WEALTH MANAGEMENT 360
FARMERS TRUST COMPANY

MARKET UPDATE AND OUTLOOK FOR SECOND QUARTER 2022

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 FIRST QUARTER 2022

MARKET SCORECARD as of 3/31/2022	TOTAL RETURN IN USD	
	Q1	2022 TR YTD
DOW JONES IND AVG	-4.10%	-4.10%
S&P 500	-4.60%	-4.60%
NASDAQ	-8.95%	-8.95%
MSCI EAFE EQUITY (GROSS)	-11.87%	-11.87%
RUSSELL 2000 INDEX	-7.53%	-7.53%
MSCI EMERGING MARKET EQUITY (GROSS)	-6.92%	-6.92%
BLOOMBERG INTERM. TREASURY	-4.21%	-4.21%
BLOOMBERG INTERM. GOVT/CREDIT	-4.51%	-4.51%
BLOOMBERG 5 YEAR MUNI INDEX	-5.10%	-5.10%
BLOOMBERG HIGH YIELD CORP INDEX	-4.84%	-4.84%
ishares S&P GSCI COMMODITY TR INDEX	33.13%	33.13%

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

MARKET RECAP

Equities had a rough start to 2022 with the S&P 500 losing 4.6% for the first three months of the year. The Nasdaq Composite fared even worse with a 9.0% drop and the Dow Jones Industrial Average declined 4.1% over the same time frame. International equities have also struggled so far this year with the MSCI EAFE Index down 11.9% year-to-date and emerging markets (as measured by the MSCI Emerging Markets Index) down 6.9%. In a reversal of past trends, large cap value stocks have outpaced large cap growth stocks so far in 2022, as growth was down 8.6% and large value was basically flat with a loss of only 0.2%. Small cap stocks (as measured by the Russell 2000) were down 7.5% for the three month period ending in March. Energy continues to be the best performing sector of the domestic market year-to-date, up 39.0%, while communication services was the worst performing sector down 11.9% over the same time frame. Commodities (as measured by the GSCI Commodity Index) were up another 33.1% for the most recent quarter. Fixed income had one of its worst quarters in several decades, with the Bloomberg Intermediate Govt/Corp Index down 4.5% for the year. High yield bonds were down 4.8% in the first three months of the year while the 5 year Municipal Bond Index lost 5.1%.

KEY POINTS

- The Russia/Ukraine conflict may have extended the peak in inflationary pressure, but prices for most supply inputs and commodities are likely to moderate in the near-term.
- The market expects the Fed to move forward with aggressive interest rate hikes, but any slowdown in economic growth (along with moderating prices) will likely diminish those plans.
- Defensive stocks and non-cyclical value stocks are likely to continue to outperform in the near-term.
- Corporate profit estimates for the first half of 2022 have continued to fall, and the equity markets remain vulnerable in the near-term based on those estimates.

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INVESTMENT OUTLOOK

The Federal Reserve (the Fed) began their well-telegraphed interest rate hikes in March, raising the Fed Funds overnight lending rate between member banks by 0.25%. While attempting to curtail inflation however, the Fed runs the risk of tightening interest rates into an economic slowdown. This leads us to believe that as the economy worsens, the harder it will be for the Fed to justify further rate increases. As a result of our cautious near-term stance, we continue to overweight more defensive (utilities and consumer staples) and non-cyclical value (certain healthcare and materials) oriented areas of the domestic equity market. While reducing our commodities exposure after a strong run, we have kept certain inflation hedges (REITS, metals/miners, basic materials) within our client portfolios. On the fixed income front, we have slightly increased our targeted duration to take advantage of the recent increase in yields, but have also maintained our preference for high quality (avoiding high yield bonds). Volatile financial markets around the world have benefitted the U.S. dollar, but we continue to maintain a small unhedged international bond fund position based on our longer term view of risks to the dollar's dominance.

GLOBAL MACROECONOMIC REVIEW & OUTLOOK

The unemployment rate now stands at 3.6% as of the end of March. Although the overall employment rate has risen, wage growth has risen even faster, growing at a 5.1% year-over-year pace as of the end of February. The higher than average wage growth is yet another contributor to higher consumer prices. U.S. GDP rebounded late in 2021, rising at a 6.9% rate for the fourth quarter. However, GDP estimates for the first quarter of 2022 are in the 1.5% - 2% range. The expected drop off in GDP for the first part of 2022 could cause the Fed to rethink their declared stance on dramatically raising interest rates if growth continues to moderate. Inflation for many of the areas responsible for the recent spike in the overall price level have begun to abate (rents, used cars prices, oil, wheat, etc.). Although inflation will likely remain persistently high compared to the trend that had prevailed prior to the pandemic, the rise in prices should begin to moderate (disinflation), which could also give the Fed latitude to slow down the anticipated pace of rate hikes currently expected by markets.

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