Trust & Investment Bulletin
Fall 2017

Ah, Fall!

Michael R. Miller, JD, CFP®
Executive Vice President
Trust Department Head

The leaves changing color, the crisp cool air, the taste of pumpkin spice. If you are a football fan, fall is the time to follow your favorite team, to proudly wear the colors and live (and die) depending on how they do.

At LCNB, your team of professional advisors continues to review and revise the playbook to make sure we have the right mix of products and services to meet your needs. We are constantly looking at how we design our plays to ensure that you are part of a winning team.

As part of that design, we have recently welcomed Kelly Schwabacher to our team as our Senior Vice President and Head of Trust Administration. Among her other duties, Kelly will be responsible for analyzing and proactively implementing the best client experience possible.

It's fall. As we move toward the holiday season, enjoy engaging with your favorite team. And let us know what your LCNB team can do for you. We would love to hear from you and learn how your team is doing.

Best Regards,
Mike

Economic Summary

Bradley A. Ruppert, CFA®
Executive Vice President
Chief Investment Officer

The first official estimate of third quarter economic growth will be due out later this month, but most expect a slowdown from the relatively robust 3.1% growth rate in GDP posted for the April – June period. According the Federal Reserve Bank of Atlanta's GDPNow estimate, the third quarter GDP growth rate will come in closer to 2.5%. Given the barrage of natural disasters, from hurricanes Harvey and Irma to rampant wildfires out west, a slowdown in output should be expected.

The impact was clearly evident in the recently released September employment figures. For the first time in over seven years, the Department of Labor Statistics reported a net loss of jobs for the month with a decline of 33,000 jobs in September. The loss is likely to be a one-off event and will be further revised in the coming weeks. Despite the loss, the unemployment rate remains at a fairly healthy 4.2% and, more importantly, wages increased by 2.9% year-over-year.

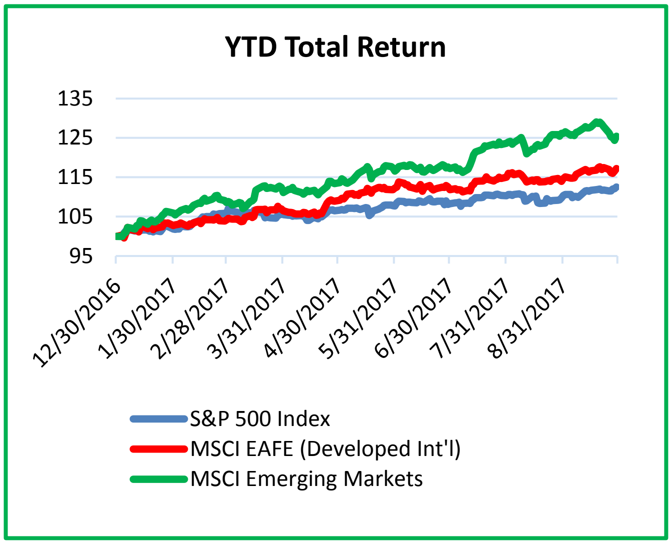
The increase in wages is probably enough to keep the Fed and Janet Yellen on the path towards interest rate "normalization". Expect any tightening efforts to remain at a glacial pace with the next move likely to be in the form of balance sheet reduction.

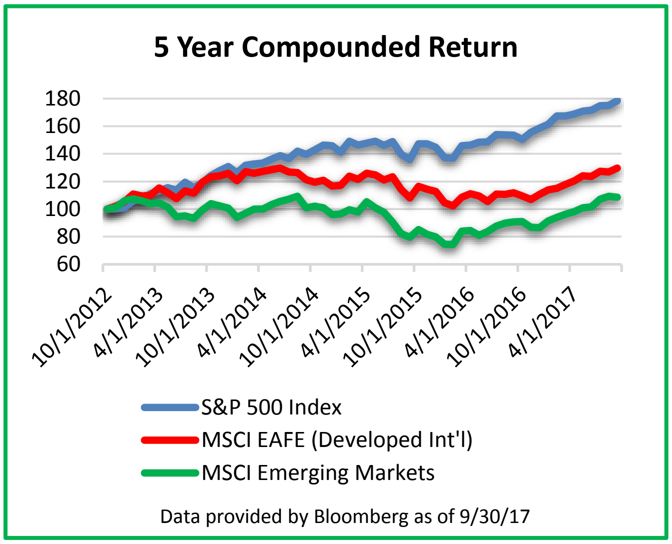
On the political front, talk of tax reform has likely helped to buoy markets despite the fact that no cohesive message has emerged from Washington. President Trump's initial plan may represent a bridge too far as it would likely lead to significantly higher deficits. The plan was not widely endorsed by his own party, making any reform unlikely in 2017. As mid-term elections approach next year, Congressional Republicans may feel more pressure to get something done.

Equity Summary:	3rd Qtr	YTD	12 Month	3 YR	5 YR
S&P 500 (Large Cap Domestic)	4.48	14.24	18.61	10.81	14.22
Russell 2000 (Small Cap Domestic)	5.67	10.94	20.74	12.18	13.79
MSCI EAFE (International Developed)	5.40	19.96	19.10	5.04	8.38

Global stock markets continue to shrug off any and all geopolitical risks as well as the short-term impact from the natural disasters mentioned above. Domestic and international stock markets posted another strong quarter with returns well into double digit territory for the year.

As we highlighted last quarter, the international developed markets and emerging markets are setting the pace in 2017 after several years of trailing U.S. markets. Whether or not this is the start of a multi-year trend remains to be seen. However, foreign markets remain attractive on a relative value basis and still have substantial ground to make up.





Fixed Income Summary:	3rd Qtr	YTD	12 Month	3 YR	5 YR
US T – Bill 90 Day Index	0.26	0.63	0.74	0.33	0.22
BC Municipals 5YR	0.66	3.76	0.98	1.88	1.74
BC Intermediate Government/Credit	0.60	2.34	-0.29	2.13	1.61

It's all about the Fed!!

Is Janet Yellen out? Discussion around the next Fed Chair has picked up since the beginning of October as President Trump announced he will make his nomination soon. The short-list of names being tossed around at present include Janet Yellen, Jerome Powell, and Kevin Warsh.

The bond market continues to take its cues from the Fed. In early September there was just a 20% chance (according to the futures market) that the Fed would increase the fed funds rate by year-end; that probability has now gone up to approximately 80%. During that same period of time, the 10-year treasury yield rose 30 basis points (bps) from 2.05% to 2.35%.

Chris Robinson, CIMA®
Vice President
Trust Investment Officer

Credit spreads continue to tighten. Since the beginning of the year, corporate bond spreads have gone from 122 bps over their comparable treasury yields to 101 bps over. The high yield market has tightened by 51 bps, with a spread of 398 bps at the beginning of the year to 347 bps currently. We have maintained an overweight to credit throughout this economic recovery and expansion but will look to lighten our exposure as the economic benefit of this risk diminishes.

Alternative Investments Summary:	3rd Qtr	YTD	12 Month	3 YR	5 YR
Bloomberg Commodity	2.52	-2.87	-0.29	-10.41	-10.47
Dow Jones Global Real Estate	3.19	12.41	6.39	7.55	7.73
Morningstar Broad Hedge Fund TR	1.37	2.27	4.12	2.94	4.36

Commodity prices bounced back slightly in the third quarter as the price of oil increased from $46.04 on 6/30 to $51.67 a barrel by the end of the quarter. The spot price on gold also increased during the third quarter as the priced jumped over 3% from $1241 oz. to finish on 9/30 at $1279 oz.

Commodity prices have been depressed for several years as deflationary forces have consistently outweighed global central bank efforts to spur inflation. A rebound in commodity prices coupled with an increase in wages could be a sign that inflation is finally starting to accelerate.

Global Real Estate remains a rare bright spot on the alternative investment landscape with another solid quarterly return.

Qualified Charitable Distribution from IRA

Frank B. Williams, JD
Vice President
Trust Officer

As the holidays are approaching, you may be planning your year-end charitable donations. If so, you may wish to consider a Qualified Charitable Distribution (QCD) from your IRA. A QCD is an otherwise taxable distribution from an IRA owned by an individual who is age 70 ½ or older at the time of the distribution. It must be paid directly from the IRA to a qualified charity.

After 20 years as a temporary, often-lapsing measure, this provision is now permanent. QCDs may be up to $100,000 in amount and can satisfy all or part of the Required Minimum Distribution (RMD) from an IRA. Only distributions from an individual IRA or rollover IRA are eligible, not from a SEP or a SIMPLE IRA, and not from any type of employer retirement plan. The distribution must go directly to a public charity, not to a private foundation, nor to a charitable supporting organization or a donor advised fund.

There are real advantages to a Qualified Charitable Distribution for a charitably-inclined IRA owner who doesn't need the IRA distributions for their living expenses. If you wish to consider using a QCD as part your year-end planning, please do not hesitate to call on your LCNB Trust Officer. We are here to help you.

Happy Holidays and see you soon!

The above information is a general statement of the law.
It is not intended as legal advice and should not be relied upon to answer specific questions.

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.