Wealth Management Bulletin
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LCNB | Wealth

Welcome to Spring …

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Alfred, Lord Tennyson, once wrote: "In the Spring, a young man's fancy lightly turns to thoughts of love". While a beautiful sentiment, and probably due to my graying hair, In the Spring, my fancy turns to thoughts of Baseball.

I will admit, I'm not quite as fanciful about the sport as I was as a young man, but it is still one of the things that defines Spring for me. The Red Stockings of early baseball. The Reds of the Blacksox era. The Pennant winners from the 30's, 40's, and 60's. The Big Red Machine. The Wire-to-Wire Reds. And even the current crop of new age, new rules Reds. Still our "Home" Team.

Did you know that the home of the first Reds team in 1869 was the Union Grounds located near the area now occupied by the Museum Center in Cincinnati's Union Terminal Train Station? Four thousand fans could gather there to watch that club win every one of their home games (not to mention win all their road games in that first season).

In 1876, the next iteration of the Red Stockings played their home games at the Avenue Grounds located north of the city. The seating capacity was less at 3,000 fans. But then again, the team was not quite as good.

The third iteration of Cincinnati Reds baseball began to take place from 1880-1883 at the Bank Street Grounds with a capacity back up to 4,000. This was the first park to have innovative scoreboard features including player names and out of town scores.

From 1884-1901, the home of the Reds became American Park, with the name changed to League Park in 1890 (in reference to the National League). This park featured a covered grandstand with leather cushioned seats. A fire in 1901 led to the rebuilding of the main grandstand and a new reference to the facility as "Palace of the Fans" which featured a grandstand known as the "Grand Duchess". Quite the place to view a home baseball game on a Saturday afternoon.

In 1912, Redland Field opened for business. This ballpark became known as Crosley Field in 1934 when local Businessman/Inventor, Powell Crosley Jr. bought the team. It was the home of the Reds until Riverfront Stadium was opened in June of 1970, just in time to host the Allstar game. In 2003 Great American Ballpark became the current home of the Reds.

Each new ballpark provided better accommodations for baseball fans to enjoy their favorite team while providing some much-needed relaxation from the stress of the day. For each era of fans, the Reds ballpark was important. Where did they go for professional baseball? To the "Home" of the Reds. A familiar place, an accommodating place, a place to relax while enjoying the benefit of professionals engaging at the highest level.

At LCNB/Wealth, our team endeavors to provide financial services and solutions at the highest professional level. Not even I can argue that discussing Estate, Trust, Investment, and Legacy planning can be as relaxing as watching 9 innings of a well-played baseball game. But engaging competent, experienced financial professionals can improve the quality and effectiveness of your financial game. Give us a call. Let us be your "Home" team.

Welcome to Spring. Batter Up, Go Reds.

Thank you for your relationship with LCNB |Wealth.

Best Regards,

Mike

Secure Act 2.0

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The Setting Every Community Up for Retirement Enhancement Act (the "SECURE Act") was originally enacted in 2020 and provided significant benefits to retirees and those planning for their retirement. An enhanced version, SECURE Act 2.0, was signed into law at the very end of 2022, which made further changes and for the most part, improvements to the law. From IRAs to student debt, there is something for just about everyone. Here are highlights of the law that we believe are most relevant to you and your planning.

REQUIRED MINIMUM DISTRIBUTIONS

- The age at which participants must begin taking required minimum distributions ("RMDs") has increased from age 72 to age 73 starting on January 1, 2023, and it further increases to age 75 starting on January 1, 2033. Note that if you turned 72 in 2022 or earlier, you must continue to take RMDs as scheduled.
- Starting in 2024, Roth accounts in employer retirement plans will be exempt from RMD requirements, just like they are for Roth IRAs.

RMD PENALTY

- The penalty for failure to take RMDs has been reduced from 50% to 25% of the RMD amount not taken, with a further reduction to 10% if the RMD is corrected in a timely manner and noted on a corrected tax return. With the confusion surrounding RMDs, this is a welcome change.

CATCH-UP CONTRIBUTION LIMITS

- Starting in 2024, for taxpayers earning $145,000 per year or more (indexed for inflation), catch-up contributions will be considered Roth (i.e., after-tax) contributions,
- For plan participants age 50 or older, the catch-up contribution limit for 2023 is increased.
    - Most retirement plans: contribution limited to $7,500 (adjusted for inflation);
    - SIMPLE plans: contribution limited to $3,500 (adjusted for inflation);
    - IRAs: $1,000 (currently not adjusted for inflation; will be adjusted after 2023).
- Starting in 2025, a second catch-up will be available for participants age 60-63. The "second" catch-up limit:
    - Most retirement plans: $10,000;
    - SIMPLE plans: $5,000.

QUALIFIED CHARITABLE DISTRIBUTIONS ("QCDs")

- The QCD rules were extended, allowing an IRA owner who is at least age 70 ½ to make payments directly to qualified charities with voluntary withdrawals and RMDs without income tax, up to $100,000 per year, which will now be indexed for inflation. Note that donor advised funds and private foundations do not qualify as qualified charities for this favorable tax treatment.
- Beginning in 2023, individuals age 70 ½ and older may elect as part of their QCD limit a one-time gift up to $50,000, adjusted annually for inflation, to certain charitable trusts or a charitable gift annuity, thus expanding the type of charities that can receive a QCD.

529 PLANS

- Starting in 2024, funds in a 529 account may be rolled into a Roth IRA without taxation. The 529 Plan account must have been opened for at least 15 years and a $35,000 lifetime limit applies. Further, 529 Plan transfers to a Roth are subject to the annual Roth IRA contribution limits.

The above highlights are just a few of the changes made by SECURE Act 2.0,, and the rules can be quite tricky. If you have any questions about the changes and how they may affect you and your family, please do not hesitate to reach out to us and we will be happy to meet with you.

Economic Summary – A Tale of Two Markets

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To borrow from Dickens, "It was the best of times, it was the worst of times." It just depends on whether you are listening to the stock or bond market. While stocks are still a long way from the January 2022 highs, markets have rebounded sharply. The S&P 500 Index has climbed over 15% from the October lows. This suggests that corporate earnings, and the economy at large, are in pretty good shape. Meanwhile, the bond market is deeply inverted and Fed Fund Futures are pricing in 2 rate cuts later this year. It seems the bond market is convinced that a recession is coming soon.

To be fair, there have been conflicting economic signals for some time now.

Best of Times

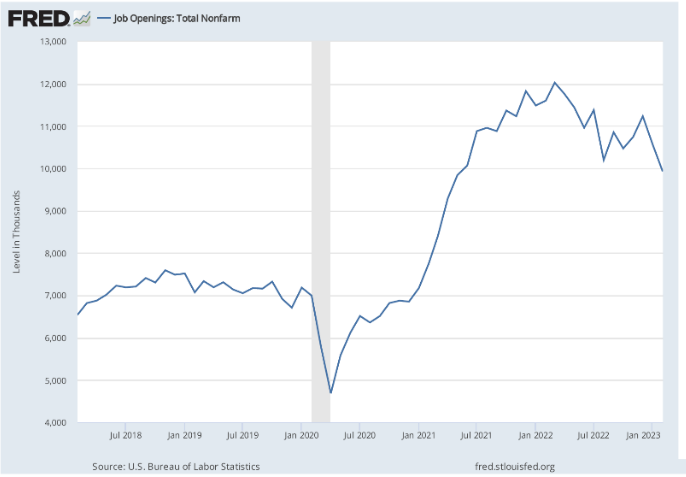
- Stocks, especially large cap growth stocks, are enjoying a strong 6-month run.
- The labor market has showed some signs of weakening but remains very tight. Unemployment is just 3.5% and there are still almost 2 open jobs for every unemployed person.
- First quarter Gross Domestic Product (GDP) is expected to have grown at a 2.5% annual pace according to the Atlanta Fed's GDPNow forecast. If there is going to be a recession, it did not start in the first quarter.

Worst of Times

- The bond market is deeply inverted and Fed Futures are pricing in rate cuts later this year.
- Silicon Valley Bank and Signature Bank collapsed in the first quarter. While a widespread banking crisis now seems unlikely, this is a sure sign that the aggressive Fed action is having an impact and liquidity is drying up.
- Housing starts are 21% below the level from a year ago while mortgage applications are off by 36% as a result of higher interest rates.
- Inflation has cooled but remains well above the Fed's 2% target. This means the Fed will probably hike at least one more time in May before pausing.

Ultimately, we believe the Fed will succeed in bringing inflation down. Maybe not all the way to the 2% target, but the Fed and Chair Powell's credibility are dependent upon their success in stabilizing inflation. The question is whether they can land the economy softly, as stock prices suggest, or will it be a thud as bonds seem to foretell.

Market participants will want to keep a close eye on labor and inflation data in the coming months. As we noted last quarter, the labor market is the last domino holding up the economy. It has started to show some signs of a wobble (initial jobless claims rising and job openings are dropping), but as long as it stays standing, the Fed's Goldilocks dream still has a chance of working out.



Equity Summary:	1st Qtr	YTD	12 Mth	3 Yr	5 Yr
S&P 500 (Large Cap Domestic)	7.50	7.50	-7.73	18.60	11.19
Russell 2000 (Small Cap Domestic)	2.74	2.74	-11.61	17.51	4.71
MSCI ACWI Ex US (International)	6.87	6.87	-5.07	11.80	2.47

Stock Market Update – Climbing the Wall of Worry

Stocks are said to climb a wall of worry. Any given year in history and there is some compelling reason why the sky is about to fall, and yet it rarely does. Ok, so maybe it has fallen twice in the last three years with a 36% drop during the Covid crash of 2020, and then a 27% drop in the first nine months of 2022. Even so, from January 1, 2020 (prior to the Covid drop) through March 31, 2023, a period of just over 3 years, the market returned 9.4% on an annualized basis. I can almost hear my colleague Chris quoting the adage, "it's time in the market, not timing the market that matters." It has been a remarkable few years to say the least and those investors that rode out the volatility have been rewarded.

So once again, geopolitics and recession fears have us thinking the sky is falling and yet stocks are just chugging along. What should investors be doing now? The most important thing is not to overreact. Predicting short-term market moves is always tricky. Having said that, the recent market strength does present an opportunity to take a little risk off the table. Large cap growth has been on a tear since October with the tech heavy Nasdaq returning 18.98% since the October bottom.

We favor lightening up slightly on this space and sticking with an overweight to more defensive, value-oriented stocks. We also note that international stocks have been outperforming domestic stocks over the past 12 months. We still view international stocks favorably from a valuation standpoint and think this could be the start of a longer-term trend.

Fixed Income Summary:	1st Qtr	YTD	12 Mth	3 Yr	5 Yr
US T-Bill 90 Day Index	1.14	1.14	3.09	1.09	1.43
BC Municipals 5Yr	2.02	2.02	2.01	0.57	1.80
BC Intermediate Government/Credit	2.33	2.33	-1.66	-1.28	1.40
BC High Yield Corporate	3.57	3.57	-3.34	5.91	3.21

Fixed Income – The March Higher Continues… For Now

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The Federal Reserve (the Fed) remained relentless in their battle against inflation – during the 1st quarter of 2023, they raised the Fed Funds Rate an additional 0.25% to 4.75%. They have also hinted at a high probability that they will increase rates one more time in May despite the bank collapses and cooling inflation. However, the Fed Funds futures are anticipating a pivot and two potential rate cuts by year end.

In prior bulletins, I have brought up the discrepancy between domestic interest rates and foreign interest rates. This discrepancy amplified during the beginning of 2022 with the Fed being much quicker to raise interest rates than any other central bank. With the concern of global inflation still high, many of these central banks have finally started to increase their rates, following in the Fed's footsteps. This has helped increase the ratios slightly, but U.S. interest rates remain higher than most other developed markets. For instance, in the 1st quarter of 2022, the U.S. 10-year Treasury was approximately 1.94% while the 10-year German Bund was only at 0.49%. Today, the 10-year rate is closer to 3.50% while the 10-year Bund is yielding approximately 2.40%.

The Fed's decision to raise the Fed Funds Rate pushed short-term Treasury Bills higher with most sitting above 5% now. While short-term treasuries rates rose, bond investors' fear of an economic slow-down outweighed their inflationary concerns and pushed the long end of the Treasury Yield Curve lower. Both the 10-year Treasury and 2-year Treasury rates decreased in the 1st quarter: the 2-year went from 4.42% to 4.03% and the 10-year went from 3.47% to 3.87%. This parallel move kept the curve inversion at a relatively steep level – currently -0.56% compared to the -0.55% difference we saw at year end.

This decrease in interest rates was a nice reprieve from the large increases to rates investors saw in 2022. For the full year 2022, the Bloomberg Barclays Aggregate returned -13% to investors. The decrease in interest rates in the 1st quarter (and consequently, increase in bond prices) led to a positive return of 2.96% giving bond investors reason to cheer. We continue to monitor current inflationary concerns as well as anticipated Fed Fund Rate targets to find bond investment opportunities. We have begun to increase our exposure to high-quality short-term bonds and move some money away from stocks and alternatives based on the concerns of a potentially weakening economy.

Alternative Investments Summary:	1st Qtr	YTD	12 Mth	3 Yr	5 Yr
Bloomberg Commodity	-5.36	-5.36	-12.49	20.82	5.36
Dow Jones Global Real Estate	0.21	0.21	-19.74	5.20	0.80
Morningstar Broad Hedge Fund TR	-0.34	-0.34	10.88	19.35	8.63
Consumer Price Index	1.08	1.08	4.35	5.14	3.75

Alternatives Update – A Solid Foundation is Essential in Real Estate

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After the great run that alternatives had in 2022, we decreased our exposure from overweight to neutral in the beginning of the year. Alternatives underperformed stock and bond indices – with the commodity and broad hedge indices both posting negative 1st quarter returns. As of right now, decreasing our exposure to alternatives is having a positive impact on portfolio performance.

Gold and cryptocurrencies both rallied in the 1st quarter as investors reacted to the turmoil in the financial sector. Gold ended the quarter at $1,969/ounce, up more than 8% from the start of the year – this is less than 10% away from all-time highs. The CoinDesk Market Index which covers more than 90% of the market capitalization of the cryptocurrency markets ended the first quarter 58% higher. Despite those rallies, commodities were down in the first quarter. Oil contributed to those negative returns, declining more than 7% in the first quarter. As of this writing, there has been some recovery due to OPEC+ announcing a cut in output which could keep inflation higher for longer. There is also some additional upside potential for the remainder of 2023 with the reopening of China increasing global energy consumption.

Brad mentioned that housing starts and mortgage applications are both well below their level 1 year ago. The global real estate sector as a whole eked out a 0.21% return in the 1st quarter. With weakened consumer balance sheets and rising loan costs continuing to put pressure on various aspects of the real estate sector, we are underweighting the sector as a whole. We are also avoiding office space in particular within real estate – COVID fundamentally changed the way we work. With many individuals now working completely from home or adopting hybrid schedules, the traditional office leasing industry has been disrupted. 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.

Dayton Bar Association – Probate Law Institute Annual Seminar

LCNB| Wealth was a title sponsor at this year's Probate Law Institute Annual Seminar presented by the Dayton Bar Association. The seminar focuses on current news, updates, and changes in the probate world. Additionally, it offers a look into case law and studies associated with probate law. Trust Officers, David Hopper and Nakia Lipscomb attended the event with David speaking on behalf of LCNB| Wealth.

Miami M.O.R.E. – Miami Opportunities for Regional Employers

Trust Officer Nakia Lipscomb and Assistant Trust Officer Amanda Luman attended the Miami MORE Workshop: A Commitment to Diversity. The workshop attendees learned how Miami University partners with local organizations to achieve workforce and vendor diversity. The workshop included break-out sessions highlighting the Miami Regionals Micro credentials program, obtaining certifications as Minority or Women-Owned Businesses, and recruitment and retention strategies for employers.

Greater Hamilton Chamber of Commerce – Champions of Diversity

Among members from across LCNB, Trust Administration Officer Nakia Lipscomb and Assistant Trust Officer Amanda Luman attended the Greater Hamilton Chamber of Commerce's "Champions of Diversity" event at the Fitton Center for Creative Arts. The event showcased a panel discussion led by members of organized youth groups working on diversity and inclusion in the Greater Hamilton area. The students shared some of the challenges and victories regarding creating these resource groups and their plans for leaving a legacy of diversity and inclusion after graduation.

Junior Achievement – 4.01K Race to Financial Fitness

LCNB| Wealth sponsored the 4.01K Race to Financial Fitness, hosted by Junior Achievement at Middletown High School. Members of the team tried to beat their best times, with Assistant Trust Officer Amanda Luman winning the best time in her age group.

Partnering with Junior Achievement fosters a deeper understanding of finance, professionalism, and career-building skills in students.

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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.