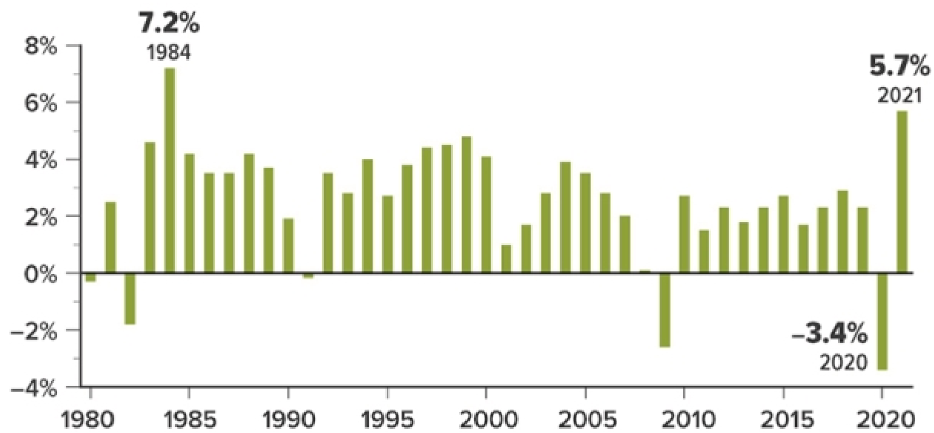
Farmers Trust Company

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

Be sure to read John Stewart's article, "Jobs Strong, But For How Long?" below.

GDP Growth Highest in 37 Years

In 2021, U.S. real gross domestic product (GDP) — the value of goods and services produced in the United States — grew by 5.7%, the highest annual rate since 1984. This marked a strong recovery from 2020, when GDP dropped by 3.4%. Real GDP is adjusted for inflation to more accurately compare economic output at different periods. Current-dollar GDP, typically used to measure the overall size of the economy, increased by an even more impressive 10.1%.



Source: U.S. Bureau of Economic Analysis, 2022

Jobs Strong, But For How Long?

The monthly employment report was released last week, and by all accounts it looked very strong – U.S. employers added more than 400,000 jobs during April and the unemployment rate came in at 3.6%, just a tenth of one percent above the pre-pandemic low of 3.5%. Unfortunately, the number of people looking for work decreased by 363,000. In addition, some employers, mostly in the hard-hit technology sector, announced more than 24,000 job cuts in April, which is 14% higher than number of layoffs announced in March. As a corollary, companies are having a hard time keeping up with rising costs, including higher-priced labor. Average wages have risen 5.5% during the past year, but that has been more than cancelled out by the 8.5% rate of inflation. Target announced a reduction in its estimated operating margin from 5% to 2% as excess inventories and higher transportation costs are starting to weigh on the retailer while their consumers are feeling the pinch from falling real wages (that is, wages net of inflation). At some point, cutting staff could become the only option to stop the bleeding.

Stock splits have become more popular recently, and we've been receiving some questions from investors as to whether this is a good thing or not. Amazon (AMZN) just completed a 20-for-1 stock split, taking the price of their shares from around $2,500 to roughly $125. Increasing the number of shares and lowering the price of a single share makes Amazon stock seem more affordable to retail investors. Other than that, the split doesn't change much – financial ratios like price to earnings and price to sales remain the same, as does the market value of the company overall. It is essentially like trading in a $20 bill for twenty $1 bills. Amazon may have considered splitting their shares to increase the chance of getting added to the Dow Jones Industrial Average. Since the index is price-weighted, it avoids adding stocks with prices far above the average of its other constituents. Apple (AAPL) was added to the Dow after splitting their shares back in 2015. Alphabet (GOOGL), parent company of Google, has announced a 20-for-1 stock split as well, with shares trading around the same level as Amazon's pre-split share price. The GOOGL split will take effect next month.

The Federal Reserve is meeting as I write this, and will shortly announce their decision on whether or not to adjust monetary policy. Expectations are for another 0.5% increase in the Fed Funds rate to a new range of 1.25-1.50%. Given the persistence of high inflation, the Fed is likely to maintain a relative hawkish stance regarding the future path of rates as it tightens monetary conditions in an attempt to reign in price pressures throughout the economy. Current expectations involve more half-point rate hikes at the Fed's next two meetings as well. Any hint of a less aggressive path for rate increases could catalyze a stock market rally, while something more aggressive than current expectations would almost guarantee further downside for markets, at least in the near-term.

Should You Consider Tapping the Equity in Your Home?

With home values skyrocketing recently, your home may be one of your largest assets. Using home equity to help finance other financial objectives is a strategy many people consider, but before doing so be sure you understand the risks as well as the potential benefits.

Home equity is the difference between how much your home is worth, based on current market conditions, minus your mortgage balance. Let's say your home is worth $450,000 in the current market and your outstanding mortgage is $250,000. That means you have $200,000 in equity.

In most cases, lenders will allow you to borrow up to 80% of your home's value minus your mortgage balance. In the example above, the total amount you might borrow would be $110,000 (assuming you qualify).

It's probably best to be as conservative as possible when using home equity. There's no guarantee that your home will maintain its current market value, so you could end up owing more than it's worth. Moreover, in the unfortunate event of default, you could lose your house.

How to Access Home Equity

Generally, there are three ways to access home equity:

1. Cash-out refinance: In a cash-out refinance, you would refinance your mortgage for more than what you owe and take the difference in cash.

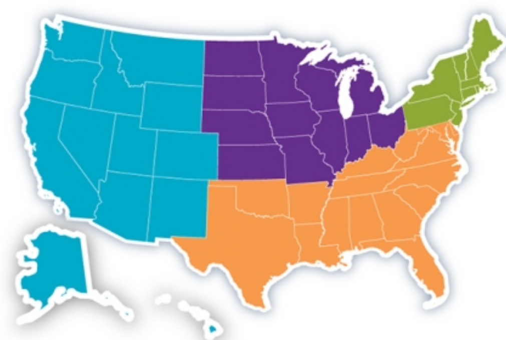
2. Home equity loan: With this type of loan, you would leave your current mortgage untouched and take out a separate loan against the equity in your home, with a fixed interest rate and fixed monthly payments.

3. Home equity line of credit: A HELOC works much like a credit card. You apply for a revolving credit amount up to a certain limit and, upon approval, have access to that money for a specific period, known as the *draw period* (usually 10 years). HELOC funds don't all have to be used right away or at the same time. You can usually access the funds as needed by writing a check or using a linked credit card. Interest rates are variable; required payments will depend on how much you borrow and the prevailing rate. When the draw period ends, all outstanding balances need to be repaid.

Keep in mind that each of these options will have specific fees, including appraisal fees. A refinance could also require closing costs, which can equal thousands of dollars, depending on the amount borrowed.

The best type of loan will depend on your specific situation. If you need a fixed amount of money, a cash-out refinance or home equity loan might be appropriate. If you need an indeterminate amount over time or seek an emergency cash reserve, a HELOC might better serve your needs.

Growth in Home Sales Prices Since 2019



	2019 median sales price	2022 median sales price	Percentage increase
U.S. national	$250,100	$357,300	42.9%
West	$379,200	$512,600	35.2%
Midwest	$188,800	$248,900	31.8%
South	$219,900	$318,800	45.0%
Northeast	$273,000	$383,700	40.5%

Source: National Association of Realtors, 2020-2022 (median existing-home sales data as of February 2019 and 2022)

When Using Home Equity Might Make Sense

Because you're putting your home at risk, it's important to think critically and strategically when using home equity. Are you using the funds in a way that could reap future financial benefits, such as home repairs and improvements, helping to pay for a child's college education, or consolidating high-interest debt? Then it might make sense. (A loan used for home repairs may also offer tax benefits; talk to a tax professional.) On the other hand, it might not be in your best financial interest if you're thinking of using the money to fund an extravagant purchase, such as an expensive vacation or new luxury car.

Home equity loans and lines of credit that are not used to buy, build, or substantially improve your primary home (or a second home) are considered home equity debt; you cannot deduct the interest on home equity debt. With a cash-out refinance, you can only deduct interest on the new loan if you use the cash to make a capital improvement on your property.

Adjusting Your Tax Withholding

Now that you've seen last year's tax results and can see where this year is heading, it may be a good time to consider adjustments to your income tax withholding.

Getting It Right

If you have too much tax withheld, you will receive a refund when you file your income tax return, but it might make more sense to reduce your withholding and receive more in your paycheck. However, if you have too little tax withheld, you will owe tax when you file your tax return and might owe a penalty.

Two tools — IRS Form W-4 and the Tax Withholding Estimator on irs.gov — can be used to help figure out the right amount of federal income tax to have withheld from your paycheck. This can be beneficial when tax laws change, your filing status changes, you start a new job, or there are other changes in your personal situation.

You might make a more concerted effort to review your withholding if any of the following situations apply to you:

- File as a two-income family
- Hold more than one job at the same time
- Work for only part of the year
- Claim credits, such as the child tax credit
- Itemize deductions
- Have a high income and a complex return

Form W-4

In some circumstances, you will need to give your employer a new Form W-4 within 10 days (for example, if the number of allowances you are allowed to claim is reduced or your filing status changes from married to single). In other circumstances, you can submit a new Form W-4 whenever you wish. See IRS Publication 505 for more information.

Your employer will withhold tax from your paycheck based on the information you provide on Form W-4 and the IRS withholding tables.

If you have a large amount of nonwage income, such as interest, dividends, or capital gains, you might want to increase the tax withheld or claim fewer allowances. In this situation, also consider making estimated tax payments using IRS Form 1040-ES.

You can claim exemption from federal tax withholding on Form W-4 if both of these situations apply: (1) in the prior tax year, you were entitled to a refund of all federal income tax withheld because you had no tax liability, and (2) for the current year, you expect a refund of all federal income tax withheld because you anticipate having no tax liability.