

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

The first quarter of 2020 was dominated by fear and uncertainty surrounding the COVID-19 outbreak. While it is true that financial markets (especially equity markets) loathe uncertainty, this level of uncertainty has been unprecedented. In a little over one month's time, the S&P 500 declined approximately 36% from an intra-day peak of 3393.75 on February 19th to the intra-day low of 2174 on March 23rd. This has been the fastest decline from all-time highs to a bear market condition (down > 20%) in history. While the S&P rebounded in late March to finish the quarter with a decline of "only" 19.60%, daily volatility persists and is unlikely to dissipate until the pandemic (particularly in the U.S.) begins to slow. Large Cap Growth stocks continue to outperform Large Cap Value stocks with the S&P 500 Growth Index down 14.50% year-to-date and the S&P 500 Value Index down 25.34%. The Information Technology sector was the best performing sector of the S&P 500 (down 11.93% in Q1), and the Energy sector was the worst performing sector (down 50.45%). Small-Cap stocks (Russell 2000 Index) were down 30.61% for the first quarter of 2020 and Mid-Cap stocks were down 29.70% over the same timeframe. International stocks sustained a first-quarter decline roughly in-line with the U.S. markets, down 22.72% as measured by the MSCI EAFE Index. Emerging markets, as measured by the MSCI Emerging Markets Index, dropped 23.57% during the same period. Cash and money market yields have plummeted with a 3-month Treasury bill now yielding 0.07% (was 1.23% one month ago). High yield bonds have corrected as well, down 12.68% year-to-date while the U.S. Aggregate Bond Index had a positive 2.67% return for the first quarter.

Market Recap and Outlook First Quarter 2020

MARKET SCORECARD as of 03/31/2020	TOTAL RETURN IN USD	
	Q1	2020 TR YTD
DOW JONES IND AVG	-22.73%	-22.73%
S&P 500	-19.60%	-19.60%
NASDAQ	-13.95%	-13.95%
MSCI EAFE EQUITY (GROSS)	-22.72%	-22.72%
RUSSELL 2000 INDEX	-30.61%	-30.61%
MSCI EMERGING MARKET EQUITY (GROSS)	-23.57%	-23.57%
BARCLAYS INTERM. TREASURY	5.25%	5.25%
BARCLAYS INTERM. GOVT/CREDIT	2.40%	2.40%
BARCLAYS 5 YEAR MUNI INDEX	-1.04%	-1.04%
BARCLAYS HIGH YIELD CORP INDEX	-12.68%	-12.68%
ishares S&P GSCI COMMODITY TR INDEX	-42.34%	-42.34%
<i>Note: All returns include invested cash flows expressed in U.S. dollar terms</i>		

Key Points

- Volatility in equity markets will persist until the COVID-19 outbreak slows in the U.S.
- A U.S. recession is imminent and could be severe by historical standards, but the economy should recover quickly once businesses and individuals get the "all clear" to resume normal activities
- Unprecedented monetary and fiscal stimulus alongside supply-side disruptions caused by COVID-19 will likely result in much higher inflation over the medium-term

Investment Outlook

The COVID-19 pandemic has sent financial markets into turmoil as the “social distancing” restrictions to combat the spread of the virus have directly led to restrictions of the movement of people, goods, and services. The uncertainty as to when these restrictions will be lifted has cast a very dark cloud over the U.S. (and World) economy. Our thesis is that when the number of new cases begins to diminish (and eventually we receive the “all clear” signal from health officials and the government to resume normal activities) we will see a swift rebound in the economy and the financial markets as well. The “shelter in place” guidelines are resulting in a lot of pent up demand, and once unleashed, this demand will be met with supply side constraints. As the government attacks the imminent recessionary problem with massive fiscal stimulus, the Federal Reserve (the Fed) cuts interest rates to zero, and the quarantined population is anxious to get out of their houses and spend money . . . inflation is the very likely medium-term outcome under this combination of circumstances. We recommended shedding High Yield (low credit quality) bonds last year in favor of Treasury Inflation Protected securities (TIPs), and would continue to do so. Bond yields are now at historic lows as the 10-year U.S. Treasury Note is currently yielding approx. 0.65%. By comparison, the S&P 500 dividend yield is now roughly 2.25%, making stocks look relatively attractive for income-oriented investors with a sufficiently long-term time horizon. With daily volatility in the equity markets continuing, we are looking for opportunities to add to stocks and rebalance portfolios as needed, but have not made any fundamental changes to our long-term outlook and positioning. Defensive sector positioning remains appropriate, overweighting Utilities and REITS and underweighting cyclical areas like Industrials and Materials.

Global Macroeconomic Review and Outlook

Economic growth was +2.1% for the fourth quarter of 2019, but will assuredly be negative for both the first and second quarters of 2020 (a technical definition of a recession). While the expected recession will be severe, a strong rebound in the latter half of 2020 is likely as a result of pent up demand for goods and services. The preliminary unemployment numbers as a result of the “shelter in place” directives from the governmental and health officials are sobering. An estimated 3.28 million people filed for unemployment the last week of March alone, and the number will continue to grow as long as the country remains in lockdown-mode. Inflation was a concern for us at the beginning of 2020, and that fear has only been re-enforced as the Fed has been very aggressive in cutting interest rates and injecting liquidity into the financial system to combat the coming recession. All of that cheap money will find its way into goods and services once the virus runs its course, and inflation will very likely be unleashed as a result. Foreign countries that have already gone through the pandemic cycle (China) can serve as a template as to how and when economic activity recovers. Conceding the fact that the reliability of China’s reported economic data has been questionable at best, recent reports did show a remarkable rebound in their manufacturing activity for the month of March. Taking China’s resumption of economic growth with a huge grain of salt, it does show the rest of the world that things will eventually return to “normal”.



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