

Company Profile

Farmers Trust Company is licensed by the Ohio Division of Financial Institutions as a bank, authorized to conduct trust business and exercise full fiduciary powers. Our efforts are focused on the administration and management of trust assets. As an independent trust company, Farmers Trust Company offers several investment management options.

We are committed to providing the highest level of service in the areas of investment management, estate settlement, living trusts, testamentary trusts, charitable trusts, charitable endowments and employee benefit plans. Tax and estate planning services are available to our clients as well.

Farmers Trust Company has the unique ability to integrate investment, trust and estate management at a local level. Our clients appreciate the fact that their financial affairs are handled personally and confidentially. They also value our ability to work closely with their attorneys, accountants and insurance professionals to achieve a comprehensive financial strategy.

Market Recap

2019 recorded the best year for U.S. equity markets since 2013 (and the 4th best yearly market gain in the last quarter of a century) with the S&P 500 logging a total return (including dividends) of 31.49%. Growth stocks outperformed value stocks with the Russell 1000 Growth Index up 36.39% compared to the Russell 1000 Value Index up 26.54%. U.S. small cap stocks were up 25.52% as measured by the Russell 2000 Index. Information Technology was the best performing sector of the S&P 500 in 2019 with a total return of 50.29%. Energy was the worst performing sector, yet was still up 11.81% for the year. Developed International stocks posted a 22.66% total return for 2019 and Emerging Market stocks gained 18.88%. Bonds also performed well in 2019 as demonstrated by the Barclays Intermediate Government/Credit Index, up 6.8% for the calendar year. Municipal Bonds returned 5.45% for the year, and High-Yield Bonds returned 14.32%. Commodities struggled through the first half of 2019, but finished strong with an annualized gain of 10.12%. Real Estate was up more than 29.01% for the year.

Market Recap and Outlook Fourth Quarter 2019

MARKET SCORECARD as of 12/31/2019	TOTAL RETURN IN USD	
	Q4	2019 TR YTD
DOW JONES IND AVG	6.67%	25.34%
S&P 500	9.07%	31.49%
NASDAQ	12.47%	36.71%
MSCI EAFE EQUITY (GROSS)	8.21%	22.66%
RUSSELL 2000 INDEX	9.94%	25.52%
MSCI EMERGING MARKET EQUITY (GROSS)	11.93%	18.88%
BARCLAYS INTERM. TREASURY	0.01%	5.22%
BARCLAYS INTERM. GOVT/CREDIT	0.37%	6.80%
BARCLAYS 5 YEAR MUNI INDEX	1.03%	5.45%
BARCLAYS HIGH YIELD CORP INDEX	2.61%	14.32%
ishares S&P GSCI COMMODITY TR INDEX	5.22%	10.12%
<i>Note: All returns include invested cash flows expressed in U.S. dollar terms</i>		

Key Points

- Inflation is likely to accelerate in 2020, and as a result we find Treasury Inflation Protected Bonds (TIPS) attractive
- As domestic equity valuations become stretched, international stocks are becoming more attractive on a relative basis
- We are avoiding low quality fixed income assets due to narrow credit spreads and excessive corporate leverage
- With interest rates unlikely to move significantly higher in the near-term, the recent weakening of the dollar is likely to continue in 2020

Investment Outlook

2020 is likely to see an increase in inflationary pressures as a result of an extremely accommodative Federal Reserve Bank (the Fed). Lower interest rate policy in addition to long awaited wage inflation is the perfect recipe for price inflation on goods and services (as well as commodities and energy). To position for our inflation thesis we have added a position to Treasury Inflation Protected Bonds (TIPS). Another side effect of the Fed easing is a devaluation of the dollar, which we see continuing in 2020. We have an established position in an unhedged foreign bond fund to counter any further decline in the dollar. A weakening dollar may also benefit Real Estate Investment Trusts (REITS), commodities, and emerging market equities. After the 30%+ total return for U.S. equities in 2019, valuations are stretched and international stocks are marginally more attractive from a valuation standpoint. Concerning fixed income, we favor quality over lower-rated bonds as a result of ultra-low credits spreads and the ever increasing corporate debt burden. We continue to be slightly longer than benchmark duration in fixed income portfolios, as longer-term interest rates are unlikely to rise substantially in the near-term. Volatility will be an ongoing issue in coming year, particularly in regards to the upcoming 2020 Presidential election. Any disruption to the current pro-business regulatory/administrative climate could bring on heightened volatility.

Global Macroeconomic Review and Outlook

Economic growth continues to moderate with 3rd quarter Real GDP in the U.S. slowing to a 2.1% annualized pace of growth (was 2.9% in the 3rd quarter of 2018). The Fed lowering rates will no doubt have a positive impact on Real GDP in 2020, but the extent of that impact remains to be seen. Manufacturing in the U.S. decelerated throughout 2019, with recent data confirming the trend. However, the service sector of the economy (a larger portion of the overall economy in the U.S. as compared to manufacturing) continued to expand. Corporate profit and earnings per share (EPS) estimates declined throughout 2019, but the EPS cuts were not quite as bad as expected. As a result of the "not as bad as expected" EPS estimates, stocks extended their gains throughout the year. With valuations of the U.S. equity markets now stretched, we will likely need those EPS estimates to begin reaccelerating for any further market gains in 2020. The jobs market remains rock solid with the headline unemployment rate (U3) at a 50-year low at 3.5%, and the most recent Non-Farm Payroll number showed the economy added 266,000 workers in November 2019. A lack of qualified workers is still a worrisome hurdle regarding future economic growth. Higher wages will be needed to attract further participants to the workforce, which eventually leads to price inflation in goods and services. Although current inflation remains below the Fed target rate of 2%, it is likely to increase from those benign levels in 2020. Higher wages has also lead to strong consumer confidence, and that optimism showed up in retail sales, which have also been robust. In conclusion, the deceleration of growth in key variables like corporate profits and Real GDP leads us to remain cautious toward economically sensitive sectors and favoring assets that either hedge against or benefit from building inflationary pressures.



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