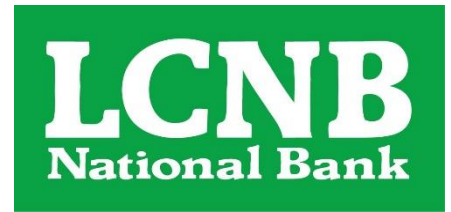


# Trust & Investment Bulletin

## Summer 2017



### Welcome to Summer!

With the retirement of Roy McKay, I am honored to have been appointed as the new Trust Department Head at LCNB National Bank. That is not to say I am new to the Trust industry or to those in our department. I have known and worked with several of them over the years. As a former bank trust officer and practicing estate planning attorney, I have been in this business for many years. They say experience breeds wisdom. We will see.

With the new school year right around the corner, I find myself remembering back to summers as a kid and the anticipation of what lay ahead. Do I have the right supplies? Who will be my teachers? What old friends will I run into? What new relationships will I make? How will our teams do? As summer merges into fall, a lot of these same questions will be answered for this "grown up kid."

In the meantime, if we have not met, I look forward to our first meeting. If we are old friends, I look forward to getting caught up. Either way, I would love to get together and tell you more about how we are spending our summer at LCNB working for you. We have a great team. People with big bank experience and small town values. Hope you are having a great summer!

Best Regards,  
Mike



**Michael R. Miller**  
Executive Vice President  
Trust Department Head

### Economic Summary

The eventual outcome of investigations into President Trump's alleged collaboration with Russia during the 2016 Presidential election is far from certain. What is clear, is the impact the investigation is having on the Trump White House and his policy initiatives. From a revolving door of White House staffers to a steadily declining approval rating, it appears much of the pro-growth campaign promises are now bogged down in the Washington swamp that Mr. Trump had hoped to drain.

So far, this seems to have had little impact on the U.S. economy or financial markets. Initial GDP estimates for the second quarter show the U.S. economy growing at 2.6%. While less than stellar, this is in line with the slow, steady, growth of the past several years. With the unemployment rate at 4.2% and financial markets continuing to make new highs, Janet Yellen and the Fed moved forward with another quarter point rate hike in June. The Fed has recently signaled a desire to begin reducing the \$4 trillion balance sheet that was accumulated in the wake of the Global Financial Crisis. However, expect any future efforts to normalize rates or shrink the balance sheet to move at a gradual pace as recent inflation numbers have sunk down below the Fed's 2% target.

The global economic backdrop continued to improve with solid numbers reported out of Europe, Japan, and China. The European improvement was enough for Mari Draghi to hint that the European Central Bank may soon reduce the level of asset purchases in their quantitative easing efforts.



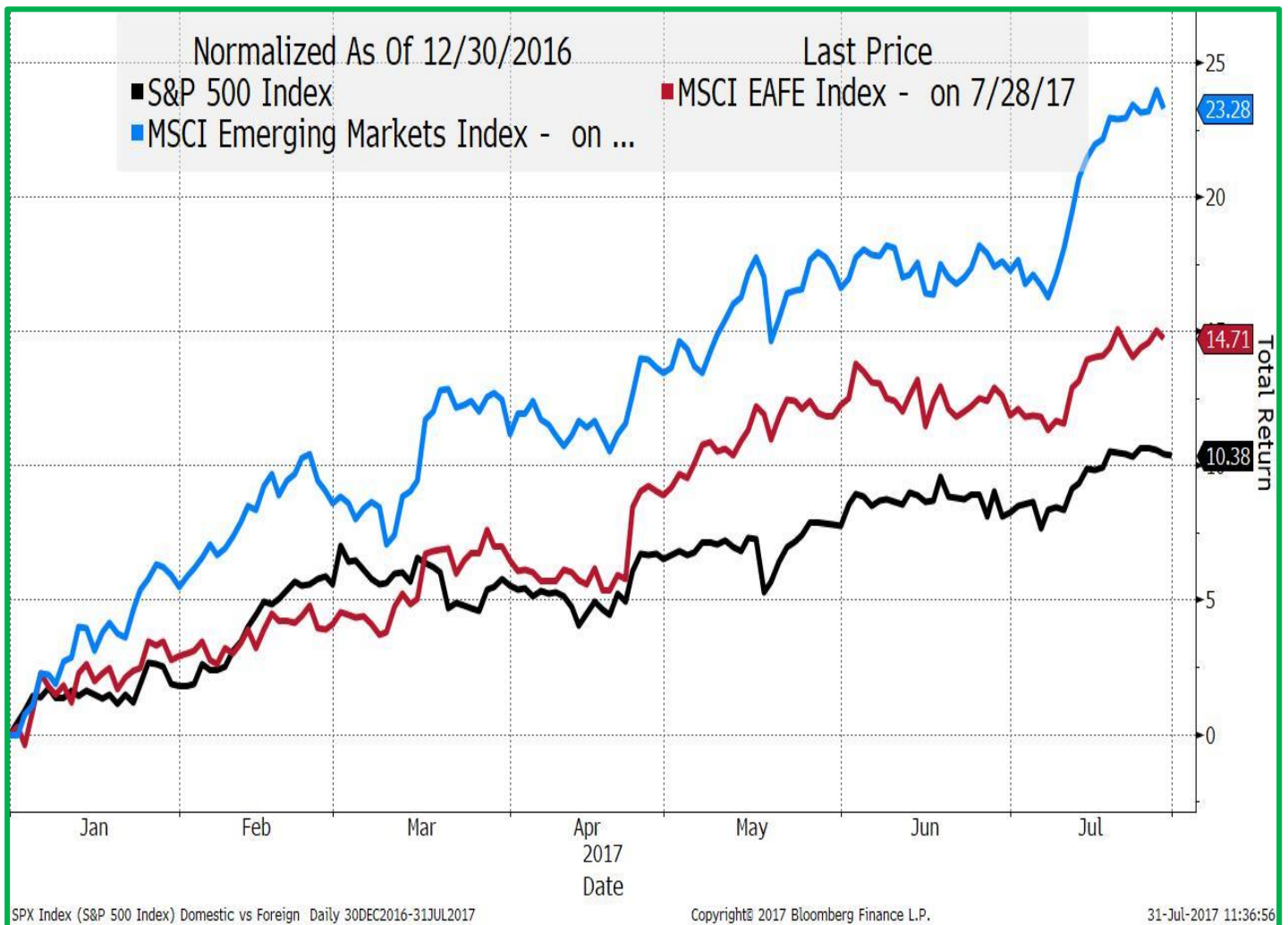
**Bradley A. Ruppert**  
Executive Vice President  
Chief Investment Officer

Equity Summary:	2nd Qtr	YTD	12 Month	3 YR	5 YR
S&P 500 (Large Cap Domestic)	3.09	9.34	17.89	9.60	14.61
Russell 2000 (Small Cap Domestic)	2.46	4.98	24.57	7.34	13.69
MSCI EAFE (International Developed)	6.31	14.22	20.91	1.73	9.29

International stocks continued their strong run in the second quarter with developed markets returning over 6% for the three-month period ending 6/30 and are now up more than 20% over the past 12 months. Emerging markets were also up better than 6% during the second quarter and are up over 24% the past year.

We had noted in several recent editions of the *Bulletin* that international equities were more attractive than their domestic counterparts from a valuation standpoint. This comes on the heels of a strong multi-year run for domestic stocks vs. relatively weak performance in international markets. Given the improving global economic backdrop, it is not surprising to see these markets finally start to advance. As the chart below indicates, both emerging markets and developed international are clearly outpacing domestic stocks this year.

Within domestic markets, a clear divide has emerged between growth and value stock performance over the past several years. During this stretch, growth stocks have vastly outperformed value stocks and this has been especially true during the first half of 2017.



<b>Fixed Income Summary:</b>	<b>2nd Qtr</b>	<b>YTD</b>	<b>12 Month</b>	<b>3 YR</b>	<b>5 YR</b>
BC Treasury - Bill Index	0.21	0.31	0.50	0.25	0.19
BC Municipals 5YR	1.25	3.17	0.44	2.02	2.06
BC Intermediate Government/Credit	0.94	1.73	-0.21	1.92	1.77

While the Fed has gradually increased the short-end of the curve, the longer/intermediate term rates have trended lower. After hitting a low of 2.1% in June, the benchmark ten-year treasury note ended the quarter at 2.3%. This is down 14 basis points from where we started the year. A flattening of the yield curve is often a sign that an economic expansion is coming to an end. However, this cycle the Fed has an additional tool at their disposal that may help to extend this expansion. As the Fed shrinks the balance sheet, they should be able to maintain some slope in the yield curve which should encourage lending and credit creation.

<b>Alternative Investments Summary:</b>	<b>2nd Qtr</b>	<b>YTD</b>	<b>12 Month</b>	<b>3 YR</b>	<b>5 YR</b>
Bloomberg Commodity	-3.00	-5.26	-6.50	-14.81	-9.25
FTSE/EPRA NAREIT Global Real Estate	3.71	7.23	3.08	4.78	8.12
Morningstar Broad Hedge Fund TR	-1.17	0.86	4.04	2.91	4.65

The commodity recovery of 2016 now appears to have just been a head fake as commodity prices have resumed their long-term slide in 2017. Global Real estate continues to perform well with returns over 7% for the first half of the year while hedge fund returns have been essentially flat.

## Hellos and Goodbyes

Although we have said goodbye to our long-time friend and leader, Roy McKay, we have made some exciting additions to our department in the last two years. First, Wendy Cole, of Englewood, Ohio, joined our group in July 2015 as an Assistant Vice President/Trust Officer. Prior to joining LCNB, Wendy managed the estate settlement department of another community bank and served as a probate paralegal for Porter Wright in Dayton, Ohio. Wendy focuses on estate settlement, irrevocable life insurance trusts, and general trust administration at LCNB.



Josh Shapiro, J.D., of Cincinnati, Ohio, is a Senior Vice President/Trust Officer, who joined LCNB in May 2016. Prior to LCNB, Josh served as a trust officer for two community banks and as a tax, trust, and estate attorney at Taft, Stettinius, & Hollister LLP. Josh's focus is to help our clients with all facets of their planning and to provide trust and fiduciary services.



Finally, we recently welcomed Chris Robinson of Monroe, Ohio, to our team. Chris is a Vice President/Portfolio Manager. He works with our Chief Investment Officer, Brad Ruppert, to construct and implement our investment portfolios. Prior to LCNB, Chris served in similar capacities with a community bank and a large national bank in Dayton, Ohio.



The LCNB Trust Department continues to grow and expand in size and capabilities, and we are very excited to introduce Wendy, Josh, and Chris to all of you.

*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](mailto:mmiller@LCNB.com) for more information.*