

**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**

Stocks finished a disappointing 2022 down 18%, as measured by the S&P 500 index, which was the worst annual performance for that benchmark since 2008. The technology-heavy Nasdaq Composite fell even further, down 33% on the year. The Dow Jones Industrial Average fared much better and was only down 7% during the same time frame. Developed international equities did slightly better than domestic stocks as the MSCI EAFE Index was down 14% for the year, and emerging markets stocks (as measured by the MSCI Emerging Markets Index) were down 20%. There was a wide disparity between Large Cap Value stocks, which were only down 5% in 2022, and Large Cap Growth stocks, which fell 29%. Small Cap stocks (as measured by the Russell 2000 index) retreated 20% for the calendar year. Energy was the only positive sector in the S&P 500 in 2022; up 58%. Communications Services was the worst performing sector for the year; down 38%. Commodities (as measured by the GSCI Commodity Index) were one of the bright spots in 2022, up 26% for the year. The 10-year U.S. Treasury finished the year with a yield of 3.88% while the 30-year U.S. Treasury bond yielded 3.97% at year-end. There was an inverted yield curve for most of 2022, with shorter-term Treasury rates higher than longer-term rates. Fixed income total returns shared the pain with the equity markets in 2022, with the Bloomberg Intermediate Govt./Credit Index down 8% for the year while the Bloomberg 5-year Muni Index was down 5% over the same time frame. High yield bonds were down 11% for the year, as measured by the Bloomberg High Yield Index.

**MARKET RECAP AND OUTLOOK FOURTH QUARTER 2022**

MARKET SCORECARD as of 12/31/2022	TOTAL RETURN IN USD	
	Q4	2022 TR YTD
DOW JONES IND AVG	16.01%	-6.86%
S&P 500	7.56%	-18.11%
NASDAQ	-0.79%	-32.54%
MSCI EAFE EQUITY (GROSS)	17.40%	-14.01%
RUSSELL 2000 INDEX	6.23%	-20.44%
MSCI EMERGING MARKET EQUITY (GROSS)	9.79%	-19.74%
BLOOMBERG INTERM. TREASURY	1.02%	-7.77%
BLOOMBERG INTERM. GOVT/CREDIT	-1.54%	-8.23%
BLOOMBERG 5 YEAR MUNI INDEX	3.05%	-5.26%
BLOOMBERG HIGH YIELD CORP INDEX	7.17%	-11.19%
ishares S&P GSCI COMMODITY TR INDEX	3.44%	25.99%

*Note: All returns include invested cash flows expressed in U.S. dollar terms*

**KEY POINTS**

- Equity markets will experience continued volatility as corporate earnings decline at an accelerating rate in the first half of 2023
- Interest rates may continue to rise even as the Fed slows their pace of rate hikes due to a lack of demand for government debt
- Defensive positioning will continue to provide value in 2023, which translates to overweight positions in Consumer Staples, Healthcare, Utilities and Telecom
- Any boost in the equity markets resulting from a reduction in inflation will likely be short-lived until corporate profit expectations stabilize

## INVESTMENT OUTLOOK

As short-term bond yields continue to rise (along with the Federal Reserve increasing their benchmark Fed Funds rate), capital outflows will continue from equities in search of less risky (and now substantially higher) rates of return that have not been seen in roughly 15 years. As corporate profits begin to decelerate in 2023, volatility will remain elevated in the near-term, and we have therefore continued to maintain a defensive posture heading into the New Year. We maintain overweight positions in defensive sectors such as Utilities and Consumer Staples, and are underweight growth-oriented sectors like Information Technology and Consumer Discretionary. Tactically, we have also remained underweight our neutral allocation to stocks and have slightly reduced the target duration for our fixed income portfolios. We currently see more favorable valuations in International stocks (particularly Emerging Market equities), as well as in Mid Cap stocks. Any significant rally in the first part of 2023 will likely give us another chance to further reduce risk within client portfolios. A turnaround in the economy (and correspondingly corporate profits) is not expected until later in 2023. Until then, further volatility and downside risk remain for equity markets.

## GLOBAL MACROECONOMIC REVIEW & OUTLOOK

The Consumer Price Index (CPI) rose at a year-over-year rate of 7.1% in November of 2022, causing the Federal Reserve (the Fed) to maintain their posture toward tighter monetary policy after raising interest rates throughout 2022. The benchmark Fed Funds rate is currently in a target range 4.25% - 4.5% (up from a rate of .25% - .50% at the beginning of the year). Inflation is showing signs of slowing (the CPI reading was 7.7% in October of 2022), giving investors hope that the dramatic pace of interest rate hikes will begin to slow as well. The overall economy showed signs of life in the third quarter of last year, with Real GDP rising at a 3.2 annualized rate. The unemployment rate has remained persistently low during the year, finishing 2022 at 3.7%. While a recession may have been narrowly avoided in the first half of 2022, 2023 may not be as fortunate. Expectations of slowing economic growth is the consensus, and many corporations have announced layoffs recently (which will not show up until 2023 unemployment data is reported). Additionally, housing data has begun to soften as 30-year fixed mortgage rates have risen along with bond yields. The average 30-year fixed mortgage rate stood at 6.82% at year's end (compared to 3.33% at the start of the year), sending mortgage demand down roughly 13.2% versus one year ago. One key for 2023 will be signs of core prices falling and the Fed backing off any further rate hikes. As the Fed attempts to slow price pressures with tighter monetary policy, they risk tipping the economy into recession and missing their "soft landing".



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