WEALTH MANAGEMENT 360
FARMERS TRUST COMPANY

Market Update and Outlook for First Quarter 2021

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 Fourth Quarter 2020

MARKET SCORECARD as of 12/31/2020	TOTAL RETURN IN USD	
	Q4	2020 YTD
DOW JONES IND AVG	10.73%	9.72%
S&P 500	12.15%	18.40%
NASDAQ	15.63%	44.92%
MSCI EAFE EQUITY (GROSS)	16.09%	8.28%
RUSSELL 2000 INDEX	31.37%	19.96%
MSCI EMERGING MARKET EQUITY (GROSS)	19.77%	18.69%
BARCLAYS INTERM. TREASURY	-2.30%	5.77%
BARCLAYS INTERM. GOVT/CREDIT	0.48%	6.43%
BARCLAYS 5 YEAR MUNI INDEX	0.77%	4.29%
BARCLAYS HIGH YIELD CORP INDEX	6.45%	7.11%
ishares S&P GSCI COMMODITY TR INDEX	14.49%	-23.72%

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

Market Recap

Despite record volatility, U.S. equity markets finished 2020 near all-time highs. The S&P 500 finished the year with a total return of 18.40%. Large capitalization stock indexes varied widely however, with Large Cap Growth stocks up an eye-popping 38.49% on the year compared with only 2.80% for Large Cap Value stocks. Technology stocks led the way in 2020, with the sector up 43.90% for the year. Energy stocks had the worst return of all sectors last year, down 33.70% for the calendar year. The technology-laden NASDAQ Composite Index was up 44.92% in 2020 and smaller U.S. company stocks (as measured by the Russell 2000 Index) were up 19.96% for the same time frame. Foreign equities (as measured by the MSCI EAFE Index) were up 8.28% for the year and Emerging Market stocks were up 18.69% over the same time period. Bonds continued to provide stability to diversified portfolios as the Barclays Intermediate Govt./Credit Index recorded a 6.43% total return for 2020. Municipal bonds (as measured by the Barclays 5 year Muni Index) posted a 4.29% return for the year. High yield bonds in the U.S. returned 7.11% for 2020. Commodities (as measured by the S&P Global GSCI Index) were down 23.72% in 2020, largely due to the decrease in oil prices (WTI crude fell approximately 20% last year). It is important to note, however, that oil prices improved dramatically off their lows reached in April, leading the Commodity index to a gain of nearly 20% in the final six months of the year.

Key Points

- The volatility that characterized financial markets in 2020 is likely to continue in 2021
- The sector rotation out of mega-cap growth stocks that began in the 4th quarter of 2020 is likely to persist in 2021
- Further monetary and fiscal stimulus will continue to put downward pressure on the U.S. Dollar, making foreign investments (both stocks and bonds) relatively more attractive
- Inflation pressures are likely to continue to build throughout 2021

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Investment Outlook

A sector rotation began in late 2020 out of mega-cap growth stocks (ex. Facebook, Amazon, etc.), which were the primary drivers of index returns for the year. We expect this rotation to continue into the New Year, and as a result find value oriented companies relatively more attractive. Smaller capitalization stocks have also been in favor over the last several months, and that trend will likely continue into 2021. The Federal Reserve Bank (the Fed) has set benchmark U.S. interest rates at historically low levels and has simultaneously been purchasing bonds (i.e. injecting liquidity into the financial markets). As a result of the Fed's monetary policies we believe the U.S. dollar will continue to be under pressure, and the devaluation of the currency makes foreign assets (both stocks and bonds) relatively more attractive in this environment. Congress enacted massive expansionary fiscal policies during 2020 and will likely expand upon those initiatives in 2021. The combined actions of the Fed and Congress will presumably lead to inflationary pressures in the short to intermediate term. Coinciding with the welcomed news of several COVID-19 vaccines, the threat of inflation becomes even greater to the extent the economy can re-open. Anticipating an inflationary environment, we have allocated investment dollars to Treasury Inflation Protected Bonds (TIPS), Real Estate Investment Trusts (REITs), commodities and both foreign stocks and bonds. In an effort combat the low interest rate environment, we have recently added an allocation of Preferred Stocks to client portfolios. An additional measure we have implemented is the use of options (both covered call writing and put selling) to reduce portfolio volatility and enhance total return.

Global Macroeconomic Review and Outlook

Economic data has been following a classic V-shaped recovery process during the second half of 2020. The unemployment rate ended 2020 at 6.7% after peaking in June at 11.1%. Gross Domestic Product (GDP) rebounded nicely in the 3rd quarter as well, up 33.4% (seasonally adjusted annual rate) after having contracted -31.4% in the 2nd quarter of 2020. The Consumer Price Index (CPI) core inflation metric (inflation minus food and energy) rose at an annual pace of 1.6% as of the November 2020 reading. Including food and energy, the CPI only rose 1.2% over that same time period primarily due to the drop in WTI (West Texas Intermediate) crude oil prices, which fell roughly 20% in 2020. Encouraging signs in both the manufacturing and services economy data show both sectors expanding going into 2020, and we have seen similar readings with regards to consumer confidence and sentiment.

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