

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 Fourth Quarter 2018

MARKET SCORECARD to 12/31/2018	TOTAL RETURN IN USD	
	Q4	2018 TR
DOW JONES IND AVG	-11.31%	-3.48%
S&P 500	-13.52%	-4.39%
NASDAQ	-17.28%	-2.81%
MSCI EAFE EQUITY (GROSS)	-12.50%	-13.36%
RUSSELL 2000 INDEX	-20.20%	-11.01%
MSCI EMERGING MARKET EQUITY (GROSS)	-7.40%	-14.25%
BARCLAYS INTERM. TREASURY	2.24%	1.41%
BARCLAYS INTERM. GOVT/CREDIT	1.65%	0.88%
BARCLAYS 5 YEAR MUNI INDEX	1.58%	1.69%
BARCLAYS HIGH YIELD CORP INDEX	-4.53%	-2.08%
ishares S&P GSCI COMMODITY TR INDEX	-7.75%	-13.82%

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

Market Recap

It was difficult to find an asset class that had a positive 2018. The 4th quarter of 2018 was a not-so-subtle reminder of the volatility that can be associated with owning equities. Heading into October, large capitalization U.S. equities as measured by the S&P 500 were up +10.56%. The S&P 500 made a swift, harsh reversal in the 4th quarter, leading to a -4.39% total return for the calendar year (the worst performance in a decade). From peak to trough, the S&P 500 fell nearly 20% (-19.8%) in the 4th quarter of 2018. The all-time high was set on September 20th, 2018 (2,930.75) and the recent low of 2,351.11 was recorded on Christmas Eve. The Russell 2000 index, which tracks small capitalization stocks, finished the year down -11.01%. International equities fared even worse last year, down -13.36% as measured by the MSCI EAFE index. Fixed income was the clear “winner” in 2018 by simply staying even. The Barclays U.S. aggregate bond index had a total return of +0.01% for the year. Continuing the “nowhere-to-hide” theme, commodities (as tracked by the S&P GSCI Index) were down -13.82% in 2018, oil was down approximately -25% (WTI Crude) and emerging markets were down -14.25% (MSCI Emerging Markets Index). Real Estate Investment Trusts (REITs) were a lonely winner on the year, up +4.7%.

Key Points

- We see elevated downside risk to economic growth, which should cause the Fed to pause their interest rate hikes in 2019
- We are maintaining our cautious approach to equities, over-weighting “defensive” sectors like Utilities, REITs and Consumer Staples
- We are maintaining our high quality bias in bond portfolios with a slightly longer than benchmark duration
- We continue to favor U.S. equities over International equities, but we have modestly increased our allocation to Emerging Markets (as we expect the somewhat over-valued dollar to reprice lower)

Investment Outlook

It is likely that corporate earnings peaked in the 3rd quarter of 2018 for the current business cycle, and U.S. economic growth peaked the previous quarter (Q2 of 2018). Current data for both economic growth and corporate earnings are still strong, just not at peak levels on a rate of change basis. This relative decline in data has exacerbated (if not outright caused) the volatility in the equities markets in the 4th quarter of 2018. Before we move to a more aggressive tactical allocation to equities, we want to see both economic and corporate earnings growth reaccelerate. However, until we see that empirical evidence of a reacceleration in growth rates, we continue to remain defensive in our sector positioning by over-weighting consumer staples, utilities and real estate (REITS). We also continue to prefer domestic stocks over international stocks. However, given that we believe the dollar has the potential to move lower in the coming months, we find emerging markets somewhat attractive at this point. Earlier in 2018, we extended our fixed income duration and increased the credit quality of our client portfolios, and we will stay that course given the current market conditions. Throw in all of the talk about trade wars, Brexit, an Italian financial crisis, a government shutdown, a new Congress in Washington, and a Federal Reserve (Fed) that has been aggressively raising interest rates; we can probably expect more volatility in 2019.

Global Macroeconomic Review and Outlook

The Fed was front and center in the discussion for what caused the late season volatility in the equity markets. The Fed chose to tighten monetary policy with another mid-December Fed Funds rate hike. Equity markets were hoping for a pause to Fed tightening, or at the very least some dovish language to soften the blow ... but received neither. Our view is that the Fed will have to pause (or at the very least, curtail) any further rate hikes in 2019 given the slowing economic data. The Fed may also no longer be able to blame inflation for their tightening policy, as inflation appears to be moderating. The U.S. unemployment rate recently ticked up to 3.9% from 3.7% in the latest employment report driven by new entrants into the labor force. Corporate profits (while solid) have begun to wane on a relative basis, which is an indicator we will monitor closely. While it's never a good time for long-term investors to exit the markets, some investors may be finding out that they have more risk in their portfolios than they thought. This may be a good time to reevaluate your portfolio relative to your goals and your ability and willingness to assume risk.



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