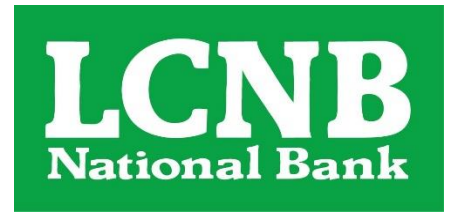


Trust & Investment Bulletin

Summer 2018



It's Summer.

Over the years, many have delighted us with songs about their ideas of summer. Frank Sinatra (The Summer Wind); The Beach Boys (All Summer Long); Don Henley (Boys of Summer); and my personal favorite, Nat "King" Cole (Lazy, Crazy, Hazy Days of Summer) have all given us summer lyrics that got stuck in our minds and in our hearts.

At LCNB, we have our own ideas about summer. Vacations with family, weekend days at the pool, picnics and barbeques with all of our favorite "summer" foods, or a round of golf at our favorite course. But even with all of this summer relaxation, we are still here, paying attention to your financial needs. Because while we agree with Nat "King" Cole that summer can be hazy and crazy, there is nothing lazy about our focus on your financial peace of mind.

Please let us know how we can be of assistance. Enjoy your summer!

Warmest Regards,
Mike



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Economic Summary – Trade Tensions Accelerate

Expanding trade tensions between the U.S., China, Canada, Mexico, and the European Union dominated headlines and agitated global financial markets throughout the second quarter. What started as rhetoric in the first quarter, shifted to implementation as the first round of tariffs kicked in. International equities were hardest hit by the news as the U.S. dollar spiked higher during the quarter. The charts on page 2 show that as the dollar (lower chart) started to climb in April, the international stock markets (red line upper chart) began to trail domestic issues.

Despite the financial market turmoil, the U.S. economic fundamentals remain solid. U.S. GDP growth for the first quarter was finalized at just 2%. However, it is widely expected to accelerate to 3% or higher when second quarter estimates are posted later this month. U.S. employment rose by 213,000 jobs in June with the unemployment rate falling to 3.9% during the quarter. Wage gains and inflation metrics remain tepid enough to allow the Fed to continue to hike rates at a gradual pace as they move towards normalization.

While U.S. expansion remains on track, international economies are showing some signs of strain. China's most recent growth rate showed a still robust 6.7%, but there were some signs of slowdown in retail sales and investment data during the quarter. The European Central Bank recently revised down their forecasted growth for the region from 2.4% to 2.1%. It seems, the trade tensions are starting to have an impact on what was expected to be a year of synchronized global growth.



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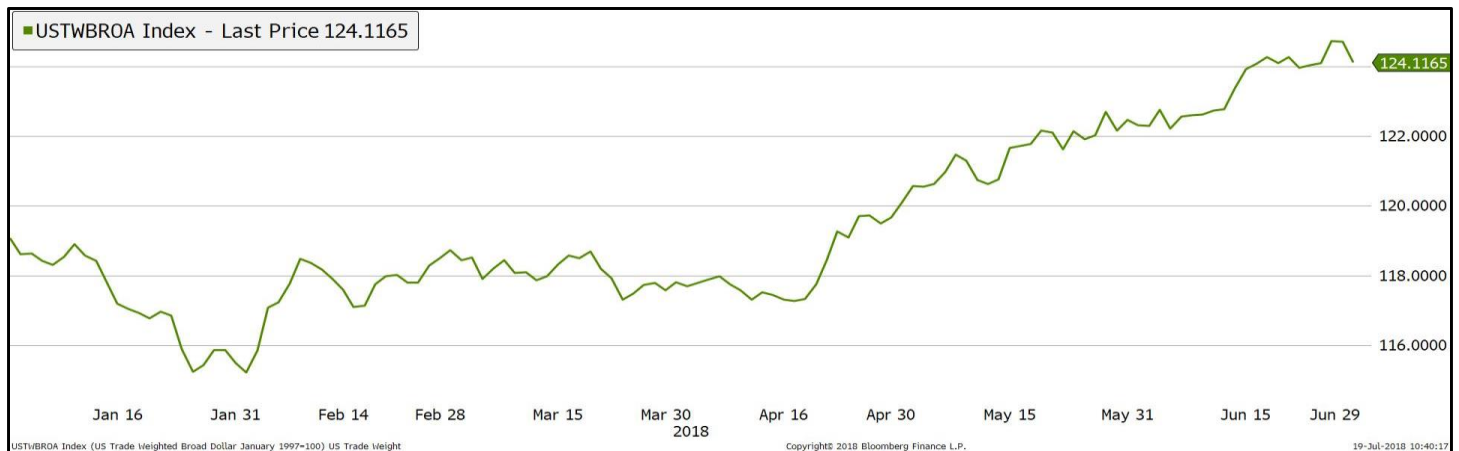
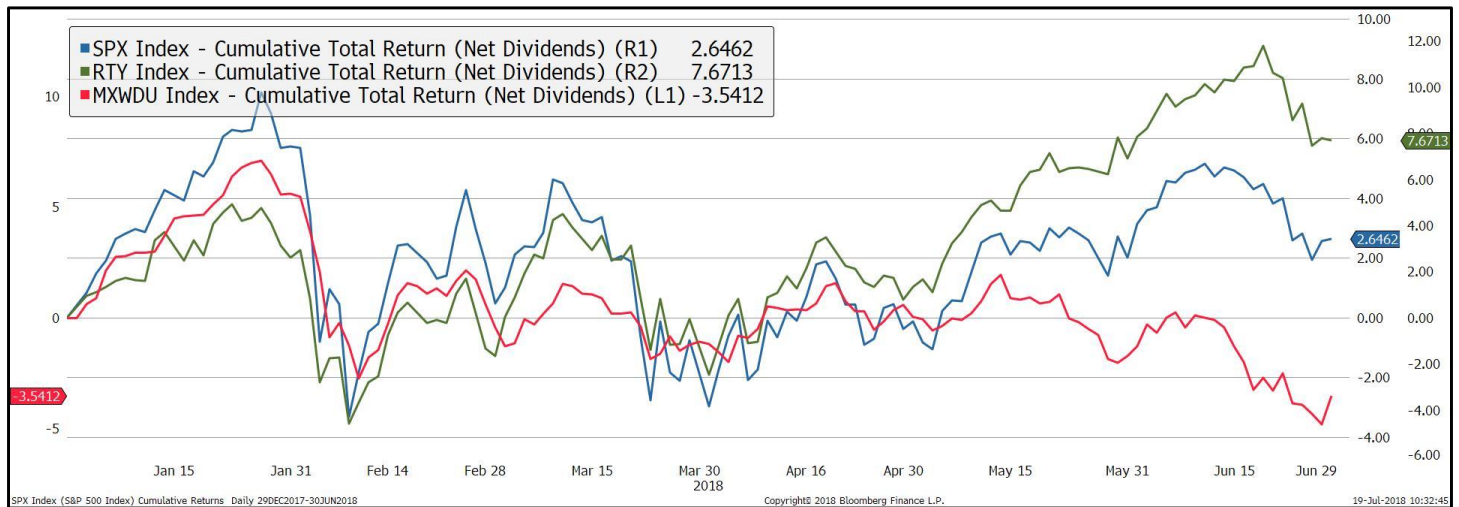
| Equity Summary: | 2nd Qtr | YTD | 12 Month | 3 YR | 5 YR |
|-----------------------------------|---------|-------|----------|-------|-------|
| S&P 500 (Large Cap Domestic) | 3.43 | 2.65 | 14.37 | 11.93 | 13.42 |
| Russell 2000 (Small Cap Domestic) | 7.75 | 7.66 | 17.57 | 10.96 | 12.46 |
| MSCI ACWI Ex US (International) | -2.61 | -3.77 | 7.28 | 5.07 | 5.99 |

Equity – Diverging Returns

After 12 months of outperformance during 2017 and early 2018, our preference for international equities took a significant setback during the most recent quarter. As mentioned above, international equities were hit hard by rising trade tensions and a slowdown in economic activity abroad. For the three months, international stocks were down 2.61% and are now down 3.77% for the year. Despite the setback, we continue to find international valuations compelling when compared to U.S. stocks and maintain our slight overweight.

While our international call has taken a hit, we also moved assets from large-cap domestic into small and mid-cap stocks over the past 12 months. This transition paid off nicely in the second quarter as small stocks (green line) rose 7.75% and are now up over 17% for the trailing 12 months. Smaller stocks tend to have less global exposure and are therefore more insulated from trade tensions. The domestic focus also gives small stocks a greater earnings advantage from the Trump tax cuts.

Equity earnings continue to come in at elevated levels on the heels of the tax cut. S&P 500 index earnings were up over 20% during the first quarter when compared to the previous year. These strong comps should persist throughout the remainder of 2018 and provide a strong foundation for equities as we move forward.



| Fixed Income Summary: | 2nd Qtr | YTD | 12 Month | 3 YR | 5 YR |
|-----------------------------------|----------------|------------|-----------------|-------------|-------------|
| US T – Bill 90 Day Index | 0.46 | 0.85 | 1.41 | 0.71 | 0.44 |
| BC Municipals 5YR | 0.93 | 0.29 | 0.18 | 1.52 | 1.93 |
| BC Intermediate Government/Credit | 0.01 | -0.97 | -0.58 | 1.16 | 1.60 |

Wash, Rinse, Repeat.

The Federal Reserve continues their journey to a more normalized fed funds rate. As expected the board of governors moved the Fed funds rate to 1.75 – 2.00% in June. This was the 7th rate hike in the past 3 years and the third hike in as many quarters. According to the Fed futures, there is an 86% chance of another rate hike in September.

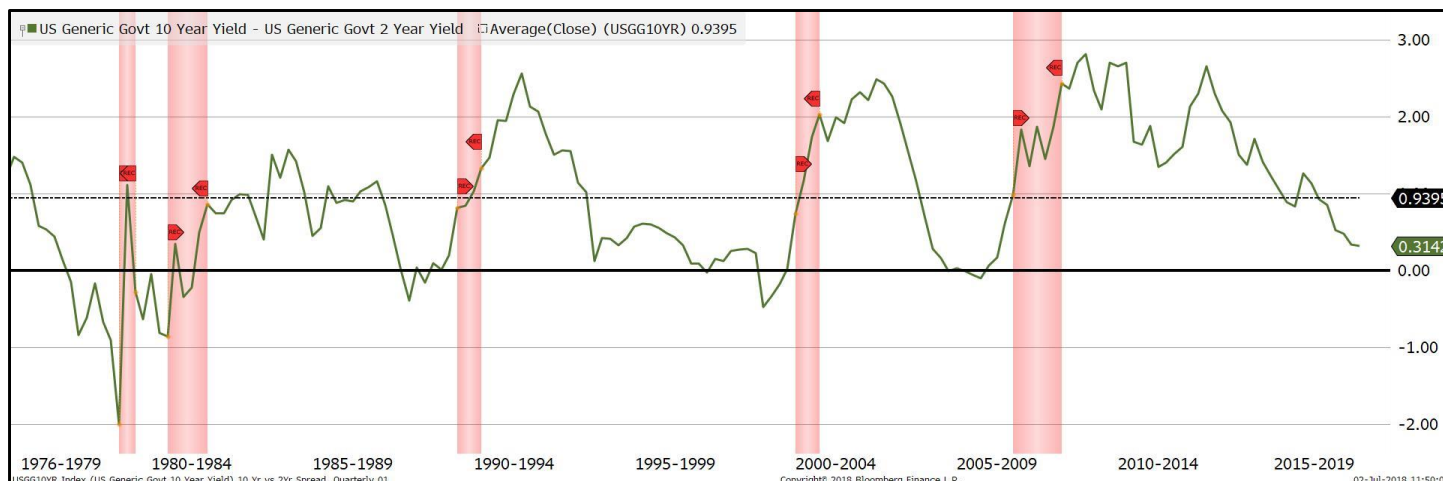
When I think about the bull market in bonds over the past few decades, I am reminded of the saying “a rising tide lifts all ships.” Investors found themselves in “high tide” as interest rates started their decline in the early 1980’s. While coupons were declining, bond prices rose leading to above average rates of return. As interest rates have started to move higher, bond investors are now finding themselves in “low tide”. The environment has changed with declining bond prices now providing a drag to total return.

In this environment, bond portfolio construction is imperative. At LCNB we have positioned our bond portfolios shorter than the benchmark and with positions that will insulate the portfolio as rates rise.

We continue to keep our eye on the spread between the 2 and 10-year treasuries. Since 1970, every recession (red bars in chart below) has been foreshadowed by a yield curve inversion (the 2-year treasury yields more than the 10 year). The spread continued to inch lower, at just 33 basis points by quarter-end.



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| Alternative Investments Summary: | 2nd Qtr | YTD | 12 Month | 3 YR | 5 YR |
|---|----------------|------------|-----------------|-------------|-------------|
| Bloomberg Commodity | 0.40 | 0.00 | 7.35 | -4.54 | -6.40 |
| Dow Jones Global Real Estate | 2.47 | -0.61 | 6.69 | 6.79 | 6.82 |
| Morningstar Broad Hedge Fund TR | 1.55 | 2.54 | 8.50 | 3.37 | 5.25 |

Commodity prices continued to slide in the 2nd quarter despite crude oil's 15% move higher. The price of corn and soybeans were the biggest losers due to the trade tariffs imposed. Investors will continue to watch Trump and the impact of the tariffs on our agricultural goods.

Funding Your Trust.

At LCNB National Bank, we frequently counsel our clients to fund their trusts during their lifetime. Here are a few reasons why you might want to consider funding your trust today:

- First, you may avoid probate on assets held in the trust. Avoiding probate could save time, money, and privacy issues for you and your heirs, because probate proceedings are generally time consuming and are public record.
- Second, you may provide for a potential disability. If in the future you become incapacitated or otherwise unable to manage your finances, your successor trustee, usually the bank, would step into your shoes and handle your financial affairs for you.
- Third, in certain situations, with proper funding and operation of the trust, you may minimize taxes and protect your assets from creditors.
- Finally, by funding your trust now, you may ensure that your assets are properly managed for you today, are efficiently transferred to your heirs or put in trust for them in the future, and are prudently managed for the long-term.



Wendy Cole
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If you have expended the time and resources to create a trust, you may wish to utilize it now, during your lifetime, to ensure that you and your heirs reap its benefits.

Please feel free to contact me if you would like to discuss the benefits of establishing and funding a trust. The Trust Officers at LCNB would be happy to help you determine whether a trust makes sense for you and your family.

Meet Nakia.

I am very excited to join the LCNB National Bank team! I was recently hired as an Assistant Vice President and Trust Officer. I provide relationship management and trust administration services from our Dayton and Lebanon offices.

I earned my bachelor's degree in Business Management from Park University, and I have over 23 years of experience in banking, finance, and wealth management. Prior to joining LCNB National Bank, I worked in the wealth management department of a large bank in Dayton for 18 years

I am a resident of the Dayton area and currently serve on the Board of Directors for the National Conference for Community and Justice of Greater Dayton (NCCJ). Our mission is to build a community dedicated to eliminating bias, bigotry, and all forms of discrimination. I also volunteer with the Society for the Improvement of Conditions for Stray Animals (SICSA). Our mission is to promote the welfare and adoption of companion animals and to nurture loving, lifelong relationships between animals and people.

Please do not hesitate to contact me if you need anything. I look forward to meeting you soon.



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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 Mike Miller @ 513.932.1414, ext. 59101 or mmiller@LCNB.com for more information.

