WEALTH MANAGEMENT 360
FARMERS TRUST COMPANY

MARKET UPDATE AND OUTLOOK FOR FOURTH QUARTER 2022

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 2022

MARKET SCORECARD as of 9/30/2022	TOTAL RETURN IN USD	
	Q3	2022 TR YTD
DOW JONES IND AVG	-6.17%	-19.72%
S&P 500	-4.88%	-23.87%
NASDAQ	-3.91%	-32.00%
MSCI EAFE EQUITY (GROSS)	-9.29%	-26.76%
RUSSELL 2000 INDEX	-2.19%	-25.10%
MSCI EMERGING MARKET EQUITY (GROSS)	-11.42%	-26.89%
BLOOMBERG INTERM. TREASURY	-3.08%	-8.70%
BLOOMBERG INTERM. GOVT/CREDIT	-3.06%	-9.62%
BLOOMBERG 5 YEAR MUNI INDEX	-2.71%	-8.06%
BLOOMBERG HIGH YIELD CORP INDEX	-0.65%	-14.74%
ishares S&P GSCI COMMODITY TR INDEX	-7.52%	29.64%

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

MARKET RECAP

Financial markets continued to be under selling pressure during the third quarter of 2022, with the headline S&P 500 index down 4.9% for the trailing three month period ending September 30th (now down 23.9% year-to-date). The Nasdaq Composite fared even worse, down 32% on the year, and the Dow Jones Industrial Average is down roughly 20% over the same time frame. International equities have not fared any better with the MSCI EAFE Index down 26.8% YTD and emerging markets (as measured by the MSCI Emerging Markets Index) down 26.9%. Large Cap Value stocks have held up slightly better in 2022, down 17.8% YTD, while Large Cap Growth stocks are down 31%. Small Cap stocks (as measured by the Russell 2000 index) have also lost value this year, and are down 25%. Energy remains the lone sector that is in positive territory in 2022, up 29.7%. Communications Services was the worst performing sector for the trailing nine months, down 38.4%. Commodities (as measured by the GSCI Commodity Index) continue to outperform with a positive return YTD, up 29.6% due to persistently high oil and natural gas prices. The 10-year U.S. Treasury rate continues to climb higher with a current yield of 3.8% while the 30-year U.S. Treasury bond yields 3.7%. Cash yields on money market funds have increased to around 2.8%. Fixed income returns have suffered this year along with equities, and the Bloomberg Intermediate Govt./Credit Index down 9.6% YTD while the Bloomberg 5-year Muni Index is down 8% over the same time frame. High yield bonds are down 14.7% YTD as measured by the Bloomberg High Yield Index.

KEY POINTS

- Regardless of the Federal Reserve's further attempts to mitigate rising prices, volatility and near-term downside risk remain for both stocks and bonds
- With money market yields now exceeding 2.75%, cash positions in client portfolios have been increased in an effort to dampen the near-term volatility
- Defensive sectors such as Utilities and Consumer Staples will likely continue to outperform the overall market
- Corporations have begun to dramatically reduce their forward earnings guidance, a necessary process for stocks to bottom. This process could possibly last well into 2023

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INVESTMENT OUTLOOK

The Federal Reserve (the Fed) has been steadfast in its fight against inflation and is committed to raising short term interest rates in an attempt to cool price pressures. Their most recent increase in September (+0.75%) brought the Fed Funds rate to a target of between 3.0-3.25%, up from a range of 0.0-0.25% at this time last year. The higher interest rates have begun to cool the housing market and consumption, which will hopefully lead to price moderation going forward. Even if the Fed becomes more "dovish" in the near-term, there may be additional downside risk to both stocks and bonds as a result of the rapid rise in the cost of borrowing. In light of current conditions, we continue to overweight more defensive areas of the stock market (Consumer Staples, Utilities, and Healthcare) and underweight cyclical and growth-oriented sectors like Consumer Discretionary and Information Technology. Throughout the year we have reduced our U.S. equities and growth stocks in particular. As Europe and other foreign countries find themselves in similarly difficult economic conditions, we are considering trimming developed international equities as well. On the domestic fixed income front, we have slowly begun to increase our bond duration to capture the now higher yields, but have done so with high quality Government, Government Agency and Corporate bonds. In an attempt to weather the near-term volatility, we have also increased our cash positions within client portfolios as 7-day effective yields on the money markets now exceed 2.75%.

GLOBAL MACROECONOMIC REVIEW & OUTLOOK

Due to persistent inflation (the latest Consumer Price Index reading showed year-over-year prices increasing by 8.3%), the Federal Reserve has continued to raise short-term interest rates, inverting the yield curve. Currently, a 2-year U.S. Treasury bond yields approximately 4%, while a 10-year U.S. Treasury bond yields 3.75%. As interest rates along the curve continue to rise, output in the U.S. (as measured by Real Gross Domestic Product, or GDP) continues to fall. During the second quarter of 2022, Real GDP dropped by 0.6%, the second consecutive quarter of negative growth (a technical definition of a recession). In spite of the slowdown in the overall economy, the unemployment rate continues to be near historical lows at a rate of 3.7%. Without job losses on the horizon, the Fed is not likely to slow down their pace of interest rate hikes. In our estimation, with Real GDP falling as economic growth wanes, job losses (which are a lagging indicator) are inevitable and would be one major catalyst to justify the end of the Fed's rate hikes.

TRUST COMPANY

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