Wealth Management Bulletin
Summer 2021

Welcome to Summer …

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I ran across a picture of my maternal grandfather the other day and it made me smile. He was a mail carrier by profession, my grandpa by nature's lottery, and, by all accounts, a good man. He loved to laugh and always had toys for his grandchildren to play with. Chattering teeth, rubber balls, fake dog doo, and a little plastic dog whose head bounced up and down are some of my favorite memories. Things of no consequence, except to a small boy who always laughed, "when the toys came out."

Every time I hear the word "Grandpa" or "Roscoe" (his given name), or "Rock" (what his friends called him) I smile. Why? Because those names mean something. In my mind, they have substance and make me feel good. And that is what names are supposed to do. Names are meant to elicit a reaction, engage a memory, define a personality, or support an idea.

A name should properly identify the subject and convey an appropriate, intended message. I am certain that you have noticed that the LCNB Trust Department has transitioned its name to LCNB |Wealth. We are one team. We have two divisions, Trust Services & Investment Services, staffed by the same great professionals who you know and trust. Professionals whose experience, knowledge, and commitment to our customers are the backbone of LCNB |Wealth.

The name LCNB |Wealth incorporates the history of our Trust Department and defines our path forward. It's a nod to those who built our department, to those who nurtured its growth through the years, and to those who continue to provide customer-centric financial services to our customers today. It's a solid name that defines our mission to help you and your family establish and maintain long term financial security. By listening to you and engaging with you to identify goals and objectives, we can provide the best quality planning, trust and investment solutions to meet your financial needs. The name has changed, but the quality and commitment continue.

Roscoe died in 1995. Not a day goes by that I don't think about him, especially when I spend time with my granddaughter, Blake. I even have toys in my own "Grandpa's Toy Drawer" for her to play with. It's amazing to me the things that can make a child smile. Who knew that chattering teeth would still be such a hit.

Enjoy your summer. Please let us know how we may assist you with your planning, trust, and investment needs.

Thank you for your relationship with LCNB |Wealth.

Best Regards,

Mike

Reviewing Your Estate Plan – The Time is Now

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Our clients frequently ask us how often they should review their estate plan. Our typical answer is shortly after a life event, such as a birth, death, divorce, or retirement, or at the very least every 3-5 years. Such timeframes allow for you to address important issues. But over the past year we have suffered a global pandemic, with millions of lives having been lost around the globe. A new presidential administration is focused on raising taxes, possibly including the estate tax. On the positive side, we have enjoyed a booming stock market that has added trillions of dollars to taxpayers' wealth. Because of these recent events, now is the time to review your estate plan!

Probably all of us know someone who died or was hospitalized from Covid. That makes our own mortality that much more real. We hope we have plenty of time to deal with issues surrounding death, but the timing is truly an unknown for all of us. I know it's not fun, but all of us have a responsibility to our families to set up an estate plan so our affairs are settled in a timely and efficient fashion.

The pandemic aside, and the sudden drop in the markets during the spring of 2020, the stock market has enjoyed a steady incline for at least 12 years now and many of us have a much higher net worth. Thus, the wealth we transfer to our spouse, children, grandchildren, and charities will have more impact and significance than we probably previously imagined.

And taxes. Ugh. For most of us, we do not get excited about paying taxes on income, real estate, and sales. But many are surprised to learn that there is another tax, the estate tax, levied on estates above certain amounts before the assets are transferred to heirs. The current law provides a 40% tax on estates above $11.7 million. However, as part of near-term tax reform, that threshold may decrease significantly, likely somewhere between $3.5 million to $5 million. Thus, many of us should consider incorporating planning vehicles and techniques to minimize or eliminate estate tax liabilities, so we are able to maximize the inheritance to our heirs.

When reviewing your estate plan, the most important factors to consider are how to structure and pass your assets to your heirs and which individual or institution will be responsible for settling your affairs and following your wishes.

Although this may seem overwhelming, we are here to help. Please contact your LCNB trust officer and we will review your situation with you and help coordinate any needed updates to your planning. We do not draft the documents, but we work with your attorney to establish or properly modify your estate plan.

Our mortality is more real than ever before. Taxes are rising and we have more wealth to protect. Now more than ever is the time to review your estate plan to ensure your goals and objectives are fulfilled. Trust me, you will feel much better after you do.

Economic Summary – A Return to Inflation?

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Unprecedented supply and demand shock waves continue to reverberate through the U.S. and Global economies as they reopen following the Covid-19 induced shutdown. Supply and demand imbalances are showing up in almost all sectors of the economy including housing, autos, lumber, and of course labor to name a few. The mechanism for restoring order to these imbalances is almost always price. Too much housing supply and the price falls causing builders to exit the market. Not enough labor supply and wages rise encouraging people to look for work.

It is no surprise that the topic on most market participants minds (including my own) is inflation or in other words the future price of goods and services. Inflation, as stated by Milton Friedman, "is caused by too much money chasing after too few goods". The prospects of inflation will be top of mind for Fed Chair Jerome Powell and his colleagues as they meet next month in Jackson Hole for their annual retreat to review interest rate policy. The Fed will be drilling down into the data to decipher which of these inflationary pressures is transitory, or temporary, versus those likely to persist.

Examining the price action of lumber over the past 12 months, we see some clear evidence of transitory inflation with the potential for some lesser amount of permanent increase. The supply chain was cut off by a shutdown in international trade while at the same time consumers were flush with stimulus cash. Adding to this inflation recipe was a consumer that could not travel, go to the movies, or out to eat. The result in the spring of 2020, was a spike in trips to Lowe's and Home Depot for projects around the house. Supply dropped dramatically while demand increased at the same time leading to a massive increase in lumber prices. As we move into the second half of 2021, borders are re-opening, consumers are spending money on other goods and services, and sky-high lumber prices are starting to retreat. The amount of the price increase in lumber that will stick around is yet to be determined.

The Fed will no doubt be looking at price data for all sorts of goods and services, but none more so than labor and wages. Historically, wage data has been the most reliable precursor to broad and persistent inflationary pressures. The July wage data has returned to pre-covid levels following artificial spikes and contractions based on service jobs exiting and then reentering the labor force. It will likely take several more months of employment data before we have a good feel for the true level of wage gains in the economy.

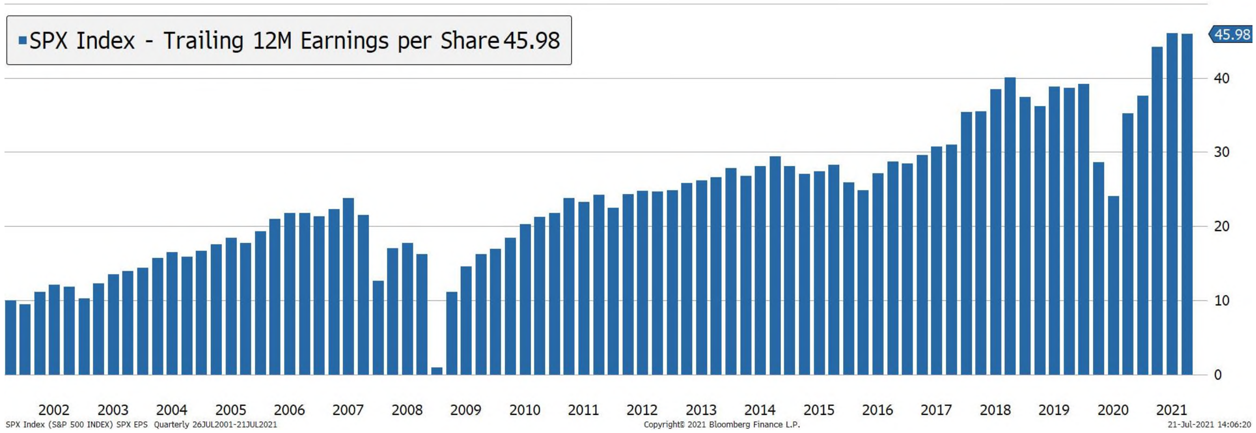
For the time being, the Fed remains very accommodative with near zero short-term interest rates and $120 billion worth of monthly bond purchases to suppress longer-term rates. The August meeting may present an opportunity to signal a slow-down in bond purchases during the second half of the year if the labor market continues to recover as expected. However, do not expect any change in the short-term Fed Funds rate until well into 2022. The Fed has already stated that they are willing to let inflation run ahead of their 2% target for some time. Recent moves in the stock and bond markets suggest little concern for inflation in the near-term.

Equity Summary:	2nd Qtr	YTD	12 Month	3 YR	5 YR
S&P 500 (Large Cap Domestic)	8.55	15.25	40.79	18.67	17.65
Russell 2000 (Small Cap Domestic)	4.29	17.54	62.03	13.52	16.47
MSCI ACWI Ex US (International)	5.48	9.16	35.72	9.38	11.08

Equity Update – Market Rotation Continues

Equity investments can often serve as a good hedge against inflation. This is especially true for quality companies that can pass along increased costs to their consumers. Despite the supply and demand shocks described above, U.S. stocks are set to report record earnings for the second quarter, as shown in the chart below. With stock prices also at record levels, this would suggest that any Covid related inflation has only benefited stocks so far. However, investors should also be aware of the potential negative impact that inflation can have on stock prices. Stock prices are simply the discounted value of all future expected cash flows. Persistent inflation would ultimately lead to higher interest rates. Therefore, an increase in current interest rates (the discount rate) would lead to a lower current price. Stocks with elevated Price to Earnings (PE) ratios would be most at risk for PE contraction in a rising rate environment.

Throughout the pandemic, we have seen wide swings in market leadership. The most recent quarter has once again favored large U.S. based growth stocks with the S&P outpacing the smaller stock Russell 2000 Index in the second quarter. This comes after 9 months of smaller stock outperformance as shown in the 12 month return numbers above. Smaller stocks still trail on a longer-term basis and large U.S. growth stocks are still trading at elevated PE ratios. We see these valuations as being vulnerable to any rise in interest rates and continue to prefer other areas of the market. This includes value, small/mid cap, and international stocks.



Fixed Income Summary:	2nd Qtr	YTD	12 Month	3 YR	5 YR
US T – Bill 90 Day Index	0.01	0.02	0.07	1.17	1.10
BC Municipals 5YR	0.47	0.12	1.76	3.72	2.32
BC Intermediate Government/Credit	0.98	-0.90	0.19	4.70	2.63
BC High Yield Corporate	2.74	3.62	15.37	7.45	7.48

Fixed Income Update – "Buy the Rumor; Sell the News"

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"Buy the rumor; sell the news" is an old adage in financial markets that is especially applicable to the relationship between inflation and bonds throughout the first half of 2021. In the first quarter, inflationary concerns caused rates to trend higher. Once some of these inflationary concerns came to fruition during the second quarter, interest rates did an about-face and moved lower. The increase in the beginning of the year happened so quickly that when we actually saw the YoY CPI above 4%, long term rates actually contracted. This yield contraction erased half of the loss in the bond market: the Bloomberg Barclays Government Credit Index went from a 1.86% loss in the first quarter to being down only 0.90% YTD.

The 10-year Treasury moved lower 28 basis points (bps) to end the second quarter at 1.46%. The 2-year Treasury, contrarily, increased by 8 bps from 0.16% to 0.24%. The yield curve flattened during the quarter, with the spread between the 2- and 10-year Treasury closing at 1.21% compared with 1.58% at the end of the first quarter. The Federal Reserve (Fed) has kept interest rates low on the short end keeping the Fed Funds rate at 0%-25% since March of 2020. The Fed's commitment to purchasing bonds continues and the spread between high yield bonds and treasury bonds lowered to 2.68% - this is a change of 36 bps from the end of the first quarter.

The recent trends in yields can be attributed to strong demand in the bond market. If investors view the stock market as fully valued and the current interest rates as an attractive alternative, portfolio rebalancing from equities into fixed income will continue. Additionally, there is still a lot of cash on the sidelines. These two potential sources of funds (from the equity rebalancing and sidelined cash) could push rates even lower in the short term. We continue to favor high quality, shorter duration fixed income securities for portfolios.

Alternative Investments Summary:	2nd Qtr	YTD	12 Month	3 YR	5 YR
Bloomberg Commodity	13.30	21.15	45.61	3.90	2.40
Dow Jones Global Real Estate	8.11	13.80	28.59	7.90	7.06
Morningstar Broad Hedge Fund TR	5.78	15.84	29.12	6.76	6.44

Alternatives Update

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Gold fluctuated widely throughout the quarter as wage gains creeped up, the Fed mentioned raising rates earlier than expected, and debates about inflation being transitory or sticky continue. Oil continued to rally in the second quarter of 2020, ending up over 24%. This led the commodity index to outperform versus other asset classes, returning 13.3% for the quarter. As the reopening of the economy continues, we will continue to monitor commodities as a whole and gold as a potential inflation hedge for our portfolios. We still believe valuations of stocks and bonds are stretched and maintain an overweight recommendation to alternatives. The goal of our alternative allocation is to enhance the risk adjusted return of our portfolios. For a long time, alts were a drag on our portfolio performance, but we have seen added value in the last 6 months.

Wealth Team - Causes for Celebration

Jim Fish joined LCNB |Wealth in April, 2021 as a Trust Operations Associate. His primary duties include processing payments, scheduling various account activities, maintaining account files, and responding to client requests. Prior to working at LCNB, Jim worked as a Business Procedures Analyst for MetLife Insurance. In his spare time, Jim enjoys playing tennis, golfing, and travelling with his wife Joane. He and Joane reside in Germantown with their chocolate Labrador, Sam, and their two rabbits, Thelma and Louise.

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Brittnay Mustard-Smith joined LCNB |Wealth in May 2021 as a Trust Operations Associate. Her primary duties include posting asset-based transactions and assisting clients with website access. Brittnay started her career with LCNB in the Loan Servicing Department, transitioning to the Mortgage Department prior to coming to LCNB |Wealth. In her spare time, Brittnay enjoys making seasonal wreaths and working on her voice acting demos. She and her husband, Taylor, live in Lebanon with their son, Zedd, their Whippet Ludo, indoor cat Roux and 2 barn cats, Stripey and Daffodil. They have a baby on the way, due at the end of August!

Denise Hopper joined LCNB |Wealth in June 2021 as the Client Care Coordinator. Her primary duties include answering phones, mailing and e-mailing statements and other client communications, and ensuring the best possible client experience. Denise has over 20 years of experience in office management. Prior to working at LCNB, Denise worked for Finkelman & Ross, City of Middletown and most recently at the Enclave of Springboro Senior Living as a Sales Counselor. In her spare time, Denise enjoys spending time with her family which includes twelve grandchildren as well as reading, hiking and traveling. She also teaches Sunday School and manages the café at her church. Denise resides in Franklin with her husband, David, and three teenage children

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