

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 S&P 500 had a very strong 3rd quarter of 2018 with a 7.7% return (up 10.56% YTD). Small Cap stocks, as measured by the Russell 2000, returned 3.6% over the same time frame (up 11.51% YTD). Foreign stocks continue to underperform domestic stocks, with a -0.98% YTD performance. Emerging market stocks have fared even worse, down -7.39% YTD. Although stocks have recently performed well in the U.S., bonds have struggled YTD and are down -1.60% as measured by the U.S. Aggregate Bond Index. Although consumer price inflation remains within tolerance ranges at 2.2% year-over-year, wage inflation has risen to 2.9% year-over-year and needs to be monitored closely. Consumer Confidence (at an 18 year high and near an all-time peak), Consumer Sentiment (near a 14 year high) and manufacturing data remain strong and have given the Federal Reserve ammunition to keep hiking interest rates. Upward pressure on policy interest rates will continue to be a headwind for both the bond and stock markets in the coming 9-12 months.

Market Recap and Outlook Third Quarter 2018

Key Points

MARKET SCORECARD to 09/30/2018	TOTAL RETURN IN USD	
	Q3	YTD
DOW JONES IND AVG	9.63%	8.83%
S&P 500	7.71%	10.56%
NASDAQ	7.42%	14.52%
MSCI EAFE EQUITY (GROSS)	1.42%	0.44%
RUSSELL 2000 INDEX	3.58%	11.51%
MSCI EMERGING MARKET EQUITY (GROSS)	-0.95%	-7.39%
BARCLAYS INTERM. TREASURY	-0.12%	-0.81%
BARCLAYS INTERM. GOVT/CREDIT	0.21%	-0.76%
BARCLAYS 5 YEAR MUNI INDEX	-0.20%	0.10%
BARCLAYS HIGH YIELD CORP INDEX	2.40%	2.57%
ishares S&P GSCI COMMODITY TR INDEX	1.34%	11.84%

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

- Year-over-year comparisons with regard to both economic growth and corporate profit growth will be increasingly more difficult to match or exceed.
- Higher wage and price inflation data will give the Federal Reserve more leeway to further increase policy interest rates (Fed Funds).
- With an inevitable inflection point in the economy (and the financial markets), we are becoming more defensive by adding to Utilities and REITS.
- We have slightly lengthened our duration in our core bond portfolios and have been buying more Treasuries relative to corporate bonds.
- We continue to favor U.S. vs. International equities and “value” over “growth” stocks.

Investment Outlook

If we are indeed at peak corporate earnings and economic growth in the U.S., we would continue to favor U.S. equities over international stocks. Within individual stock portfolios, we are now favoring more defensive sectors such as Utilities, Consumer Staples, and Real Estate. We simultaneously have reduced our exposure to more cyclical areas such as Financial and Industrial stocks. On the fixed income front, we have adjusted our bond holdings to a more defensive posture by lengthening our duration and adding more direct U.S. government bonds to increase the credit quality of our portfolios.

Global Macroeconomic Review and Outlook

Both the economy and the financial markets performed well in the 3rd quarter of 2018, but continued growth in both areas will be challenging going forward. In fact, the recent surge in economic growth will have lingering side effects, such as inflation (both price and wage) and higher interest rates. The Federal Reserve (the Fed) has increased the Fed Funds rate three times in 2018, most recently in September. They will likely increase the key interest rate again in December 2018 and have telegraphed their plans for at least three more rate hikes in 2019. Higher policy rates are the prescription to combat higher inflation (which we have begun to observe), but will at some point restrict economic activity. Although the current level of interest rates is not restrictive in our opinion, we continue to monitor the situation for an inflection point where higher rates begin to stifle economic growth. Corporations experienced extremely strong profit growth in the 1st and 2nd quarters of 2018. Such robust profit growth can become the victim of its own success. The recent surge in corporate earnings/profit makes quarter-over-quarter and year-over-year comparisons increasingly more difficult to match or exceed. And while the United States continues to experience growth, the rest of the collective world struggles to expand their respective economies. We believe that many equity markets outside of the U.S. will remain vulnerable to downside pressure. Although we do not see a recession for the United States in the near – intermediate term (9-12 months), we have begun positioning our client portfolios towards a more defensive posture.



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