Wealth Management 360
Farmers Trust Company

Market Update and Outlook for Third Quarter 2021

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 2021

MARKET SCORECARD as of 6/30/2021	TOTAL RETURN IN USD	
	Q2	2021 TR YTD
DOW JONES IND AVG	5.08%	13.78%
S&P 500	8.55%	15.25%
NASDAQ	9.68%	12.92%
MSCI EAFE EQUITY (GROSS)	5.38%	9.17%
RUSSELL 2000 INDEX	4.29%	12.54%
MSCI EMERGING MARKET EQUITY (GROSS)	5.12%	7.58%
BARCLAYS INTERM. TREASURY	0.62%	-1.14%
BARCLAYS INTERM. GOVT/CREDIT	0.98%	-0.90%
BARCLAYS 5 YEAR MUNI INDEX	0.48%	0.17%
BARCLAYS HIGH YIELD CORP INDEX	2.74%	3.62%
ishares S&P GSCI COMMODITY TR INDEX	15.72%	31.40%

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

Market Recap

The equity markets continued their ascent higher in the second quarter of 2021. The S&P 500 gained 8.55% for Q2 of 2021 and the Dow Jones Industrial Average was up 5.08% during the same time frame. The Nasdaq Composite rebounded from a slow start in 2021 with an impressive 9.68% return for the quarter. Large Cap Growth stocks rebounded nicely over the last three month period, up 11.93% as compared to Large Cap Value stocks up 5.21% over the same time period. The Real Estate sector was the best performing sector in the S&P 500 for the trailing three month period, up 13.09%. Consumer Staple stocks were the worst performers for the second quarter of 2021, up a mere 3.83%. After a hot start to 2021, small capitalization stocks as measured by the Russell 2000 cooled a bit but were still up 4.29% for the first second quarter. Foreign equities (as measured by the MSCI EAFE index) were up 5.38% for the second quarter of 2021, and Emerging Market stocks were up 5.12% over the same time period. Bonds yields retreated slightly in the second quarter of 2021 with the BARC Intermediate Government/Credit Index up 0.98%. Municipal bonds as measured by the BARC 5 Year Muni Index posted a 0.48% return for the same time frame. High yield bonds in the U.S. posted strong returns, up 2.74% for the second three months of 2021. Commodities (as measured by the S&P Global GSCI Index) continued to push higher in 2021, up 15.72% for the second quarter.

Key Points

- The COVID re-opening inspired economic growth may have sustainability as long as the virus data remains positive moving into the fall of 2021
- The counter-trend rally by Growth stocks associated with falling bond yields in Q2 of 2021 may be short lived and falter if bond yields rise once again
- Although more direct monetary stimulus may be on hold for the remainder of 2021, tougher year-over-year economic comparisons in early 2022 may bring about more government stimulus
- Consumer prices may have peaked (along with Real Estate and commodities) but may rise again if any economic downturn is met with even further government stimulus

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Investment Outlook

Bond yields dropped significantly in the second quarter of 2021, and growth stocks have benefitted and outperformed value oriented equities over the last several months. Although expected, high inflation data in the near term may cause the Federal Reserve Bank (the Fed) to begin tapering their bond purchases, nudging bond yields higher in the second half of 2021. Therefore, we continue to like our Value oriented equity tilt with a healthy dose of cyclical stocks that will benefit from the ongoing economic recovery. With that said, we have also begun to slightly increase our defensive positioning going in the latter half of 2021, adding to Utilities and Consumer Staples as year-over-year economic comparisons (as well as corporate profit data) become challenging in the first half of 2022. Any pause in the economic recovery as a result of tougher year-over-year comparisons, renewed COVID restrictions or higher than expected inflation will likely be met with even further government stimulus … which can continue the current pattern of growth and higher prices. If no further government stimulus is given, then a more defensive positioning makes sense in the event of any economic slowdown.

Global Macroeconomic Review and Outlook

Although widely anticipated, the Personal Consumption Expenditures (PCE) price index (the Federal Reserve's preferred measure for inflation) was up 3.4% over the last 12 months through May 2021. This was the largest price jump since 1992, but the Fed continues to view this inflation data as temporary and are expecting price increases to abate as conditions return to normal. First quarter 2021 GDP was 6.4%, the second largest pace since Q2 2003 (only exceeded by Q3 2020). The unemployment rate has fallen back to 5.9% but remains stubbornly high given the plentiful available job openings in the economy. As vaccinations for the COVID pandemic allow continued re-opening of the economy, we would expect the current pattern of rising prices and torrid economic growth to continue. As a result, third quarter of 2021 year-over-year comparisons should be easily surpassed, but those hurdles become much more difficult at the beginning of 2022.

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