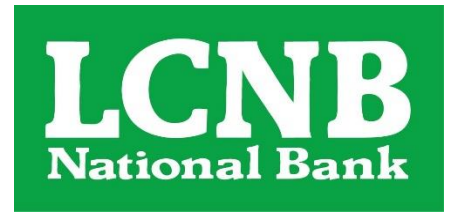


Trust & Investment Bulletin

Spring 2018



It's spring.

At least, according to the calendar, it's supposed to be spring. The time for new beginnings. The time for Mother Nature to begin creating the tapestry of color that we all look forward to. As the flowers bloom and the trees start to bud, a clearer picture of nature's possibility begins to emerge. The same can be said for individual financial matters.

As a person's financial landscape grows, the possibilities become more obvious, the choices more clear. Just as with your own yard or garden, what you plant, where you plant it, and who you use to help nurture it can make the difference between a successful emergence and an unsuccessful effort. Proper maintenance, of course, has a great impact on the overall result.

Even though we are getting a late start on spring, it is never too late to start planning your successful financial future. At LCNB, we have a great deal of experience with "financial plantings." Solid investment strategies, sound financial planning advice, pragmatic maintenance strategies, and people who know how to listen and guide your financial decision making.

Thank you for allowing LCNB to be part of your financial spring. Let's talk. Preferably on a comfortable spring day.

Warmest Regards,
Mike



Michael R. Miller, JD, CFP®
Executive Vice President
Trust Department Head

Economic Summary – Inflation ahead?

The tax-cut honeymoon was short-lived, as fears of inflation agitated global financial markets throughout the first quarter. The initial wave of inflation concern was caused by a better than expected jobs report released in February. The Bureau of Labor statistics revealed 313,000 new jobs and an increase in average hourly wages of 2.9% on a year-over-year basis. The news caused a sell-off in bond prices as interest rates shifted upwards. Equity markets also dropped on the news, with the S&P 500 falling over 10% for the first time in 24 months.

The second round of inflation fear was self-inflicted by the Trump administration. Following up on campaign promises to get tough on China, the Trump administration announced \$50 billion worth of trade tariffs in March. China was quick to respond, announcing a 25% tariff on several American imports including soybeans, automobiles, and aircrafts. Not to be outdone, President Trump then tweeted that he would be considering an additional \$100 billion in tariffs on Chinese goods.

While an all-out trade war between the world's two largest economies could certainly derail the global economic expansion, it is important to remember that none of the above tariffs have taken effect yet. So far, these threats remain just rhetoric and may end up being more about political posturing than actual policy when all is said and done.

In the meantime, the underlying economic fundamentals remain intact. The third and final estimate for fourth quarter GDP showed expansion at a 2.9% annual rate. Despite the potential for inflation going forward, the actual Consumer Price Index remains in check with the latest reading at a 2.2% annual rate. This is just barely ahead of the Fed's 2% target but does provide enough ammunition for the Fed to continue to slowly tighten interest rates.



Bradley A. Ruppert, CFA®
Executive Vice President
Chief Investment Officer

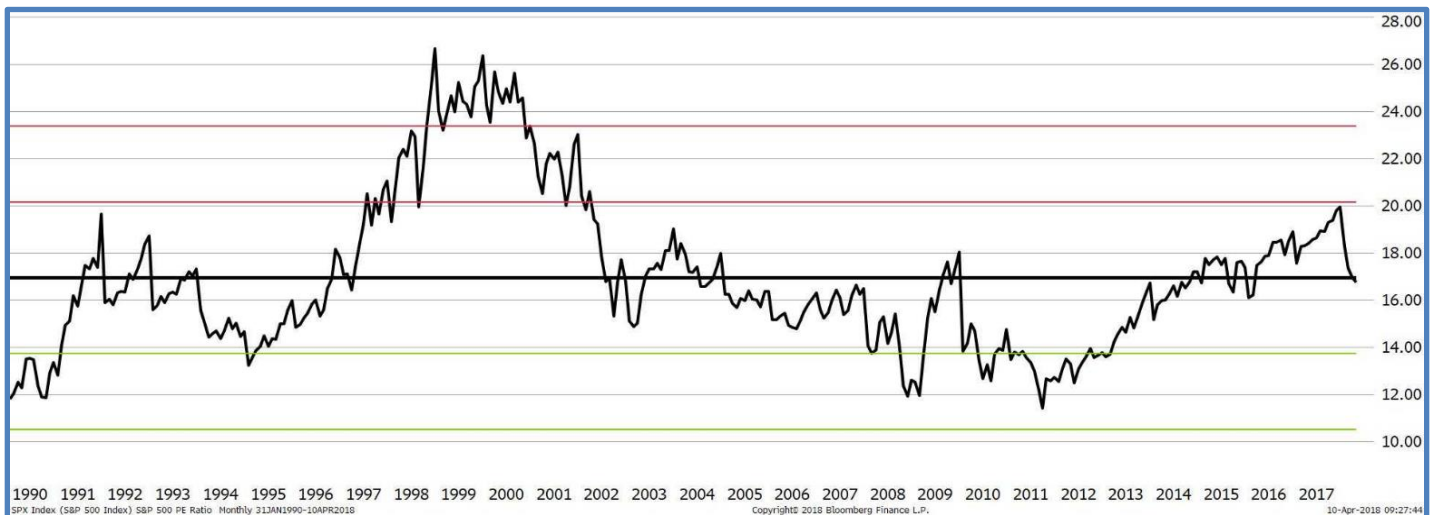
Equity Summary:	1 st Qtr	YTD	12 Month	3 YR	5 YR
S&P 500 (Large Cap Domestic)	-0.76	-.076	13.99	10.78	13.31
Russell 2000 (Small Cap Domestic)	-0.08	-0.08	11.79	8.39	11.47
MSCI ACWI Ex US (International)	-1.18	-1.18	16.53	6.18	5.89

Equity – Volatility returns

We noted last quarter that domestic equity valuations were looking stretched and that we were overdue for a correction. The chart below plots the S&P 500 Index Price-to-Earnings Ratio dating back to 1990. By the end of January investors were paying nearly \$20 for every \$1 in earnings. This placed valuations nearly one full standard deviation above the long-term average.

The recent volatility has brought domestic stock valuations back in line with longer-term averages. The S&P 500 Index found support around the 2580 level in February and again in March. As we move into what should be a strong earnings season, we hope this level will represent a strong foundation for markets to build upon.

S&P 500 Index – Price to Earnings Ratio 1990 – Present



We continue to favor international developed and international emerging market equities which have now outperformed domestic stocks for the trailing 12 months. International stocks are up 16.53% over the trailing 12 months with emerging market equities are up over 25% during the same period. The chart below shows the domestic S&P 500 Index (blue) compared to all international stocks (orange), and emerging markets (black).



Fixed Income Summary:	1st Qtr	YTD	12 Month	3 YR	5 YR
US T – Bill 90 Day Index	0.36	0.36	1.09	0.51	0.32
BC Municipals 5YR	-0.63	-0.63	0.40	1.14	1.38
BC Intermediate Government/Credit	-0.98	-0.98	0.35	0.94	1.25

Ready, Fire, Aim.

Jerome Powell took over the reins and became the Federal Reserve Chairman in February. As expected he and the board of governors moved the Fed funds rate to 1.50 – 1.75% in March. The Fed Chair also has recently indicated that we should see another 2 rate hikes in 2018 and that the decision to raise rates in the future will be data dependent.

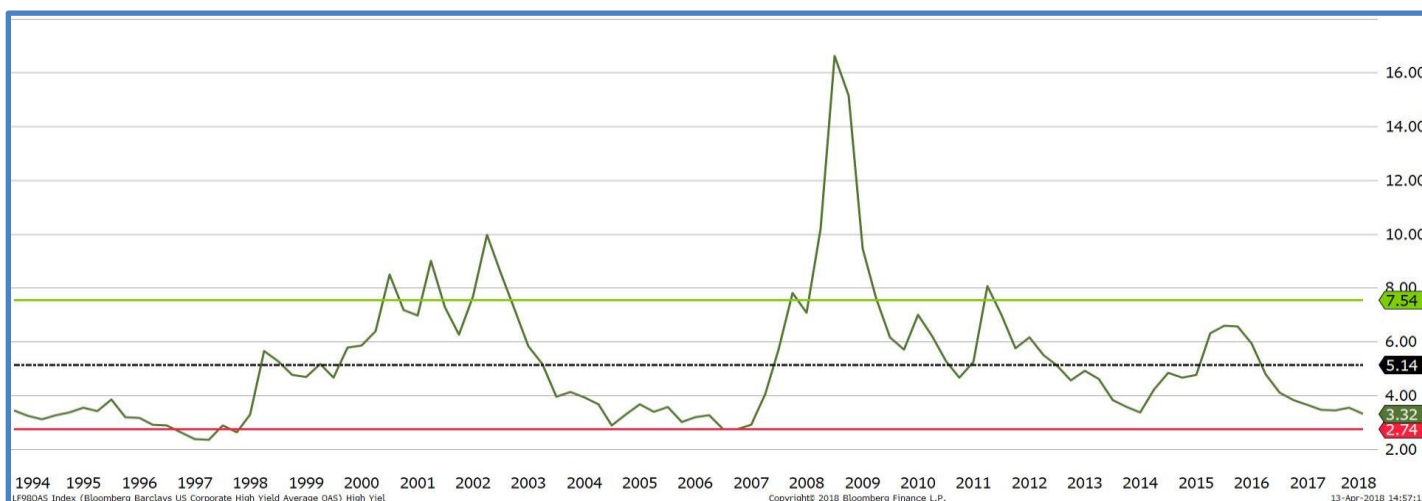
The Fed has consistently stated that they would like to move the Fed funds rate to a more normalized level. With a strong unemployment rate and positive GDP data the Fed feels pressured to move interest rates before we see inflation in reported CPI.

Coinciding with the Fed funds rate in the first quarter of 2018 we saw the entire yield curve continue to move higher. The 10-year treasury rate moved from 2.40% at year end to 2.73% at the end of the first quarter. While we watched the spread between the 2 and 10-year treasuries widen at the beginning of the year, by quarter end we were back below 50 bps.

While volatility has re-entered the equity markets, investors are still not being rewarded for taking on additional credit risk. As shown in the chart below, high yield spreads relative to the ten-year treasury remain compressed. The current spread of 3.3% is well below the 5% average over the past 25 years.



Chris Robinson, CIMA®
Vice President
Trust Investment Officer



Alternative Investments Summary:	1st Qtr	YTD	12 Month	3 YR	5 YR
Bloomberg Commodity	-0.40	-0.40	3.71	-3.21	-8.32
Dow Jones Global Real Estate	-3.00	-3.00	8.25	4.28	5.21
Morningstar Broad Hedge Fund TR	2.58	2.58	7.30	2.75	5.10

Commodity prices were slightly negative in the first quarter of the year after a strong rally in the fourth quarter of 2017. Crude oil was up slightly but the momentum we saw in 2017 has slowed to a crawl.

Real estate, master limited partnerships and utility companies are all interest rate sensitive, for that reason performance in these areas have trailed the broad market year to date.

As your trust officer...

"What do you do for a living?" When I answer that question, I am usually met with blank stares. I am a trust officer at LCNB National Bank, and most of the general public does not know or understand what a trust officer does for bank clients. So here is an explanation that I hope will provide clarity and, if you are not already fully utilizing our spectrum of services, will start a conversation with us on how we can assist you better.

At LCNB, trust officers help you plan for retirement, taxes, charitable wishes, estate transfers, and investment management. We also provide trust and estate services to work with your family after you pass away. Our typical clients are approaching or in retirement and desire assistance to help them live comfortably for the remainder of their lives and to pass on a financial legacy and their family values to future generations. Our client relationships are personal, long-term, multi-generational, and mutually rewarding.

The financial world today is complex, and with pension plans becoming rare, the responsibility is on you to save, invest, and plan for your welfare and that of your family. As your trust officers, we are here to provide and coordinate comprehensive wealth management services to help you reach your goals and protect your family. Late in life, or after you pass away, we may settle your financial matters as well as manage and operate your trusts for your loved ones. As you can see, the array of services is wide and very important.

Please do not hesitate to contact us for more information or to further discuss how we can help you. Thank you and we hope to see you soon.



Joshua A. Shapiro, JD
Senior Vice President
Trust New Business Officer

Meet Kelly.

In October, 2017, I had the pleasure of joining LCNB National Bank as Head of Trust Administration. My primary responsibilities are compliance and risk management, and oversight of trust tax and administration. This role is particularly exciting for me both professionally and personally. I have a unique opportunity to combine my experience in financial services, trust, estate, and employee benefits administration. More importantly, I have the opportunity to ensure that our clients *Discover the Difference* at LCNB National Bank - the difference in our service, priorities, and values.

I look forward to meeting you and developing a relationship that supports your priorities and values. I encourage you to reach out to me, introduce yourself, and tell me how we can help you achieve peace of mind.

Best regards,
Kelly
513-932-1414 ext. 59102
kschwabacher@lcnb.com



Kelly Schwabacher
Senior Vice President
Head of Trust Administration

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.

