Wealth Management Bulletin
Summer 2024

LCNB | Wealth

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Welcome to Summer …

Every four years we are treated to an incredible spectacle. Large numbers of competitive people get together to work and advocate for their specific team. While there is always a great amount of commentary surrounding the events, they never seem to be without drama and controversy. There are always winners and losers, but all get credit for participating. No, I am not talking about the presidential election cycle to which we are subjected every four years but rather the international gathering of the world's best athletes and the pageantry, showmanship, and sportsmanship that accompanies them at the Summer Olympic games.

For approximately seventeen days, every four years, we are entertained by the best athletes in the world performing their craft at the highest level. And, of course, that doesn't include all the preliminary rounds we are able to watch. We sit on the edge of our seats as the tip of a finger touches the swimming pool wall, a millisecond before the second-place swimmer. We shake our heads in wonder as the gymnasts perform incredible feats of contortion in mid-air. We are amazed by the speed and grace of the runners.

We cheer for the soccer teams, the basketball players, and the Rugby seven. We root for our favorites, but also find ourselves appreciating the incredible efforts of that unknown athlete from that obscure country. And what about the feeling we have when one of our own steps to the highest platform during the medal ceremony while they play the Star-Spangled Banner. While the venues change, the enthusiasm and pageantry never do.

Yes, everyone loves a winner. But we also appreciate the many great performances of those who do not medal. They are all still winners. For us, seventeen days of ceremony and excitement. For many of them, the pinnacle of a lifetime of hard work and sacrifice. Years of planning, working with experienced coaches and trainers, and working long hours, sacrificing to meet that goal of performing (and sometimes winning) in Olympic competition.

Of course, if you have read my previous submissions to this bulletin series, you know this is where I try to relate the subject matter to your own financial and investment planning circumstances. And, of course, proper planning does require a great deal of hard work and the need to be surrounded by a team of people with the right experience and knowledge to make your financial hopes, dreams, and goals reach the top of the podium. But this time, I am going to leave you with a simple message. We owe a debt of gratitude to our Olympic athletes for the way they enthusiastically and productively represent our country and its ideals. They are OUR TEAM. We hope that LCNB | Wealth can be part of your team to help you achieve gold in your financial life.

Here's to the USA Olympic athletes. May God bless each and every one of them.

Hope you are having a great summer. Thank you for your relationship with LCNB | Wealth.

Best Regards,

Mike

Economic Summary – Inflection Points

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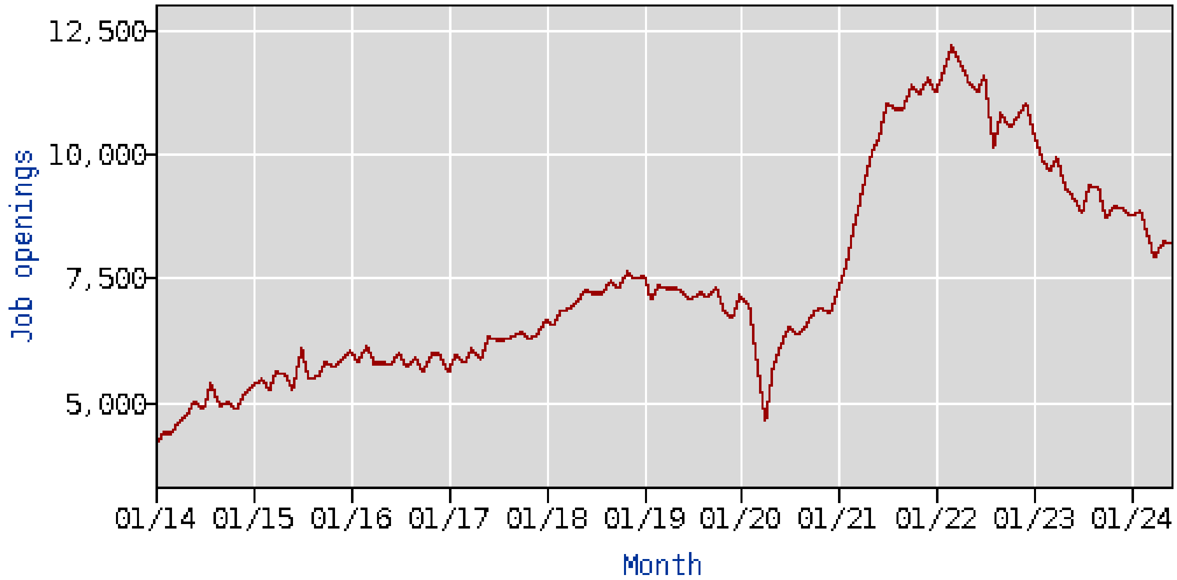
According to the Cambridge English Dictionary, an inflection point is "a time of sudden, noticeable, or important change." This summer has been marked by several inflection points on the political front. And now, the past couple of weeks have ushered in numerous economic data points that may also indicate an inflection point in the direction of the overall economy.

For much of the past 2 years, we have been on recession watch due to the inverted yield curve and contraction signals from the Leading Economic Indicators Index. However, resilient U.S. consumers have thus far proved these signals wrong as the economy has continued to expand. Second quarter Gross Domestic Product came in at a robust 2.8% annual pace according to the most recent estimate. Meanwhile inflation has trended down closer to the Federal Reserve's (The Fed) target with the latest Personal Consumption Expenditures Index showing a reasonable 2.5% annual pace. This had market participants suggesting a soft economic landing as the most likely scenario.

A string of softer than expected economic reports in July and the first week of August suggest we may be at an inflection point. The Department of Labor reported just 114,000 new jobs for the month of July. This was about half of the monthly average year-to-date and comes on heels of a 12-month high in weekly jobless claims. In addition, the JOLTS index (chart below) which measures the number of job openings continues to contract. Openings peaked above 12.2 million and were down to just 8.2 million in June. This suggests 4 million jobs have already evaporated from the economy since 2022.



With the unemployment rate now up to 4.3% the Fed is turning their attention from fighting inflation to stabilizing the labor market. Jay Powell and the FOMC signaled a potential rate cut at the upcoming September meeting and the market is now pricing in up to 125 basis point reduction before the end of the year. It remains to be seen if this pivot will have been in time to stave off a recession.

Equity Summary:	2nd Qtr.	YTD	12 Mth	3 Yr.	5 Yr.
S&P 500 (Large Cap Domestic)	4.28	15.29	24.56	10.01	15.05
Russell 2000 (Small Cap Domestic)	-3.28	1.73	10.06	-2.58	6.94
MSCI ACWI Ex US (International)	0.96	5.69	11.62	0.46	5.55

Stock Market Update – So bad news is bad news again?

For over a year now, financial markets have frequently rallied on weaker than expected economic data and sold off on stronger than expected economic data. This is often the case during bull market runs as the market views strong data as a reason for the Fed to raise rates and weaker data as a reason for the Fed to lower rates to support the economy.

Zachs Equity Research dated June 5th 2024:

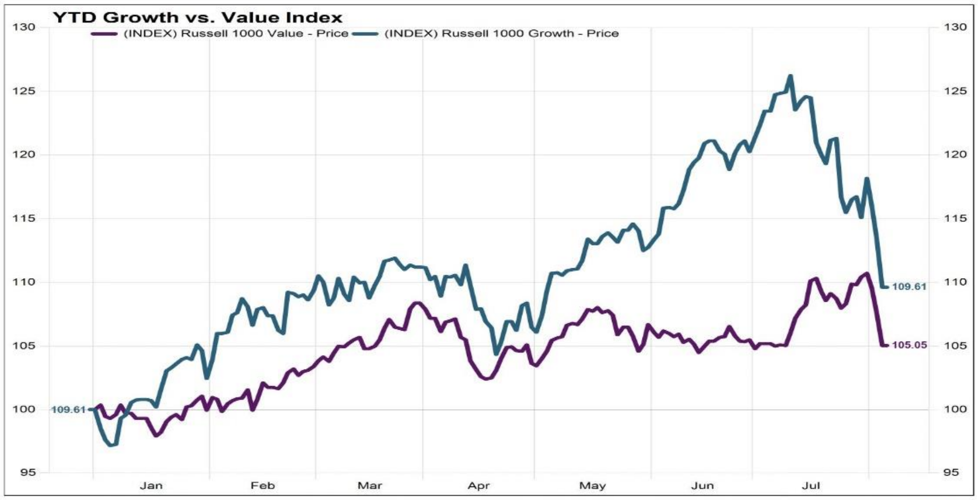
"U.S. stocks ended higher on Tuesday buoyed by softer-than-expected jobs data, which fueled hopes of rate cuts by the Federal Reserve later this year. All three major indexes ended in positive territory."

In keeping with the inflection theme, it now appears that bad news is in fact bad news. The recently released July jobs data came in significantly lower than expected and the stock market tumbled.

CNBC headline dated August 2nd 2024:

"Dow tumbles 800 points, Nasdaq enters correction territory after weak jobs report"

What was different about the July report that led to a different market reaction? The difference is in the magnitude of the miss and other corresponding weak data from recent weeks. Does this mean that the bull market run led by the so-called Magnificent 7 is now over? Too early to say for certain, but we have been suggesting for some time that the market is due for some rotation. As you can see below, the growth outperformance seen earlier in the year has largely been erased.



Stocks continued to make new highs in the second quarter with the S&P 500 up over 15% by June 30th. The large cap domestic index continues to outpace all other asset classes. It may turn out that this is just an overdue correction prompted by some weaker short-term data. Then again, it may in fact be an inflection point that signals a major direction change for the market leaders of the past several years. In either case, we continue to favor more attractively priced securities in less appreciated sectors as we have noted for the past year.

Fixed Income Summary:	2nd Qtr.	YTD	12 Mth	3 Yr.	5 Yr.
US T-Bill 90 Day Index	1.29	2.59	5.26	3.22	2.18
BC Municipals 5Yr	-0.59	-1.21	1.62	-0.74	0.72
Bloomberg US Agg	0.07	-0.71	2.63	-3.02	-0.23
BC High Yield Corporate	1.09	2.58	10.44	1.64	3.92

Fixed Income – What Goes Up Must Come Down?

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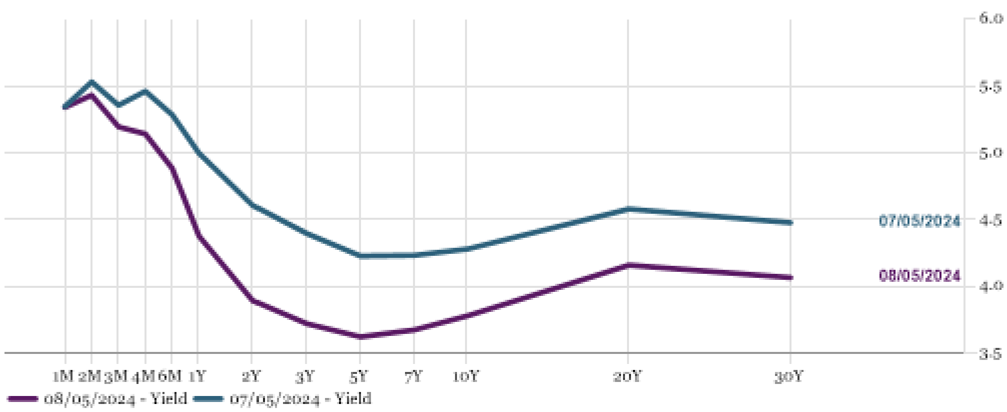
In the second quarter of 2024, fixed income markets experienced mixed performance as investors navigated a complex economic landscape. Bond yields remained relatively stable with the 10-year U.S. Treasury yield ending the quarter only 14 bps higher at 4.34%. On the heels of softer economic data, the 10-year dropped to 3.80% as of August 5th, decreasing the spread between the 10-year and 2-year from 0.29% at the beginning of the 2nd quarter to 0.13%.

The Fed held rates steady in the second quarter, but reaffirmed the fluid and data dependent nature of future positions. There is currently an 86% probability that the Fed will cut rates by 50 bps at the September meeting on the backdrop of decreasing inflation, weak manufacturing data, and unemployment ticking up. Additional cuts are expected in November and December and throughout 2025. As you can see in the chart below, the entire yield curve has shifted lower in the last month. The longer-dated maturities are closer to their historical averages and will likely stay rangebound. As the Fed begins their rate cutting path and the shorter bond yields decline, we should finally see some normalization moving forward with longer maturities yielding more than shorter maturities.



We are cautiously optimistic on emerging market bonds and continue to believe active management can outperform in this inefficient asset class. High-yield bonds saw positive performance returning 1.09% in the 2nd quarter. Investment-grade corporate bonds outperformed government securities during this period, benefiting from tightening credit spreads and strong investor demand. Along with all of the other pivots that we've discussed above, credit spreads have begun to widen in the beginning of the 3rd quarter. With consumer demand weakening and defaults increasing, we remain focused on high quality fixed income assets.

Overall, while fixed income markets didn't see dramatic moves in the second quarter, they provided steady income and some capital appreciation opportunities. We continue to overweight to fixed income taking advantage of the increased yields and providing negative correlation to equity risk.

Alternative Investments Summary:	2nd Qtr.	YTD	12 Mth	3 Yr.	5 Yr.
Bloomberg Commodity	2.89	5.14	5.00	5.65	7.25
Dow Jones Global Real Estate	-2.75	-3.79	4.50	-5.32	-0.52
Credit Suisse Hedge Fund	1.48	6.86	11.02	5.29	6.21
Consumer Price Index	1.82	2.02	2.90	5.15	4.09

Alternatives Update – Location, Location, Location

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Commodities showed resilience in the 2nd quarter of 2024. The strong performance, returning 2.89%, was mainly driven by the precious and industrial metals market. This positive trend highlights the sustained demand and potential continuation of inflationary pressures in various areas of the global economy. The strength also stood out against a backdrop of mixed performance across other asset classes – commodities outperformed U.S. Treasuries, international developed equities, and the real estate sector.

Real estate investments declined 1.73%, contrasting with the positive returns seen in most other major asset classes in the 2nd quarter. The struggles in the real estate sector were likely due to multiple factors, including interest rate sensitivity and ongoing adjustments in property valuations, particularly within commercial real estate. The negative return contributed to a year-to-date decline of 2.88% for the real estate sector, demonstrating the ongoing difficulties in this asset class.

Bitcoin and Ethereum seem to be separating themselves from the rest of the cryptocurrency market as the two most popular and possibly most viable long-term cryptocurrencies. During the second quarter, Bitcoin experienced a moderate drop of 4.54%, while Ethereum posted a gain of 4.32%. Both returned much higher than the 16.65% selloff we saw in the Bloomberg Galaxy Crypto Index in the 2nd quarter. The main reason for this large selloff hinged on security concerns, with estimated losses due to theft reaching $600 million in the quarter. We continue to monitor the evolution of the crypto markets, but do not currently recommend an allocation to this asset class. 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.

Your Electronic Records: Be Kind to Your Heirs and Loved Ones

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As technology has developed, our reliance on digital records has replaced the many paper files locked in filing cabinets. Writing checks to pay bills has been replaced with automatic payments from checking and other accounts. Many of our younger trust clients don't have or use checks at all. Add into the mix numerous accounts at various financial institutions, and tracking and ultimately identifying all those assets after a loved one's passing could be nearly impossible.

As with most things in planning, proper and effective communication is paramount to overcoming these obstacles. Recording your passwords and login information in written form and/or with the help of a password management system will help. It is just as important to communicate that information to your successor fiduciaries such as your nominated executor and trustee. You should provide that trusted person or financial institution with the original information and ongoing updates as applicable. Creating a secure method to protect this information for the future, keeping it current, and providing the information to your fiduciary will help ensure your financial well-being later in life and the transition of your wealth to your heirs will be as smooth and efficient as possible. Take inventory of your digital assets. Decide where you want your digital assets to go. Secure your digital Estate Plan and make sure it is legally binding. Provide those details to a trusted person or financial institution.

Junior Acheivement of Ross County Golf Outing – A Hole in One!

June 2024 - LCNB | Wealth officers Brittnay Mustard-Smith and David Hopper teamed up with Kenna Hesseling and Ronda Holdren to champion Junior Achievement (JA) in Ross County at their lively annual Golf Scramble!

Junior Achievement, the nation's largest organization empowering young people with essential financial literacy and entrepreneurial skills, received enthusiastic backing from LCNB | Wealth. Together, we are shaping a brighter future in Ross County, equipping students for lifelong economic success.

Adopt A Class Mentor Celebration – Team Lead of the Year Finalist!

May 2024 - LCNB team members were front and center at the Adopt A Class (AAC) Mentor Celebration, joining forces with 400+ AAC Mentor Teams from across Greater Cincinnati. Amanda Luman, an LCNB | Wealth officer, stood out as one of ten nominees for AAC Mentor Team Lead of the Year.

Adopt A Class partners with local schools, bridging the gap by bringing Mentors into classrooms to inspire students about career paths, life skills, and the power of consistent support. Currently, LCNB mentors a vibrant fourth-grade class at Amanda Elementary in Middletown, with plans underway to expand into a second classroom next school year.

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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.