

Trust & Investment Bulletin

Autumn 2019



Welcome to Fall

To begin, I apologize for this Quarterly bulletin being a bit tardy. We usually try to get our quarterly commentaries out to the LCNB family closer to the beginning of each quarter. While I can't use the "my dog ate my homework" excuse that I loved to use in school, I can tell you that the delay is 1) Entirely my fault; and 2) Due mostly to all of the positive activity that has occurred in our wealth management world since our Summer bulletin was distributed.

We have completed the renovation of our new space and have moved to the second floor of the headquarters building at Broadway & Mulberry. Several finishing touches are still to come and the renovation of the balance of the building continues, but we are in our new space. And while we have a new home, we maintain the same level of expertise and focus on your financial and planning matters that you have come to expect from us.

So there you have it, an honest explanation for our delay. But isn't that what you should expect when dealing with your professional financial advisors? Honest, thoughtful solutions from qualified, experienced professionals.

As we approach Thanksgiving, we at LCNB count among our many blessings the opportunity to work with you and your family. Welcome to Fall. Happy Thanksgiving!

Best Regards,
Mike



Michael R. Miller, JD, CFP®
Executive Vice President
Trust Department Head
513-932-1414 ext. 59101
mmiller@LCNB.com

Estate and Trust Settlement Services

You may already know about our wealth management services to provide you with investments and to manage and operate your trust after you have passed. You may not, however, be aware of our estate and settlement services, which provide the bridge between your passing and continuing your estate plan for your loved ones.

When a person dies, a process begins by which the deceased person's assets are gathered, all appropriate persons are notified of the death, legitimate creditors are paid, final income tax (and if necessary, estate tax) returns are filed, and the remaining assets are paid or transferred to the correct persons or institutions. This process is called Estate and Trust Settlement. The disposition of someone's assets can be directed either by means of a Last Will and Testament or a Trust Agreement. In addition, beneficiaries can be designated for certain types of bank accounts, brokerage accounts, real estate, insurance policies and IRAs. The type of work involved to settle your affairs will depend on the legal vehicles utilized and how you have owned and titled your assets.

The person designated in a Last Will and Testament to carry out your instructions is called the Executor. In a Trust Agreement, the person designated to carry out your instructions is called the Trustee. LCNB frequently serves in both capacities for our clients, and is highly qualified and capable of serving you and your family in these very important matters. Though wills and other legal documents should only be prepared by your attorney, the trust professionals at LCNB National Bank would be pleased and honored to work with you and your attorney in discussing these matters and determining the estate plan that is best for you and your loved ones.

Thank you.



Frank B. Williams
Vice President
Senior Trust Officer
513-932-1414, ext. 59110
fwilliams@lcnb.com

Economic Summary – Seventh Inning Stretch?

The domestic economy appears to be at a crossroads. With Fed Chair Jerome Powell classifying the July and September rate cuts as “mid-cycle adjustments”, one would think there are still a few innings left in this game. To be certain, the U.S. consumer remains in healthy condition with record levels of net worth. Unemployment remains low at __ and wages gains are well above inflation at __. These factors should continue to support consumption which accounts for nearly 70% of U.S. GDP.

In contrast to the strong consumer, manufacturing in the U.S. and abroad has weakened significantly. A flat yield curve, increasing recession talk, and ongoing trade tensions are taking their toll on the global economy. The latest ISM Manufacturing PMI came in 47.8, the lowest reading since June 2009. Any reading below 50 signals a contraction in manufacturing. Growth in Europe has essentially flatlined with Germany likely in a recession. China's official (but usually taken with a grain of salt) GDP growth rate has slowed to 6%.

Some positive news on a potential Brexit deal alleviates one cloud that has hung over markets for past couple of years. Trade tensions are likely to remain a concern for the remainder of this cycle, but the latest news suggests a limited deal with China could be announced soon. These developments, coupled with global central bank easing and a strong consumer, should be enough to keep the U.S. out of recession for now. While we are late in the game, we believe there may still be a couple of good innings left. As long-term investors we recommend investors develop an asset allocation that aligns with their investment objectives. Given today's market conditions now may be an appropriate time to revisit your asset allocation. It is a good time to make sure you own quality assets and have ample liquidity in the event of a downturn.



Bradley A. Ruppert, CFA®
Executive Vice President
Chief Investment Officer
513-932-1414 ext. 59105
bruppert@LCNB.com

Equity Summary:	3rd Qtr	YTD	12 Month	3 YR	5 YR
S&P 500 (Large Cap Domestic)	1.70	20.55	4.25	13.39	10.84
Russell 2000 (Small Cap Domestic)	-2.40	14.18	-8.89	8.23	8.19
MSCI ACWI Ex US (International)	-1.80	11.56	-1.23	6.33	2.90

Equity Update – Quality matters.

The late cycle playbook for stocks calls for an emphasis on quality. The 10 year plus bull market has been dominated by momentum and growth stocks. As global growth slows, the double digit returns investors have enjoyed for the past decade are likely to give way to mid-single digit returns going forward. Profit margins are already high, and earnings growth is expected to be tepid. While returns are likely to be more modest going forward, we still expect a reasonable premium over the sub 2% returns investors can expect from bonds. For this reason, we remain close to neutral on our equity target weights.

As we transition into the later stages, we are seeing more traditional, high-quality stocks outperform. Our multi factor model for stock valuation places an emphasis on strong balance sheets, steady earnings and cashflows, and healthy dividends that are growing over time. The box to the right shows the largest ten discretionary stock

positions held by our trust customers. These stocks performed very well in the 20% downturn late last year and have more than kept pace during the strong rebound this year. The strong 12 month return on these stocks relative to the overall market shows how much quality can matter when volatility returns.

Top 10 Discretionary Holdings*		
Name	YTD	1 Yr
PROCTER & GAMBLE CO/THE	30.62%	49.54%
MICROSOFT CORP	39.82%	28.50%
APPLE INC	50.37%	7.15%
JOHNSON & JOHNSON	6.94%	1.71%
INTEL CORP	13.91%	17.10%
STARBUCKS CORP	36.49%	52.86%
ALPHABET INC-CL A	18.95%	9.70%
LOCKHEED MARTIN CORP	49.06%	16.62%
JPMORGAN CHASE & CO	26.43%	13.63%
WALT DISNEY CO/THE	20.08%	14.21%
Equal Weighted Average	29.27%	21.10%
S&P 500 INDEX	21.18%	8.59%
*As of 09/30/2019		

Fixed Income Summary:	3rd Qtr	YTD	12 Month	3 YR	5 YR
US T – Bill 90 Day Index	0.49	1.66	2.25	1.55	0.98
BC Municipals 5YR	0.45	4.21	5.97	2.06	2.17
BC Intermediate Government/Credit	1.37	6.41	8.17	2.40	2.68

Why 1.66% on the 10-year Treasury may be appealing

As Brad mentioned earlier, we are in the late stages of the economic cycle and in an attempt to prolong it, the Federal Reserve cut interest rates a quarter of a percent in July and September. At the end of the third quarter, following these cuts, the current fed funds rate is 1.75%-2.00%. According to the futures market, there is a 95% chance that the fed will cut rates at least an additional .25% by year-end. During the quarter, Treasury rates moving in tandem with the fed funds rate and for the first time in history we saw the 30 year drop below 2%. The 10-year Treasury moved from 2% down to 1.66%.

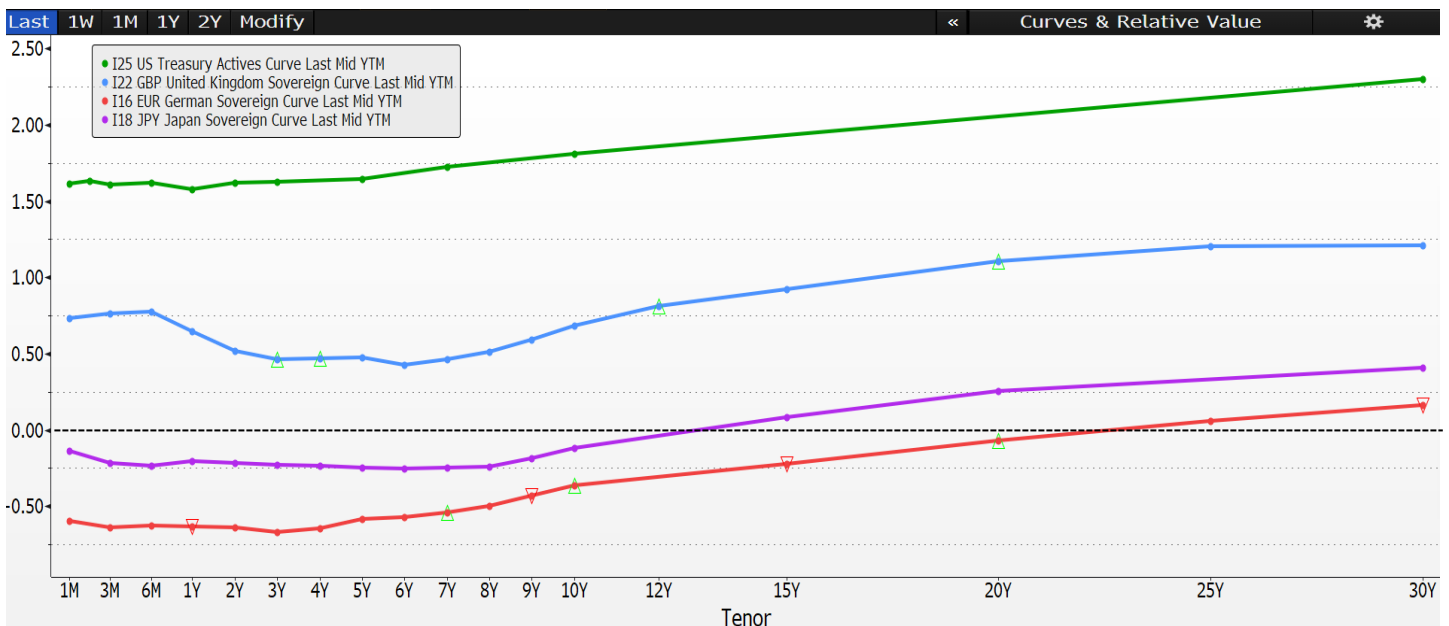
Looking at historical US Treasury rates, a 10-year rate of 1.66% is within 30bps of the all-time low that we hit on July 8th 2016. But when comparing the current US 10-year rate to other countries, an international bond investor might consider that 1.66% to be very appealing. Japan, Germany and France all have negative rates on their 10-year government bonds and England's rate is yielding a third of the US treasury rate.

Given the economic conditions of these countries and questions around the local currencies (Brexit), many international investors have been moving funds into the more stable US Treasury market. In 2018 it was reported that foreign investors held 30% of US Treasuries. With the current global interest rate environment it is easy to understand, and may further complicate our strengthening US dollar.

Credit spreads narrowed in during the third quarter as the risk on trade has continued to outperform in 2019. With a lack of yield opportunity globally and below historical average credit spreads, the government bond market is looking more attractive than it has in the past ten years. We recommend a well-diversified bond portfolio that should include an allocation to high quality government issued bonds.



Chris Robinson, CIMA®
 Vice President
 Trust Investment Officer
 513-932-1414 ext.59106
 crobinson@LCNB.com



Alternative Investments Summary:	3rd Qtr	YTD	12 Month	3 YR	5 YR
Bloomberg Commodity	-1.84	3.13	-6.57	-1.50	-7.18
Dow Jones Global Real Estate	3.71	20.88	14.58	7.67	7.86
Morningstar Broad Hedge Fund TR	0.65	4.18	3.60	4.26	3.49

Much like the equity markets, the third quarter was a mixed bag for the alternatives space. Despite the 5% rally in gold, the broad commodity market was down nearly 2% for the quarter. We still believe valuations of stocks and bonds are stretched and maintain an overweight recommendation to alternatives. Preferring the merger space and MLP's as a stock hedge, historically these assets tend to perform well during the latter part of the economic cycle. 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 Izabela Camacho!

Izabela Camacho joined the LCNB Trust Department in October as our newest Trust Administrative Associate. Previous to her position with LCNB, Izabela worked as a Senior Client Solution Specialist with the PNC Family Wealth Office. She obtained her Bachelor's degree in Business Administration from Northern Kentucky University, and is currently pursuing a Master's degree in Business Administration at Northern Kentucky University as well. Izabela lives in Mason with her husband, Cesar, and her nine-year-old son, Daniel. In her free time, she enjoys outdoor activities and spending time with her family.



Izabela Camacho
Trust Administrative Associate
513-932-1414, ext. 59111
icamacho@lcnb.com

Please join us in welcoming Izabela to the LCNB family!

Congratulations are in Order!

We are proud to announce that Erin Hawk has passed the level 2 CFA exam in June. She will continue to pursue the CFA designation and will take the level 3 in June, 2020. We continue to support and celebrate Erin's accomplishments and can't wait to see what she does next!

Nakia Lipscomb passed the levels 1 & 2 CTFA exams in August, after a grueling week of workshops and testing in Atlanta. She will continue her pursuit of the CTFA designation sometime this summer. Please join us in congratulating Nakia on her accomplishment!

Shaye Wynn celebrated her 1 year anniversary of joining LCNB National Bank in October. In her time here, she has already been instrumental in developing procedures that make a more efficient and pleasant experience for the Trust Officers and their clients!

We also celebrate Erin Hawk's 1 year anniversary with LCNB in November. Not only has Erin continued her pursuit of the CFA designation, but she's also continued to be an asset to multiple committees within LCNB and in the community!

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

