FARMERS TRUST COMPANY

Market Update and Outlook for Third Quarter 2017

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.

Key Points

- We believe economic growth is likely to accelerate in the second half of 2017, and that value stocks will begin to outperform.
- We feel that interest rates will continue to trend higher. There may be fits and starts, but the long-term trend is now likely upward sloping.
- Although we have failed to see any significant legislative wins for the new administration, the mere fact that we are now in a "pro-business" environment has given the economy a tailwind rather than a headwind. Any progress on the legislative front would be an additional benefit to economy (and the financial markets) at this point.
- While we may be in a "lower for longer" phase for oil prices, other sectors of the economy should benefit from cheaper energy (gasoline) prices.

Market Recap and Outlook Second Quarter 2017

MARKET SCORECARD to 06/30/2017	TOTAL RETURN IN USD	
	Q2	2017 YTD
DOW JONES IND AVG	3.95%	9.33%
S&P 500	3.09%	9.33%
NASDAQ	4.20%	14.76%
MSCI EAFE EQUITY (GROSS)	6.37%	14.22%
RUSSELL 2000 INDEX	2.46%	4.99%
MSCI EMERGING MARKET EQUITY (GROSS)	6.38%	18.60%
BARCLAYS INTERM. TREASURY	0.66%	1.21%
BARCLAYS INTERM. GOVT/CREDIT	0.94%	1.73%
BARCLAYS 5 YEAR MUNI INDEX	1.25%	3.17%
BARCLAYS HIGH YIELD CORP INDEX	2.17%	4.93%
S&P GSCI COMMODITY INDEX	-5.46%	-10.24%

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

Market Recap

The 2nd quarter of 2017 was a positive one for most financial assets. Equity markets across the globe made advances, with foreign stocks leading the way. The MSCI EAFE Index posted a 6.37% return for the most recent quarter, while the MSCI Emerging Markets Index rose 6.38% in the same time frame. The U.S. equities market showed gains as well with the Dow Jones Industrial Average up 3.95% in the April to June period and the S&P 500 up 3.09% over the same timeframe. The Nasdaq Composite had a 4.20% gain during the quarter, while small capitalization stocks trailed the major large capitalization indices with a 2.46% advance. Bond markets were relatively flat over the past three months. The Barclays Intermediate Govt/Credit Index showed a 0.94% return for the quarter, while the Barclays Intermediate Treasury index posted a 0.66% return. High yield bonds fared better with a 2.17% return for the Barclays High Yield Corporate Index over the trailing three months. Finally, the S&P GSCI Commodity index dropped 5.46% during Q2 (primarily due to the retreat in oil prices).

Investment Outlook

The domestic equity markets have been bumping up against their all-time highs for the last three months. The S&P 500 reached a record high on June 19th at 2,453.46. Growth stocks like the FAANG (Facebook, Amazon, Apple, Netflix and Google) group have outperformed year to date. Our view is that value oriented stocks will begin to outpace the more expensive growth style equities in the coming months. Volatility was notably absent in the most recent quarter, but will likely pick up during the remainder of the year. Bond yields dipped briefly in June with the yield on a 10 year U.S. Treasury bond falling to 2.14% before recovering to 2.31% at the end of the quarter. We continue to believe that yields will trend higher and have positioned our client's portfolios accordingly. We have placed greater emphasis on assets which will perform well in a raising rate environment such as Treasury inflation-protected bonds and large cap value stocks. International equities still remain attractive and are well represented in our client portfolios. Worldwide central banks (with the exception of Japan) are now in a simultaneous tightening cycle, signaling the potential for higher rates around the globe. Maintaining an allocation to international stocks has been difficult to weather over the last several years, but our persistence has begun to add value as foreign stocks have outperformed and the dollar has declined.

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Global Macroeconomic Review and Outlook

The 2nd quarter of 2017 brought few economic surprises. The unemployment rate has remained just under the 4.5% level for the last several months, while consumer prices remained in check. The Consumer Price Index (CPI) showed some signs of rising early in the year, but more recent monthly data show the CPI trending below the Federal Reserve's (the Fed) target of 2% per year. Gross Domestic Product (GDP) data for the 2nd quarter comes out later in July, and the prospects for higher growth relative to the disappointing first quarter (final reading of 1.4% GDP growth) should be achievable. Various sentiment and confidence data show that consumers believe the economy is getting better, and that optimism should begin to show up in the actual GDP readings going forward. The Institute for Supply Management (ISM) recently released two surveys which show both the manufacturing and service sectors of the economy are expanding nicely. Most major signs point to stronger economic growth in the 3rd quarter.

Market interest rates (nominal rates) have also been relatively calm. The 10-year U.S. Treasury note has been oscillating between 2.14% and 2.42%. The lack of any significant inflation and lackluster GDP growth would normally result in an inactive Fed. However, the central bank's desire to return to a "normalized" interest rate environment leads us to believe more rate hikes are on the table for 2017.

The U.S. dollar appears over-valued in our opinion, and recent weakness seems likely to continue. A falling dollar will help large, multinational U.S. companies that derive much of their revenues from overseas, as well as non-dollar denominated investments. Any proposed legislation which would allow repatriation of foreign cash will further enhance our desire to own U.S. companies who do business abroad.

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