

Welcome to Winter ...

Belated Happy New Year. I hope your holidays were good, and the January credit card bill is manageable. The holidays gave us all time to reflect on 2023 and do some planning for 2024. Personally, it also gave me some time to reflect on several things that I just don't like. On that list is:

- 1) Frigid, cold weather;
- 2) Insincere people; and
- 3) Buzz words.

These last few weeks prove that I have no control over item 1. This being an election year may prove that I can sometimes control item 2. However, I do believe I can take a stand on item 3. So this year...

As a thought leader, I plan to take a deep dive into our metrics, first plucking the low hanging fruit, then rallying the troops to think outside the box, leveraging our expectations, to spitball ideas to develop a market driven approach to allow us to align with our customers to allow them to live the dream. Hopefully, I can get our team to drink the Kool-aid, assess our bandwidth, and on the fly, set forth turn key alternatives to allow our customers to succeed. But let's put a pin in that.

The definition of "buzz word" includes the following:

- 1) A word or expression from a particular subject area that has become fashionable by being used a lot; and
- 2) An important sounding, usually technical word or phrase, often of little meaning, used strictly to impress laymen.

Granted, in any industry, there are bound to be terms or phrases specifically intended to convey specific ideas or concepts. The Trust, Investment, and financial services industry is full of them. But when these terms or phrases are properly used, they also need to be properly explained. That is one of the things we believe we do well at **LCNB | Wealth**. Not complex solutions, but understandable concepts. Not convoluted, high level theories, but solid, practical advice based on straight forward conversations. We actively listen to the needs and desires of our customers and actively engage in finding appropriate financial and personal solutions.

It's not "rocket science" (how is that for a buzz word), but it can be complex and confusing. Discussing financial matters can be uncomfortable and intimidating. Our job is to keep it straight forward and understandable, to help you discover the appropriate financial and planning solutions for you and your family. Let us know if **LCNB | Wealth** can be of service to help you with your trust, investment, insurance, estate, and financial planning needs.

Personally, I can do without frigid, cold weather, insincere people, and buzz words. I feel confident that you will agree with me.

Welcome to Winter. Stay warm, and thank you for your relationship with **LCNB | Wealth**.

Best Regards,



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A handwritten signature in blue ink that reads "Mike". The signature is written in a cursive, flowing style.

Economic Summary – Final Approach

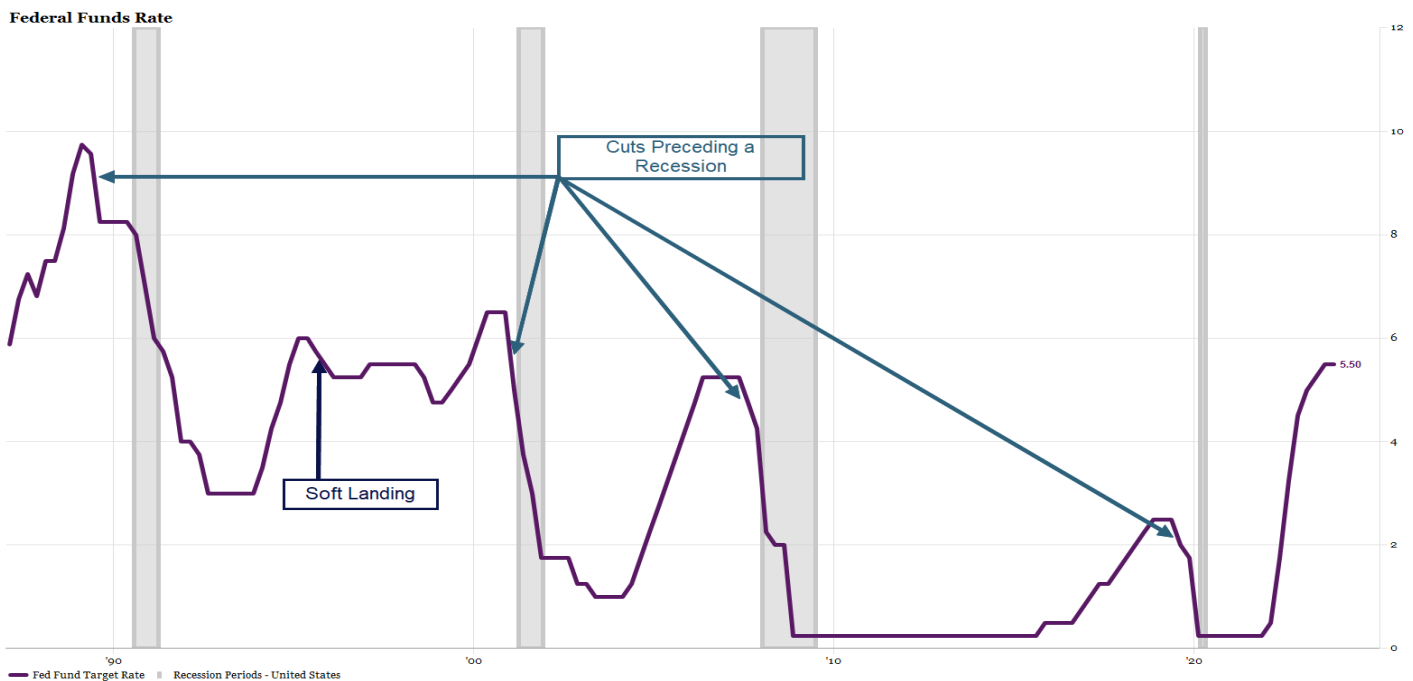
Please ensure that your seatbelt is securely fastened, your seat back and tray table are in the upright position, and your electronic devices are turned off or set to airplane mode. As 2023 gives way to 2024, we expect the year-long recession/soft landing debate to finally get resolved. Jay Powell and the Federal Open Market Committee (FOMC) pivoted from their hawkish tone at the December meeting, signaling 3 or more rate cuts in the coming year.

For those in the soft-landing camp, the shift in Fed policy comes just in time. The labor market and consumer spending remain resilient. Inflation, as measured by the Consumer Price Index, peaked at over 9% on a year-over-year basis in the summer of 2022 and is down by nearly two thirds to 3.1% as of the last reading. This is still above the Federal Reserve's (the Fed) 2% target, but clearly headed in the right direction. It is also close enough for the Fed to loosen their monetary policy stance in hopes of achieving the elusive soft economic landing.

The last such soft landing came in 1994 when then Chair Allen Greenspan was able to raise the Fed funds rate to cool inflationary pressure and then lower the rate quick enough to keep the economy going for another 7+ years and earn him the "Maestro" nickname. As shown in the chart below, rate cutting cycles over the last 50+ years have almost always preceded an economic recession.



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For those in the recession camp, a hard landing is almost unavoidable. As we noted through much of 2023, the aggressive rate hiking cycle may yet to be fully felt by the economy. The Leading Economic Index is a diffusion index composed of 10 different leading indicators and is still signaling economic contraction ahead. In fact, only 1 of the 10 data points – the stock market – indicates an expansion, the remaining 9 are currently suggesting an economic contraction is in the future.

With a Presidential election and various geopolitical tensions, 2024 is likely to be a bumpy ride regardless of which economic scenario plays out. For investors, it is best not to overreact to the economic or geopolitical backdrop. Recessions come and go and investors who are in it for the long haul should plan to stay invested through various economic conditions and cycles. Our best advice is to stay invested in broadly diversified portfolios with a focus on high quality securities. We do however advise keeping that seat belt on tight!

Equity Summary:	4th Qtr.	YTD	12 Mth	3 Yr.	5 Yr.
S&P 500 (Large Cap Domestic)	11.69	26.29	26.29	10.00	15.69
Russell 2000 (Small Cap Domestic)	14.03	16.93	16.93	2.22	9.97
MSCI ACWI Ex US (International)	9.75	15.62	15.62	1.55	7.08

Stock Market Update – Santa (or in this case Jay Powell) Delivers Again!

Markets began to sniff out the aforementioned Fed pivot well ahead of their December meeting. By November, the stock market was beginning to price in several rate cuts for 2024. The S&P 500 Index ran up over 11% in the fourth quarter and finished the year up over 26% as the odds of a soft landing increased.



The S&P 500 Index was led throughout the year by the so called Magnificent Seven, comprised of Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla. These seven stocks now account for over 30% of the large-cap domestic index. The forward Price to Earnings ratio is once again trading a full standard deviation above average on the recent gains. As we have noted in previous bulletins, we view this segment of the market to be a little pricey and prefer other, less favored, stocks.

S&P 500 P/E Ratio



Small-cap stocks and international issues performed well in 2023 but continued to lag the domestic large-cap index. Small stocks as represented by the Russell 2000 Index were up nearly 17% and international stocks returned over 15% as represented by the MSCI ACWI -ex US Index. The Russell 2000 Index outperformed the S&P 500 for the fourth quarter with a 14% return for the three months. It is too early to determine if this is the start of a longer-term trend, but we continue to favor these segments of the market that trade at a discount to their long-term valuation levels.

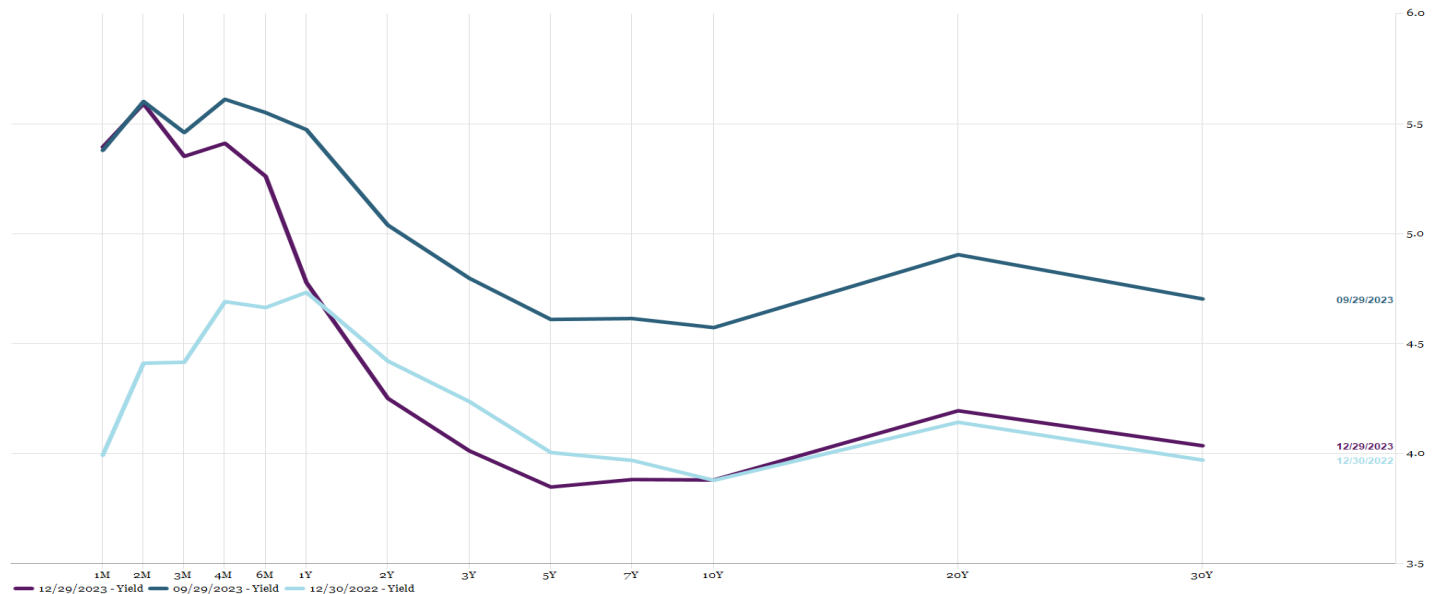
Fixed Income Summary:	4th Qtr.	YTD	12 Mth	3 Yr.	5 Yr.
US T-Bill 90 Day Index	1.39	5.17	5.17	2.22	1.92
BC Municipals 5Yr	5.10	4.05	4.05	-0.30	1.71
Bloomberg US Agg	6.82	5.53	5.53	-3.31	1.10
BC High Yield Corporate	7.16	13.45	13.45	1.98	5.37

Fixed Income – Much Ado About Nothing

After more than a year of aggressive hiking, the Fed hit the pause button during the September, October, and December meetings. This brought the target rate to 5.25-5.50% as of 12/31/2023. The noteworthy development in the 4th quarter was a pivot in the tone of the FOMC. In September and October, their commentary centered around a “higher for longer” rate policy. However, the December commentary became markedly more dovish and opened up the possibility for three cuts in 2024. The markets are pricing even more than 3 cuts, with futures contracts pricing in as many as six 0.25% rate cuts by the end of 2024. As Brad and Chris both mention, this created favorable market conditions for stocks as well as alternative currency investments – both asset classes saw end of year rallies.

Against the backdrop of a shifting Fed, the 2-year Treasury declined 79 basis points (bps) in the 4th quarter to end the year at 4.25%. The 10-year Treasury rate started the quarter at 4.57% and went as high as 4.99%, where it peaked on 10/19/2023. From that peak, the yield declined 111 bps to end the quarter and year at 3.88%. This decline is comparable to that of the 2-year, leaving the spread between the two effectively the same.

US Treasury Yield Curve



To have success in investing, you often have to be able to separate the signals from the noise. Despite all the noise we saw in 2024, the 10-Year treasury began and ended 2023 at the exact same rate and the longer-term Treasuries were also little changed. In the last bulletin, we discussed taking advantage of signals in the fixed income market by adding to longer-term, high-quality bonds. We began purchasing the TLT iShares 20+ Treasury Bond ETF for some portfolios during the 4th quarter. This helped portfolio returns as TLT is up 12.57% over the last 3 months. We anticipate rate cuts to be a positive tailwind for this and other bond funds moving forward. Thus, we continue to recommend an overweight to bonds.



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Alternative Investments Summary:	4th Qtr.	YTD	12 Mth	3 Yr.	5 Yr.
Bloomberg Commodity	-4.63	-7.91	-7.91	10.76	7.23
Dow Jones Global Real Estate	15.55	9.34	9.34	0.13	3.37
Morningstar Broad Hedge Fund TR	1.09	2.18	2.18	13.51	9.37
Consumer Price Index	-0.14	3.56	3.56	5.67	4.12

Alternatives Update – Up, Down, All Around

Alternative investments refer to financial assets that fall outside the conventional investment categories, which typically encompass stocks, bonds, and cash. When allocating to alternative investments, our primary goal is to enhance the risk adjusted return of the overall investment portfolio. This is primarily achieved because alternative investments provide low levels of correlation to traditional categories, reducing the portfolio's overall risk. As a general guideline, the alternatives allocation should, at a minimum, keep up with inflation – this task has been challenging lately given the spike in inflation witnessed in 2022.

Over the past few bulletins, Erin has highlighted the First Trust Long Short Fund, FTLS. This was the primary alternative asset exposure for our clients in 2023. While FTLS did not match the S&P 500's lofty 26% return in 2023, it did outpace inflation and return investors a still impressive 16.93%.

As Erin mentioned above, the Fed announced they have reached a peak and the next move in the Fed Funds rate is likely lower. This news helped push alternative currency investments higher: gold returned investors 11.61% and Bitcoin was up over 50% in the last 3 months of the year. Unfortunately, oil fell almost 20% in the same time frame and more than outweighed gold's increase – the commodity index as a whole declined almost 5% in the 4th quarter and lost nearly 8% for the year.



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Use Your IRA to Support Your Charitable Goals

Are you charitably inclined, at least 70 ½, and looking for methods to fund your charitable goals? If you are an IRA owner and at least 70 ½, you can use your IRA to make charitable gifts. The IRS has increased the starting age for required minimum distributions (“RMD”) over the past several years, but the age to utilize Qualified Charitable Distributions (“QCD”) remains 70 ½.

In 2024, IRA owners may transfer up to \$105,000 (indexed for inflation) to eligible charities. This amount is limited per person, not per IRA. The QCD must be made from the IRA trustee directly to the charity to qualify. Eligible charities include churches, schools, hospitals, government units, and publicly supported charities. Payments to multiple charities can be made, as long as the \$105,000 limit is not exceeded.

If you reached the RMD age, but do not rely on the RMD for living expenses, a QCD is a good option to fulfill your RMD requirement and charitable pledges in one. The QCD counts as a RMD payment and is excluded from gross income; the IRA owner can achieve the benefit of a charitable donation without itemizing deductions on their tax return. If the IRA owner still contributes to IRAs, then the maximum excluded amount from gross income may be reduced.

QCDs can be a great alternative vehicle to make charitable donations. 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 on if a QCD is the right path for you.



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Hispanic Volunteer Day – Giving Back to Price Hill

October 2023 – A group of LCNB associates volunteered with Hispanic Chamber Cincinnati USA for Hispanic Volunteer Day in early October 2023. The group, joined by **LCNB | Wealth** department members Amanda Luman, Glenn Schnell, and Brittney Mustard-Smith worked with Cincinnati Parks conservationists to remove invasive honeysuckle from Miles-Edward Park. While working, they had the opportunity to taste juniper berries and learn about the importance of planting native species in Ohio to support wildlife.



OBL Women in Banking – The Power of Profitable Conversations

October 2023 - **LCNB | Wealth** officers Shaye Wynn, Jackie Manley, Melanie Crane, and Amanda Luman, attended the Ohio Bankers League Women in Banking conference in October 2023. The conference provides an exciting environment with resources and tools to empower women to pursue their best selves, personally and professionally.

3rd Annual Pumpkin Party – And the Winners are

October 2023 - **LCNB | Wealth** hosted the 3rd Annual Pumpkin Party for the Main Office in Lebanon, complete with costume, pumpkin-decorating, and food contests! Winners included Michael Nusbaum for Best Pumpkin, Erin Hawk for Best Costume, and Connie Sears (HR Talent & Development) for Best Dish. Each winner received a gift card to a local business, a trophy to keep in their office, and of course, bragging rights!



Adopt A Class – Uncovering Passion, Exploring Potential

October 2023 - LCNB has partnered with Adopt A Class to volunteer monthly with a classroom at Amanda Elementary in Middletown. Led by **LCNB | Wealth** officers Amanda Luman and Brittney Mustard-Smith the LCNB mentor group is teaching students about money and what it means to save towards a goal.

Atrium Medical Center Foundation Tax & Estate Seminar

November 2023 - **LCNB | Wealth** was a proud sponsor of the 2023 Atrium Medical Center Foundation Tax and Estate Seminar. Trust Officers David Hopper and Josh Shapiro, along with Investment Officers Chris Robinson and Erin Hawk attended the event and presented on "The Nuances of Administering and Investing Trust Assets."



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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.
