Wealth Management Bulletin
Summer 2022

LCNB | Wealth

Welcome to Summer ...

Michael R. Miller, JD, CFP®
Executive Vice President
Director of LCNB |Wealth
513-228-7657
mmiller@LCNB.com

In 1963, Nat "King" Cole recorded the song "Those Lazy-Hazy-Crazy Days of Summer". It brings to mind all of the good things that we look forward to at this time of the year. Warm weather, longer days, picnics, grilling out, family vacations, and cold beer are among our Summer favorites.

Unfortunately, in our current Summer environment, "crazy" seems to be the best fit. Rising interest rates, high gas prices, price inflation and weather that seems to be trying to tell us all something make this current Summer a challenging time. But maybe we should harken back, at least initially, to those earlier, easier Summers when things seemed calm and Summer brought joy and sunshine to our lives. Of course, my presuming that everyone's Summer memories bring back only joyful, idyllic Summers with "Lazy-Hazy-Crazy" days would be a mistake.

Personally, I've had both good and bad summers. This summer, for example, could not be better. It began in June with the birth of our second grandchild (and first grandson) and every day since has been a wonderful succession of "Julian" stories, growth reports, pictures and special moments when Mary and I get to be part of his world. We look forward to watching him grow and eventually I will teach him (technically if not practically) how to hit a curve ball. And, of course, we have already established a 529 Plan for his college education.

But I've also had Summers that were not so good. The Summer of 1983, when my father died unexpectedly comes to mind. I stepped in to help my newly widowed mother while working and studying for the Ohio Bar Exam. It made for a Summer that I would rather forget. Also, a Summer when I realized the negative effect of not having a proper estate plan in place. Not earthshattering events to be sure, but for me and my family, not a great Summer to remember. There were a lot of issues to be dealt with that Summer.

I'm certain that we have all had Summers both good and bad. Wonderful memories of unexpected events that make the passage of time on this Earth enjoyable and interesting. Also, sad, painful memories that make those times easily forgettable. But what all of our Summers have in common is that they are always shared with others. In these times of rising rates, higher prices and an uncertain political climate, it helps to remember that we are all in this together.

Our team at LCNB| Wealth is here to be part of your Summer (and other seasons as well). Investment, Estate, Insurance, Education, & Financial Planning, when properly accomplished, help to make your family's Summers that much better. When the negative events occur, proper planning can smooth out the rough spots. And proper planning can make the good times that much more memorable. Let's have a conversation about how to make your Summers better for you and your family.

Welcome to Summer, my grandson's first. While he won't remember any of it, with proper planning and execution, he will remember me. So, take a breath, remember your best Summers, and make this Summer one of them.

Thank you for your relationship with LCNB| Wealth.

Best Regards,

Mike

Your Estate Plan – When to Review, When to Revise

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

By most estimates, less than 4 in 10 adults in the United States don't have a will. If you are one of those people, STOP reading and immediately set an appointment with one of our highly qualified local estate planning attorneys. If you're not sure how to choose an attorney or why it is important to have an estate plan, call me and I'll be happy to help.

If you are still reading, that means you have some estate plan (will, trust, living will, powers of attorney or some combination thereof) in place. But when was the last time you looked over your documents to see if they still meet your wishes and needs? It is recommended that you review your plan every 3-5 years and/or upon the happening of the following life events:

FAMILY CHANGES	FINANCIAL CHANGES	CHANGES IN THE LAW
□ new child or grandchild □ marriage/remarriage □ divorce □ death of spouse □ death of heir/agent/executor □ heir reaching adulthood □ mental/physical health issues	□ large value change is assets □ change in employment status □ sale of property □ starting a business □ change in heir's financial situation □ possible creditor issues	□ relocation to new state □ changes in estate/gift tax □ other tax law changes (including RMD and inherited IRA rules) □ upon approaching age 70 ½ (RMD status)

Note that just because a life change might call for a review of your estate plan, not every review will require a revision or update. Wills and trusts are designed with the expectation that our life circumstances change, and well-drafted documents will anticipate and account for many of these changes. Similarly, powers of attorney and living wills don't typically need frequent updating, so long as the agents and alternates named are still willing and able to serve. Recently, I recently consulted with a gentleman whose estate documents consisted of a 1994 Ohio will and financial and health care powers of attorney and living will made while he was residing out of state in the early 2000s. Almost 30 years, 21 grandchildren, 3 moves, 7 weddings and 2 divorces (heirs' not his), one retirement and a couple of health scares later, his will was as good as when first written. I did suggest, however, that he consider updating the other documents, not because they weren't legally sufficient, but for the more practical reason that local financial institutions and medical providers might be hesitant to accept unfamiliar forms.

So, when a significant life event happens, a good first step is to take a look at your estate planning documents and start ask yourself:

(1) are my assets still going to whom I want and how I want; and

(2) are the people I've entrusted to handle my affairs at my death or incapacity still up for the task?

If the answer to either question is "no" or "I'm not sure", call your attorney or reach out to us for assistance. We will be happy to help you determine whether your plan still meets your wishes and needs.

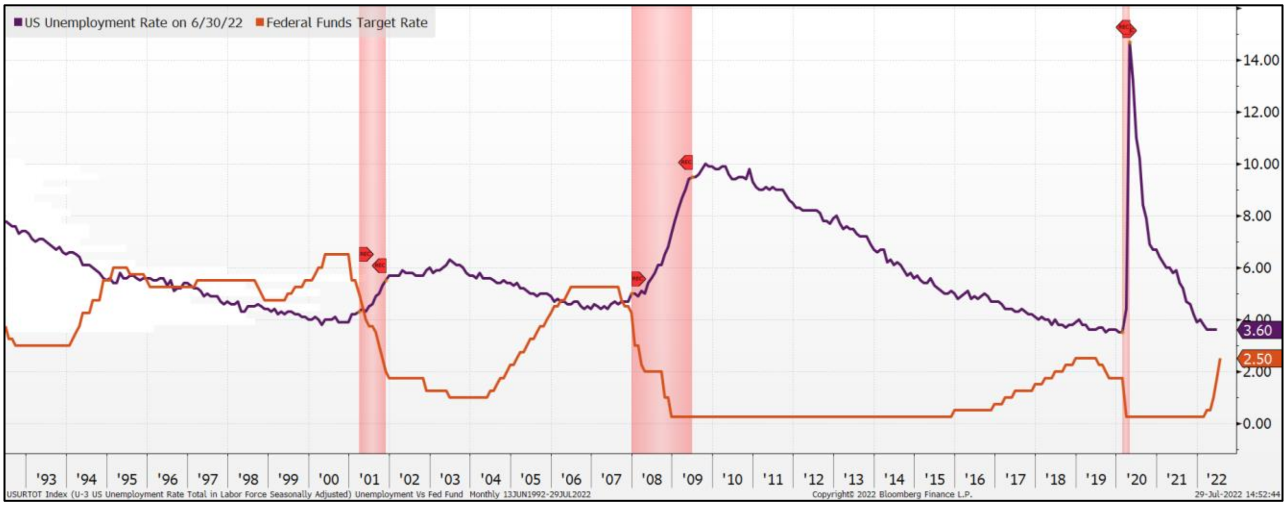
Economic Summary – Economic Crosscurrents

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

Mixed signals from recent economic data are causing an already tight margin for error to narrow for Jerome Powell and the Federal Open Market Committee (the Fed). The latest Consumer Price Index (CPI) and employment numbers suggest the economy is still running red-hot. In fact, the June CPI data shows inflation running at a 40 year high of 9.06%. I can almost hear Bob Uecker sarcastically describing that as *"juussst a bit outside"* of the Fed's 2% target. According to the Bureau of Labor Statistics, the unemployment rate is holding steady at 3.6% and the number of job openings is still double the number of people looking for work. Throw in higher-than-average wage gains, lower than average household debt service levels, and you have an American consumer likely to continue spending.

The inflation and labor shortage data comes as no surprise to anyone who has visited a gas pump, grocery store, restaurant, or has done any traveling this summer. All of this has the Fed pushing harder on the brakes to cool things down. In June the Fed raised the Fed Funds rate by 75-basis points. This was the first ¾ point hike since 1994 and the Fed is expected to follow that up with another 75-basis point increase later this month. In addition, the Fed began to curtail its bloated balance sheet by starting quantitative tightening, or bond liquidations in June. This serves to shrink the money supply and reduce overall liquidity in the system. Less money to chase goods and services should help to relieve pricing pressure, or inflation.

There is some evidence to suggest that pricing pressure and overall economic activity is already starting to peak or roll over. Oil and gas prices are now well off their peaks from last month and the housing market has showed signs of cooling as well. The first quarter Gross Domestic Product number, that attempts to measure total economic output, showed a decrease of 1.6%. The first estimate of the second quarter is due out later this month, but according to the Federal Reserve Bank of Atlanta's GDPNow indicator the second quarter also contracted by 1.5%. If so, that would be 2 straight quarters of economic contraction which some folks consider a recession. Officially, recessions are measured by the National Bureau of Economic Research (NBER) and the definition is a little more nuanced.



The Fed is clearly tightening into an economy of crosscurrents and mixed signals which reduces the odds of engineering a soft economic landing. Equity prices are well off their highs and the bond market is also signaling a slowdown with an inversion in the yield curve. As Morgan Stanly CEO James Gorman surmised, "If I had to use one word to describe the outlook, it would be 'complicated.'" For now, we expect the Fed to continue pushing on the brakes until they see a clear sign that either the economy or inflation has slowed down significantly.

Equity Summary:	2nd Qtr	YTD	12 Mth	3 Yr	5 Yr
S&P 500 (Large Cap Domestic)	-16.10	-19.96	-10.62	10.60	11.31
Russell 2000 (Small Cap Domestic)	-17.20	-23.43	-25.20	4.21	5.17
MSCI ACWI Ex US (International)	-13.73	-18.42	-19.42	1.35	2.50

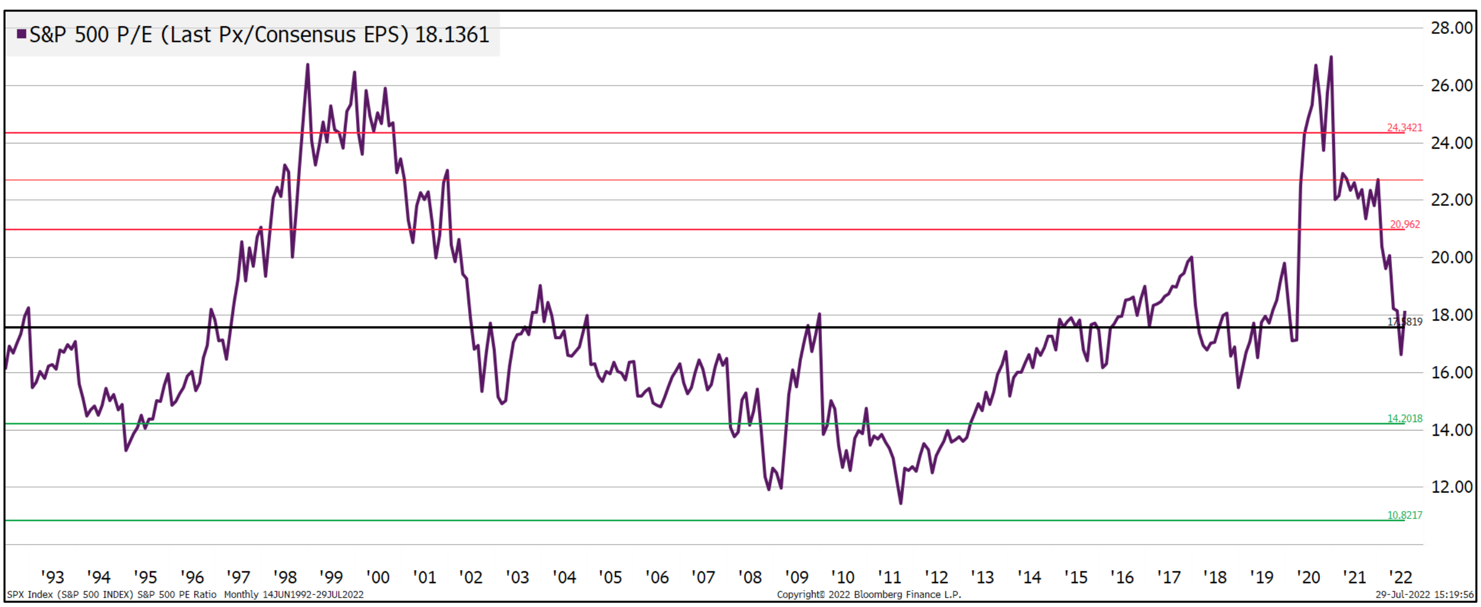
Equity Update – When Searching for a Bottom Patience is a Virtue

Last quarter we suggested that equity markets were a little too nonchalant, off just 4.6% from the January record closing high of 4796. In the face of an increasingly hawkish Fed, surging inflation, a Covid resurgence in China, and a land war in Europe, we felt a more significant pullback was justified. We suggested that the S&P 500 Index might retreat as far as 3800, or roughly 21% off the all-time high mentioned above.

Much has changed since our April update with most of the risks to markets noted above getting worse not better. As such, it is no surprise that markets and the S&P Index not only reached our 3800-target level but broke below. On June 16th markets closed at a year-to-date low of 3667, marking a loss of over 23%. At present, the S&P 500 Index has recovered some of the lost ground and is trading near 3900. So now the question on most investors' minds is, "Was the 3667 low *THE* low or just *A* low?"

It is always difficult to call a market top or bottom and unfortunately, I still don't have a crystal ball. Much will depend on how far the Fed pushes rates and if we go into a recession or not. With the odds of recession around 50/50 we are not convinced that 3667 was the true low. In recent cycles, the low has been marked by massive Fed intervention in the form of interest rate cuts and quantitative easing. This time around, with the Fed starting the hiking cycle so late and economists expecting a shallow recession at worst, the bottom might coincide with a Fed "pivot" instead of actual cuts. In other words, until the Fed signals that they are going to pause or end the hiking cycle, we are not confident that the market has bottomed. We don't think the Fed will pause until the labor market and/or inflation crack, suggesting we still have a few more rate hikes to go.

While we can't say this market has fully bottomed just yet, we do feel confident that value is being created for patient, long-term investors. The forward Price to Earnings Ratio has now moved below the long-term average. All else equal, lower PE ratios = higher future returns and vice versa. We are moving our equity targets back to neutral on the improved valuations after being underweight large cap growth stocks for the past couple of years.



Fixed Income Summary:	2nd Qtr	YTD	12 Mth	3 Yr	5 Yr
US T – Bill 90 Day Index	0.27	0.34	0.37	0.55	1.06
BC Municipals 5YR	-0.20	-5.20	-5.03	0.22	1.20
BC Intermediate Government/Credit	-2.37	-6.77	-7.28	-0.16	1.13
BC High Yield Corporate	-9.83	-14.19	-12.81	0.21	2.10

Fixed Income Update – Red Sky in Morning, Sailors Take Warning

Chris Robinson, CIMA®
Vice President
Wealth Investment Officer
513-228-7663
crobinson@LCNB.com

As most investors pay close attention to the increased volatility in the equity markets, bond markets have also remained volatile throughout 2022. Given today's economic uncertainty, we expect the waters to remain choppy.

The 10-year Treasury started the second quarter of 2022 at 2.38%. From there, rates rallied with the 10-year almost hitting 3.50% before backtracking at the end of the quarter and closing at 3.01%. While the rally in the long end of the yield curve softened, short term rates continued their rally higher. The 2-year Treasury began the quarter at 2.33% and ended the quarter at 2.95%. As I write this article, the 2-year Treasury rate has surpassed the 10-year creating an inverted yield curve. Unlike the last two inversions which were short lived, this inversion began on July 5th and has continued through this writing. As I mentioned last quarter, this inverted yield curve is an ominous sign for the economy and signals a high probability of a recession.

The move higher in interest rates has been orchestrated by the Federal Reserve (the Fed) in their attempt to slow inflation. After last month's meeting, the Fed increased the Fed funds rate 0.75% - this was the largest interest rate hike since 1994. As a reminder: the Fed funds rate is the targeted interest rate set by the Federal Reserve. This becomes the rate that commercial banks use when lending or borrowing excess reserves from one another. It then influences the short-term rates in other areas of the market, such as consumer loans and credit cards. Many economists believe the Fed may have been late to hike rates and inflation will be hard to contain. This idea was reinforced last week when CPI rose 9.1% year over year. The Fed futures markets are now pricing in another 0.75% (or more) hike when the Fed meets later this month.

Since the end of 2020, credit spreads – the difference between high quality and lower quality bonds – have remained historically low. During that period, we have been overweight higher quality bonds. There was not an adequate amount of return to take on excess risk. During the first half of 2022, credit spreads have widened significantly. The difference between Treasury bonds and High Yield bonds began the year at 2.82%. By the end of the second quarter, these spreads had moved up almost 3% to settle at 5.78%. If the U.S. does enter a recession, it is very possible that we could see these spreads widen even further.

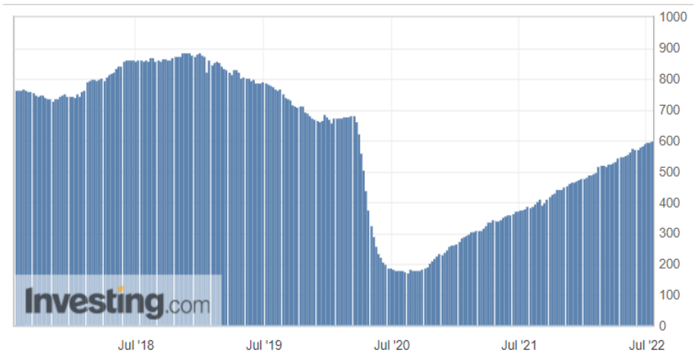
Last quarter, I mentioned we would begin to extend our duration, closing the gap between our current portfolios and their appropriate benchmark. We will continue to do this across our portfolios. We have also started to take advantage of wider credit spreads, looking to establish positions in safe but slightly riskier bond investments. As always, we are paying attention to the signals provided by the Fed and continue to take advantage of opportunities in the bond market.

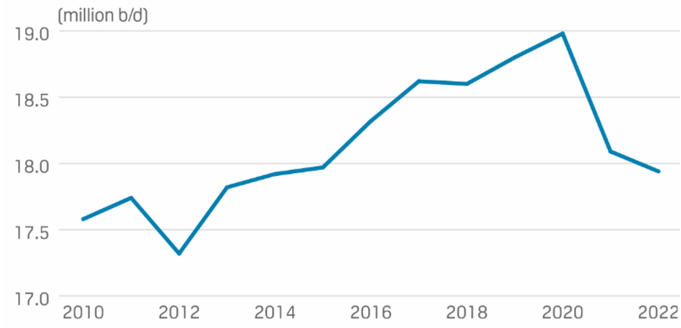
Alternative Investments Summary:	2nd Qtr	YTD	12 Mth	3 Yr	5 Yr
Bloomberg Commodity	-5.66	18.44	24.27	14.34	8.39
Dow Jones Global Real Estate	-14.66	-19.37	-14.02	-0.44	2.87
Morningstar Broad Hedge Fund TR	6.70	16.05	20.79	12.37	9.24
Consumer Price Index	1.11	4.27	7.00	4.31	3.48

Alternatives Update

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

West Texas Intermediate (WTI) Crude Oil began to cool in the 2nd quarter, ultimately ending the quarter at $105.76 per barrel, up 5.46%. As the chart below shows, oil rigs in the U.S. are slowly coming back on line. This chart tracks the current number of active rotary rigs – the type of machine that drills for oil. It is a leading indicator of expected demand. This is why you see a massive drop in 2020 when the world shut down. The rig count has steadily risen since that timeframe. This increase has helped keep oil prices from rising further. Additionally, continuing to draw on U.S. Reserves has helped. It is important to note that this does not translate directly into gas prices, because refineries have not increased capacity at a comparable pace. In fact, the annual U.S. refinery capacity is at the lowest level seen since 2014, as demonstrated in the second chart below.





Source: US Energy Information Administration annual refinery capacity report

Although oil increased slightly this quarter, the price of gold decreased almost 8%. Rapidly rising interest rates have shifted investor's demand away from non-income producing assets and into bonds. This move has also had a pronounced impact on cryptocurrencies. We have entered what some individuals are calling the Crypto Winter – prices have dropped significantly and stayed recessed for weeks. It resulted in the crash of Terra – what was supposed to be a stablecoin (a money market fund specifically for the cryptocurrency market). Terra fell below its intended peg to the U.S. dollar which caused the price to spiral as investors fled the market. This had a domino effect into other cryptocurrencies not tied to Terra: Bitcoin declined 58.53% and Ethereum declined 68.99% during the second quarter.

We mentioned in the Winter bulletin that we were going to add some hedged exposure to portfolios to provide some downside protection. This exposure did provide some protection – decreasing ~14% versus the almost 20% decline in the S&P 500 YTD. We will look to transition from the hedged exposure into some long-short exposure, which provides similar insulation without the same reliance on volatility. Our merger and real asset exposure will remain in the alternative investment portion of portfolios. 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.

The Warren County Foundation Community Service Awards

LCNB| Wealth has a long history and great connection to the Warren County Foundation, so we were happy for LCNB to be the presenting sponsor of this year's Community Service Awards event. Eleven awards were presented in six categories to deserving individuals, organizations and businesses across Warren County.

Congratulations to Jim and Joane Fish!

Please join us in wishing the growing Fish family a hearty congratulations!
Trust Associate, Jim Fish and his wife and Investment Services Associate, Joane welcomed two new members of their family into the world on Friday, June 3rd. Gwendolyn was born 18 inches and 4lbs 8oz at 11:47 and Theodore was born 18.5 inches and 5lbs 2oz at 11:50.

Congratulations to Shaye Wynn and Gina Lodge!

Congratulations to Trust Administrative Associates, Shaye and Gina for successfully completing Cannon Trust School I!! Both were able to take these classes and put in the significant amount of study time need while still performing their jobs at their usual standard – a true testament to their dedication.

La Mega Media Hispanic Business Awards

In May, LCNB had the pleasure of being a table sponsor for the inaugural La Mega Media Hispanic Business Awards. LCNB| Wealth team members Amanda Luman, Izabela Camacho, and David and Denise Hopper spent a great night celebrating the contributions that Hispanic businesses all over Ohio have made to their respective communities. Hearing the ways banks have helped members of their community establish banking history, taking care of what is often the most difficult step of gaining citizenship in United States sparked a lively conversation with the group about how we can help our own Hispanic community achieve that same security, here at LCNB.

Junior Acheivement 4.01k – A Race for Finanical Fitness

LCNB| Wealth sponsored the 4.01k Financially Fit Race, hosted by Junior Achievement of Middletown in April. Members of the team enjoyed shared laughter as some of the spouses tapped into their competitive spirit at the finish line, but it was the applause earned by David Hopper for winning the best time in his age group that really made this event memorable for the whole group.
We look forward to partnering with Junior Achievement in the future.

Congratulations to Mike Miller and Family!

Please join us in congratulating Chief Wealth Officer, Mike Miller and his family on the birth of a bouncing baby boy, Julian! Born on June 15, 2022 and weighing in at 8.4 pounds, this little bundle of joy joins a big sister with smiles and snuggles.
Grandparent-hood looks good on you, Mike!

Best Point Puzzle Day – Fitting in with Autism

In honor of Autism Awareness month, Trust Associate Brittnay Mustard-Smith took part in helping with Best Point's tenth annual puzzle building competition. Three team categories; Family, Diabolical and Teen were each provided a puzzle to build. The first three teams to complete their puzzle each won a prize. The Best Point program aids families with children on the autism spectrum to receive resources for education, job placement, and more.

Hope's Closet – Packing in Support

Departments across LCNB collaborated to provide 26 back packs to Hope's Closet. This organization collects and distributes these backpacks and supplies to students in foster care across Southwest Ohio. Led by Brittnay Mustard-Smith, the collective effort took place over a short period of only 5 business days and included participation from the LCNB Loan Operations, Human Resources, Commercial Lending, Fed Services, Electronic Services, Client Care, and the LCNB| Wealth Group!

The Imagination Library – Delivering Literacy to Ohio's Children

LCNB COO, Larry Mulligan and LCNB| Wealth Investment Officer, Erin Hawk, visited the First Lady's Luncheon in Columbus to celebrate the success of Dolly Parton's Imagination Library of Ohio. The state-wide program currently mails a free book every month to more than 345,000 Ohio children and is open to children up to the age of five.
One of the perks of being so active in this wonderful initiative is having the chance to meet Dolly Parton herself, who Erin says is as kind and generous in real life as she seems to be on TV.

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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.