Trust & Investment Bulletin
Winter 2020

It's Winter …

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The interesting thing about winter is that it always occurs in two different years. It begins in the old year as we are all trying to conclude our business in time for the long awaited (and sometimes much needed) holiday break. It ends in the new year when each January we get a fresh start on life's activities. Winter is that time of year when we seem to spend a disproportionate amount of time indoors. As the old year ends and the new year begins, we have time to reflect on the past and to plan for the year ahead. To that end, we have included some solid financial analysis as well as an overview of the recently enacted SECURE ACT.

My personal planning has to do with how soon I will be able to move back into my recently renovated office. As I wrote in our last bulletin, we were looking forward to the end of the months-long renovation of our new second floor trust department space. We moved in at the beginning of December. But I write this from a conference room, as a fire (and subsequent water damage) several weeks ago caused me, and others, to be displaced. No one was hurt, but the damage is not yet repaired. Three weeks after our new space was completed a part of it became unusable.

While it is business as usual for our department with the same focus on the needs of our customers, it has once again made me realize that even the best laid plans can go awry. How about you? Life's circumstances can interrupt even the most carefully crafted estate, financial, and retirement planning. You can never really know what is right around the corner. Let's have a conversation. While we cannot anticipate every possible obstacle that you may encounter, we have the professional expertise and experience to make your planning more resistant to life's untimely distractions.

Despite solid planning we had a setback. But I am choosing to look on the bright side. At least in the conference room, I have my choice of seats.

Welcome to Winter and thank you for our continuing relationship.

Best Regards,
Mike

The SECURE Act and Your IRA

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On December 20, 2019, the President signed into law the Setting Every Community Up for Retirement Enhancement ("SECURE") Act. This Act made significant changes that impact Individual Retirement Accounts ("IRA"s) and potentially your Estate Plan.

INCREASED AGE FOR REQUIRED MINIMUM DISTRIBUTIONS

The SECURE Act increased the required beginning date for Required Minimum Distributions ("RMD") from age 70½ to age 72. An IRA owner who turned 70½ in 2019 or earlier will follow the prior rules and continue to take RMDs. Starting in 2020, for those IRA owners not subject to the prior rule, RMDs will not start until the owner turns age 72. Owners can still take distributions from their IRAs prior to age 72, but it will not be considered an RMD.

QUALIFIED CHARITABLE DISTRIBUTION FROM IRA

The SECURE Act maintains the ability to make Qualified Charitable Distributions ("QCD") from an IRA upon the owner reaching age 70½. The limit of $100,000 per year also remains. For those owners who fall under the new rule, upon reaching age 72, any distributions given to charity via a QCD will reduce the RMD.

REPEAL OF MAXIMUM CONTRIBUTION AGE

The Act repeals the maximum contribution age for traditional IRAs. Previously contributions could not be made to an owner's traditional IRA (or spouse's) after age 70½, even if the owner was still working. Under the SECURE Act, deductible contributions can be made to an IRA, regardless of age, if the owner has wages or self-employment earnings.

ELIMINATION OF "STRETCH" IRA RULES

In the past, when an IRA owner died, often the beneficiary of such IRA was able to "stretch" the distribution of the IRA's balance over the beneficiary's life expectancy. The SECURE Act eliminates these rules for inherited IRAs, whose owner dies in 2020 or later. The new rule requires the IRA's entire balance to be distributed by the end of the 10th year, following the year of the owner's death. This new rule applies to non-exempted individuals and trusts. The following individuals are exempt from this rule: (1) surviving spouse of account owner, (2) disable or chronically ill individual, (3) individual not more than 10 years younger than account owner, and (4) a child of the account owner, but only until the child reaches the age of majority.

The SECURE Act may have a significant impact on your estate plan. Please consult with your attorney or financial advisor to discuss how the Act will impact your estate plan.

A white paper is available with additional information on the SECURE Act. Please contact the Trust Department at 513-932-1414 to request a copy.

Economic Summary – Welcome to the not so roaring 20's

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A year ago, the Fed was just beginning to pivot away from a rate hiking, or tightening, position to a more accommodative posture. A 20% drop in U.S. stocks and partially inverted yield curve following the December 2018 rate hike seemed to be enough to convince the Fed to reevaluate their position. By mid-2019 the Fed was in fact reversing their rate hikes with a series of cuts in what Fed Chair Powell classified as a "mid-cycle" adjustment. The Fed also began injecting liquidity into the Repo markets in a further effort to improve the slope of the yield curve and prolong the cycle. While the Fed insists this is not another round of quantitative easing, I am yet to see a better name for it.

Throughout 2019, we questioned if the Fed had reversed course in time; early indications suggest they did. Stocks (a forward-looking indicator) not only rebounded but are making fresh highs as we start the new year. The U.S. consumer remains the core strength of the economy with unemployment at just 3.5% and wage gains up 3.0% from a year ago. Consumers have the capacity to spend with household debt servicing at an all-time low, as seen below. Inflation remains below the Fed's 2% target with the latest Consumer Price Index reading of a 1.5% year-over-year increase. This should keep the Fed in an accommodative to neutral posture for 2020. Barring some unforeseen setback in trade negotiations or increased hostilities in the Middle East, it appears as though this economic cycle may still have legs. However, a continued expansion is likely to be at a slow pace.

Manufacturing and industrial production were impacted the most by trade tensions and have yet to rebound. The latest ISM manufacturing survey registered 47.2%, marking a 5th straight month of contraction. The recent thaw in trade tensions and partial deal announced between the U.S. and China should reduce some economic concerns. However, business confidence is likely to remain weak with uncertainty surrounding the impeachment trial and 2020 presidential election.

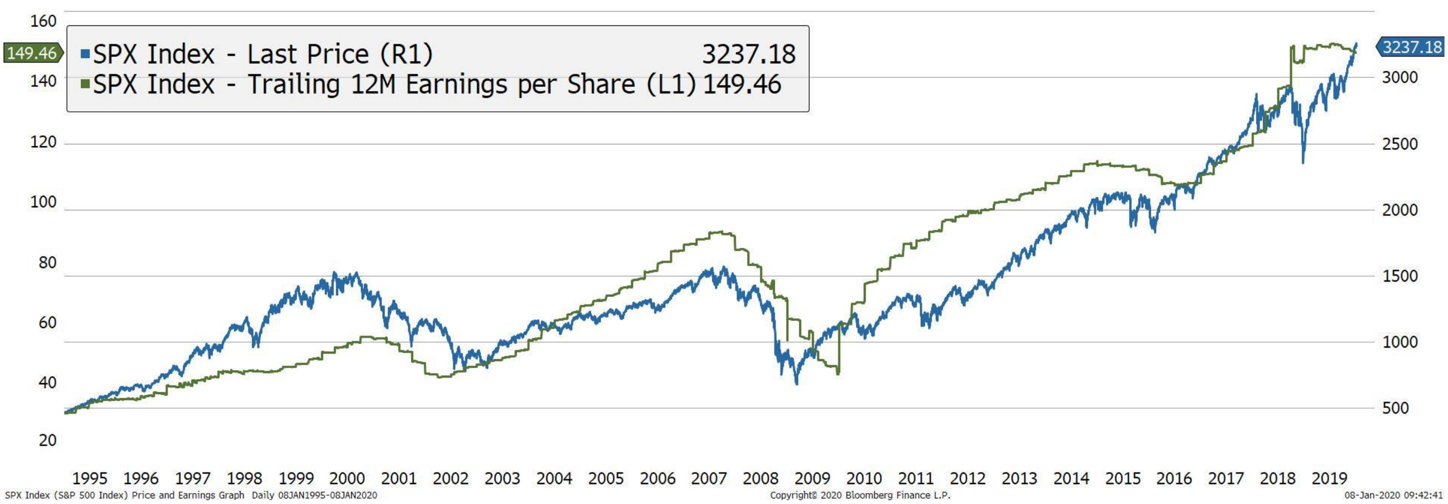
The global backdrop is also showing signs of modest growth with the latest IMF global forecast for 2020 at 3.5%. This is up slightly from the 3.2% forecasted growth rate for 2019 with most of the expansion coming from emerging markets. Growth in Europe and Japan is likely to remain elusive in 2020, as Brexit seems more certain on the heels of Boris Johnson's resounding victory in the British election. The IMF forecast of 2.1% growth in the U.S. may already be reflected in equity prices.

Equity Summary:	**4th Qtr**	**YTD**	**12 Month**	**3 YR**	**5 YR**
S&P 500 (Large Cap Domestic)	3.02	31.49	31.49	15.27	11.70
Russell 2000 (Small Cap Domestic)	9.94	25.52	25.52	8.59	8.23
MSCI ACWI Ex US (International)	8.92	21.51	21.51	9.87	5.51

Equity Update – Prices moving ahead of earnings.

As mentioned above, equity prices are clearly reflecting an extended cycle. The selloff from fourth quarter of 2018 was quickly reversed in early 2019. With the return of easy money in the form of Fed accommodation, the S&P 500 index was making new all-time highs by mid-year despite stagnant earnings growth. A year-end Santa Clause rally was boosted by the above-mentioned strong consumer and a partial trade deal between China and the U.S. This pushed the S&P 500 Index to a 12/31 closing price of $3230.78 and a total return for the year of 31.49%. As has been the case for most of the post financial crisis bull market, large U.S. stocks outpaced smaller stocks and foreign issues. Small cap stocks finished the year up 25.52% while International stocks returned 21.51%.

We remain neutral on our overall equity weights with an emphasis on quality and expect increased volatility with recent tensions in the Middle East, the ongoing impeachment trial, and the 2020 election. While we expect the expansion to continue, we feel equity prices have moved ahead of earnings. For the time being, valuations are somewhat stretched but forward return expectations are still attractive relative to bonds. We continue to see opportunity in emerging market equities where valuations are more attractive.



Fixed Income Summary:	4th Qtr	YTD	12 Month	3 YR	5 YR
US T – Bill 90 Day Index	0.39	2.06	2.06	1.64	1.06
BC Municipals 5YR	1.06	5.31	5.31	3.35	2.38
BC Intermediate Government/Credit	0.37	6.80	6.80	3.24	2.57

The return of slope

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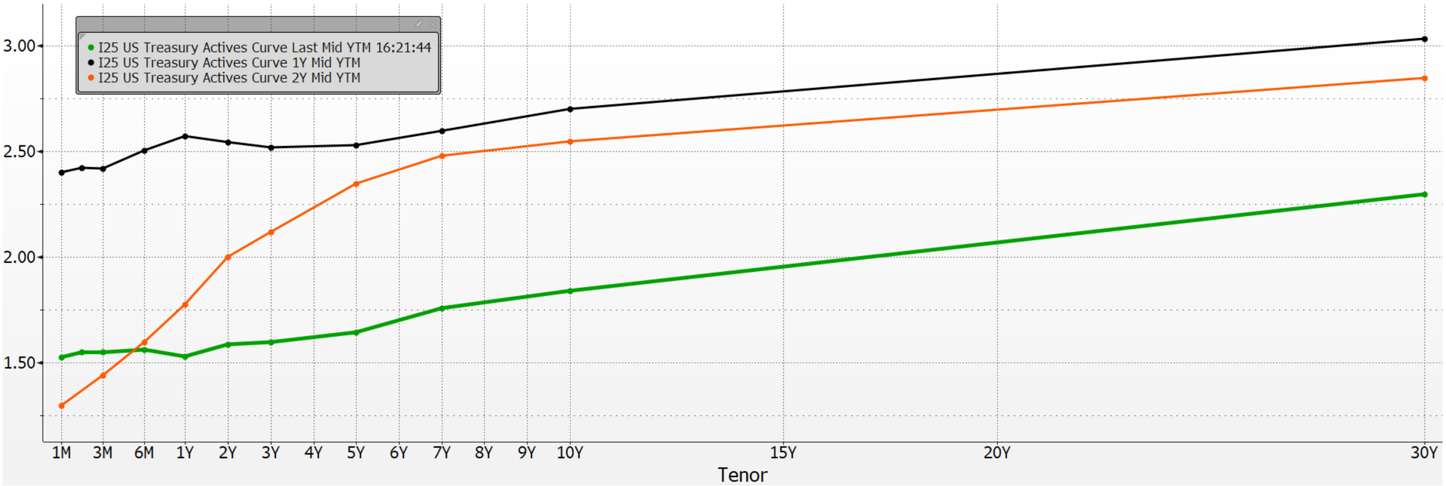
As expected, the Federal Reserve cut the Fed funds rate another quarter of a percentage in the fourth quarter of 2019, lowering the range to 1.50%-1.75%. After the much-anticipated yield curve inversion in the summer of 2019, the Fed cut interest rates 3 times, pushing the 2-10 year spread up to 35bps by year end. The Fed also started injecting cash into shorter term bonds during the fourth quarter of 2019. This move created demand, which pushed down shorter-term rates and grew the assets on their balance sheet. All of this resulted in the yield curve starting to normalize and returning some slope.

While most investors will view 2019 as a great year for stocks, which returned over 30%, it was also a great year to own bonds. The most common bond index, the Bloomberg Barclays Aggregate, returned investors 8.7% in 2019. This is the best year we have seen since 2002. Risk-on trading also worked throughout 2019 in the bond market - for the full year, high yield bonds returned investors close to 15% and emerging markets debt returned almost 14%.

Entering 2020 we have three main expectations. The first: we expect the Fed to sit on the sidelines for the year. Fed futures suggest a possible rate cut at the end of 2020, but we believe that with the election in progress they will try to remain bipartisan, leaving rates unchanged. After the interest rate hike in late 2018, the Fed has been very accommodative and is focused on prolonging this economic cycle. We do not believe the data will support more than one cut and the Fed will be very hesitant to raise rates. The second expectation: returns in the bond market will be below average and possibly well below average. From 1980 until 2019, the average return of the Bloomberg Barclays aggregate is over 7.5%. However, we expect a tepid 2020 year with the current interest rates. We still believe bonds are an essential asset, as we invest in bonds to generate income and insulate portfolios in times of increased market volatility. The final expectation: credit spreads will widen. We have been referencing the low credit spreads for the past few quarters and with potential geopolitical uncertainties we expect this trend to reverse.



Alternative Investments Summary:	4th Qtr	YTD	12 Month	3 YR	5 YR
Bloomberg Commodity	4.42	7.69	7.69	-0.94	-3.92
Dow Jones Global Real Estate	3.67	25.33	25.33	11.00	7.32
Morningstar Broad Hedge Fund TR	2.28	6.27	6.27	4.32	3.46

Gold and oil both continued their rallies in the fourth quarter of 2019, with gold ending up 18% and oil up over 34%. This led the index to an annual return of 7.70%. If tensions with Iran continue to escalate, we will look closer at oil prices and how the economy will be impacted. We still believe valuations of stocks and bonds are stretched and maintain an overweight recommendation to alternatives. We do believe the cycle is coming close to an end, but in the short-term we still prefer the merger space and MLP's as a stock hedge. The goal of our alternative allocation is to enhance the risk adjusted return of our portfolios and we expect to see added value in the near future.

Welcome to David Hopper!

David Hopper joined LCNB National Bank as a Vice President and Trust Officer. David comes to us with over 20 years of experience in estate planning and trust and estate administration. Prior to joining LCNB, Mr Hopper held a similar role at Key Bank as an Estate Administrator and Trust Officer. David earned a Bachelor of Arts degree in Political Science and History with Cum Laude honors from the Miami University, after which, he earned a Juris Doctorate from Georgetown University Law Center.

An active member within the community, David serves as Chairman of the City of Franklin Planning Commission and is a member of the Franklin Park Board, the Dayton Bar Association Estate Planning, Trust and Probate Committee, and the Warren County Bar Association.

David resides in Franklin, Ohio with his wife, Denise and their children. When he is not in the office, he enjoys working on the family home, spending time with his children and 12 grandchildren, and playing and coaching soccer.

Please join us in welcoming David to the LCNB Wealth Management family!

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Wealth Management Holiday Party!

In the midst of the holiday hustle and bustle, we felt it was important to slow down and take the time to celebrate the past year while looking forward to the next. With this in mind, the LCNB Wealth Management and Lending teams met at Fox & Hound in Mason for some much needed time together to relax and enjoy delicious food, bright lights, and a few festive games.

Featured Photo:
Department Head Mike Miller with Erin Hawk
Joshua Shapiro in the background

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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