

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 Third Quarter 2020

MARKET SCORECARD as of 09/30/2020	TOTAL RETURN IN USD	
	Q3	2020 TR YTD
DOW JONES IND AVG	8.22%	-0.91%
S&P 500	8.93%	5.57%
NASDAQ	11.24%	25.33%
MSCI EAFE EQUITY (GROSS)	4.88%	-6.73%
RUSSELL 2000 INDEX	4.93%	-8.69%
MSCI EMERGING MARKET EQUITY (GROSS)	9.70%	-0.91%
BARCLAYS INTERM. TREASURY	0.19%	6.02%
BARCLAYS INTERM. GOVT/CREDIT	0.61%	5.92%
BARCLAYS 5 YEAR MUNI INDEX	1.28%	3.49%
BARCLAYS HIGH YIELD CORP INDEX	4.60%	0.62%
ishares S&P GSCI COMMODITY TR INDEX	4.61%	-33.38%
<i>Note: All returns include invested cash flows expressed in U.S. dollar terms</i>		

Market Recap

U.S. equities clawed back all of the COVID-19 related losses of the first quarter of 2020 by posting a positive 8.93% return in the third quarter as measured by the S&P 500, putting the index up 5.57% YTD as of the end of September. The story has been very different though when comparing growth stocks which are up 20.61% YTD (as measured by the S&P 500 Growth Index) and value stocks which are down 11.47% (as measured by the S&P 500 Value Index). The technology heavy NASDAQ Composite is up 25.33% YTD while small capitalization stocks (as measured by the Russell 2000 Index) are down 8.69% YTD. International stocks (as measured by the MSCI EAFE Index) were down 6.73% YTD and emerging market stocks were relatively flat at a negative 0.91% YTD return. Commodities posted a 1.88% positive return (as measured by the S&P GSCI index). High Yield bonds have rebounded along with the equity markets and are now up 0.62% YTD, while the Barclays U.S. Aggregate bond index is up 6.99% over the same time frame. Municipal bonds have posted a 3.49% return YTD.

Key Points

- Additional monetary stimulus is likely on the way, regardless of the outcome of the election
- Further monetary stimulus will put downward pressure on the dollar, making foreign equities comparatively attractive to domestic equities
- Short term inflation may be put on hold if there is a "second wave" of shutdowns to the economy, but inflationary pressures are likely to build as time goes on
- Value stocks are attractive after a long period of underperformance

Investment Outlook

Although the equity markets have rebounded sharply from the lows set in March 2020, the rebound have been mainly driven by large capitalization growth stocks. Value stocks have underperformed to the point that they look very attractive when compared to over-extended growth equities. The underperformance of value stocks has persisted for some time, but the gap between growth and value has been compounded by the COVID-19 pandemic and is unlikely to continue. As the Federal Reserve and the Federal Government continue to pump massive amounts of monetary and fiscal stimulus into the economy, a drop in the dollar is likely and inflation is also a likely outcome in the intermediate to long term. We have addressed these concerns in our client portfolios by adding to REITS, commodities, Treasury Inflation Protected bonds (TIPs) and dividend paying value stocks. We have also recently added to Preferred stocks in an effort to find yield in a low interest rate environment, while simultaneously avoiding low credit quality bonds (i.e. "junk bonds"). International stocks look to be attractively priced when comparing them to domestic equities, as do emerging market stocks. With the 10 year U.S. Treasury bond hovering around 0.70%, we find the current environment challenging for fixed income oriented investors. We have added slightly to preferred stocks and dividend paying "value" stock in an effort to seek additional income for our investors. Where appropriate, we have also utilized the options markets as a means to increase income in investors' portfolios by writing covered calls on existing equity positions.

Global Macroeconomic Review and Outlook

The drop in U.S. GDP in the second quarter was historic, plummeting 31.4% at an annualized pace. This record decline set the stage for a dramatic comeback in the third quarter numbers however, as many estimates of GDP growth exceed 25-30% for the period ending September 30th. The "V-shaped" recovery was expected, but can be threatened by a "second wave" of shut-downs if the COVID epidemic fears are stoked with approaching 2020-2021 flu season. The unemployment rate has posted a similar pattern, peaking at 14.7% in April and dropping to 7.9% as of the beginning of October. Manufacturing and Services indexes has also rebounded sharply off their Spring lows and are now in "expansionary" mode. Consumer prices rose sharply in August for the third consecutive month, and we expect prices to continue to rise as long as the economy continues on the path of fully re-opening. Coinciding with the record low interest rate environment, the housing market continues to be scorching hot as new home and existing home sales reach levels not seen since before the Great Recession of 2008.



Investment Team

David A. Dastoli, CFA, CFP® - President

dastolid@farmerstrustco.com - 330.740.1231

**John D. Stewart, CFA - Senior Vice President
and Chief Investment Officer**

stewartj@farmerstrustco.com - 330.740.1208

Thomas S. Rumbaugh, - Vice President

rumbaught@farmerstrustco.com - 330.765.0583

Dale Standley - Vice President

standleyd@farmerstrustco.com - 330.740.1207

Todd P. Finn, CFA - Assistant Vice President

finnt@farmerstrustco.com - 330.609.8328

www.farmerstrustco.com