



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

Stocks finished the year on a high note with the S&P 500 returning 28.71% for the 2021 calendar year. Over that same time frame the Nasdaq Composite posted a 22.18% total return and the Dow Jones Industrial Average saw a 20.95% gain. International equities did not fare as well with the MSCI EAFE Index only gaining 11.78% for the year and emerging markets (as measured by the MSCI Emerging Markets Index) actually losing ground in 2021, down -2.22%. Large cap growth stocks outpaced large cap value stocks in 2021 (32.01% vs. 24.90%) and small cap stocks (as measured by the Russell 2000) returned 14.82% for the calendar year. Energy was the best performing sector of the domestic equity market last year, up 54.64%, and utilities were the worst performing sector – up 17.67%. Commodities (as measured by the GSCI Commodity Index) were up 40.35% for the year. Fixed income had a tougher year, with the Barclays Intermediate Govt/Corp Index down -1.44% for the year. High yield bonds were up 5.28% for 2021 while the 5 year Municipal Bond Index returned 0.34%. Treasury Inflation Protected Bonds (TIPs) fared much better, up 5.53% for the year and preferred stocks posted a positive 6.64% return.

Market Recap and Outlook Fourth Quarter 2021

MARKET SCORECARD as of 12/31/2021	TOTAL RETURN IN USD	
	Q4	2021 TR YTD
DOW JONES IND AVG	7.87%	20.95%
S&P 500	11.03%	28.71%
NASDAQ	8.45%	22.18%
MSCI EAFE EQUITY (GROSS)	2.74%	11.78%
RUSSELL 2000 INDEX	2.14%	14.82%
MSCI EMERGING MARKET EQUITY (GROSS)	-1.24%	-2.22%
BLOOMBERG INTERM. TREASURY	-0.57%	-1.72%
BLOOMBERG INTERM. GOVT/CREDIT	-0.57%	-1.44%
BLOOMBERG 5 YEAR MUNI INDEX	0.04%	0.34%
BLOOMBERG HIGH YIELD CORP INDEX	0.71%	5.28%
ishares S&P GSCI COMMODITY TR INDEX	1.51%	40.35%
<i>Note: All returns include invested cash flows expressed in U.S. dollar terms</i>		

Key Points

- The inflation cycle may have peaked, yet it is likely to run above historical trend in the near to intermediate future.
- The Federal Reserve will have a difficult task raising interest rates as they have forecasted. We believe interest rates may rise slightly, but short of current Fed projections for 2022.
- With moderately higher interest rates, we believe value stocks will continue to outperform growth stocks in the early part of 2022.
- Corporate profits estimates are falling in the first half of 2022, hence we have lightened our equity exposure accordingly.

Investment Outlook

The Federal Reserve (the Fed) announced in late 2021 that they intend to raise short term interest rates several times in 2022 as a defense against the current inflationary environment. The Fed has also begun to withdraw liquidity from the financial markets by “tapering” the amount of debt they purchase from the U.S. Treasury on a monthly basis. In addition to receding monetary tailwinds, the failure to advance the Build Back Better legislation in Washington will mean less fiscal support for the economy in 2022 when compared with 2021. The equity markets will likely experience higher levels of volatility due to the reduction in both monetary and fiscal stimulus, and further pain could be felt from corporations lowering profits estimates in the early part of 2022. Although inflation may have peaked, it will likely run above historical trend for some time. These combined factors lead us to reduce our overall equity exposure and to tilt our current weightings to more defensive, less cyclical areas of the market such as Utilities and Consumer Staples. We have slightly reduced our developed international equity exposure in favor of additional emerging markets exposure. Our most recent change with regards to fixed income was to increase the duration of our bond portfolios as any Federal Reserve policy move to increase the Fed Funds rate will likely only raise yields on shorter term maturities (i.e. flatten the interest rate curve). We have also slightly increased our weighting in Preferred stocks (as a means to acquire more yield) and international bonds (as hedge against a declining dollar). Finally, we still prefer quality in fixed income and have been avoiding the high yield bond arena.

Global Macroeconomic Review and Outlook

The unemployment rate stands at 4.2% as of year-end. Average hourly earnings rose 4.8% over the last year, further causing upward price pressure on consumer goods and services. U.S. GDP for the third quarter of 2021 was finalized at 2.3%, down significantly from the COVID rebound in the second quarter when the economy grew at a 6.3% rate. While fourth quarter GDP will likely be in excess of 4%, consensus estimates for the first quarter GDP growth have been lowered to approximately 2%. Inflation numbers are at 30 year highs with the headline Consumer Price Index (CPI) showing a 6.8% year-over-year rise, which is the highest such reading since June 1982. Commodity and real estate prices dramatically increased during 2021, but not nearly as much as energy prices (crude oil, natural gas and gasoline). We feel that although prices in general may remain persistently high, further upside from these peak numbers will be rather muted.



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