Trust & Investment Bulletin
Spring 2019

It's Spring

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The time of year to celebrate nature waking up from its long winter's nap. Warmer days, more sunshine, and baseball. Spring is the time of year when everything seems possible. The trees blossom, and the beautiful flowers make their worldly debut. More color … More new life.

There are a lot of decisions to make in the spring. What new flowers and crops to plant? What fertilizer is best to use? Which trees to prune? And which, unfortunately, need to be cut down. Answers to these questions can bring new life to your landscape.

Spring is also a good time to give new life to your personal financial and investment landscape. If there have been changes over the winter, or many winters, we can help you spruce up and better define your financial goals and outcomes, adding the pieces that make sense, as well as removing those that don't. Give us a call. Spring is a great time to better landscape your financial future.

And speaking of the future, my wife and I recently found out that we are to be first time grandparents in September. Time for me to have a spring chat with one of our LCNB Investment Advisors regarding a 529 Plan for the baby's education.

Thank you for being part of the LCNB family.

Best Regards, have a great spring!
Mike

Have You Reviewed your Estate Plan Recently?

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Most of us understandably dread dealing with issues surrounding death and taxes. Wouldn't we rather be vacationing, spending time with family, or doing just about anything else but addressing those two difficult life issues? Of course. But it's not simply another chore; it is an obligation that you have to your family.

One thing is for certain – that we will all die someday. Taxes are just another certainty, and, without planning, both matters and many related others may have a substantial negative impact on your family. At LCNB, we are here to work with you and your advisors to help you navigate and address these important issues so that you maximize the transfer of your hard-earned wealth to your loved ones and do so in the most cost and time-efficient manner.

It's important to discuss these issues with your advisors, make certain decisions, and then revisit your plan after incurring life events, or, if sooner, every 5 years to ensure that your plan continues to achieve your objectives. At the very least, you should have in place (i) a last will and testament (nominating an executor and distributing probate property at death), (ii) a durable power of attorney for financial affairs (providing another person to handle your financial affairs for you), and (iii) health care proxies (permitting another person to make health care decisions for you if you cannot do so yourself and declaring intent regarding life sustaining treatment). If you desire to minimize estate taxes, bypass probate, plan for a potential disability, protect assets from potential creditors, and/or direct the management and use of your assets after you have passed away, a trust may make sense for you, too.

If you have already addressed your estate planning, congratulations! We would be happy to review your plan with you at any time. If you have been putting off this important obligation, now is the time to act and please do not hesitate to call on us for help. Thank you and we hope to see you soon.

Economic Summary – Coming in for a Soft Landing?

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In the boom-bust world of economics and capital markets, the holy grail of policy makers is to engineer a so-called "soft landing." In other words, can we have the boom without the bust? Historically speaking, as an economic expansion increases so does confidence. Eventually, this leads to over confidence and the misallocation of capital in the form of lofty asset valuations and an oversupply of inventory. At some point, the Fed steps in to slow things down by raising interest rates. Typically, the Fed overshoots, and over-supply turns into massive write-downs as the economy stalls. So, can the Fed slow and extend this economic expansion without causing a recession? We are about to find out.

By historic terms, the current economic expansion, while long, has been tepid. Most economists pin U.S. long-term growth potential at close to 2%. GDP growth for 2018 came in at 2.9% for the full year and a slower 2.2% for the fourth quarter. This slowdown, along with fourth quarter market volatility, suggests that Fed "normalization" in the form of higher interest rates and a shrinking balance sheet, were beginning to have an impact. As we noted last quarter, for the first time since before the Financial Crisis, short-term interest rates were higher than inflation.

The unemployment rate remains at a healthy 3.8% level as the economy added 196,000 non-farm jobs in March. This represents a strong rebound from a very low 33,000 jobs added in February. Annual wages are increasing at a modest 3.2% rate however core inflation remains in-check at just 2.0% as of 3/31/19. Not long after the December rate hike and corresponding market sell-off, the Fed quickly shifted from normalization mode to a wait-and-see approach. The stock market seems to suggest that this Fed pivot was just in time, while the bond market is telling a different story with a partial yield curve inversion. Actually, both signals are consistent with historical late cycle market behavior. The yield curve has typically inverted 18 -24 months before a recession and stocks typically peak closer to 12 months prior to recession.

On a global front, economic conditions remain mixed. Developed markets in Europe and Japan will likely grow at a rate of 1% or less for 2019. While a hard Brexit is not likely anytime soon, Europe does face increasing trade tensions with the U.S. China's growth rate is likely to hold around 6% as recent stimulus measures kick-in and U.S.-China trade tensions thaw. Emerging markets economies seem to have bottomed and are showing some signs of growth.

Equity Summary:	1st Qtr	YTD	12 Month	3 YR	5 YR
S&P 500 (Large Cap Domestic)	16.59	16.59	9.43	13.81	11.55
Russell 2000 (Small Cap Domestic)	16.70	16.70	0.59	13.03	8.09
MSCI ACWI Ex US (International)	13.48	13.48	-3.86	8.55	3.02

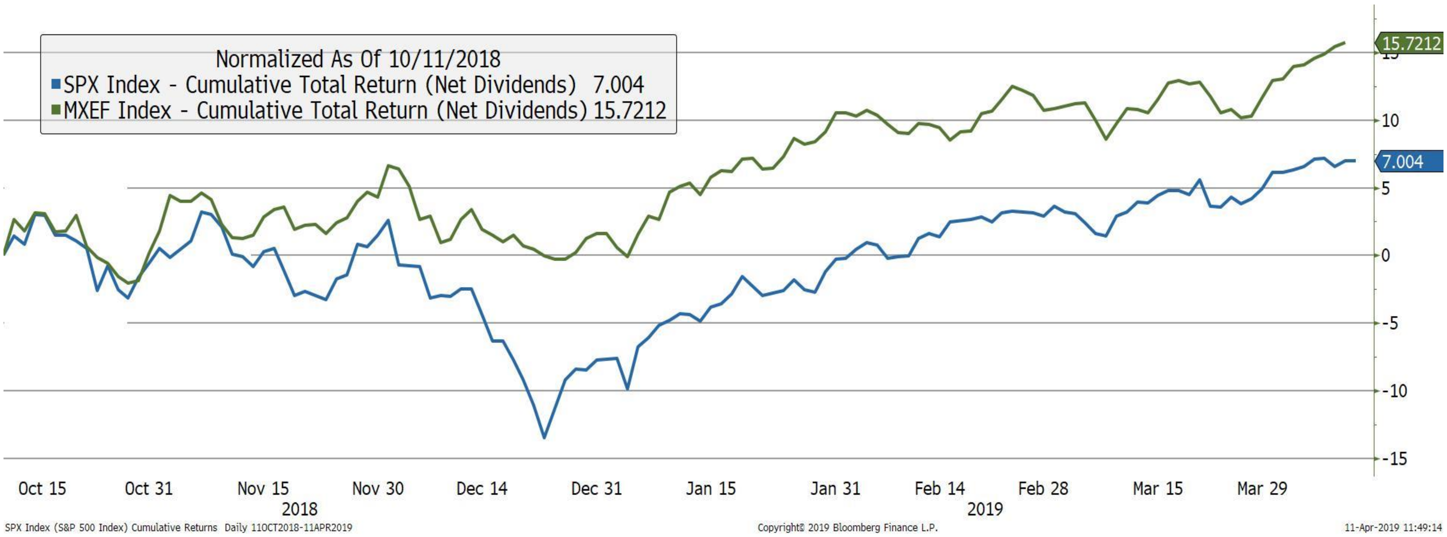
Unstop-a-Bull Market?

Last quarter as the market traded near bear market territory, we pointed to a few factors that would be necessary for a quick rebound: "Possible Upside Catalysts: For the market to break out above the 2800 level it will likely take some combination of an end to the government shutdown✓, a more dovish Fed✓, temporary trade resolution with China✓, and continued strong labor/consumer data." Three of these four factors went into effect, so it is not surprising that equity markets rebounded sharply.

Currently the S&P 500 Index is trading back near record highs at 2890 and may be a little overbought in the short-term. S&P 500 earnings growth is likely to pause in the first and second quarter of 2019 after a very robust 23.5% growth rate in 2018. While we feel that we are likely late in the economic cycle, it is still too early to get overly defensive as the end of the cycle may take a few years to play out.

Valuations remain reasonable and with Fed back on the side lines, further upside is certainly possible. We remind our clients that time in the market is more important than trying to time the market. Overall, we are maintaining a neutral target weight to stocks. We have been using the recent rebound to rotate into more defensive stock sectors or raise liquidity and rebalance when appropriate.

We are maintaining an overweight to international stocks and emerging markets. Emerging markets (green line chart below) have started to outperform U.S. equities (blue line) over the past 6 months as fundamentals have improved and the U.S. dollar has leveled off.



Fixed Income Summary:	1st Qtr	YTD	12 Month	3 YR	5 YR
US T – Bill 90 Day Index	.59	.59	2.15	1.23	0.77
BC Municipals 5YR	1.81	1.81	4.37	1.48	1.96
BC Intermediate Government/Credit	2.21	2.21	4.16	1.52	1.98

A Hawk that is starting to Look More like a Dove

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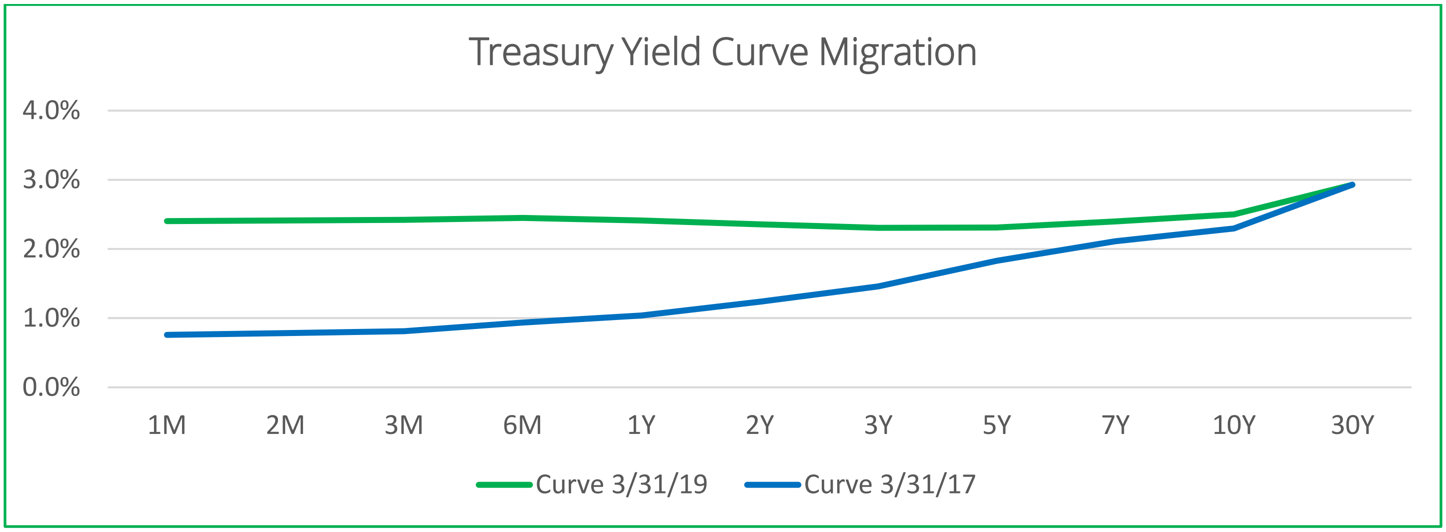
Hawkish and dovish are two terms that we tend to use to describe the Chair of the Federal Reserve. Being hawkish means that you are concerned about inflation and the impact that it will have on the overall economy. A hawkish Chair would increase rates hoping to slow or stop future inflation. Conversely, dovish refers to someone less concerned with inflation and believes that low interest rates will strengthen the economy. For the past two years, the Federal Reserve has had a hawkish monetary policy and the Fed Funds rate has been moving steadily higher. On December 19th, the Federal Reserve increased the Fed Funds rate to 2.25% - 2.50% and Jerome Powell signaled that there would be further increases in 2019. Equity markets reacted by selling off steeply in late 2018 while bonds rallied.

During the first quarter of 2019, the probability of a rate hike plummeted along with bond yields. The 10-year treasury yield peaked in the third quarter of 2018 at 3.23% and by the end of the first quarter was just 2.50%. There is now an approximate 50% chance that the Federal Reserve will cut the Fed Funds rate before the end of the year. The drop in rates led to a partial yield curve inversion when the yield on the 3-month treasury bill topped the 10-year treasury bond. There has not been an inversion in the widely followed 2-10-year yields, but the spread continues to narrow. We continue to monitor this indicator because it has predicted every recession since 1970.

So far this year, risk-on trades have worked very well. As stocks rebounded rapidly this quarter, so did the credit risk area of the bond market. High yield rallied in the first quarter, returning investors 7.26%. The current spread on high yield bonds is below its historic average, limiting the potential for future outperformance. For this reason, we recommend underweighting credit risk in bond portfolios.



Alternative Investments Summary:	1st Qtr	YTD	12 Month	3 YR	5 YR
Bloomberg Commodity	7.92	7.92	-5.80	2.54	-8.90
Dow Jones Global Real Estate	15.84	15.84	10.87	8.20	7.51
Morningstar Broad Hedge Fund TR	1.38	1.38	0.50	4.20	3.83

With the rapid recovery of traditional assets, it was no surprise that the same alternative assets, which protected against the late year correction in 2018, lagged in the first quarter of 2019. With current valuations of stocks and bonds somewhat stretched, we have increased the recommended exposure to alternatives. We particularly like the merger space as well as MLP's, which are a commodity related asset. Both of these assets tend to perform well during the latter part of the economic cycle and may add more value compared to the stock and bond markets in the near future.

Welcome to Kasheen Swango, J.D.!

We are excited to announce that Kasheen Swango joined the Trust Department in January as a Vice President and Senior Trust Officer. Kasheen is a graduate of the University of Dayton School of Business and University of Dayton School of Law. Her office is in LCNB's Worthington, Ohio, location. Kasheen has over 30 years of wealth management and trust experience. She provides our clients with a wide range of services, such as coordinating and implementing financial, tax, and estate planning, investment management, and estate and trustee services.

Kasheen and her daughter live in Columbus and in her spare time Kasheen enjoys volunteering in the community.

We look forward to introducing Kasheen to you soon!

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Welcome to Shaye Wynn!

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Assistant Trust Officer
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Shaye Wynn joined the Trust Department in October, 2018 as an Assistant Trust Officer and Trust Administrative Associate. Shaye's combined 27 years of banking and paralegal experience enable her to support our Trust Officers with a variety of administrative and compliance duties. She is a graduate of The University of Cincinnati Legal Assisting program and has certifications through the National Association of Legal Assistants as an Advanced Certified Paralegal and the Ohio State Bar Association as a Certified Paralegal.

Shaye and her husband, John, live in Waynesville with their daughter, Alexis and dog, Mya. In her spare time, she enjoys watching her daughter's gymnastics competitions and spending time with family and friends.

Welcome to Laura Oeder!

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Laura Oeder joined the Trust Department in February 2019, as an Assistant Trust Officer and Operations Assistant. She assists with opening client accounts, asset transfers, and various tax duties. Prior to working in LCNB's Trust Department, Laura was a Deputy Treasurer at the Warren Country Treasurer's office.

Laura is a proud Norse Alumni from Northern Kentucky University. She graduated in 2012 with a Bachelor's degree in Communications with a concentration in Public Relations.

She is an alumnus of Lebanon High School and longtime resident of Lebanon. In her spare time, she enjoys CrossFit, rooting on the Dallas Cowboys, attending country concerts and going on hiking adventures with her dog Bailey.

Farewell to Melinda Macintosh

In March of this year, we said farewell to Melinda Macintosh, as she has retired to pursue her passion for writing poetry. In her 10 years with LCNB, Melinda held various roles in both the branch and the Trust Department. Though we are excited to see what will come next for Melinda, we will miss her.

Please join us in wishing Melinda the best in her future endeavors!

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.

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