Wealth Management Bulletin
Spring 2022

LCNB | Wealth

Welcome to Spring …

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It's Spring. The stick people in my yard are beginning to dress in their summer finery. Flowers are in bloom and the purple is starting to dominate the azaleas. The birds are singing and the grass is turning a more pleasant shade of green. And baseball (though delayed) is back.

I haven't played in an actual fastpitch, hardball game since the Summer after my senior year in high school. We made a valiant attempt to defend our city championship title from the previous year, but fell short. I can still remember the sights and sounds of that final game. As you can tell from my picture, that was a ~~long time~~ few years ago. But, still, every Spring, I get that same old feeling when I hear the crack of the bat, the smack of the ball on leather and the sizzling of the hot dogs. It makes me feel like that eighteen-year-old kid again.

This Spring, the Reds Opening Day was more special than ever. My son Josh bought two tickets and took me to Great American Ball Park. We watched the Findlay Market Parade, drank beer at The Banks, watched Joe Burrow throw out the first pitch, and saw Jonathan India receive his 2021 National League Rookie of the Year award. He is the third Red's second baseman (Rose and Helms were the others) to be so honored. Then we settled into our seats to watch the hometown Reds take on the Cleveland Guardians.

Wait a minute…Guardians? Ever since I can remember, they were the Indians. My grandfather and uncle's favorite team. The Tribe, supposedly named in honor of a Native American baseballer who played for the Cleveland Spiders at the end of the 19th century. Great players from the past: Rocky Colavito, Bob Lemon, Bob Feller, Kenny Lofton, Jim Thome, and the list goes on. The current players all wore blue jerseys that said "Cleveland" on the front. But the announcer kept referring to them as the "Guardians".

Now, to be fair, the name was changed from Indians to Guardians for seemingly legitimate social and political reasons which, as an adult, I understand. But the kid in me still wonders exactly what is a Guardian? Officially, the name is taken from the stone figures "The Guardians of Traffic" on a bridge within eyesight of the Cleveland ballpark. They are meant to symbolize the spirit of progress, and according to the Cleveland owner, the name conveys "the pride, resiliency, and loyalty of Clevelanders". A fitting new identity in a long Cleveland baseball tradition.

And the meaning of tradition? It is defined as "the transmission of customs or beliefs from generation to generation or the fact of being passed on in this way. Much like your family's financial legacy where certain activities (or lack of activities) may or may not line up with current and future progress towards your family's financial goals.

Our team jerseys say "LCNB Wealth". As you know from my prior writings, that is a relatively new name for us, meant to represent who we are and what we do. The name was changed but the tradition of expert, professional advice, and personal attention continues.

Let's have a conversation. We can help you to be the "Guardian" of your family's solid financial legacy. Thank you for your relationship with LCNB Wealth.

Welcome to Spring. Play ball!

Best Regards,

Navigating Through Uncertain Times

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As we bring the first quarter of 2022 to a close, I think we would all agree that it has been a volatile three months. As the world began to reopen, we were hopeful that we were on the path to normalcy. Just then, we were hit with new variants of COVID, supply chain issues, high inflation, and the Russian-Ukraine conflict. Each of these variables have substantially impacted societies globally. After pumping stimulus money into the US economy, the Federal Reserve raised interest rates and will likely announce several more rate hikes.

March of 2020 marked the beginning of COVID. At that time, we did not realize that it would develop into a global pandemic. As we all witnessed, COVID changed our lives and the financial markets were tremendously affected. Moving forward two years, we continue to try to recover from the impact of the pandemic. As we prepare to enter the second quarter of 2022 and are faced with such major variables at the same time, it is normal to experience anxiety as it pertains to the markets and the protection of your assets.

Please remember that volatility in the market has always existed and is a normal part of investing. In order to benefit in the long run, you must be willing and able to tolerate and embrace the volatility, and to remain disciplined in your financial investments. Part of that planning should be to ensure that your estate plan and insurance are properly in order and that you have regular communications with your advisors to ensure that your planning and portfolios are on track.

Two years ago, you may have been uncertain that you would be able to withstand the drastic declines in the market, but here we are on the other end of the pandemic. While none of us know what the future holds, we are certain to get through this together. Please reach out to your LCNB Trust Officer to review your planning and portfolios and to talk through any concerns that you may have. Your LCNB Wealth team members are here for you and with you throughout this uncertain time. We are available to connect with you via phone, WebEx or face-to-face. Thank you and see you soon.

Economic Summary – Behind the Curve

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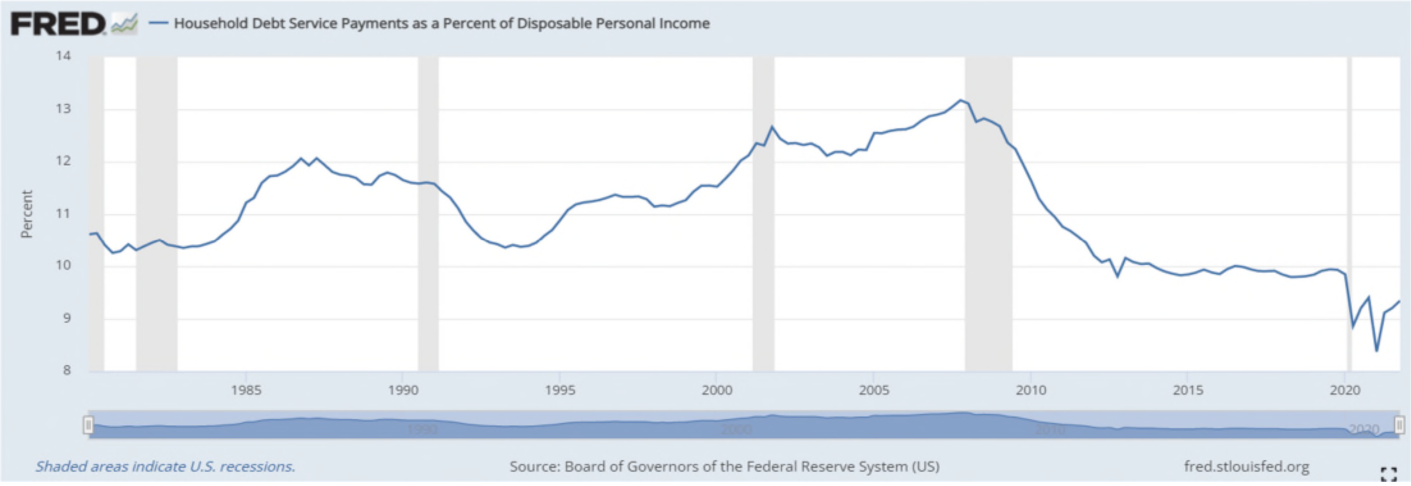
With thousands dead and millions displaced, it is difficult to put into words the extent of suffering caused by Russia's war in Ukraine. The global economic impact will only serve to further exacerbate inflationary pressures that already had the Federal Reserve (the Fed) playing catch up. The devastation in Ukraine and economic sanctions on Russia have disrupted the supply chains for numerous raw materials and agricultural products including oil, gas, iron, steel, and wheat to name a few. With both sides digging in, it appears these disruptions will be with us for the foreseeable future.

Global supply chains had never fully recovered from Covid-19 related disruptions and are once again shutting down because of an outbreak in Shanghai. While output struggles to recover, demand for goods and services in the U.S. remains elevated. A tight labor force with low unemployment and rising wages makes for a strong U.S. consumer. The chart below demonstrates that U.S. consumers' debt service levels are low providing them with a capacity to spend. Household net wealth is also at an all-time high on higher stock values and home prices. Lagging output coupled with surging demand is the perfect storm to create higher prices or inflation.



As noted last quarter, the Fed now sees these inflationary pressures as more persistent and is rapidly progressing to a more hawkish gameplan to rein in surging prices. The latest Consumer Price Index reading of 8.5% has them shifting into a higher gear. The Fed raised the Fed Funds rate by a quarter point in March and is signaling more to come. They will also begin to shrink the balance sheet with quantitative tightening (bond selling) to the tune of $95 billion per month. This should push up long-end rates concurrently with the short-end. Higher interest rates should start to dampen a red-hot housing market and slow the economy as we move through the year.

All of this makes the prospect of a soft economic landing more difficult. With all the fiscal and monetary stimulus pumped into the system at the start of this cycle, we questioned the longevity of the expansion and suggested this cycle might burn hotter and faster. Financial markets are currently sending mixed signals on this front with bond prices selling off significantly in the first quarter. Stock prices however, are fairly resilient so far in the face of a more aggressive Fed suggesting the cycle and corporate earnings may continue to expand.

Equity Summary:	1st Qtr	YTD	12 Month	3 YR	5 YR
S&P 500 (Large Cap Domestic)	-4.60	-4.60	15.65	18.92	15.99
Russell 2000 (Small Cap Domestic)	-7.53	-7.53	-5.79	11.74	9.74
MSCI ACWI Ex US (International)	-5.44	-5.44	-1.48	7.51	6.76

Equity Update – Whistling Past the Graveyard

Equity markets saw some significant volatility in the first quarter. At one point the S&P 500 Index was down nearly 14% from the all-time high of about 4800. By quarter's end, the index had rallied and was down just 4.6% for the year-to-date period. As the Fed begins to apply more pressure to the brakes in the form of rising interest rates, we propose there may be more volatility ahead. There is an old saying on Wall Street: "Don't fight the Fed." This advice served investors well during the March 2020 Covid bottom when the S&P 500 Index hit 2300 and the Fed began to pump massive amounts of liquidity into the system. For investors that bought or held on, the run to 4800 was very rewarding.

Now that the Fed is determined to rein in inflation and is pulling liquidity out of the system, we expect choppy markets ahead. In my market update just after Russian tanks rolled into Ukraine, I pointed to the 3800 level as a possible support level for the S&P Index. That level would mark a 20% pullback from the high and a 50% Fibonacci retracement from the March 2020 bottom. We still see that level as a possible destination as the markets adjust to the Fed tightening cycle. As we see in the chart below, the PE (Price/Earnings) ratio has come down significantly and is now in the fair value range within one standard deviation above the long-term average. Interest rates and earnings growth have the biggest impact on PE ratios. All else being equal, higher rates translate into lower PE ratios while higher growth rates lead to higher PE ratios.

Much depends on how far the Fed pushes rates and if/when that causes the economy to slow down. If the Fed pushes too far, we could see lower stock prices and further contraction in the PE ratio. This is not to say that investors should exit the market or get overly defensive – timing the market is always tricky. Investors should expect continued volatility. It is also a good time to focus even more on quality companies with strong earnings and the ability to pay and grow their dividends.

Fixed Income Summary:	1st Qtr	YTD	12 Month	3 YR	5 YR
US T – Bill 90 Day Index	0.08	0.08	0.11	0.65	1.05
BC Municipals 5YR	-5.00	-5.00	-4.40	0.85	1.48
BC Intermediate Government/Credit	-4.51	-4.51	-4.10	1.50	1.81
BC High Yield Corporate	-4.84	-4.84	-0.66	4.58	4.69

Fixed Income Update – What Goes Down Must Go Back Up Again?

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For almost 40 years starting in the early 1980's until just recently, longer-term Treasury rates descended lower. In the last bulletin, I mentioned the 10-year Treasury rate moved from 0.91% in early 2021 up to 1.70% at the start of 2022. This trend continued as inflationary concerns persisted – Treasury rates climbed higher with the 10-year ending the first quarter of 2022 at 2.33%. As I write this article, the 10-year is now above 2.8%. As Brad mentioned above, the Fed increased the Fed funds rate 0.25% in March with expectations that they will hike rates another 1.75% to end 2022 with a target of 2.00%. In addition to higher interest rates, the spreads between treasury bonds and lower quality corporate bonds have increased. Credit spreads – meaning the spread between Treasuries and high yield bonds - also widened during the first quarter, going from 2.83% at the start of the year to 3.25% by the end of the first quarter.

It's easy to focus on the volatility in the stock market and overlook the high levels of volatility, including a yield inversion, we have seen in the bond market especially during the first quarter of 2022. On April 1st, the spread between the 2 and 10-year Treasuries moved negative. A yield curve inversion signals that an economic slowdown or recession may lie ahead. It's important to note that 7 of the last 8 recessions have been preceded by a yield curve inversion, including the inversion we saw in the summer of 2018 coinciding with the recession we saw in 2020. We have also had at least one inversion that was not followed by a recession within 12-18 months. Shortly after the yield curve inversion, the Fed announced they would expedite their quantitative tightening plans. This move quickly pushed long-term rates higher and introduced some slope back into the yield curve.

When the yield curve inverts, it's tempting for bond investors to want to invest in shorter term bonds. After all, if the rates are similar to or even greater than the longer-term equivalent bonds, why wouldn't you opt for the shorter bonds that have less time-risk? However, investors have historically been better off buying longer term bonds when the yield curve flattens or is even inverted because the next significant move in interest rates is often lower. With the shorter-term bonds, you are now having to reinvest at this lower rate when you could have locked in the higher rate with the longer-termed bond. While we are not in the habit of justifying why this time is different, it is prudent to point out that today's YoY inflation rate above 8.00% could lead to higher interest rates. We used the rising rates as an opportunity to slightly extend our average duration in portfolios. Today we are neutral on duration – meaning we are right in line with our benchmarks - and have started to see some buying opportunities in multiple sectors of the fixed income market. We are also trying to adhere to "Don't fight the Fed."; as long as they continue to signal higher rates and sell longer-term bonds, we will continue to take advantage of these themes.

Alternative Investments Summary:	1st Qtr	YTD	12 Month	3 YR	5 YR
Bloomberg Commodity	25.55	25.55	49.25	16.12	9.00
Dow Jones Global Real Estate	-5.52	-5.52	8.92	5.28	7.02
Morningstar Broad Hedge Fund TR	9.00	9.00	17.72	10.70	7.63
Consumer Price Index	3.12	3.12	8.54	4.19	3.35

Alternatives Update

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Coming into 2022, many analysts expected the price of oil to stabilize around \$80/barrel. Contrary to these expectations, West Texas Intermediate (WTI) Crude Oil continued to rally during the first quarter. Even prior to Russia invading Ukraine on February 24th – oil rallied 22.65% from the beginning of the year and closed at \$90.69 on February 23rd. Once the war began, oil spiked higher, peaking at \$126.42 intraday on March 7th, and has been very volatile changing daily based upon the news du jour. Russia exports roughly 10% of the world's oil, which may not seem like enough to cause that large of a spike, but it isn't easy for other nations to ramp up output in the short term to make up the shortfalls. Oil ultimately ended the quarter at \$100.28 per barrel, up 35.62% year to date. This late quarter sell off was due to rumors of a Russia- Ukraine conflict resolution and the news that additional oil will be released from the Strategic Petroleum Reserve in the U.S.

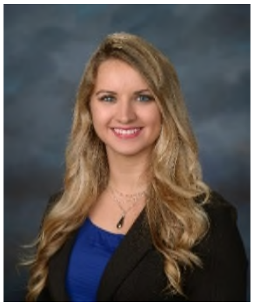
Oil isn't the only thing moving higher – the Bloomberg Commodity Index as a whole returned 25.55% in 1Q22 – helped along by other areas of the energy market as well as agricultural products. Ukraine and Russia combined also produce 30% of the world's supply of wheat, 20% of its maize, and almost 80% of its sunflower seed oil. This has rippled into other agricultural product prices as well, exacerbating an already dim inflationary picture. With the uncertainty in the stock market, investors avoiding the bond market on the eve of rising rates, and so many other products already run up, gold finally became the safe haven it has been in past inflationary periods, increasing 5.92% this quarter.

We increased our exposure to real assets and gold last year, which has helped insulate portfolios this quarter. We plan to lock in some of those gains and decrease our gold allocation while maintaining our merger and hedged allocations 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.

Warren County Imagination Library – Every Child Reads Every Day!

Erin Hawk worked alongside other Warren County community leaders as an Economic Impact Study Advisor. Together, they helped the University of Cincinnati complete an Economic Impact Study to identify and quantify the additional economic benefits from accelerating and extending education with early childhood literacy programs, focusing on the Dolly Parton Imagination Library program. This program has helped give the gift of family enrichment, literacy, and kindergarten readiness to almost 2/3rd of all eligible children in Warren County!

Congratulations to Erin Hawk, CFA®!



Erin Hawk is now a CFA® charter holder. The CFA Institute is a global association of investment professionals that sets the standard for professional excellence. The organization is a champion for ethical behavior in investment markets and aims to create an environment where investors' interests come first, markets function at their best, and economies grow. To become a CFA® charter holder, an individual must pass 3 6-hour exams as well as accumulate more than 4000 hours of professional, investment related experience.

Glammed Up for a Great Cause – The Feed the Hungry All-Black Attire MLK Gala

Amanda Luman joined COO Larry Mulligan and SVP of Deposit Operations Ann Smith at the LCNB sponsor table for the Feed the Hungry All-Black Attire MLK Gala in March. The event honored numerous community members, leaders and organizations that serve Butler County residents. Among the honorees was esteemed community leader Louella Thompson, who opened the Dream Center in 1987 in Middletown. The Dream Center provides food and resources and promotes self-sufficiency to the members of the community as it strives to create life-changing opportunities.

Feed the Hungry Project provides 140 hot meals per day, and eight-week summer camp for community youth, and offers daily transportation to local job-sites. For more than 10 years, this organization has distributed Thanksgiving meals and hosted an annual Toy Give-Away to those in need during the holidays.

Lobbying for a Change – OBL Day at the Capitol

On Wednesday, March 30th, the Ohio Banker's League hosted a Day at the Capitol to lobby on behalf of community banks throughout Ohio. Among the LCNB representatives, Amanda Luman participated in meetings with Senator Steve Wilson and Representative Shane Wilkins to share experiences and thoughts regarding certain bills being written that would impact banks and bank customers.

In addition to these meetings, Lieutenant Governor Jon Husted gave a keynote speech to the OBL group highlighting the promising future of Ohio as the Silicon Heartland, and how community banks and their leaders will be an integral part of that future.

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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.