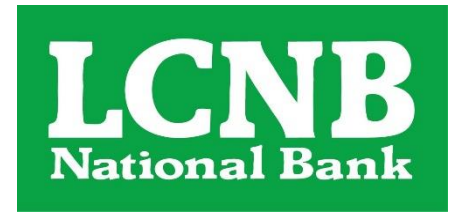


# Trust & Investment Bulletin

## Winter 2019



### It's Winter

Some people absolutely enjoy this time of year. Beautiful snowfalls, chilly skiing expeditions, and warm fires. Other people intensely dislike this time of year. Icy roads, cold winter mornings, and learning new words as they slide off the side of the road. It's really a matter of perspective.

In the wealth management business, it's also a matter of perspective. How you feel about wealth accumulation, asset mix, risk tolerance, and investment strategy shapes your financial perspective. How you think about taxes, retirement planning, and multigenerational estate planning shapes your legacy perspective.

At LCNB, we understand that perspective matters. Our many years of experience gives us a unique perspective on financial markets, retirement, tax, and planning issues. But we are smart enough to know that there is only one perspective that really matters...yours.

Let's get together. We are very interested to learn more about your perspective. Be safe and stay warm.

Best Regards,  
Mike



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### Tools to Prevent Tax Scams

Tax season will soon be upon us, which means tax fraud is more prevalent. Tax fraud occurs throughout the year, but is more rampant during tax season. The Internal Revenue Service ("IRS") and other tax publications issue notices of tax fraud on an almost weekly basis.

A couple of points to consider if you get contacted by someone posing as the IRS:

- The IRS *rarely* calls taxpayers, even if the caller ID appears to be from the IRS.
- Any IRS correspondence will start with written notices sent via the Post Office.
- The agents will not yell, threaten, or harass you! The IRS aims to treat all taxpayers with courtesy and respect.
- The IRS does not request personal information via email or other social media.
- Scammers may provide fake IRS Agent IDs to mimic the IRS's credentials and procedures.
- The IRS warned that some scammers intercepted and doctored legitimate IRS notices.
- The IRS does not have the authority to direct the police to arrest you.
- The IRS does not accept payment in the form of prepaid cards, gift cards, iTunes cards, or any related methods.

What to do if you receive a call, email, text, or letter?

- Do not engage with the fraudsters. Hang up the phone. Do not respond to emails or social media posts.
- Verify all phone numbers and addresses with the IRS on their website or toll-free number (see below).
- Open your mail! Most notices can be easily resolved. Double check the validity of the provided contact information before responding.
- The above points can be applied to your State's Department of Taxation, as state tax fraud is rising.

IRS Contact Information:      Website: [irs.gov](http://irs.gov)      Main IRS phone: 800-829-1040



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## Economic Summary – Global Growth Slows

What a difference a year makes. Last year at-this-time, financial markets were ripping higher on the heels of the Trump tax cut and an expected acceleration in global growth. GDP growth in the U.S. did in fact pick up in 2018 as corporate earnings shifted higher and unemployment continued to drift lower. Fourth quarter GDP will post later this month, but estimates suggest the U.S. economy expanded at a 2.9% pace for the full year.

Unemployment remains low at 3.7% and average hourly earnings were up 3.0% from a year-ago. The solid economic data is hard to reconcile with financial market volatility throughout the year. However, financial markets often lead the economic data and in this case market volatility is likely signaling a future slowdown.

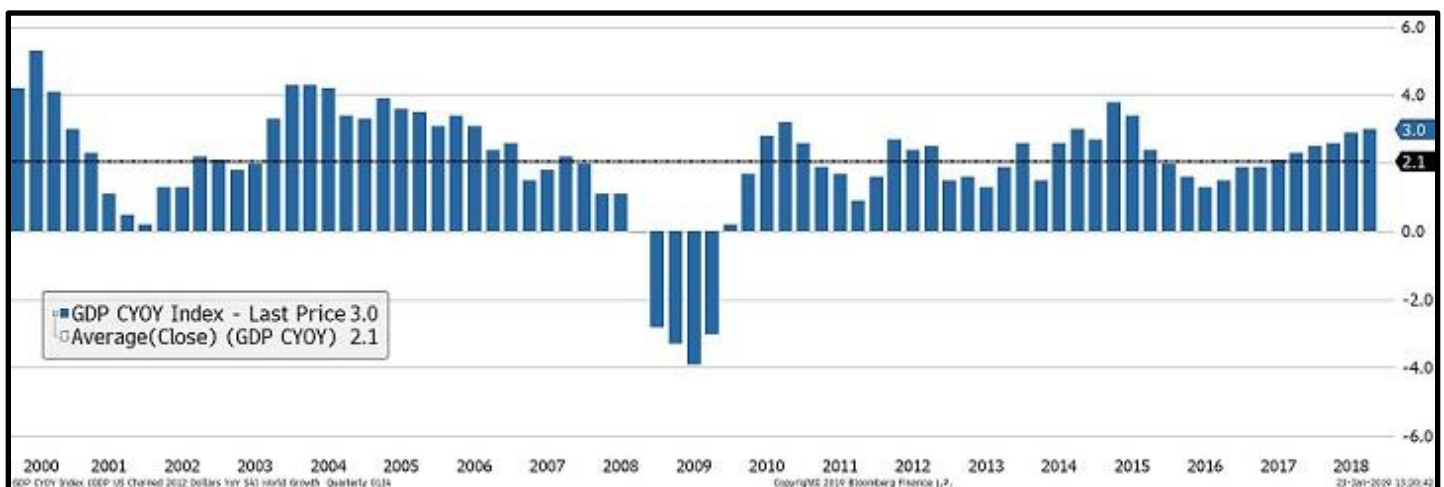
The good vibes from the tax cut were short-lived as President Trump kicked off a global trade war on numerous fronts in early 2018. By year-end, trade conflicts along with persistent FOMC rate increases and quantitative tightening (Fed balance sheet reduction) were beginning to take their toll.

The financial market selloff that started in the fall, has spilled over into 2019 as we enter the third week of a partial government shutdown. Despite strong economic fundamentals, fears of recession have begun to surface. Cyclical sectors including semi-conductors, housing, and autos are all showing signs of strain from combined effects of higher interest rates, a strong U.S. dollar, and global trade tensions. While there are some clear signs of economic slowdown, our base case scenario is for the U.S. economy to avoid recession and for continued expansion in 2019. We expect the GDP growth rate to fall back to the roughly 2.1% (see chart below) average growth rate of the past 18 years.

As has been the case throughout this expansion, the global economy continues to lag behind the U.S. China's economy has been hard hit by trade tensions and the GDP growth rate has slowed to an expected 6% rate for 2019. Europe continues to struggle with a lack of clarity surrounding Brexit, debt concerns in Italy, and slow economic growth in Germany. European growth is likely to be near just 1% for 2019.



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Equity Summary:	4th Qtr	YTD	12 Month	3 YR	5 YR
S&P 500 (Large Cap Domestic)	-13.52	-4.38	-4.38	9.26	8.49
Russell 2000 (Small Cap Domestic)	-20.20	-11.01	-11.01	7.36	4.41
MSCI ACWI Ex US (International)	-11.46	-14.20	-14.20	4.48	0.68

## Stocks test bear market territory with near 20% correction

In our December commentary, we suggested the S&P 500 Index could test bear market territory at the 2350 level. To assert independence and save face, the Fed did raise rates again in December. The rate hike coupled with continuing trade tension triggered additional volatility with the S&P 500 Index closing just above bear market levels at 2351 on December 24<sup>th</sup>. This should establish a fairly strong support level moving forward. It is very likely that we are entering a period of consolidation in the market where we are range bound between 2350 and 2800 for the S&P 500 Index. It may take several months or some significant economic news or geopolitical event to break out of this level.

**Possible Upside Catalysts:** For the market to break out above the 2800 level it will likely take some combination of an end to the government shutdown, a more dovish Fed, temporary trade resolution with China, and continued strong labor/consumer data. It may also take several months and an improvement in corporate earnings data before the market moves higher.

**Bear Market Catalysts:** Possible triggers to break below the 2350 level and into bear market territory include, continued Fed tightening, a prolonged gov't shutdown, continuation of trade tension with China, geopolitical event (messy Brexit for example), or a significant deterioration in economic fundamentals.

If our base case holds, that the U.S. economy is down-shifting but that recession is still unlikely, then the recent market selloff has likely priced in much of the bad news already. While it may take some time for the market to breakout to new highs, we see current valuations as reasonable and are maintaining our neutral equity allocation targets. As always, it is important to remember that volatility is normal in equity markets and somewhat necessary for investors hoping to capture the equity risk premium over time.



Fixed Income Summary:	4th Qtr	YTD	12 Month	3 YR	5 YR
US T - Bill 90 Day Index	0.57	1.94	1.94	1.06	0.65
BC Municipals 5YR	1.69	1.79	1.79	1.40	1.88
BC Intermediate Government/Credit	1.65	0.88	0.88	1.70	1.86

## Fed asserts independence and roils markets

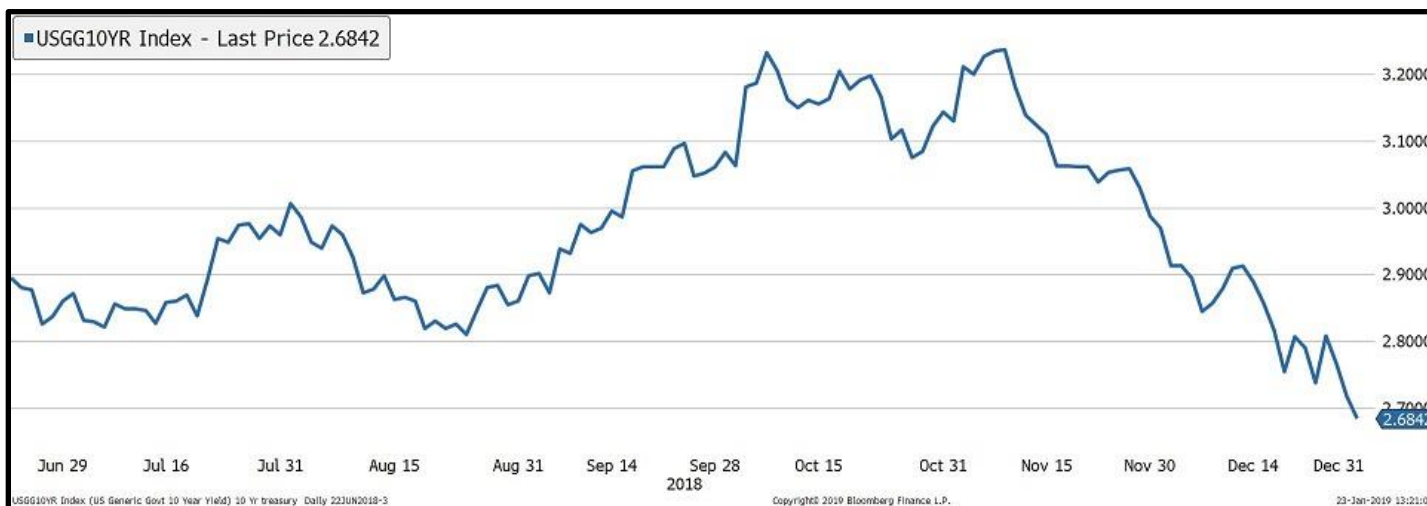
On December 19<sup>th</sup> the Federal Reserve increased the federal funds rate another 25 basis points raising its range to 2.25% - 2.50%. This increase marks the fifth consecutive quarterly increase and was the eighth time in the last nine meetings that the fed funds rate was increased. While the hike was widely anticipated, the news still sent equity markets lower. Jerome Powell's continuously hawkish comments, signaling another 3 potential hikes in 2019, seem out of step with market participants.

During the 3rd quarter we watched most interest rates shift higher. Despite the Fed's hawkish stance, the longer-term treasury rates dropped in the fourth quarter of 2018. According to MFS' "by the numbers" the index was negative every day until the final trading day of the year. If the Bloomberg Barclays Aggregate would have been negative, it would have been the first time in history that the stock market and bond market were negative in the same calendar year.

We continue to watch the yield curve and spread between the 2-year and 10-year treasury rates. At the end of the year the difference or spread between these two rates closed to 20 basis points. It is important to note that we did see a partial yield curve inversion. The 1-year treasury surpassed the yield on the 5-year during the fourth quarter.



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Alternative Investments Summary:	4th Qtr	YTD	12 Month	3 YR	5 YR
Bloomberg Commodity	-9.41	-11.25	-11.25	0.30	-8.80
Dow Jones Global Real Estate	-5.22	-6.69	-6.69	4.57	5.20
Morningstar Broad Hedge Fund TR	0.79	1.44	1.44	4.08	3.97

Historically low correlated assets finally added value to well diversified portfolios. During the past 10 years, the stock market has given us double digit rates of return. Throughout the expansion, any alternative asset class exposure has negatively impacted not only return but risk adjusted return. While the stock market was selling off these asset classes performed well. Several alternative asset classes rewarded investors with a positive rate of return for the year. Oil however sold off sharply in the fourth quarter. For the year, the Bloomberg Commodity Index closed down 11%, underperforming most major indices.

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## Congrats and Welcome to Erin Hawk!

Erin Hawk joined the Trust Department in late November as an Assistant Trust Investment Officer. Erin is a recent MBA graduate from Wright State University, with a focus on Finance, and she assists our trust investment group with trade execution, portfolio management, and investment research. Erin is currently pursuing her CFA designation and just passed the Level 1 exam in December!

Erin and her husband, Kiel, live in Kettering with their dog Frodo and son Noah, and in her spare time Erin enjoys reading and working out.

We look forward to introducing Erin to you very soon!



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## Promotions

We are proud to announce that four of our team members have recently been promoted. Thank you all for your hard work and the contributions you have made to the Department.

Jackie Manley to Senior Vice President & Trust Counsel  
Frank Williams to Vice President & Senior Trust Officer  
Michael Nusbaum to Vice President & Trust Technology Officer  
Melanie Crane to Vice President & Trust Officer

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## It's 2019! Where has the time gone?

If you're like me, you find yourself getting caught up in the hustle and bustle of life. Before you know it, the ball is dropping on Times Square yet again and you feel like you've been going through the motions instead of living your best life. Let's make 2019 the year we live richly and fully.

### Life

I had a thought the other day  
and this is how it went  
I think a life has not been lived  
unless it's fully spent

It's not a thing that you can save  
to pass on when you're gone  
Nor a thing to give or sell  
to barter or to pawn

It's not a thing you want to lose  
it doesn't come with spares  
Nor can you lock it safe away  
or trade it for some shares

You've only got one life to live  
don't waste it foolishly  
Spend it fully every day  
and richer you will be

~Melinda McIntosh, Assistant Trust Officer

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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 Mike Miller @ 513.932.1414, ext. 59101 or [mmiller@LCNB.com](mailto:mmiller@LCNB.com) for more information.

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