

FARMERS TRUST COMPANY NEWSLETTERS



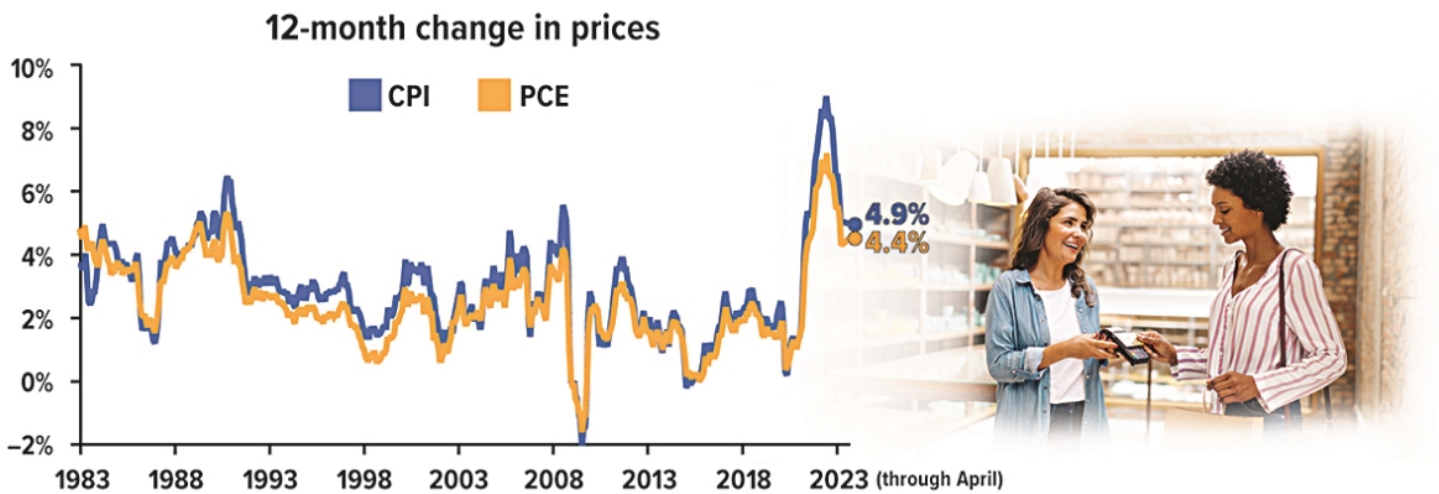
John D. Stewart, CFA
Chief Investment Officer
Farmers Trust Company
42 McClurg Rd. • Youngstown • OH • 44512
330-743-7000
stewartj@Farmerstrustco.com • farmerstrustco.com



Be sure to read John's Stewart's article on inflation below.

Inflation Gauges Don't Always Paint the Same Picture

Economists and investors rely on the Consumer Price Index (CPI) and the Personal Consumption Expenditures (PCE) Price Index to track the path of inflation over time. The two indexes use different formulas and data sources — CPI gets data from consumers and PCE data comes from businesses. PCE is broader in scope and some expenditure categories are weighted very differently. In late 2022, the difference between annual inflation as measured by CPI and PCE was the widest it has been since the 1980s.



Sources: U.S. Bureau of Labor Statistics, 2023; U.S. Bureau of Economic Analysis, 2023 (data through April 2023)

Inflation Pressures Abating

Inflation ran 0.2% in the month of June, which was less than the three-tenths increase expected. Over the past year, the headline inflation rate was 3.0%, marking its lowest year-over-year reading since March of 2021. While this is still above the Federal Reserve's comfort level of 2.0% inflation, it marks significant improvement over last June's peak inflation rate of 9.1%. Markets cheered the continued improvement in price pressures with both stocks and bonds rallying more than one percent in the wake of the report. While inflation is certainly one factor in determining the health and trajectory of the economy and the financial markets, it is by no means the entire story. If the falling rate of inflation is accompanied by significantly slower, or potentially contracting economic growth, a reduction in corporate earning power and future earnings estimates is on the way. That is by no means a recipe for higher stock prices. Corporate earnings estimates have actually been falling for the past year. Until that trend changes, downside risks remain as we move further into the second half of the year.

Speaking of earnings, the second quarter earnings reporting season is now underway. Early reporters include banks, and will be followed in the coming weeks by technology companies. Aggregate earnings for the second quarter are expected to fall relative to last year's second quarter, but analysts usually give corporate management a rather low bar to jump over. So don't get too excited when companies "beat" expectations. As always, the most important takeaway from quarterly earnings reports is the future guidance provided. If more companies are raising their outlook for the second half of the year and/or 2024, that could provide the fuel to keep stock prices moving higher. Just remember that we're getting close to entering the time of year where equity prices can become most vulnerable.

Mark Twain is quoted as saying that October is a peculiarly dangerous month to speculate in stocks, but then goes on to list all the other months as dangerous as well. While the month of October is known for some famous stock market crashes, the only two months that have actually averaged negative rates of return for the broader market are August and September. So enjoy July while it lasts, because we'll soon be entering the weakest seasonal period for equities. Could this year continue to surprise to the upside? Absolutely! On the other hand, if you've been riding the stock market wave higher, it might not be a bad time to do some portfolio rebalancing by harvesting some gains and moving the proceeds into assets that are more conservative or have underperformed this year.

Mutual Funds: What's in Your Portfolio?

Mutual funds pool investment dollars from many individual investors to purchase a group of selected securities aimed at meeting a particular objective. This offers a convenient way to invest across a wide range of market activity that would be difficult for most investors to do by purchasing individual securities. More than 52% of U.S. households owned mutual funds in 2022.¹

Here are some basic types of funds in order of typical risk, from lowest to highest. This is just an overview — with over 7,000 funds to choose from, you should be able to find appropriate investments to pursue your financial goals.²

Money market funds invest in short-term debt such as commercial paper and certificates of deposit (which generally provide a fixed rate of return). They are typically used as a cash alternative and/or as a fund for settling brokerage transactions.

Municipal bond funds generally offer income that is free of federal income tax and may be free of state income tax if the bonds in the fund were issued from your state. Although interest income from municipal bond funds may be tax exempt, any capital gains are subject to tax. Income for some investors may be subject to state and local taxes and the federal alternative minimum tax.

Income funds concentrate on bonds, Treasury securities, and other income-oriented securities, and may also include stocks that have a history of paying high dividends.

Balanced funds, hybrid funds, and growth and income funds seek the middle ground between growth funds and income funds. They include a mix of stocks and bonds aimed at combining moderate growth potential with modest income.

Value funds invest in stocks of companies that appear to be undervalued by the market. They are more volatile than balanced funds, but typically offer dividend income and may have solid growth potential if the market recognizes the underlying value.

Growth funds invest in the stock of companies with a high potential for appreciation but low emphasis on income. They are more volatile than many types of funds.

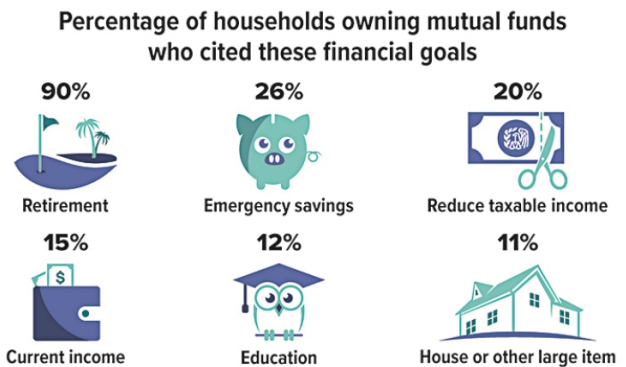
Global funds invest in a combination of domestic and foreign securities. **International funds** invest primarily in foreign stock and bond markets, sometimes in specific regions or countries. There are increased risks associated with international investing, including differences in financial reporting, currency exchange risk, economic and political risk unique to a specific country, and greater share price volatility.

Sector funds invest almost exclusively in a particular industry or sector of the economy. Although they offer greater appreciation potential, the volatility and risk level are also higher because they are less diversified.

Aggressive growth funds aim for maximum growth. They typically distribute little income, have very high growth potential, tend to be more volatile, and are considered to be very high risk.

Reasons to Invest

Four out of five households who own mutual funds cited retirement as their *primary* reason for investing. However, many investors own funds to pursue multiple financial goals.



Source: Investment Company Institute, 2022 (multiple responses allowed)

Bond funds (including funds that contain both stocks and bonds) are subject to the interest-rate, inflation, and credit risks associated with the underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. Dividends are typically not guaranteed.

Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. Mutual fund shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher returns also carry an increased level of risk.

Money market funds are neither insured nor guaranteed by the FDIC or any other government agency. Although a money market fund attempts to maintain a stable \$1 share price, you can lose money by investing in such a fund.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1–2) Investment Company Institute, 2022–2023

Home Energy Tax Credits

A couple of federal personal tax credits are available for the installation of certain energy efficient or clean energy property in your home. The energy efficient home improvement credit is available for qualifying expenditures incurred for an existing home or for an addition to or renovation of an existing home, but not for a newly constructed home. The residential clean energy property credit is available for qualifying expenditures incurred for either an existing home or a newly constructed home. For both credits, the home must be located in the United States and used as a residence by the taxpayer.

Energy Efficient Home Improvement Credit

The energy efficient home improvement credit is equal to 30% of the sum of amounts paid by the taxpayer for certain qualified expenditures. There are limits on the allowable annual credit and on the amount of credit for certain types of qualified expenditures. The maximum annual credit amount may be up to \$3,200.

An annual \$1,200 aggregate credit limit applies to all building envelope components, energy property, and home energy audits (30% of costs up to \$150 for such audits). Building envelope components include exterior doors (30% of costs up to \$250 per door, up to a total of \$500); exterior windows and skylights (30% of costs up to \$600); and insulation materials or systems and air sealing materials or systems (30% of costs).

Energy property (30% of costs, including labor, up to \$600 for each item) includes central air conditioners; natural gas, propane, or oil water heaters, furnaces, and hot water boilers; and certain other improvements or replacements installed in connection with building envelope components or other energy property.

A separate annual \$2,000 aggregate credit limit (30% of costs, including labor) applies to electric or natural gas heat pump water heaters; electric or natural gas heat pumps; and biomass stoves and boilers.

The credit is not available after 2032.

Residential Clean Energy Property Credit

A 30% credit is available for certain qualified expenditures made by a taxpayer for residential clean energy property. This includes expenditures for solar panels, solar water heaters, fuel cell property, wind turbines, geothermal heat pump property, battery storage technology, and labor costs allocable to such property.

There is no overall dollar limit for this credit. For qualified fuel cell property, there is a general credit limit of \$500 for each half kilowatt of capacity. The credit is reduced to 26% for property placed in service in 2033, 22% for property placed in service in 2034, and no credit is available for property placed in service after 2034.

IMPORTANT DISCLOSURES

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, legal, or retirement advice or recommendations. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.