WEALTH MANAGEMENT 360
FARMERS TRUST COMPANY

Market Update and Outlook for Third Quarter 2020

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 and Outlook Second Quarter 2020

MARKET SCORECARD as of 06/30/2020	TOTAL RETURN IN USD	
	Q2	2020 TR YTD
DOW JONES IND AVG	18.51%	-8.43%
S&P 500	20.54%	-3.08%
NASDAQ	30.95%	12.67%
MSCI EAFE EQUITY (GROSS)	15.08%	-11.07%
RUSSELL 2000 INDEX	25.42%	-12.98%
MSCI EMERGING MARKET EQUITY (GROSS)	18.18%	-9.67%
BARCLAYS INTERM. TREASURY	0.54%	5.82%
BARCLAYS INTERM. GOVT/CREDIT	2.81%	5.28%
BARCLAYS 5 YEAR MUNI INDEX	3.26%	2.18%
BARCLAYS HIGH YIELD CORP INDEX	10.18%	-3.80%
ishares S&P GSCI COMMODITY TR INDEX	10.47%	-36.31%

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

Market Recap

Equity markets made tremendous progress in the 2nd quarter, regaining most of the previous losses brought on by the COVID-19 pandemic which began earlier in 2020. At the midway point of the year, the S&P 500 was down a mere 3.08%. Growth stocks have dominated the investment landscape in 2020 with the S&P 500 Growth index up 7.93% YTD vs. the S&P 500 Value index down 15.52% over the same timeframe. Unsurprisingly, Information Technology was the best performing sector in the first half of 2020 up 14.95% YTD. Energy was the worst performing sector so far in 2020, down 35.34%. The tech heavy NASDAQ fared quite better than the broader market, up 12.67% YTD. Small capitalization stocks (as measured by the S&P SmallCap 600) fell -17.85% YTD. Developed international stocks fell 11.07% YTD as measured by the MSCI EAFE index and Emerging Market equites fell 9.67% over the same period. Fixed income has fared well so far this year with the Barclays Intermediate Govt/Credit Bond index up 5.28%. High yield bonds are still under water YTD, down 3.80%. Commodities are down 36.31% total return YTD (as measured by the S&P GSCI index).

Key Points

- Volatility in financial markets will likely persist through the November election
- The U.S. economy will rebound to the extent lawmakers allow re-openings of state economies
- The Federal Reserve will continue to provide liquidity to the financial markets in an effort to do “whatever it takes”
- Inflation will likely increase in the short to intermediate term as pent up demand meets near term supply constraints

WEALTH MANAGEMENT 360
FARMERS TRUST COMPANY

Investment Outlook

U.S. equity markets have rebounded in Q2 2020 in anticipation that state mandated lockdown orders would be relaxed or canceled all together. However, the narrative of a "second wave" of COVID-19 cases in early June has put those expectations temporarily on hold. To the extent that states can resume their re-opening plans for their economies, nationwide economic conditions will continue to improve and the financial markets will likely front-run the ensuing economic growth. Once states can fully re-open, we anticipate pent up demand will be met with supply constraints and inflation will likely be the near-term outcome. As a result we have positioned our client portfolios for short term inflationary pressures by adding to Treasury Inflation Protected bonds (TIPs), commodities, REITs and Utilities. We also believe the U.S. dollar will be under pressure due to the extraordinary liquidity injections made by the Federal Reserve Bank (the Fed) and will benefit our unhedged Foreign Bond position as well as Emerging Market equities … both of which we recently strategically increased in Q2 2020. Interest rates are likely to remain historically low as long as inflation is not present, but our thesis is that inflation will show up later in the year (although it is already present in items such as food). As personal savings rates in the U.S. hit record levels and in the current interest rate environment, investors will likely be drawn towards "yield replacement" assets such as corporate bonds, preferred stocks, dividend paying common stocks and income producing options strategies.

Global Macroeconomic Review and Outlook

As expected, economic growth slowed in the 1st quarter of 2020 with U.S. real GDP dropping by 5%. Although this drop was fully anticipated due to the COVID-19 business closings and "shelter-in-place" orders issued by nearly all states, the 5% drop was less than expected. The unemployment rate skyrocketed to 13.3% at of the end of May, but again was well below consensus estimates of 20% or even worse. A similar pattern has emerged for nearly every macro-economic variable … the numbers are terrible, but not quite as bad as feared. In the investment management world we have a saying that "less bad is good" … and that is exactly what has been happening to most variables we track. The same can be said for corporate profits, they are not quite as bad as expected. The extent of the "second wave" narrative of the COVID-19 pandemic is a threat to the ongoing recoveries in the financial markets and the U.S. economy. Any further restrictions imposed by states (or return to previous stay at home orders) will most likely result in further deterioration of the economic data and corporate profits.

WEALTH MANAGEMENT 360
FARMERS TRUST COMPANY

Investment Team

David A. Dastoli, CFA, CFP® - *President*
dastolid@farmerstrustco.com - 330.740.1231

John D. Stewart, CFA - *Senior Vice President and Chief Investment Officer*
stewartj@farmerstrustco.com - 330.740.1208

Thomas S. Rumbaugh, - *Vice President*
rumbaught@farmerstrustco.com - 330.765.0583

Dale Standley - *Vice President*
standleyd@farmerstrustco.com - 330.740.1207

Todd P. Finn, CFA - *Assistant Vice President*
finnt@farmerstrustco.com - 330.740.1213

Abbey Lavelle - *Trust Portfolio Manager*
lavella@farmerstrustco.com - 330.740.1213

www.farmerstrustco.com