

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 S&P 500 rallied from a disappointing 2022 (down 18%), and was up 7.5% for the first three months of 2023. The Nasdaq Composite fared even better and was up 17% over the same time period while the Dow Jones Industrial Average was flat, up a mere 0.93% to start the year. Developed international equities continued to perform slightly better than domestic stocks as the MSCI EAFE Index was up 8.6% for the first quarter of 2023, and emerging markets stocks (as measured by the MSCI Emerging Markets Index) were up 4%. The recent rally in equities has been propelled by Large Cap Growth stocks, which were up 14.4% over the last three months as measured by the Russell 1000 Growth Index, outpacing Large Cap Value stocks (as measured by the Russell 1000 Value Index), which were up 1.07% over the same time frame. Small Cap stocks (as measured by the Russell 2000 index) rose 2.74% for the first quarter. Information Technology was the best performing sector so far in 2023, up 21.8%, while Energy was the worst performing sector, down 4.7%. Commodities (as measured by the GSCI Commodity Index) were down nearly 5% in the first quarter. Fixed income total returns have risen so far in 2023, with the Bloomberg Intermediate Govt./Credit Index up 2.33% through March while the Bloomberg 5-year Muni Index was up 1.93% over the same time frame. High yield bonds also rallied and were up 3.57% for the first three months of the year, as measured by the Bloomberg High Yield Index.

MARKET RECAP AND OUTLOOK FIRST QUARTER 2023

| MARKET SCORECARD as of 3/31/2023 | TOTAL RETURN IN USD | |
|-------------------------------------|---------------------|-------------|
| | Q1 | 2023 TR YTD |
| DOW JONES IND AVG | 0.93% | 0.93% |
| S&P 500 | 7.50% | 7.50% |
| NASDAQ | 17.05% | 17.05% |
| MSCI EAFE EQUITY (GROSS) | 8.62% | 8.62% |
| RUSSELL 2000 INDEX | 2.74% | 2.74% |
| MSCI EMERGING MARKET EQUITY (GROSS) | 4.02% | 4.02% |
| BLOOMBERG INTERM. TREASURY | 2.27% | 2.27% |
| BLOOMBERG INTERM. GOVT/CREDIT | 2.33% | 2.33% |
| BLOOMBERG 5 YEAR MUNI INDEX | 1.93% | 1.93% |
| BLOOMBERG HIGH YIELD CORP INDEX | 3.57% | 3.57% |
| ishares S&P GSCI COMMODITY TR INDEX | -4.94% | -4.94% |

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

KEY POINTS

- Given the recent high profile bank failures and softening economic data, the Federal Reserve's aggressive interest rate hiking campaign is likely nearing an endpoint
- Continued geopolitical tensions have created further downside risk to the U.S. Dollar and as a result we have added a commodities position within client portfolios
- As the U.S. economy continues to soften, we will maintain overweight positions in defensive sectors such as Consumer Staples, Healthcare, Utilities and Telecom
- We continue to observe downside risks to corporate earnings estimates and therefore we are have maintained out underweight stance as related to U.S. equities

INVESTMENT OUTLOOK

The Federal Reserve is now closer to ending their rate hiking campaign due to a softening economy, slowing inflationary pressures (versus year-ago numbers), and recent volatility in the financial services sector. Corporate earnings estimates continue to decline and will not likely turn positive until later in the year. As a result, we will maintain overweight positions in defensive sectors such as Utilities and Consumer Staples, and are underweight more economically sensitive sectors like Information Technology and Consumer Discretionary. Worldwide geopolitical stress has put downward pressure on the U.S. Dollar, and therefore we have initiated a commodity position within client portfolios. We continue to see favorable valuations in International stocks (particularly Emerging Market equities). Further volatility is likely within financial markets until corporate profits begin to rise, the economy shows sustained growth and the Fed is finished raising short term interest rates.

GLOBAL MACROECONOMIC REVIEW & OUTLOOK

The Consumer Price Index (CPI) is up 6% year-over-year. Although that measure has come down quite a bit from the recent peak of 9.1% in June of 2022, it is still well above the long term 50 year average of approximately 3.8%. As a result of decelerating inflation and volatility in the financial services industry the Fed may be very close to finished raising short term interest rates. One additional quarter point hike is expected in May, followed by a pause to see how the economy develops in the coming months. The economy rose at a 2.6% rate as measured by Gross Domestic Product (real GDP) in the final quarter of 2022. Real GDP forecasts for the first quarter of 2023 are widely dispersed and will be evaluated closely to determine the future path of the Federal Reserve and interest rate policy. The unemployment rate dropped slightly in March 2023 to a 3.5% annualized level, very near the historical low of 3.4%. With the unemployment level persistently low, the Fed may feel the need to further hike interest rates if inflation data does not continue to moderate. Additionally, housing data has begun to soften as 30-year fixed mortgage rates have risen along with bond yields. With average 30-year fixed mortgage rates at approximately 6.75%, any further rate hikes are likely to cause a further slowdown in the housing market. The Fed now has to choose between higher than average inflation, or further damaging an already weakening economy. So far, the choice has been to raise rates in an effort to crush inflation. We will monitor the incoming data to see which direction the Fed leans on interest rates and position our client portfolios accordingly.



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 - 330.609.8328

DAVID R. CULP, - TRUST INVESTMENT OFFICER
culpd@farmerstrustco.com - 330.740.1213

www.farmerstrustco.com