



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 U.S. equity market was relatively flat for the third quarter of 2021 with the S&P 500 posting a 0.58% return for the three month period. The S&P 500 is up 15.92% year-to-date and the Dow Jones Industrials is up 12.12% over the same time period. The NASDAQ composite is nearly identical to the Dow so far this year, up 12.66%. The Energy sector has lead the way and is up 43.22% YTD, while the Utility sector has been the worst performing sector so far this year, up only 4.20%. International equities have lagged U.S. equity markets (as measured by the MSCI EAFE Index), and are up only 8.79% year to date while the MSCI Emerging Market Index has been flat over the same time frame at -0.99%. Small capitalization stocks (as measured by the Russell 2000 Index) are up 12.41% so far this year and commodities (as measured by the S&P GSCI index) lead all major asset classes with a 38.27% return through the first 9 months of the year. Bond indices have struggled so far in 2021 with the Bloomberg Intermediate Government/Corporate Index at -0.87% YTD. Municipal bonds have performed slightly better with the Bloomberg 5 year Muni Index up 0.30% during the same time frame. For fixed income assets, high yield bonds have led the way in 2021 with the Bloomberg High Yield Corporate Index up 4.53% YTD.

Market Recap and Outlook Third Quarter 2021

MARKET SCORECARD as of 9/30/2021	TOTAL RETURN IN USD	
	Q3	2021 TR YTD
DOW JONES IND AVG	-1.46%	12.12%
S&P 500	0.58%	15.92%
NASDAQ	-0.23%	12.66%
MSCI EAFE EQUITY (GROSS)	-0.35%	8.79%
RUSSELL 2000 INDEX	-4.36%	12.41%
MSCI EMERGING MARKET EQUITY (GROSS)	-7.97%	-0.99%
BLOOMBERG INTERM. TREASURY	-0.01%	-1.15%
BLOOMBERG INTERM. GOVT/CREDIT	0.02%	-0.87%
BLOOMBERG 5 YEAR MUNI INDEX	0.13%	0.30%
BLOOMBERG HIGH YIELD CORP INDEX	0.89%	4.53%
ishares S&P GSCI COMMODITY TR INDEX	5.22%	38.27%
<i>Note: All returns include invested cash flows expressed in U.S. dollar terms</i>		

Key Points

- The Federal Government Budget/Reconciliation bill, if passed, will further inflationary pressures. Proposed tax hikes within the bill could dampen gross domestic product (GDP) growth as well.
- Should the Federal Reserve move forward with the reduction of monetary stimulus, elevated equity market volatility is likely to continue.
- Corporations are cutting their earnings estimates from their peak growth rates of Q2 2021, a process that is likely to continue due to tougher year-over-year comparisons.
- Supply chain disruptions are likely to continue, putting even more upward pressure on consumer prices and wages, threatening GDP growth and causing corporate profit erosion.

Investment Outlook

Bond yields have begun to rise again as the financial markets fear the Federal Reserve (the Fed) will begin to taper their bond purchasing (quantitative easing) in an attempt to curb further inflation. The inflation created from the massive government stimulus to fight the COVID-19 pandemic has been significant and swift. The Federal government continues to spend freely, currently attempting to pass the budget/reconciliation stimulus plan which spends another \$3.5 trillion dollars, which leads us to believe the inflationary pressures will persist in the near to intermediate term. Another side effect of the continued government spending is the potential for further weakness in the U.S. dollar. The devaluing of our currency has made foreign assets (both stocks and bonds) relatively more attractive in the near term. Real estate, commodities and other “stores of value” will likely continue to perform well in this inflationary environment, and we have already positioned our clients for that scenario and will continue to do so. We prefer companies that have real tangible assets, which has led us to favor value stocks over growth stocks. Regarding fixed income assets, we prefer high quality debt such as government bonds and investment grade corporate debt. Treasury Inflation Protected Securities (or TIPS) should continue to perform well in an inflationary environment and a modest allocation of Preferred Stock can enhance yield within diversified portfolios.

Global Macroeconomic Review and Outlook

Inflation has been a hot topic recently as the Consumer Price Index (CPI) has steadily risen over the last year and is currently 5.3% higher than this time a year ago. There is a debate as to whether or not this burst in prices is “transitory” and will normalize quickly, or if price increases will last longer than anticipated. In our opinion, any further government stimulus will likely cause more persistent inflation. The unemployment rate continues to hover just north of 5% while job openings remain at all-time highs. The disjointed labor market (where jobs are widely available, yet unemployment is above trend) has hindered the supply chain to the point commerce is being restricted and has furthered the inflation problem. Economic growth (as measured by Gross Domestic Product) was a healthy 6.7% in the second quarter of 2021, and the estimate for third quarter growth is 7%. To the extent that firms can hire workers and replenish inventories to satisfy current demand, growth should continue to accelerate. However, any further pandemic-related obstacles to growth will likely lead to further inflationary pressures.



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

culpdp@farmerstrustco.com - 330.740.1213

www.farmerstrustco.com