WEALTH MANAGEMENT 360
FARMERS TRUST COMPANY

MARKET UPDATE AND OUTLOOK FOR FOURTH 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

The S&P 500 gave up some momentum in the third quarter and was down 3.3% while the Nasdaq Composite retreated 3.9% over the same time frame. The Dow Jones Industrial Average slightly outperformed over the last three months and was only down 2%. Developed international equities (as measured by the MSCI EAFE Index) posted a negative 4% for the most recent quarter while emerging markets stocks (as measured by the MSCI Emerging Markets Index) were down 2.8%. Large Cap Growth stocks retreated 3% over the last three months (as measured by the Russell 1000 Growth Index), in-line with Large Cap Value stocks (as measured by the Russell 1000 Value Index), which were also down 3% over the same time frame. Small Cap stocks (as measured by the Russell 2000 index) did not fare as well as larger companies, dropping 5% for the last three months. Energy stocks were the best performing sector last quarter, up 12%, while Utility stocks were the worst performers over that same time frame, down 9%. Commodities (as measured by the GSCI Commodity Index) surged 17% over the trailing three months and were the best performing asset class. Fixed income assets lost ground in the third quarter, with the Bloomberg Intermediate Govt./Credit Index down .83% while the Bloomberg 5-year Muni Index was down 2% over the same time frame. High yield bonds held up reasonably well and were up .46% for the last three months of the year (as measured by the Bloomberg High Yield Index).

MARKET RECAP AND OUTLOOK THIRD QUARTER 2023

MARKET SCORECARD as of 9/30/2023	TOTAL RETURN IN USD	
	Q3	2023 TR YTD
DOW JONES IND AVG	-2.10%	2.73%
S&P 500	-3.27%	13.07%
NASDAQ	-3.94%	27.11%
MSCI EAFE EQUITY (GROSS)	-4.05%	7.59%
RUSSELL 2000 INDEX	-5.13%	2.54%
MSCI EMERGING MARKET EQUITY (GROSS)	-2.79%	2.16%
BLOOMBERG INTERM. TREASURY	-0.81%	0.28%
BLOOMBERG INTERM. GOVT/CREDIT	-0.83%	0.65%
BLOOMBERG 5 YEAR MUNI INDEX	-2.03%	-0.86%
BLOOMBERG HIGH YIELD CORP INDEX	0.46%	5.86%
ishares S&P GSCI COMMODITY TR INDEX	16.97%	9.14%

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

KEY POINTS

- Excessive government spending, and more importantly the corresponding borrowing, have driven bond yields higher
- Commodities have surged over the last three months, leading to some concern of reaccelerating inflation and a more hawkish Fed
- Companies with strong balance sheets will be rewarded in the current macro environment (rising interest rates) and companies with large amounts of debt and riskier cash flows are vulnerable
- Despite the headwinds, the economy continues to be resilient and corporate earnings have not yet signaled a downturn in expectations despite rising interest rates

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INVESTMENT OUTLOOK

A main concern in the last three months of 2023 is that inflation will reappear just when many pundits thought it was tamed. Central banks around the world created loose monetary policies in response to the COVID pandemic, which led to a surge in liquidity that we are still dealing with today. This excess liquidity, combined with supply chain disruptions and rising commodity prices, propelled inflation rates higher over the last two years. As a result, central banks threaten to continue raising interest rates to fight off the further inflation that they, at least in part, have caused. While a "soft economic landing" is the goal (i.e., no recession), we have already begun to see a slowdown in lending by banks, and consumer spending is now at risk due to higher borrowing costs. The Federal Reserve (the Fed) will face the challenging task of continuing to unwind its accommodative policies without causing disruptive financial market reactions as liquidity conditions tighten. The Fed will be scrutinized by investors, as it now must decide if further rate hikes are justified to finally quell inflationary pressures, or if it risks recession by raising rates too high. A crucial point to keep in mind is that many of the effects of longer-term interest rates have yet to be felt by the financial markets. Consumers have been using savings and short-term borrowing (credit card debt) to keep afloat over the last couple of years. As those savings accounts are depleted and borrowing limits are reached, a recession becomes closer to reality. Any missteps in the timing or pace of these actions could lead to heightened volatility in the financial markets. We remain cautious with a tactical underweight in equities and slight preferences to defensive sectors such as Utilities, Consumer Staples and Healthcare.

GLOBAL MACROECONOMIC REVIEW & OUTLOOK

While the U.S. economy has been resilient throughout 2023, the low unemployment rate (holding steady at 3.8% as of September 2023) has been both a blessing and a curse. Low unemployment is a sign that the economy is still expanding, but the high demand and short supply of workers has also caused wages to rise. This is a classic "wage-price spiral" that further contributes to inflation. While the U.S. is near full employment, the labor force has shrunk in the United States over the last several years and the lack of available workers poses an additional threat to the economy. Job losses have yet to begin in earnest, but as companies deal with higher equilibrium wages and still-elevated input costs, more layoffs may be on the horizon. Government spending has done most of the heavy lifting in the last several years, but nearly 70% of Real Gross Domestic Product (GDP) comes from the already stretched consumer. One last item to consider is the resumption of student loan payments, which could cause further stress on family budgets. Again, inflation and interest rates will be in the spotlight once more in the last quarter of 2023 as they will determine the fate of the American consumer. Geopolitical tensions also hang ominously over the economic and financial outlook for the last three months of the year. Elevated international tensions (Russia/Ukraine, China/Taiwan, etc.) will continue to play a significant role in financial markets, especially on commodity prices worldwide – most notably oil prices. With a keen eye on geopolitical developments, international stocks are currently priced far more reasonably than domestic stocks and may present an opportunity in the coming months.

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