio.

Value stocks are associated with companies that appear to be undervalued by the market or are in an industry that is currently out of favor. These stocks may be priced lower than might be expected in relation to their earnings, assets, or growth potential. In an expensive market, value stocks can offer bargains.

Established companies are more likely than younger companies to be considered value stocks. Older businesses may be more conservative with spending and emphasize paying dividends over reinvesting profits. The potential for solid dividend returns regardless of market direction is one reason why value stocks can be appealing, especially in the current low-interest environment. An investor who purchases a value stock typically expects the broader market to eventually recognize the company's full potential, which might push the stock price upward. One risk is that a stock may be undervalued for reasons that cannot be easily remedied, such as legal difficulties, poor management, or tough competition.

Growth stocks are associated with companies that appear to have above-average growth potential. These companies may be on the verge of a market breakthrough or acquisition, or they might occupy a strong position in a growing industry. The dominance of large technology stocks over the last few years is one example of this.

Growth companies may be more aggressive with spending and place more emphasis on reinvesting profits than paying dividends (although many larger growth companies do offer dividends). Investors generally hope to benefit from future capital appreciation. Growth stocks may be priced higher in relation to current earnings or assets, so investors are essentially paying a premium for growth potential. This is one reason why growth stocks are typically considered to carry higher risk than value stocks.

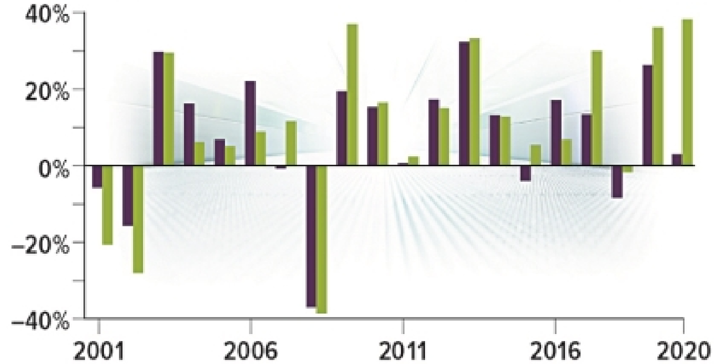
Diversification and Weighting

Value and growth stocks tend to perform differently under different market conditions (see chart). For diversification, it may be wise to hold both value and growth stocks in your portfolio, but this can be accomplished by investing in broad index funds, which generally include a mix of value and growth stocks. These are considered *blended funds.*

Different Styles for Different Times

Value and growth are considered investing *styles.* The last 10 years have been a strong period for growth stocks, but value stocks were stronger during the previous decade, which included two recessions with extended bear markets.

Average annual returns	2001–2010	2011–2020
Value stocks	3.26%	10.50%
Growth stocks	0.02%	17.21%



Source: FTSE Russell, 2021, for the period 1/1/2001 to 12/31/2020. Value stocks and growth stocks are represented by the Russell 1000 Value Index and the Russell 1000 Growth Index, respectively. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Investment fees, charges, and taxes were not taken into account and would reduce the performance shown if they were included. Rates of return will vary over time, particularly for long-term investments. Past performance is no guarantee of future results. Actual results will vary.

Typically, investors who follow a value or growth strategy weight their portfolios to one side or the other through funds or individual stocks. If you use a mutual fund or exchange traded fund (ETF) to emphasize value or growth in your equity portfolio, it's important to understand the fund's objectives and structure, including the index that the fund uses as a benchmark.

Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against loss. The return and principal value of stocks, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) *The Wall Street Journal,* September 30, 2020

Tips to Help Control Your Finances During the Pandemic

The coronavirus pandemic has strained the finances of many U.S. households. In an August 2020 survey, 25% of adults said someone in their household had experienced the loss of a job due to the outbreak. Even among those who did not lose a job, 32% said someone in their household has had to reduce hours or take a pay cut due to the economic fallout from the pandemic.[1] During these times of financial turmoil and stress, it's more important than ever to take control of your financial situation. Here are some tips to get started.

1. Make sure your budget is on track. A solid budget is the centerpiece of any good financial plan because it will give you a clear picture of how much money is coming in and how much is going out. Hopefully, you've been able to stay the course during the pandemic and your budget is still on track. If you've experienced a loss or reduction in income, you may have to cut back on discretionary spending or look for ways to lower your fixed costs. Budgeting websites and smartphone apps can help you analyze your saving and spending patterns.

2. Maintain healthy spending habits. During the height of the pandemic, your spending habits may have changed dramatically. With restaurants closed, vacations postponed, and events canceled, many Americans found themselves spending less. If you were fortunate enough to save money during the pandemic, keep up the good work. If you spent more than you would have liked (e.g., takeout, online shopping), try to cut back and save what you can. Even small amounts can add up over time.

3. Check your emergency fund. If the pandemic has taught us anything financially, it is the importance of having an emergency fund. If you've had to dip into your cash reserve at some point over the past year to cover expenses, you'll want to work on building it back up. Ideally, you should have at least three to six months of living expenses in your cash reserve. A good way to accumulate emergency funds is to earmark a percentage of your paycheck each pay period. When you reach your goal, you may still want to keep adding money — the more you can save, the better off you could be in the long run.

4. Deal with your debt. It is always important to stay on top of your debt situation and pay down debt from student loans, a mortgage, and/or credit cards as quickly as you can. If the financial impact of the pandemic has made it difficult to manage your debt, contact your lenders to see if they offer COVID-related financial assistance. Many may be willing to work with you by waiving interest and certain fees or allowing you to delay, adjust, or skip some payments.

1) Pew Research Center, 2020