Wealth Management Bulletin
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LCNB | Wealth

Welcome to Fall … Planning for Incapacity

David Hopper, JD, CTFA
Vice President
Trust Officer
513-228-7661
dhopper@LCNB.com

Planning for incapacity is an essential aspect of financial and estate planning that ensures your wishes are honored and your affairs are managed effectively, even if you become unable to make decisions for yourself. Two critical tools in this planning process are trusts and powers of attorney.

A trust is a legal arrangement where one party (the trustee) holds and manages assets for the benefit of another party (the beneficiary). In the context of incapacity planning, a revocable living trust is particularly useful. It allows you to transfer assets into the trust while retaining control over them during your lifetime.

If you become incapacitated, the successor trustee you've designated can step in to manage the trust assets without the need for court intervention. This can help avoid the lengthy and costly process of guardianship or conservatorship. The trust can specify how and when the assets should be distributed, ensuring your wishes are followed. Additionally, because trusts of bypass probate, they can provide privacy and expedite the transfer of assets to your beneficiaries.

A power of attorney (POA) is a legal document that grants someone else the authority to make decisions on your behalf. There are different types of POAs, but for incapacity planning, a durable power of attorney is vital. This document remains in effect even if you become incapacitated. You can designate someone you trust—often a family member or close friend—to manage your financial and legal matters.

The powers granted can be broad or limited, depending on your preferences. A comprehensive POA can cover everything from paying bills and managing investments to filing taxes and selling property. By choosing a trusted agent, you ensure that your financial affairs are managed according to your preferences and values.

Using trusts and powers of attorney together provides a robust framework for incapacity planning. While a trust manages the distribution of your assets, a durable power of attorney addresses immediate financial and legal decisions. This combination allows for seamless management of your affairs without the need for court oversight, which can be time-consuming and stressful for your loved ones.

Planning for incapacity through the use of trusts and powers of attorney is a proactive way to ensure your wishes are honored and your affairs are managed effectively. By preparing these documents, you provide clarity and peace of mind for yourself and your loved ones, making it easier for them to navigate difficult times. Whether you are just starting your planning journey or reviewing existing documents, taking these steps can significantly enhance your peace of mind regarding the future.

Economic Summary – It's déjà vu all over again!

Bradley A. Ruppert, CFA®
Executive Vice President
Chief Investment Officer
Director of Wealth Investments
513-228-7658
bruppert@LCNB.com

Being October and playoff baseball time, it seems appropriate to borrow my title from the late great Yankee, Yogi Berra. Reviewing my economic summaries over the past two years does feel a lot like a case of déjà vu. The seemingly endless recession/soft landing debate continues to drag on.

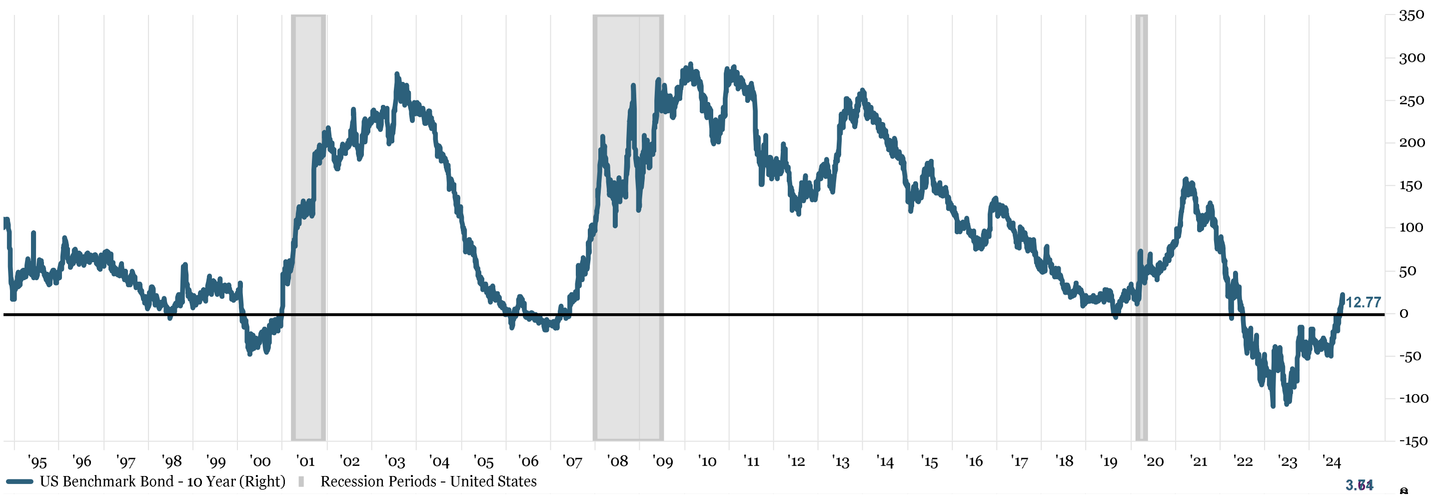
This summer brought about some slower economic data points that hinted at a possible inflection point and downturn in the direction of the economy. Then came September's blowout labor data. According the Bureau of Labor Statistics, the economy added a robust 254,000 jobs and the unemployment rate dropped to 4.1%. The latest estimate of Gross Domestic Product (GDP) shows the economy growing at a 3% real (above inflation) rate. Both data points are more consistent with the soft-landing scenario.

Inflation, as measured by the Consumer Price Index, came in at a 2.4% annual pace from September 2023 – September 2024. This is still above the Fed's 2% target but close enough for them to continue to lower their target Fed funds rate at gradual pace in hopes of achieving the soft-landing. At present, it seems the odds of success are better than 50%.

However, we remind investors that labor and economic data can turn quickly. As the chart below shows, the slope of the yield curve has just recently normalized after two years of inversion. That is, the yield on the 10-year Treasury has moved back above the yield on the 2-year Treasury. An inverted yield curve is one of the most popular signals of a potential recession. As the chart below shows, recessions (grey bars on the chart) often start *after* the yield curve has normalized.

With this in mind and considering we are just weeks away from a contentious election, we suggest you keep your seats belts fastened.

10 Yr vs 2 Yr Treasury Spread



Equity Summary:	3rd Qtr.	YTD	12 Mth	3 Yr.	5 Yr.
S&P 500 (Large Cap Domestic)	5.89	22.08	36.35	11.91	15.98
Russell 2000 (Small Cap Domestic)	9.27	11.17	26.76	1.84	9.39
MSCI ACWI Ex US (International)	8.06	14.21	25.35	4.14	7.59

Stock Market Update – Diversification Works (at least for the last 3 months)!

The economy may be stuck in the same old story, but the stock market has changed tunes. The third quarter brought about some long overdue rotation. All stocks performed well during the quarter with most indices making new highs. However, there was a noticeable change in leadership.

Small stocks as represented by the Russell 2000 Index, returned over 9% for the three-month period. International stocks also did very well, returning over 8% as indicated by the MSCI ACWI Ex US index. For once, it was the S&P 500 Index that trailed the other markets. However, the large cap domestic index still returned nearly 6% and made a new high above 5800 during the quarter.

The expanded list of domestic stock indices below shows a stark contrast in the performance of growth vs. value stocks over the quarter as compared to longer-term data. Large Cap Value outperformed by nearly 9%.

As of 02 October 2024	3 Months	YTD	12 Month	3 Year	5 Year	10 Year	Dividend Yield	P/E Ratio
Russell 3000	5.03%	19.27%	33.75%	8.38%	14.97%	11.30%	1.13%	19.63
S&P 500	4.59%	20.76%	34.82%	9.91%	15.60%	11.93%	1.23%	19.53
Dow Jones	8.13%	13.31%	28.11%	9.21%	12.30%	10.92%	1.64%	17.66
Russell 1000 Growth	0.78%	22.61%	40.03%	8.69%	19.28%	14.66%	0.50%	26.45
Russell 1000 Value	9.65%	16.00%	27.01%	8.66%	10.73%	8.22%	1.83%	14.96
Russell Midcap	9.37%	13.74%	28.23%	5.88%	12.58%	9.29%	1.30%	17.18
Russell Midcap Growth	6.21%	11.81%	28.05%	1.12%	13.58%	10.35%	0.47%	26.39
Russell Midcap Value	10.47%	14.26%	28.01%	8.15%	10.94%	8.05%	1.48%	15.01
Russell 2000	8.67%	9.51%	24.83%	2.11%	9.87%	7.12%	1.18%	22.03
S&P SmallCap 600 Value	10.66%	4.19%	20.63%	9.88%	11.07%	7.96%	1.53%	13.14
S&P SmallCap 600 Growth	8.41%	11.09%	27.04%	4.09%	10.18%	8.75%	0.99%	15.83

We have noted for some time now that the relative valuations of these diversified sectors were attractive as compared to the S&P 500 and to Large Cap Growth in particular. It is too early to say if this is the start of a longer-term trend or just a short-term reversal. However, we still view these sectors at attractive and think there is room for this trend to continue.

Fixed Income Summary:	3rd Qtr.	YTD	12 Mth	3 Yr.	5 Yr.
US T-Bill 90 Day Index	1.22	3.84	5.19	3.64	2.33
BC Municipals 5Yr	2.98	1.74	6.93	0.21	1.22
Bloomberg US Agg	5.20	4.45	11.57	-1.39	0.33
BC High Yield Corporate	5.28	8.00	15.74	3.10	4.72

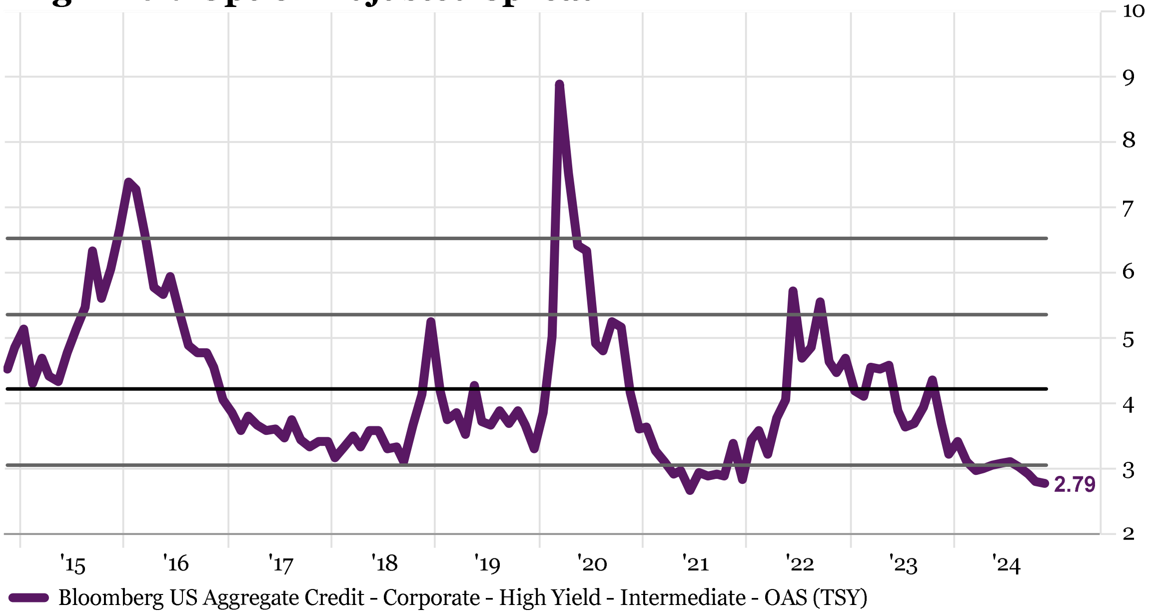
Fixed Income

Entering the third quarter, the US bond market was negative YTD on a total return basis. After an about face and a strong quarter, the total return for the Bloomberg US Agg was up YTD 4.45% by the end of the quarter. This was fueled by a 50-bps cut by the Fed at the September meeting with the expectation of additional 25-bps cuts at both the November and December meetings. The 2-Year Treasury yield fell more than 100-bps to end the quarter at 3.64% while the 10-Year yield fell more than 50-bps to 3.79%. As of this writing, the 10-Year rallied to 4.33% and the 2-Year rallied to 4.18% surprising investors post rate-cut and disappointing potential home buyers waiting for a more opportune time to take on a mortgage. Amidst all of this volatility, the 10 to 2-Year spread finally turned positive ending an inversion that lasted more than two years.

Erin K. Hawk, CFA®
Assistant Vice President
Wealth Investment Officer
513-228-7668
ehawk@LCNB.com

As we mentioned in the last bulletin, we anticipate the longer-dated maturities to remain rangebound. With this in mind, we have decreased our duration in portfolios to align closer to the benchmark. We traded this interest rate risk for some credit risk by increasing our investment grade corporate exposure. High yield bonds continued their positive performance in the third quarter; however, credit spreads are still tight compared to historical norms as you can see in the chart below. We continue to monitor this and will add exposure to when spreads are closer to their long-term averages.

High Yield Option Adjusted Spread



Overall, fixed income markets continue to provide steady income and capital appreciation opportunities. We continue to overweight to fixed income taking advantage of the increased yields and providing negative correlation to equity risk.

Alternative Investments Summary:	3rd Qtr.	YTD	12 Mth	3 Yr.	5 Yr.
Bloomberg Commodity	0.68	5.86	0.96	3.66	7.79
Dow Jones Global Real Estate	17.07	12.63	30.14	0.25	1.92
Credit Suisse Hedge Fund	2.02	9.02	11.25	5.58	6.58
Consumer Price Index	0.16	2.58	2.23	4.68	4.15

Alternatives Update – Location, Location, Interest Rates

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

It is often said that the 3 L's in real estate are Location, Location, Location. While this adage is often true when buying a personal residence, investment real estate follows slightly different rules. Over the last 2 years, we have noticed an inverse relationship between interest rates and investment real estate. As interest rates increased in 2023, the overall real estate market were essentially flat only returning 0.70%. This year as interest rates have declined, the overall real estate market is up approximately 12.60%. This inverse relationship can clearly be seen by the chart below.

While real estate has seen a resurgence in 2024, it isn't the only alternative investment that has performed well. Gold has continued higher and as of this writing it has pushed past $2,700 an ounce bringing its YTD return above 27.50%. Bitcoin is trading close to $65,000 returning investors over 50% so far in 2024. On the flip side, oil has sold off over the last 6 months and is currently trading at $70 a barrel, with a measly YTD return of 2%.

10 Year Treasury Yield vs Real Estate Index Price

We still feel the valuation of many areas of the equity market remain stretched and in the alternative space are recommending an allocation to investments that could provide protection in the event of some market volatility. As always, we are available to help you meet your financial goals – reach out to any of our LCNB | Wealth officers for a more detailed discussion.

COVERD Cincinnati Ribbon Cutting

As part of LCNB's Dignity Sponsorship, Andrew Jack and Pheobe Kerby joined LCNB Wealth officers Mike Lavatori and Amanda Luman to celebrate the ribbon cutting for COVERD's new warehouse in Walnut Hills. COVERD Greater Cincinnati, a nonprofit addressing hygiene needs for low-income families, will host its Sweet Cheeks Diaper Bank, Tidal Babe Period Bank, and Fly & Dry Basic Needs Bank at the larger facility. Mayor Aftab Pureval proclaimed September 23-29 as National Diaper Need Awareness Week in Cincinnati during the event, which included tours of the expanded space.

Pause for Parents

LCNB | Wealth officers Izabela Camacho, Chris Robinson, and Erin Hawk attended Pause for Parents annual gala. Pause for Parents is a nonprofit organization that coordinates activities for kids with disabilities, simultaneously providing them with exciting and engaging evenings with peers while allowing parents periods of respite. They currently have a location in Liberty Township and are in the process of opening a second location in Mason to expand their ability to meet the needs of families throughout Warren, Butler, and Hamilton counties!

Family Promise of Warren County

LCNB Wealth associates connected with one another while volunteering with Family Promise of Warren County. This non-profit has a vision of ending homelessness through their unique program of responsibility and accountability for the families they serve. Since 1998, Family Promise of Warren County has helped hundreds of families find homes, meaningful work, and educational opportunities through their network of volunteerism and charitable giving.

Congrats Walkie Talkies!

An LCNB | Wealth team, the Walkie Talkies – Izabela Camacho, Andrew Verba, Erin Hawk, and Chris Robinson – won the 2024 LCNB Step It Up! Competition sponsored by the LCNB National Bank Wellness Committee. They averaged over 10,000 steps per day in the month of September! This competition was a fun way to motivate one another to move more daily and continue to build healthy habits. Great job, team!

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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 Josh Shapiro @ 513-228-7659 or jshapiro@LCNB.com for more information.