WEALTH MANAGEMENT 360
FARMERS TRUST COMPANY

MARKET UPDATE AND OUTLOOK FOR THIRD QUARTER 2023

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 2023

MARKET SCORECARD as of 6/30/2023	TOTAL RETURN IN USD	
	Q2	2023 TR YTD
DOW JONES IND AVG	3.97%	4.94%
S&P 500	8.74%	16.89%
NASDAQ	13.05%	32.32%
MSCI EAFE EQUITY (GROSS)	3.22%	12.13%
RUSSELL 2000 INDEX	5.21%	8.09%
MSCI EMERGING MARKET EQUITY (GROSS)	1.04%	5.10%
BLOOMBERG INTERM. TREASURY	-1.15%	1.10%
BLOOMBERG INTERM. GOVT/CREDIT	-0.81%	1.50%
BLOOMBERG 5 YEAR MUNI INDEX	-0.72%	1.19%
BLOOMBERG HIGH YIELD CORP INDEX	1.75%	5.38%
ishares S&P GSCI COMMODITY TR INDEX	-2.73%	-7.54%

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

MARKET RECAP

The S&P 500 returned an impressive 16.9% for the first half of 2023 and the Nasdaq Composite is up a whopping 32.3% over the same timeframe. The Dow Jones Industrial Average has lagged the other indexes but is still positive for the year-to-date up 4.9%. Developed international equities (as the MSCI EAFE Index) were up 12.1% for the first half of 2023, and emerging markets stocks (as measured by the MSCI Emerging Markets Index) were up 5.1%. Large Cap Growth stocks have dominated the market returns so far in 2023 with a 21.3% return over the last six 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 only 12.2% over the same time frame. Small Cap stocks (as measured by the Russell 2000 index) rose 8.09% for the last six months. Information Technology has been the best performing sector so far in 2023, up 42.8% midway through the year, while Utility stocks were the worst performers, down -5.69%. Commodities (as measured by the GSCI Commodity Index) were down nearly -7.54%. Fixed income assets earned positive returns so far in 2023, with the Bloomberg Intermediate Govt./Credit Index up 1.50% through March while the Bloomberg 5-year Muni Index was up 1.19% over the same time frame. High yield bonds also rallied and were up 5.38% for the first three months of the year, as measured by the Bloomberg High Yield Index.

KEY POINTS

- The Federal Reserve may be near the end of their interest rate hiking campaign, however longer term rates could continue to rise as a result of increased supply.
- The year-to-date market rally in growth stocks (mainly those affiliated with Artificial Intelligence) is over-bought and will likely retrench in the latter half of 2023.
- We will maintain overweight positions in defensive sectors such as Consumer Staples, Healthcare, Utilities and Telecom as the economy continues to soften.
- Small capitalization stocks and International stocks (both developed and emerging) are relatively attractive based on current valuations.

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INVESTMENT OUTLOOK

The Federal Reserve (The Fed) paused its rate hiking campaign in June but also cautioned that further rate hikes may be necessary later in 2023. While the decision to raise rates even further will be data dependent, the Fed is certainly much closer to halting its rate hikes altogether. However, the now (relatively) higher interest rate environment will put immediate pressure on the already softening economy. With household budgets already stretched thin, any additional interest payments will likely be met with a drop in aggregate demand. Therefore, we are maintaining our defensive positioning within our client portfolios in areas such as Consumer Staples, REITs, Utilities and Healthcare. International stocks (both developed and emerging markets) as well as small capitalization stocks are currently priced at a discount as compared to larger companies (especially stocks related to the Artificial Intelligence craze). As developed international countries move away from the U.S. dollar as a reserve currency, any downward pressure on the dollar makes commodities relatively attractive. On the fixed income side, short term rates continue to creep higher as long term rates are still inverted. As a result of the tremendous additional supply of debt by the government, we expect long term rates to rise and have slightly shortened duration. We still remain wary of any additional credit risk on the fixed income side and have a slight bias toward government securities over corporate debt.

GLOBAL MACROECONOMIC REVIEW & OUTLOOK

In May, the Consumer Price Index (CPI) came in at an annualized pace of 4% (well below the peak in June of 2022 of nearly 9%). The dramatic drop in the headline inflation rate gives investors some hope that the Fed will stop raising interest rates. The economy rose at a 2.0% rate as measured by Gross Domestic Product (real GDP) in the first quarter of 2023, yet that was lower than the final quarter of 2022 when Real GDP rose at an annualized pace of 2.6%. The estimates for the second quarter Real GDP report are less enthusiastic, with many estimates coming in below at 2% annualized pace. The most recent report in June showed that the unemployment rate ticked up slightly to 3.6%, but the excessive amount of job openings (mostly at the low end of the wage scale) have placed additional pressure on wages. The resulting increase in wages could lead to further inflation (a "wage/price spiral") and cause the Fed to remain vigilant in their fight against inflation. Housing data has begun to soften as the average 30-year fixed mortgage rates are approximately 7.25%. Any further rate hikes are likely to cause a further slowdown in the housing market. The Fed has consistently chosen to fight inflation by raising interest rates rather than be a tailwind for the overall economy. As interest rates continue to rise however, they will ultimately stifle economic growth and lead to a slowdown or a possible recession. As a result we have chosen to remain defensive in our overall positioning.

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