Stock Yards Bank & Trust
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INVESTMENT & FINANCIAL INSIGHTS

A NEWSLETTER FROM THE CINCINNATI / NKY MARKET OF STOCK YARDS BANK & TRUST COMPANY

Q4: 2017

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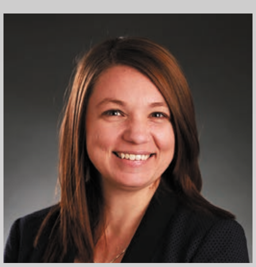

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An Autumn Sensibility

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This time of year has a compelling way of engaging the senses. The season is rich with the sound of leaves crunching underfoot, the smell of apple cider, and front porches adorned with pumpkins and brilliantly hued mums. The kids are back in school and college football dominates Saturday television. All of these aspects, when mingled together, result in that cozy autumn state-of-mind.

Traditionally, autumn is also a time to reap, gather, and store – in other words, to prepare. What better time than now to assess your financial situation? Over time, just as the seasons change, so do the circumstances of our lives. Changes to income, family structure, education goals, health, etc., can all affect the financial strategy that will best serve you and your situation. Sitting down with someone who knows the questions to ask and the solutions to offer will provide you with the peace and confidence that come from being prepared.

> **“What we plant in the soil of contemplation, we shall reap in the harvest of action.”**
>
> ECKHART VON HOCHHEIM (1260 – 1328)

Our staff is comprised of experienced professionals who hold advanced degrees in business (MBA, LLM) and law (JD), as well as prestigious credentials including Chartered Financial Analyst (CFA®), Certified Public Accountant (CPA), Certified Trust and Financial Advisor (CTFA), and Certified Financial Planner (CFP®). Each member of our team provides clients with unparalleled service and the strength of Stock Yards Bank & Trust.

Your best interests are of utmost importance to us, and we provide comprehensive wealth management strategies that are custom-tailored to your individual needs. We'd love the opportunity to partner with you to create a plan that addresses your unique goals and objectives. With our knowledgeable and trained team of advisors, you can be assured that you've taken wise and logical steps to prepare for your financial future.

Economic & Market Outlook: Q4, 2017

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The third quarter of 2017 was another positive one for stock and bond investors. The Standard & Poor's 500 Index delivered a total return of 4.5% during the quarter and 14.2% during the first nine months of the year. On the international front, the total return of the MSCI EAFE Index was 5.4% during the quarter and 20.5% year-to-date through September 30, 2017. Nearly half of the extraordinary year-to-date return for the MSCI EAFE Index was attributed to a weak US dollar. As expectations of materially higher interest rates in the US faded, US dollar investors benefited from favorable currency translation, which amplified the total return of international stocks and bonds. Fixed income returns as measured by the Barclays Aggregate Bond Index were 0.9% and 3.1% for the quarter and year-to-date periods, respectively.

> **"I think that you will all agree that we are living in most *interesting times*. I never remember myself a time in which our history was so full, in which day by day brought us new objects of interest, and, let me say also, new *objects for anxiety*."**
>
> *[emphasis added]* JOSEPH CHAMBERLAIN

This quote, which has been attributed to a British statesman who split both major political parties during his career in the late 1800s, may be just as applicable today. Despite it all, global growth is improving. With the exception of Japan, which is hindered by an aging population and restrictive immigration policies, economic expansion and earnings growth are expected to continue in developed and emerging economies.

In the United States, last year's election cycle would certainly qualify as one of the interesting times. In January we wrote, "Election results sparked expectations of accelerating economic growth supported by the prospect of lower taxes, lightened regulations, and increased infrastructure spending." The stocks of companies that were expected to realize outsized benefits from lower tax rates, less regulatory burden, and higher interest rates rallied.

Since then, regulatory reform has commenced, which should improve operating efficiency, profitability, and competitiveness – especially in the energy and financial sectors. Plans for major infrastructure spending that would accelerate job growth continue to be discussed. With respect to tax reform, the President's recently released proposal entitled "Unified Framework for Fixing Our Broken Tax Code" describes a plan for lower federal taxes for many individuals, families, and corporations. The hope is that US taxpayers would spend and invest their additional disposable income, which would stimulate economic growth and eventually result in higher tax receipts to partially offset lower tax rates. That said, Congress has multiple goals and may resist certain legislation that is intended to enhance the free flow of capital to its best and highest use. Although the President's proposal is vague regarding federal taxation on individuals and families, the proposed corporate income tax rate would be reduced to a level that would be in line with our international competitors' tax rates. The US currently has one of the highest corporate tax rates in the world, which hinders the global competitiveness of US-based companies. The tax on the repatriation of cash held overseas by US companies would also be lowered, thereby reducing the disincentive to bring cash home.

Since the post-election rally, expectations have been tempered due to a number of reasons and a variety of objects for anxiety. Geopolitical risks stemming from continuing military conflicts, terrorism, and the threat of transcontinental war reduce confidence and willingness to put capital at risk. An aging workforce in the US continues to transition to retirement, a period during which spending outside of healthcare is often reduced dramati cally. Many business management teams have opted to reduce shares outstanding, rather than to invest in people and capital expenditures for future growth. Repatriated cash may be used similarly. The Federal Reserve, which has begun to remove liquidity from the financial system and to increase interest rates, may have a chilling effect on the economy. And, importantly, the national debt in the US may increase to an onerous level (relative to gross domestic product) if lower tax rates are not offset by increased tax receipts and spending cuts.

The economic expansion that the US has experienced since the recession of 2008-2009 is on-track to become the longest in modern history. Classic signs of an approaching recession, such as excessive consumer borrowing, inflation, or excessive stock market valuations are not apparent at this time. The Federal Reserve has begun to normalize monetary policy by modestly increasing interest rates and by beginning the process of reducing its assets. The Fed has been especially careful to communicate its intentions in order to minimize the risk of disrupting global capital markets. In Europe and Japan, central banks have continued accommodative monetary policies, which have bolstered economic growth and financial asset prices in international markets. Despite the age and tepid pace of economic recovery, we remain optimistic that pro-growth policies will trump populist platforms that inhibit economic expansion here and abroad.

Given the current combination of interesting times and objects for anxiety, we encourage clients to meet with us to revisit what risk means to them. Over time, risk tolerance can change and new goals warrant reallocation within investment portfolios. We manage risk through thoughtful diversification among asset classes and with investment strategies that emphasize quality, provide liquidity, and seek to capitalize on disparities between market price and intrinsic value. Our Investment Officers are personally involved in all investment decisions and create portfolios that are custom-tailored to each client's goals.

Thank you for the confidence you have placed in our Wealth Management & Trust team at Stock Yards Bank & Trust. Please contact us directly by phone or by email at any time to discuss our outlook or to review your portfolio in light of your objectives.

Insights On Insurance

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We all like to plan and dream about how we'll spend our retirement years. What does your plan look like? Will you travel, play golf, garden, or visit with friends and family? Maybe you're planning to move, or perhaps you'd simply like to spend some time relaxing and enjoying some well-earned rest. Sometimes, however, unplanned events arise that leave us stunned and thinking, "What just happened?" Fortunately, if we have the right type of insurance in place it can make dealing with the unexpected a whole lot easier.

When you start to plan for your retirement years it is always a good idea to review the insurance you already have in place. Consider if your needs or objectives have changed since you made the original purchase. For example, was your term policy to insure that your children's education would be covered or that your house would be paid off should something happen to the main bread winner? If your children are grown and there are only a few payments left on the mortgage, your current policy may not be the right type of protection needed at this stage in your life.

Purchasing insurance to provide some income for a surviving spouse is common, but you may also want to look at a long-term care policy. Without the right kind of insurance, you could be forced to use all of your hard-earned savings, including your retirement savings to pay for care. The cost of such needs continues to grow by leaps and bounds. Long Term Care Insurance policy options have grown as well in the last decade. As opposed to the "use it or lose it" options in years past, many policies now offer a wide array of hybrid products that will allow you and/or your spouse to use what you need and pass any remaining dollars on to your beneficiaries tax-free.

Insuring for the right purpose today could protect the quality of your retirement years. Wouldn't we all like our retirement dreams to come true?

"When you start to plan for your retirement years it is always a good idea to review the insurance you already have in place."

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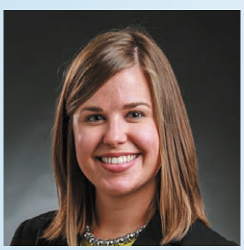
Managing Mortgages For Millenials



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For many young people, homeownership seems like a distant dream. From finding the right house at the right price in a competitive market to saving for a 20% down payment; or from figuring out how mortgages work to deciding whether you can afford the mortgage payment, first time home buying is daunting, to say the least. Fortunately, Stock Yards Bank is here to help. Our team may not be able to find your dream home at your dream price, but once you find it, we have the tools and expertise to make homeownership a reality.

A common misconception is that you cannot begin your search for a home until you have saved enough for a 20% down payment. Frequently, however, this is not the case. A few minutes and a visit to **https://www.essent.us/EssentIQ/** can help a home buying novice determine the costs and benefits of waiting to purchase. Using factors such as home appreciation and rental increases, this calculator may surprise you. Depending on your financial situation, you may discover that buying sooner with a smaller down payment is more beneficial than renting until you have saved 20%

For more information about this tool or the home buying process, contact Katie Hurt, the designated Private Banker for our Wealth Management & Trust clients. Katie, along with the bank's mortgage specialists, will work to make the dream of homeownership a reality for you or your family members.