

MARKET UPDATE & OUTLOOK | Q3 2025

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

The second quarter of the calendar year was almost a mirror-image of the first one, delivering a "risk-on" rebound in the markets, with equities finishing near all-time highs, bond yields backing off their peak, and alternative assets rallying strongly as well. The markets wobbled through April as tariff talks between the U.S. and its trading partners escalated but staged a recovery into the end of June as geopolitical risks subsided. Still, beneath all of the market headlines, the economic reality was less reassuring: GDP growth remained modest, inflation remained above the Federal Reserve's target, labor markets softened somewhat, and consumer spending cooled off.

The trends that we saw in Q1, including defensives outperforming growth and bonds outperforming equities, both reversed in Q2. The S&P 500 Index was up 10.9% in the quarter, registering a 6.2% cumulative gain in the first half of the year. The strength in the market came from the Technology (23.7%) and the Communication Services (18.5%) sectors, with the Consumer Discretionary sector also up double digits for the quarter. The defensive sectors, including Health Care (-7.2%), Real Estate (-0.1%), and Consumer Staples (1.1%), were at the bottom of the leaderboard. Energy was the worst performing sector, down 8.6%, as oil prices retreated back into the mid-\$60s after initially rallying on the back of the Israel-Iran conflict eruption. Factor performance was similarly in favor of momentum and growth. The S&P 500 Growth Index was up 18.9% in the quarter while the S&P 500 Value Index was up just 3%. Small-cap stocks, represented by the Russell 2000 Index, were up 8.5%, almost fully reversing their Q1 loss.

One trend that accelerated rather than reversed in Q2 was the weakness of the U.S. dollar. After being down almost 4% in Q1, the U.S. dollar was down 7.1% in Q2 against other major currencies. This continued to be a strong tailwind for international equities along with their more attractive relative valuation. As a result, both the MSCI EAFE Index of developed markets and the MSCI Emerging Markets Index were up 12% in Q2.

Commodities performance in the quarter was more mixed, with precious metals rising and energy and agricultural commodities declining. Oil prices were down 9.2% on the key WTI Crude benchmark. As a result of that, the GSCI Commodity Index was down 2.81% in the quarter but held to a 2% gain in the first half of the year.

The U.S. Treasury bond yield curve steepened during the quarter, with the 2-year yield down 19bps to 3.72% while the 10-year yield stayed flat at 4.23%. As a result, the Bloomberg U.S. Aggregate Index was up 1.2% in the quarter, with Investment Grade Corporates (1.8%) outperforming the U.S. Treasuries (1.2%). High Yield Corporate bonds were up 3.5%. The best performing bonds were local currency international bonds, which returned 7.3% as per the Bloomberg Global ex-U.S. Aggregate Index.

MARKET RECAP & OUTLOOK | Q3 2025

KEY POINTS

MARKET SCORECARD as of 6/30/2025	TOTAL RETURN IN USD	
	Q2	2025 TR
DOW JONES IND AVG	5.5%	4.5%
S&P 500	10.9%	6.2%
NASDAQ	18.0%	5.9%
MSCI EAFE EQUITY (GROSS)	12.0%	19.9%
RUSSELL 2000 INDEX	8.5%	-1.8%
MSCI EMERGING MARKET EQUITY (GROSS)	12.2%	15.5%
BLOOMBERG GLOBAL AGG BOND INDEX	4.5%	7.3%
BLOOMBERG INTERM. TREASURY	1.5%	4.0%
BLOOMBERG INTERM. GOVT/CREDIT	1.7%	4.1%
BLOOMBERG 5 YEAR MUNI INDEX	1.4%	2.3%
BLOOMBERG HIGH YIELD CORP INDEX	3.5%	4.6%
ishares S&P GSCI COMMODITY TR INDEX	-2.8%	1.9%

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

- The U.S. economy has been slowing as consumer income and spending growth rates have both declined. Employment remains one bright spot that has given investors the confidence to continue to push risk assets higher.
- The Big Beautiful Bill looks to be a stimulatory measure that should boost after-tax income for the U.S. consumers at the time when inflation has eroded their real purchasing power.
- The Fed is hesitant to lower short-term rates given the low unemployment rate and potential risks to inflation that could come from Trump tariffs.
- We continue to tread carefully, staying away from overpriced cyclical sectors of the equity market. We favor defensive sectors, Small Caps, and international equities over U.S. Large Caps.
- We have shortened the duration and increased the quality of our bond portfolio, all in anticipation of the yield curve steepening and corporate bond spreads widening.

GLOBAL MACROECONOMIC REVIEW & OUTLOOK

Despite the market's rebound in Q2, the underlying economic reality has remained mixed as we received more soft economic data throughout the quarter. U.S. economic growth in Q1 was revised down to a -0.5% annualized contraction, driven by weak consumer spending and inventory swings due to tariff-related distortions. The Atlanta Fed's GDPNow estimate is calling for a rebound to 2.5% in Q2, but even that has come down from an estimate of nearly 3% earlier in the year. Inflation trends stabilized during the quarter but remained above the Fed's 2% target. The Core Personal Consumption Expenditures Index (PCE), the Fed's preferred inflationary gauge, rose 0.2% in the month of May for an annualized increase of 2.7%. The labor market cooled off a bit during the quarter but has remained steady enough to provide confidence to investors. Monthly non-farm jobs growth eased from 158k to 144k during the quarter, with June Non-Farm Payrolls report showing 147k jobs created and an unemployment rate of 4.1%.

The U.S. consumer has been the driving engine for the economy, but has been showing some signs of strain more recently. U.S. Personal Consumption Expenditures growth fell during the quarter from 0.2% in April to a 0.1% decline in May, contrasting with solid growth during 2024 and earlier this year. This was happening as the U.S. Personal Income declined 0.4% in May, marking the first decrease since September of '21. Adjusted for inflation, real spending declined 0.3% in May, and real disposable income slipped 0.7%, pointing to fading consumer resilience. The current administration's immigration policy could further exacerbate consumer spending issues as net migration trends wane. We have seen a decline in current transfer receipts as a result, with estimates calling for a 0.3–0.4% hit to GDP this year.

Given all of that, the passing of the Big Beautiful Bill (BBB) by Congress and its enactment into law at the beginning of July is one stimulatory measure likely to provide some relief from the headwinds presented by stubbornly high interest rates and tariffs. This bill extends and expands the 2017 Trump tax cuts, making most provisions permanent. It provides \$4.5T in total tax reduction over a decade, with new tax breaks on income from tips, overtime, and auto loans. The SALT deduction cap is being raised from \$10k to \$40k for five years as well. Similarly, immediate expensing for business equipment and research is made permanent, benefiting capital-intensive industries. The bill also allocates additional funding for border and national security. The bill partially pays for all the tax cuts through reductions in Medicaid and SNAP benefits, introducing work and eligibility requirements to both, while also rolling back clean energy tax credits and subsidies. Nonetheless, the Congressional Budget Office projects that the bill will add \$3.4T to the national debt over the next ten years.

INVESTMENT OUTLOOK

We continue to be cautious in terms of our asset allocation in light of extended valuations and mixed economic signals. The market's exuberance and elevated valuation does not match up with the economic reality on the ground or with a realistic set of expectations for the future. This disconnect between what is expected and what is likely is concerning because of what it may mean for future returns. While we recognize some of the stimulative measures that are coming down the pike as a result of the passage of the BBB, we are also weary of its impact on the direction of long-term interest rates. Without more fiscal discipline, i.e. spending cuts to help offset tax reductions, the level of growth required to keep the debt level from rising as a percentage of GDP seems rather unattainable. With foreign investors not showing up to the Treasury auctions as often, the Fed has had to absorb more of the supply of new issuance. This is likely to reignite inflationary pressures. Moreover, while the economy has shown some signs of resilience, the trend this year has remained downwards for economic growth, consumer income and spending. When put together, these two patterns of higher inflation and lower growth do not square up with all-time highs in market valuations. We are not the only ones that see this dichotomy. As per Bloomberg consensus forecast for this year, U.S. GDP growth expectations have declined from 1.75% to 1.25% while Core PCE expectations have risen from 2.1% to 2.8% since the beginning of this year.

Additionally, the emerging conflict between Fed Chair Jerome Powell and the Trump administration in terms of the direction of short-term interest rates is a wild card. President Trump wants to see lower interest rates from the Fed in order to boost consumer confidence and spending, as well as to reduce the cost of financing for the federal government. Chairman Powell, however, still sees the relatively low unemployment rate as anchoring the Fed's outlook to hold rates where they are, especially in light of inflation sticking above the Fed's target. This divergence of views is likely only going to increase the uncertainty in terms of the path and the direction of monetary policy for the rest of the year and into 2026. Trump has hinted that he could call for Powell's dismissal, but the Fed Chair is likely to see his term all the way through to May of next year.

We remain underweight U.S. equities in favor of being overweight international equities relative to the benchmark. We also favor Small Cap and Mid Cap segments of the U.S. market over Large Cap. We see them as benefiting more from recent legislative initiatives as well as having a more attractive valuation. We favor Energy and Utilities over Technology and Consumer Discretionary sectors. We also see some interesting opportunities in the Industrials and Materials sectors, where we hold overweight positions relative to the S&P 500 Index. In terms of fixed income, we anticipate normalization of the yield curve with upward pressure on longer-term yields. Yield spreads on Corporates and High Yield are too narrow to make them attractive to us. Alternatives, including commodities, remain our preferred asset class in order to hedge the potential risk of stagflation.

INVESTMENT TEAM

farmertrustco.com

Meet the team!

David A. Dastoli, President – CFA, CFP®
dastolid@farmertrustco.com | 330.740.1231

John D. Stewart, SVP & Chief Investment Officer – CFA
stewartj@farmertrustco.com | 330.740.1208

Igor Golalic, VP – CFA
golalici@farmertrustco.com | 724.867.2019

Thomas S. Rumbaugh, VP
rumbaught@farmertrustco.com | 330.765.0583

Dale Standley, VP
standleyd@farmertrustco.com | 330.740.1207

Mark Wilhelm, VP
wilhelmm@farmertrustco.com | 330.702.7215

Joe Waterman, AVP
watermanj@farmertrustco.com | 330.609.8328

YOUNGSTOWN: 42 McClurg Rd., Youngstown, OH 44512 | 330.743.7000
HOWLAND: 1625 Niles-Cortland Rd. NE, Warren, OH 44484 | 330.609.5057
HUDSON: 75 S. Main St., Hudson, OH 44236 | 330.282.4158

CANTON: 4518 Fulton Dr. NW, Suite 100, Canton, OH 44718 | 330.526.7305
WOOSTER: 305 West Liberty St., Wooster, OH 44691 | 330.439.4495
ASPINWALL: 319 Freeport Rd., Aspinwall, PA 15215 | 844.781.3623