Wealth Management Bulletin
Winter 2022

LCNB | Wealth

Welcome to Winter …

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

January has always been a difficult month for me. Not because it is cold or because the days are shorter. No, it is because my wife's birthday falls on January 15th. Just as I am done congratulating myself for giving her just the right Christmas present, I have to switch gears and find just the right birthday present. To be clear, the pressure to plan the right gift does not come from her; it is sadly self-inflicted.

With proper planning, this year, the birthday went well. Not only was the gift well-received, but we were able to gather for dinner with my son, daughter, daughter in-law and two-and-a-half-year-old granddaughter for a wonderful birthday celebration. We were able to Face-Time my wife's parents in Florida so they could see their great granddaughter, and be a part of the joy in their "little girl" turning ___. (I'm legally not allowed to include my wife's age. Suffice to say, she's as vibrant and beautiful as ever.)

Being a part of the celebration started me thinking about the different planning stages of all the participants. My granddaughter's plans included the next viewing of the Mickey Mouse Club and the number of toys she could scatter around the family room. But what about her parents, my son and daughter-in-law? Not only do they need to plan for her future (and for that of her brother/sister due in June), but also, at 33 and 31, their own financial future.

How will they buy that next house? How can they save for a retirement that, although off in the distant future, is a very real event? And the education of their children? And what happens in the event that one of them is not there?

My daughter is single but in a serious relationship. Planning her investments and the path to retirement, even at 30, is something that needs attention. She just started a new job. What about the retirement plans from her previous employer? How will she save money for a house? What does a future marriage look like from a financial point of view?

And the parents/grandparents? There is a lot to plan for with my wife and me. We've accomplished a lot, but how do we ensure that we have the appropriate financial resources for everything? We have started a 529 Plan for our granddaughter and will do the same for her soon-to-arrive sibling (my wife thinks it will be a boy.) At 64, retirement is right around the corner for me. At __ (remember the legal requirement), the same is true for my wife. Add to that the issues that may arise with her parents, who are in their mid-80's, and we are truly part of the sandwich generation.

The point of this family story is simple. Proper planning is essential. Financial and Tax Planning, Education Planning, Retirement Planning, Investment Planning, Healthcare Planning, Insurance Planning, and Estate Planning are all important to make certain your future is what you want it to be. Give us a call and let the LCNB| Wealth Group assist you with your planning needs. No matter where you are generationally or financially, everyone needs to plan. We have the experience and expertise to make certain that you have the right plan for you and your family. No matter the season.

Welcome to Winter, a good Season to Plan.

Stay warm and thank you for your relationship with LCNB| Wealth.

Best Regards,

Mike

Build Back Better Bill Stalls; IRS Continues to Warn of Scams

Jacqueline A. Manley, JD, CFP®
Senior Vice President
Trust Counsel
Director of Trust Tax Services
513-228-7660
jmanley@LCNB.com

As the Build Better Back bill made its way through Congress, many of us anticipated several tax-law changes prior to the end of 2021. But the bill stalled in the Senate and failed to pass before the end of the year. No changes to the 2021 tax laws led many in the financial industry to breathe a sigh of relief.
As of now, tax changes for the calendar year 2022 consist primarily of adjustments for inflation to the threshold amounts. Below are a few figures of interest.

2022 Capital Gain Rate Income Thresholds

Capital Gain Rate	Taxable Income (Single)	Taxable Income (MFJ)
0%	Up to $41,675	Up to $83,500
15%	$41,675 to $459,750	$83,500 to $517,200
20%	Over $459,750	Over $517,200

The standard deduction for 2022 is $12,950 for single filers and $25,900 for married filing jointly, and the annual gift tax inclusion increases to $16,000 per taxpayer, per recipient. The lifetime estate and gift tax exemption increases to $12.06 million.

IRS Continues to Warn of Scams

The rise of tax fraud continues and the IRS frequently warns taxpayers to be vigilant with their personal information. Here are some items to consider, should you be contacted by someone posing as the IRS:
The IRS rarely calls taxpayers, even if the caller ID shows the call coming from the IRS. They will initiate contact via written correspondence sent through USPS.

- IRS agents will not yell, threaten, or harass you!
- The IRS does not have the authority to direct the police to arrest you. They will also not threaten to suspend or cancel your social security number.
- Scammers may provide fake IRS Agent IDs to mimic IRS's procedures and credentials. Scammers may also intercept and doctor legitimate IRS notices.
- The IRS also does not accept payments in the form of gift cards, prepaid cards, iTunes cards, or related methods.

If you are contacted and do not believe you owe outstanding taxes or dispute the amount, please contact the IRS at www.irs.gov or 800-829-1040. You can also verify any provided contact information at www.irs.gov.

Taxpayers also want to be careful when selecting a tax preparer. You will be providing that person with personal financial information and you want to ensure it is in safe hands. A couple tips from the IRS:
Check the preparer's qualifications. The IRS maintains a directory of tax preparers with the preferred qualifications at https://irs.treasury.gov/rpo/rpo.jsf.

- Ask about fees. Avoid preparers who base fees on the size of the refund.
- Be wary of tax preparers who advertise they will get you the biggest refund or can get you a bigger refund than a competitor.
- Ensure the preparer signs the return and includes their PTIN (Personal Tax Identification Number).
- Make sure your tax preparer is available year-round. You may have questions after the tax deadline.

The IRS provides additional tips at www.irs.gov/chooseataxpro.

Economic Summary – Economic Headwinds

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

Last quarter we questioned the longevity of the Fed's transitory view on inflation. Apparently, the transitory tag had an expiration date of 12/31/21. As we flip the calendar to 2022, it seems that both fiscal and monetary policy are being flipped as well. Biden's low approval rating and Senator Manchin from West Virginia have combined to stall additional fiscal stimulus for the time being as the Build Back Better Act and its $1.75 trillion in additional tax and spending have been sidelined indefinitely. This comes as much of the fiscal stimulus provided throughout the past two years begins to run out.

This fiscal tightening will be accompanied by a more hawkish monetary policy determined to keep inflation in check. The latest Consumer Price Index reading indicated inflation running at a 7% annual rate. With unemployment at 3.9% and wage gains running at 5.8%, the Fed and Chair Powell are now setting their sights on normalizing interest rates. The Fed has already begun to reduce quantitative easing efforts by cutting back on bond purchases. This should allow the longer-end of the yield curve to drift higher. By the end of the first quarter, the Fed is expected to start raising the Fed Funds rate to prop up the short end of the curve as well. Current futures contracts are pricing in about 4 quarter-point hikes this year.

Supply chains held up reasonably well during the December holiday shopping season but remain stressed. They are not likely to recover in the first quarter given the rapid spread of the Omicron variant which has temporarily sidelined millions of workers. Despite the low official unemployment number stated above, the reality is that the total U.S. labor force is yet to fully recover. The 162 million civilian labor force as of 12/31 is still 2 million under the pre-covid total. Perhaps increasing wages and the end of fiscal stimulus will be enough to entice some of the sidelined workers to return to the labor force.

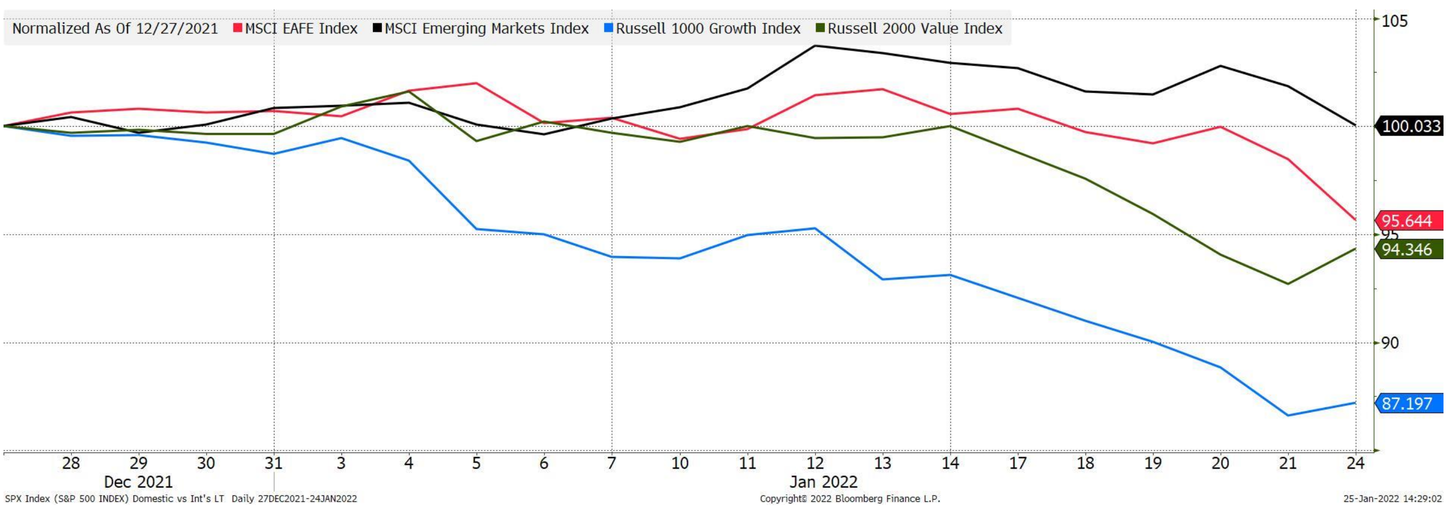
Aggregate economic output (supply) needs some combination of a growing labor force or increased productivity to expand. Aggregate demand remains elevated with trillions of previous stimulus dollars still on the sideline. This recipe should provide ample inflation pressure through at least the first half of 2022. However, aggregate growth will likely slow as the economy starts to feel the impact of the fiscal and monetary headwinds described above.

Equity Summary:	4th Qtr	YTD	12 Month	3 YR	5 YR
S&P 500 (Large Cap Domestic)	11.03	28.71	28.71	26.07	18.47
Russell 2000 (Small Cap Domestic)	2.14	14.82	14.82	20.02	12.02
MSCI ACWI Ex US (International)	1.82	7.82	7.82	13.18	9.61

Equity Update – Santa Delivers!

We were wrong to question Santa's ability to deliver a year-end stock market rally. We moved to an underweight in our target stock allocation in the 4th quarter on concerns around a more hawkish sounding fed, slower expected economic growth, and ongoing supply chain issues. In particular, we underweighted our large cap domestic growth allocations. As it turns out, the market did rally into year-end with a strong 11% return for the S&P 500 Index in the 4th quarter. The problem with Santa's gift is that it was largely just a repeat of the past several years. Once again, the rally was led by large cap domestic growth stocks. International and small/mid cap stocks once again underperformed during the quarter and for the full year 2021.

That repeat gift now appears to be set for a return as we flip the calendar to 2022. We noted last quarter that markets were overdue for a correction and a test of the 200-day moving average. It is still too early to call this a correction, but maybe our call last quarter was more early than wrong? U.S. large cap growth stocks peaked on December 27th and are now down nearly 8% from the high. Small value stocks (down 2.4%), international developed (down 0.2%), and emerging markets (up 1.2%) have all performed much better during that stretch (see chart below). This fits with our call to stay diversified with neutral weights to these areas of the market and remain underweight the large domestic growth sector that has outperformed for more than a decade.



We reiterate that in a rising rate environment, a changing discount rate will have a more pronounced impact on those stocks that rely most heavily on future earnings potential. We see this January rotation as the start of a larger trend that will play out through the first half of the year as markets adjust to an increasingly hawkish fed. As the old saying goes, "Don't fight the Fed"! It is a good time to stay a little defensive and look for opportunities to deploy cash into markets during periods of volatility. We remain focused on quality stocks that pay and grow their dividends and trade at reasonable valuations.

Fixed Income Summary:	4th Qtr	YTD	12 Month	3 YR	5 YR
US T – Bill 90 Day Index	0.01	0.04	0.04	0.82	1.06
BC Municipals 5YR	0.07	0.29	0.29	3.27	2.91
BC Intermediate Government/Credit	-0.57	-1.44	-1.44	3.86	2.91
BC High Yield Corporate	0.71	5.28	5.28	8.83	6.30

Fixed Income Update – The Fed, the Whole Fed, and Nothing but the Fed

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

For the first time since 2013, the Bloomberg Intermediate Government/Credit index had a negative calendar year return. The move lower stemmed from interest rates shifting higher as a result of continued inflationary pressures that caused the Federal Reserve (the Fed) to take a more hawkish tone. The Fed Funds futures are indicating 4 rate hikes by the Fed in 2022. If this comes to fruition, the Fed Funds rate will be pushed from its current level of 0.00-0.25% up to 1.00-1.25%. Given the inverse relationship between bond yields and prices, it's easy to understand how these factors contributed to a rough year for bonds. The fixed income sector most changed by interest rates was the Treasury market. The 10-year Treasury ended the year with a yield of 1.51% up a mere 3-basis points from the 3rd quarter, but still a 60-basis point move from the beginning of the year when we started at 0.91%. As I write this 2021 fixed income recap, the 10-year Treasury rates have moved even higher and is now trading above 1.7%.

The Fed began "tapering" (n. the process of gradually reducing its bond purchases) at the end of 2021 – the monthly bond purchasing went from $120 billion down to $90 billion per month – and they announced more cuts to come in 2022. Even with the headwinds of rising interest rates and the Fed's tapering, High Yield bonds continued to outperform most other fixed income sectors returning investors over 5% for the full year. Investors still see low default risk amidst strong corporate balance sheets and credit spreads remain extremely low. The spread between Treasuries and High Yield bonds closed 2021 at 2.83%, down from the 3.60% it began the year at.

With the low interest rate environment of the last few years, we have maintained a below index duration and shorter average maturity in our fixed income portfolios. You may recall that the duration is the measure of a portfolios interest rate risk – it provides a rough estimate of the price decline of the fixed income portion of the portfolio for every 1% increase in interest rates. The recent run up in interest rates has caused us to begin extending the average maturity and duration. Historically low credit spreads have also incentivized us to shift the portfolios into higher quality bonds. While we do think default risk is low, investors are not being adequately compensated for the additional credit risk. Additionally, we have been opting for taxable municipal bonds or corporates in lieu of traditional, tax-exempt municipal bonds. The yield for corporate and taxable municipal bonds have been more attractive on a tax adjusted basis and thus make more sense in the current environment.

Alternative Investments Summary:	4th Qtr	YTD	12 Month	3 YR	5 YR
Bloomberg Commodity	-1.56	27.11	27.11	9.86	3.66
Dow Jones Global Real Estate	8.11	21.35	21.35	12.58	9.26
Morningstar Broad Hedge Fund TR	-0.47	14.99	14.99	7.16	5.62
Consumer Price Index	1.08	6.45	6.45	3.34	2.81

Alternatives Update

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

Inflation continues to be a major part of the economic conversation increasing by 6.45% in 2021 (and continuing even higher in the latest reading, as mentioned above). This was also driven by supply constraints and heightened demand. Production in other market areas beyond oil struggled to ramp up output fast enough to meet the goods demands of consumers with too much liquidity and an inability to spend on services. Rather than flood into gold which declined 3.4% in 2021, investors placed excess funds in stocks as well as cryptocurrency. Bitcoin, the highest valued cryptocurrency based on market cap, was up 46.1% in 2021 ending the year just below $46,000. This was lower than expected due to an end of year pullback from the highs above $65,000 reached in November. The pullback has continued into 2022 with Bitcoin now pricing below $35,000. Ether, the second largest cryptocurrency that facilitates all of the operations on the Ethereum network, ended 2021 up over 250%. Multiple factors contributed to that remarkable return: investors flocking to virtual currencies as an inflation hedge, the continued adoption of blockchain technology through non-fungible tokens (NFTs) and financial technology companies, and an upgrade to the Ethereum network.

West Texas Intermediate (WTI) Crude Oil was relatively flat during the 4th quarter of 2021 ending the year at $75.69/barrel. Despite little movement at the end of the year, it posted a 56% gain from its opening price of $48.52/barrel. This was the highest increase oil has seen since 2009 when prices soared 70%. Production could not ramp up fast enough to meet demand throughout the year as the world began to reopen. Moving into 2022, it is expected that the price of oil will remain around $80/barrel for the foreseeable future as output levels increase to meet demand and prices stabilize. The large YTD return of oil helped the Bloomberg Commodity Index return 27.11% during 2021, just barely trailing the S&P 500. Real Estate and the Broad Hedge Indices outperformed all but the S&P 500 and the Commodity index, returning 21.35% and 14.99% respectively. We maintain our allocation to the merger space, global real assets, and gold in the alternative investment portion of portfolios. We look to add some hedged exposure to suitable portfolios. The hedged exposure is meant to provide downside protection and help insulate portfolios during periods of increased market volatility while still providing some upside participation. We also continue to explore additional positions such as market neutral discussed last quarter and long-short funds. We are always available to help you meet your financial goals – reach out to any of our LCNB| Wealth officers.

Holiday Happiness

The LCNB| Wealth team got together wearing their most festive garb to celebrate the holidays with lots of laughs, good food and loads of holiday cheer! We hung out in our large conference room and played holiday themed games. Chris Kolbenstetter won Pin the Nose on Frosty and Nakia Lipscomb won Inflatable Reindeer Ring Toss – they were awarded $25 gift cards for their valiant victories!

Dayton Food Bank

A few of our LCNB| Wealth associates had a blast volunteering during this holiday season at the Dayton Food Bank. More than 800 backpacks were put together during each visit. These backpacks hold meals that are sent home with children in need on Fridays to help feed them throughout the weekend.

Congrats are in order!

Izabela Camacho passed her final exam in the Certified Trust and Fiduciary Advisor (CTFA) program and received her full certification in December! This certification is just one more way that Izabela shows her commitment to excellence and demonstrates her expanding expertise in trust administration.

Congratulations Amanda!

Assistant Trust Officer, Amanda Luman recently accepted the role of Director of Public Relations with the Greater Cincinnati Earth Coalition (GCEC). This non-profit organization's mission of bringing people together to work proactively to promote the protection and preservation of the Tri-State area's parks is something Amanda is passionate about. Her contribution to this cause includes drafting and circulating press releases, organizing impactful interviews with local media outlets, and creating engaging content on social media to raise awareness for the GCEC Earth Day Celebration in Blue Ash's Summit Park.

LCNB | Wealth

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.