WEALTH MANAGEMENT 360
FARMERS TRUST COMPANY

MARKET UPDATE AND OUTLOOK FOR THIRD 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 SECOND QUARTER 2022

MARKET SCORECARD as of 6/30/2022	TOTAL RETURN IN USD	
	Q2	2022 TR YTD
DOW JONES IND AVG	-10.78%	-14.44%
S&P 500	-16.10%	-19.96%
NASDAQ	-22.28%	-29.23%
MSCI EAFE EQUITY (GROSS)	-14.29%	-19.25%
RUSSELL 2000 INDEX	-17.20%	-23.43%
MSCI EMERGING MARKET EQUITY (GROSS)	-11.34%	-17.47%
BLOOMBERG INTERM. TREASURY	-1.67%	-5.80%
BLOOMBERG INTERM. GOVT/CREDIT	-2.37%	-6.77%
BLOOMBERG 5 YEAR MUNI INDEX	-0.42%	-5.50%
BLOOMBERG HIGH YIELD CORP INDEX	-9.83%	-14.19%
ishares S&P GSCI COMMODITY TR INDEX	2.01%	35.80%

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

MARKET RECAP

Equities entered a bear market in the second quarter of 2022 and had the worst start to any year since 1970 with the S&P 500 down 19.96% year-to-date (YTD). The Technology laden Nasdaq Composite plummeted 29.23% over the same time frame. Comparatively, the Dow Jones Industrial Average was least affected by the selloff, declining "only" 14.44% YTD. International equities have shared the pain with the MSCI EAFE Index down 19.25% year-to-date and emerging markets (as measured by the MSCI Emerging Markets Index) down 17.47%. Large Cap Value stocks continue to be relative outperformers in 2022, down 11.41% YTD while Large Cap Growth stocks were down 27.62%. Small Cap stocks (as measured by the Russell 2000) were also battered and dropped 23.43% so far in 2022. Energy continues to be the only sector showing positive returns this year, up 31.84%, while Consumer Discretionary stocks were the worst performing sector down 32.82% over the same time frame. Commodities (as measured by the GSCI Commodity Index) are one of the few asset classes showing a positive return YTD, up 35.8% (mainly due to oil and natural gas). Fixed income yields have risen sharply in 2022, with the 10 year U.S. Treasury bond yielding 2.98% at the end of June 2022 and the 30 year U.S. Treasury bond yielding 3.12%. Cash yields (as measured by the 2 month U.S. T-Bill) have increased to 1.65%. Fixed income returns have suffered along with equities, with the Bloomberg Intermediate Govt./Credit Index is down 6.77% YTD while the Bloomberg 5 year Muni Index is down 5.50% over the same time frame. High yield bonds have fared much worse, down 14.19% YTD as measured by the Bloomberg High Yield Index.

KEY POINTS

- While the Fed rate hikes may be nearing conclusion by the end of the summer, near-term hikes are highly likely as the fight against inflation continues
- Equities may have further downside risk as forward earnings estimates have not been reduced to reflect the deterioration in the global economy
- Defensive sectors (like Utilities and Consumer Staples) and non-cyclical value stocks still offer opportunity and downside protection against further deterioration of the economy

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INVESTMENT OUTLOOK

The Federal Reserve's (the Fed) war on inflation has had detrimental effects on both the equity and fixed income markets. We continue to believe the Fed will be forced (for the next 3 months at least) to raise rates in an attempt to curb inflation, meaning more market volatility is likely for at least a while longer. During this point of the Fed's interest rate cycle, we maintain over-weights to areas that should offer some relative downside protection such as Consumer Staples, Utilities, Real Estate, and Healthcare. On the fixed income side, we continue to buy high quality government and corporate bonds and have slightly increased our duration over the last several months as bond yields have risen. Foreign stocks and bonds have not fared much better, and their prospects have been diminished as the U.S. is primarily seen as a safe haven for both fixed income and equities in times of turmoil. The Eurozone is likely in a recessionary period already, and as a result we have slightly reduced our exposure as a result. While we have maintained some inflation hedges within our client portfolios (REITS, certain commodities, etc.), we believe that as the economy continues to soften, inflation numbers will begin to moderate in the second half of the year.

GLOBAL MACROECONOMIC REVIEW & OUTLOOK

The Fed continues to be ultra-hawkish in their fight against inflation, evidenced by the 0.75% increase in the Fed Funds rate by 0.75% in June (for a total of a 1.5% increase so far this year). With the Consumer Price Index running at an annualized rate of 8.6% at the end of May 2022, the Fed is still way behind the curve with respect to containing elevated prices and further increases in interest rates are highly likely for the next meeting in July. That said, the fragile economy may not be able to withstand much higher interest rates given that economic growth declined in the first quarter of 2022 by 1.7%, and second quarter growth could likely turn out to be negative as well. Our view is that the Fed will be done with their rate increases by September as the economy softens and inflationary pressures begin to moderate. The labor market has held up remarkable well so far this year with the headline unemployment number near a record low of 3.6%. However, murmurs of layoffs have begun with a modest uptick in recent initial jobless claim numbers, which would coincide with a further deterioration of the economy.

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