

Wealth Management Bulletin

Summer 2023

LCNB | Wealth

Welcome to Summer ...

It's that time of year again. The days are longer, so there is more time for picnics, water parks, ball games, fun vacations, boating and all the other ways we "relax" in the Summer. Unless, of course, you have kids in multiple activities, have a job, are engaged in community activities, or have a multitude of extended family obligations. On second thought, forget relaxation, let's consider just trying to find normalcy amidst the chaos.

Sometimes our financial lives can seem like so much chaos. In my own personal circumstance, for example, retirement is on the horizon in the next few years. To that end, my wife and I recently took the plunge and purchased a second home in Florida. Nothing fancy, you understand, but a place to spend the retirement winters without shoveling snow. Not a spur of the moment decision, but something we have been discussing for a long time. Sounds nice. Sounds relaxing. Sounds chaotic.

For second homes need maintenance, and furniture, and new ceiling fans, and painting, and electrical upgrades, and new blinds, and yard work. (Did you know that palm trees shed?) They come with utility bills and real estate taxes and HOA fees. Not only that, but you need to consider transportation to and in the new location, and just think about all the things you have in one home that you might want to have in two. Then contrast that with what retirement comes with: no paycheck and plenty of cash flow questions. Not necessarily a proper formula for relaxation.

As I read that last paragraph, my first thought is to tell myself to quit complaining. But my second thought would be to consider how any of that is even possible. The journey to our second home destination involved investment, savings, cash flow, credit, real estate valuation and other financial considerations. In short, solid Financial, Investment and Retirement planning.

While there are the fortunate among us who have fiscal viability dropped into their laps, my wife and I are not among them. The ability to buy the second home and the furniture and the ceiling fans, and the blinds... (never mind, if I keep going, I'll need financial therapy). The real point is that over the years, we have engaged in financial and investment planning and paid attention to retirement and other financial goals. We created a roadmap for where we wanted to go and a tool kit to help us get there. After forty some years of work, we will be able to spend our winters in the sunshine (and heat, and hurricanes, and mosquitos, and...there I go again!)

We have invested in both retirement and non-retirement assets, used appropriate savings vehicles, followed reasonable cash flow budgets, and sought proper professional advice when appropriate. We have enjoyed raising and educating the kids, traveling, our son's wedding (our daughter's is next year), and have been blessed with two healthy and happy grandchildren who we spoil at every opportunity. Mistakes? Of course. Regrets? None. We've lived within our means, splurged where we could, contributed to community activities and organizations as we felt led, helped out family, but always, followed the plan.

It is never too late to begin planning or seeking professional financial planning and investment advice. No matter at which rest stop you find yourself this Summer, **LCNB | Wealth** and **LCNB National Bank**, can help find Planning, Trust, Investment and Savings solutions to help you on your financial journey. Give us a call. We would love to have a conversation and go further down your financial road, together.

Hope you have a great Summer!

Thank you for your relationship with **LCNB | Wealth**.

Best Regards,



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Why Use a Corporate Trustee or Executor

Is selecting an executor or trustee simply an honor you bestow on an adult child or other relative, or on a trusted friend? When establishing and updating your estate plan, your choice of fiduciary, such as your executor and trustee, is an important part of the planning process. Many individuals and their counsel, however, do not place sufficient priority on this issue, which frequently leads to delays, expense, family disharmony, and breaches of your intentions during the settlement of your affairs and beyond.

Your executor or trustee will likely face a variety of tax, investment, accounting, record keeping and legal issues. And your fiduciary must work directly with your heirs and sometimes convey awkward and uncomfortable decisions, especially among family members. The time and expertise required can be considerable, and the position may cause a great deal of emotional distress.

A professional trustee, such as a bank trust department or trust company, will have trust officers, portfolio managers, and tax managers who have spent many years handling these issues. There are many reasons to consider a bank as your fiduciary:

- **Continuity.** Trusts can last for decades. A corporate fiduciary will not become ill, die, or move away.
- **Knowledge and experience.** Employees of a corporate fiduciary have deep knowledge regarding taxes, investments, and the laws regarding wills and trusts.
- **Objectivity.** Family dynamics can be complex. A corporate trustee brings outside objectivity to what can be wrenching decisions for family members.
- **Prudence.** Enjoy the peace of mind of having professionals handling your family matters.
- **Economic Efficiency.** Typically, a bank will charge its services based on a fee schedule, and the fee schedule may be less expensive than an individual trustee who outsources the trust's investment management, legal compliance, record keeping, and tax services.

LCNB Wealth has the expertise to provide financial and fiduciary services and solutions at a high level, while treating you and your beneficiaries with the care that you desire and expect. If you have interest, please give us a call and we will be very happy to meet with you and determine how we can help.

Thank you and see you soon.

Economic Summary – What Recession?

For the past two quarters, I have written about economic cross winds and mixed signals from financial markets. I might as well make it three quarters in a row and call it a streak. As noted previously, the spread between the 2-year and 10-year U.S. Treasury notes inverted back in June of 2022. This has been one of the most accurate predictors of a recession for the past 75 years. This along with the overall Leading Economic Indicators Index turning negative has had economists and market participants, like myself, on recession watch for most of the year.

On the other hand, all seems well. Total economic output as measured by Gross Domestic Product or GDP, is running at a healthy 2.4% as of the second quarter of 2023. Twelve months and over 500 basis points in interest rate hikes from the Fed and yet the labor market remains resilient with a current unemployment rate of just



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3.5%. The stock market has recovered most of the losses from 2022 and inflation is trending lower.

All of this seems to suggest that the Fed has succeeded in engineering a soft economic landing. We are now almost 400 days past the initial yield curve inversion. Surely if we were going to get a recession it would have happened by now, right? Fellow college football fans will have to forgive me as I borrow from Lee Corso to say, “not so fast my friends!” We all recall how quickly things developed during the Covid induced recession of 2020. However, past cycles have not always moved so quickly. During the Global Financial Crisis, unemployment did not start to rise for 485 days after the initial inversion. In fact, the stock market did not peak until 612 days *after* inversion, and the recession did not start for nearly 2 years.

Global Financial Crisis	Date	Days From Inversion
Yield Curve Inversion	1/31/2006	0
Fed Ends Rate Hikes	6/30/2006	150
Unemployment Begins to Rise	5/31/2007	485
Recession Officially Starts	12/1/2007	669
Stock Market Top	10/5/2007	612
Stock Market Bottom	3/9/2009	1133

This is not to say that the current cycle is anything like the Global Financial Crisis, but I do think Mr. Powell and the Fed should hold off on flying any mission accomplished banners for a little while longer.

Equity Summary:	2 nd Qtr.	YTD	12 Mth	3 Yr.	5 Yr.
S&P 500 (Large Cap Domestic)	8.74	16.89	19.59	14.60	12.31
Russell 2000 (Small Cap Domestic)	5.21	8.09	12.31	10.82	4.21
MSCI ACWI Ex US (International)	2.44	9.47	12.72	7.22	3.52

Stock Market Update – Getting Top Heavy

Stocks continued to climb higher in the second quarter led by large cap U.S. growth stocks. The remarkable run from the October 2022 lows has brought the S&P 500 Index to within 5% of the all-time high. Much of this gain has been attributed to just a handful of mega-cap stocks on the heels of recent releases of Artificial Intelligence, or AI driven technology. By the end of the second quarter, nearly 30% of the S&P 500 Index was made up of just 10 stocks. We prefer to bet on the other 490 stocks at more attractive valuations.

U.S. growth and value stocks have traded places over the past year and a half. As shown in the charts below, the Russell 1000 Value Index massively outperformed the Russell 1000 Growth Index from the start of 2022 through the October lows. This trend has since reversed with growth stocks leading the charge.



Fixed Income Summary:	2nd Qtr.	YTD	12 Mth	3 Yr.	5 Yr.
US T-Bill 90 Day Index	1.24	2.40	4.10	1.50	1.59
BC Municipals 5Yr	-0.84	1.16	1.35	-0.69	1.44
BC Intermediate Government/Credit	-0.81	1.50	-0.10	-2.46	1.23
BC High Yield Corporate	1.75	5.38	9.06	3.13	3.36

Fixed Income – No Surprises

While long-term Fed Funds expectations have varied over the past few years, the Federal Reserve has been very transparent about their short-term rate expectations. During the second quarter of 2023, the Federal Reserve increased rates another .25% in May and signaled they would be targeting an additional quarter of a point hike in July, that we have already seen as I write this article. The Fed Funds Rate now sits at 5.50%, a full 1% higher than where we started the year.

At the beginning of the quarter, the 10-year Treasury yield remained relatively flat. It moved higher once the Fed signaled they would stay diligent in their fight against inflation, ending the quarter 34 basis points higher at 3.81%. Short-term interest rates also moved higher during the 2nd quarter with the 2-year Treasury moving significantly from 4.06% to 4.87%. By the end of the quarter, the spread between the 2-year and 10-year Treasury yields was close to its' peak 1.06%. This is also the second longest inversion since 1978, sitting at 14 months and counting.

As recession concerns began dampening in the second quarter, bond investors risk appetite increased. This led the spread between Treasuries and High Yield bonds to narrow from 4.55% down to 3.90% as of quarter-end. This movement did lead to a positive return in the high yield market, returning investors 1.60% for the 3-month time horizon. This credit spread tightening was not enough to overcome the higher rates in the Treasury markets. The Bloomberg Barclays Aggregate returned investors -0.84% during the second quarter, reversing the small rally seen in quarter one.

We continue to monitor current inflationary concerns and signals from the Fed to adjust our bond portfolios. With concerns of a potentially weakening economy and the sharp rise in longer-term rates, we have started to lengthen our bond portfolios and maintain our cautious exposure to stocks and alternatives.



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Alternative Investments Summary:	2nd Qtr.	YTD	12 Mth	3 Yr.	5 Yr.
Bloomberg Commodity	-2.56	-7.79	-9.61	17.82	4.73
Dow Jones Global Real Estate	0.45	0.66	-5.53	1.46	0.40
Morningstar Broad Hedge Fund TR	0.67	-1.33	1.04	16.33	8.21
Consumer Price Index	0.63	2.34	2.51	5.62	3.81

Alternatives Update

Gold and oil both contributed to the second quarter negative returns in the Bloomberg Commodity index. Gold dropped a modest 2.5% ending the quarter at \$1919/ounce. The moderating inflation data and continued hawkishness of the Fed may have contributed to the lackluster performance. Oil continued its' decline in the second quarter, likely due to an increase in US production which is expected to reach an all-time high in 2023. In addition to this increase in production, the expected rebound from China reopening has been disappointing. Investments in private equity funds for the first half of 2023 are 20% lower compared to the first half of 2022. The number of funds actively raising capital is the lowest quarterly total since September 2014.

We remain neutral in alternatives coming into the second half of 2023. Our primary exposure is through the First Trust Long/Short Equity Fund (FTLS) mentioned in the Winter bulletin. As of this writing, FTLS has returned over 20% YTD. As a reminder, this fund invests in a



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long/short strategy designed to capture most of the market upside with little market downside. This strategy involves a combination of taking long positions in underpriced assets that the portfolio manager expects to increase while simultaneously taking short positions in overpriced assets that are expected to decrease. The goal is to minimize market exposure while capitalizing on price changes in these assets. As always, we are available to help you meet your financial goals – reach out to any of our **LCNB | Wealth** officers for a more detailed discussion.

Junior Achievement – Ross County Jaycee Golf Scramble



LCNB was an event sponsor of the Ross County Jaycee Golf Scramble, supporting Junior Achievement scholarships in local schools. **LCNB | Wealth** associates Brad Ruppert, Kenna Hessling, Brittnay Mustard-Smith, and Erin Hawk actively participated, enhancing their golf skills while connecting with Ross County partners of LCNB National Bank.

Although the team did not secure a victory, Brad's luck prevailed as he won a generous raffle prize—a large cooler. The event showcased LCNB's commitment to education and community engagement while providing an enjoyable networking opportunity for its associates.

Mas Juntos – Further Together at Cincy Cinco



LCNB proudly sponsored a booth at the lively 19th Annual Cincy Cinco Festival in downtown Cincinnati. Under the guidance of **LCNB | Wealth** Assistant Trust Officer, Amanda Luman, dedicated volunteers from the bank engaged attendees with educational games on financial literacy and the rich history of banking.

By actively supporting events like Cincy Cinco, LCNB raises awareness about the diverse range of products, services, and

career prospects it offers, ultimately making a meaningful and positive difference in the Hispanic/Latino communities it serves.



Springboro Juneteenth Jubilee – History in the Making



LCNB had the pleasure of sponsoring and attending the Springboro Juneteenth Jubilee this past weekend, led by **LCNB | Wealth** Assistant Trust Officer Amanda Luman. The event, organized by PEACOC (Parents Empowering All Children of Color), helped unite individuals from various backgrounds to celebrate freedom, honor history, and promote a strong, inclusive community that encourages

authenticity and individuality.



Matthew 25: Ministries – Making Global Impact, Locally



LCNB| Wealth associates demonstrated their commitment to local communities by dedicating their time to volunteer at Matthew 25: Ministries. They tirelessly unpacked supplies for the M25M "Care Boxes," which are distributed worldwide to aid communities affected by natural disasters and economic hardship. Mikey, one of the Volunteer Coordinators, emphasized the invaluable role of volunteers, making it clear that Matthew 25



cherishes volunteers as the heart of their ministry and the reason they can make such a positive impact on the world.

Matthew 25: Ministries is an international humanitarian aid and disaster relief organization helping the poorest of the poor and disaster victims locally, nationally, and internationally regardless of race, creed, or political persuasion. Matthew 25: Ministries provides basic necessities and disaster relief across the U.S. and worldwide.

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We hope that we are exceeding your expectations. The best compliment we could receive would be a referral of your friends and family. Please contact Josh Shapiro @ 513-228-7659 or jshapiro@LCNB.com for more information.
