GLOBAL PORTFOLIO STRATEGY

LPL Research

SEPTEMBER 2022

STRENGTHENING HOME BIAS WITH EMERGING MARKETS DOWNGRADE

LPL RESEARCH'S MONTHLY MARKET OUTLOOK

Key changes from August report:

- Downgrading emerging market (EM) equities view from neutral to negative.
- Upgrading industrials view to neutral from negative.
- Downgrading consumer staples view to negative from neutral.

Stocks were unable to add to July's gains as the S&P 500 Index lost 4.1% in August, bringing the index's year to date loss to 16.1% as of August 31.

Federal Reserve (Fed) Chairman Jerome (Jay) Powell's "short and not so sweet" message at the Kansas City Fed's August 25 symposium in Jackson Hole, WY, was the primary reason for the monthly decline. The S&P 500 returned 2% from August 1 through August 25 before losing almost 6% the rest of the month after Powell's Jackson Hole jolt. Recession fears continue to linger as markets adjust to a Fed that may keep rates higher for longer.

Core bonds, as measured by the Bloomberg Aggregate Bond index, lost 2.8% during the month as Treasury yields were steadily higher in August. Powell's remarks as well as continued pockets of Treasury market illiquidity were the dominant drivers of higher yields during the month.

The Strategic and Tactical Asset Allocation Committee (STAAC) downgraded its view of emerging market (EM) equities in August. The modest reduction in EM equities accompanies an increase in U.S. equities.

The LPL Research S&P 500 year-end fair value target range remains 4,300—4,400, based on a price-to-earnings ratio (PE) of 18-19 and an earnings per share (EPS) forecast of $235 for 2023.

INVESTMENT TAKEAWAYS:

- The STAAC Committee maintains its overweight equities recommendation relative to bonds. Rebounds from shallow bear markets and midterm election year lows have been quite strong historically while earnings growth remains supportive.
- We suggest a slight tilt toward the value style in the short term, though we would expect an improved macroeconomic environment to soon create a more favorable environment for the growth style.
- Earnings weakness, unrelenting U.S. dollar strength, and weak technical analysis trends drove our EM equities downgrade this month.
- We continue to recommend a slight underweight allocation to fixed income as higher rates may put additional pressure on bond returns.
- Broadening inflationary pressures and the reduction of Fed policy support may push yields higher in the months ahead. Our year-end target for the 10-year Treasury yield is 2.75% to 3.25%.
- Shorter maturity corporate credit, mortgage-backed securities, and high yield bonds (for income-oriented investors) are starting to look more attractive.

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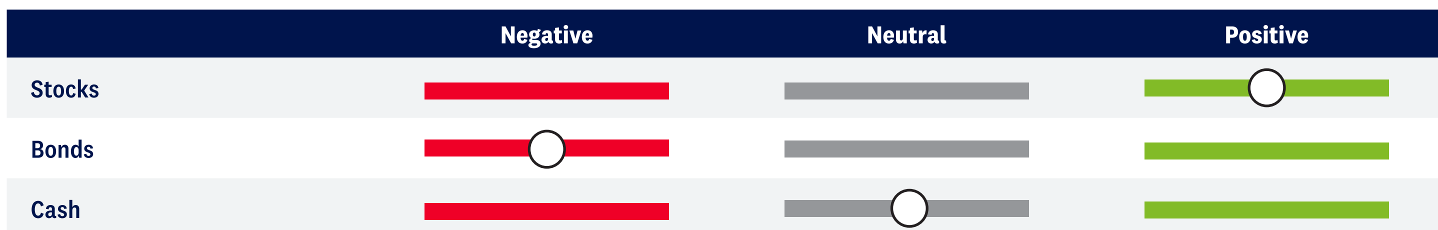
BROAD ASSET CLASS VIEWS

LPL Research's Views on Stocks, Bonds, and Cash



OUR ASSET CLASS & SECTOR CHOICES

Equity Asset Classes	Equity Sectors	Fixed Income	Alternative Asset Classes
▪ U.S. Equities	▪ Healthcare ▪ Real Estate ▪ Energy	▪ Mortgage-Backed Securities	▪ Low-Beta Alts (Event Driven, Market Neutral, Multi-Strategy)

2022 MARKET FORECASTS

LPL Research STAAC Committee Still Sees Stock Gains Ahead on Back of Solid Earnings Growth

	Previous	Current
10-Year U.S. Treasury Yield	2.75%-3.25%*	2.75%-3.25%*
S&P 500 Index Earnings per Share	$225	$225
S&P 500 Index Fair Value	4,300-4,400**	4,300-4,400**

Source: LPL Research, FactSet, Bloomberg

All indexes are unmanaged and cannot be invested into directly. The economic forecasts may not develop as predicted.

*Our year-end 2022 forecast for the U.S. 10-year Treasury yield is 2.75%-3.25%. The forecast reflects above-trend inflation, reduced Fed policy support, an aging demographic in need of income, higher global debt levels, and anticipated rebalancing into fixed income from equities.

**Our year-end 2022 fair-value target range for the S&P 500 of 4,300–4,400 is based on a price- to-earnings ratio (PE) of 18-19 and our S&P 500 earnings per share (EPS) forecast of $235 in 2023.

2022 ECONOMIC FORECASTS

Downshift in Global Growth

	Previous	Current
United States	1.6% to 2.2%	1.6% to 2.2%
Eurozone	1.9% to 2.5%	1.9% to 2.5%
Advanced Economies	1.7% to 2.3%	1.7% to 2.3%
Emerging Markets	3.1% to 3.7%	3.1% to 3.7%
Global	2.4% to 3.0%	2.4% to 3.0%

Source: LPL Research, Bloomberg

The economic forecasts may not develop as predicted.

All data, views, and forecasts herein are as of 7/29/22.

LPL RESEARCH STRATEGIC AND TACTICAL ASSET ALLOCATION COMMITTEE

LPL Research Tactical Asset Allocation as of 9/1/2022

INVESTMENT OBJECTIVE

	Aggressive Growth			Growth			Growth with Income			Income with Moderate Growth			Income with Capital Preservation		
	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference
STOCKS	98.0%	95.0%	3.0%	85.0%	80.0%	5.0%	65.0%	60.0%	5.0%	45.0%	40.0%	5.0%	25.0%	20.0%	5.0%
U.S. EQUITY	84.3%	76.0%	8.3%	73.1%	64.0%	9.1%	55.9%	48.0%	7.9%	38.7%	32.0%	6.7%	21.0%	16.0%	5.0%
Large Value	12.7%	10.3%	2.4%	11.0%	8.7%	2.3%	8.0%	6.5%	1.5%	5.5%	4.3%	1.1%	2.8%	2.2%	0.6%
Large Blend	19.8%	17.8%	1.9%	16.8%	15.0%	1.8%	12.1%	11.3%	0.8%	8.1%	7.5%	0.6%	3.9%	3.8%	0.2%
Large Growth	20.8%	19.9%	0.9%	17.6%	16.7%	0.8%	12.7%	12.6%	0.1%	8.4%	8.4%	0.1%	4.0%	4.2%	-0.1%
Small/Mid Value	9.9%	8.3%	1.6%	8.9%	7.0%	1.9%	7.3%	5.2%	2.1%	5.3%	3.5%	1.8%	3.2%	1.7%	1.5%
Small/Mid Blend	14.4%	13.0%	1.4%	12.8%	10.9%	1.9%	10.6%	8.2%	2.4%	7.6%	5.5%	2.2%	4.6%	2.7%	1.9%
Small/Mid Growth	6.7%	6.7%	0.0%	6.0%	5.7%	0.4%	5.2%	4.2%	1.0%	3.8%	2.8%	1.0%	2.4%	1.4%	1.0%
INTERNATIONAL EQUITY	13.7%	19.0%	-5.3%	11.9%	16.0%	-4.1%	9.1%	12.0%	-2.9%	6.3%	8.0%	-1.7%	4.0%	4.0%	0.0%
Developed (EAFE)	8.5%	12.0%	-3.5%	7.2%	10.0%	-2.8%	6.1%	8.0%	-1.9%	3.8%	5.0%	-1.2%	4.0%	4.0%	0.0%
Emerging Markets	5.3%	7.0%	-1.7%	4.7%	6.0%	-1.3%	3.0%	4.0%	-1.0%	2.5%	3.0%	-0.5%	0.0%	0.0%	0.0%
BONDS	0.0%	0.0%	0.0%	13.0%	15.0%	-2.0%	33.0%	35.0%	-2.0%	53.0%	53.0%	0.0%	73.0%	70.0%	3.0%
U.S. CORE	0.0%	0.0%	0.0%	12.5%	15.0%	-2.5%	31.7%	35.0%	-3.3%	50.9%	53.0%	-2.1%	70.1%	70.0%	0.1%
Treasuries	0.0%	0.0%	0.0%	5.7%	6.8%	-1.1%	14.4%	16.0%	-1.5%	23.2%	24.2%	-1.0%	31.9%	31.9%	0.0%
MBS	0.0%	0.0%	0.0%	4.0%	4.5%	-0.5%	10.2%	10.6%	-0.3%	16.4%	16.0%	0.4%	22.6%	21.1%	1.5%
IG Corporates	0.0%	0.0%	0.0%	2.8%	3.6%	-0.9%	7.0%	8.5%	-1.5%	11.3%	12.8%	-1.6%	15.5%	17.0%	-1.4%
NON-CORE	0.0%	0.0%	0.0%	0.5%	0.0%	0.5%	1.3%	0.0%	1.3%	2.1%	0.0%	2.1%	2.9%	0.0%	2.9%
TIPS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
International	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
High-Yield Corporates	0.0%	0.0%	0.0%	0.5%	0.0%	0.5%	1.3%	0.0%	1.3%	2.1%	0.0%	2.1%	2.9%	0.0%	2.9%
Bank Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Emerging Markets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CASH	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	7.0%	-5.0%	2.0%	10.0%	-8.0%

For investors who have their own benchmarks, we would recommend emphasizing underweights or overweights relative to the individual benchmark at the most similar overall risk level.

Equity benchmark style box allocations are based on lookthrough analysis of the domestic equity indexes used in our benchmark. While the indexes stay constant, style box allocations may drift over time.

Bond benchmark sector allocations are based on a look-through analysis of the major sector components of the Bloomberg Barclays US Aggregate Bond Index.

Treasuries include other government related debt. MBS includes other securitized debt.

Abbreviations: TAA - tactical asset allocation; MBS - mortgage-backed securities; IG corporates - investment-grade corporates; TIPS - Treasury inflation-protected securities.

Style box allocations only include domestic allocations.

EQUITY ASSET CLASSES

Strengthening U.S. Focus With EM Downgrade

The LPL Research STAAC continues to believe stocks are overly discounting the risk of recession in the near term and that economic and earnings growth in the second half of 2022 will be sufficient to push stocks higher, consistent with historical strong rebounds from shallow bear markets and midterm election year lows. Stubbornly high inflation, a potentially overly aggressive Federal Reserve, possible broader military conflict in Europe, and U.S-China tensions still present significant risks.

For now, the Committee believes a slight tilt toward the value style is prudent, although renewed confidence in economic and earnings growth and stable interest rates may soon set the stage for a growth turnaround. Small caps may benefit from valuation support and their U.S. focus as recession fears potentially abate. The worsening energy crisis in Europe supports the Committee's preference for U.S. equities over developed international, while the EM downgrade reflects earnings weakness, unrelenting US dollar strength, and weak technical analysis trends.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			Large caps, which generally perform better during periods of economic uncertainty, are better positioned to manage global supply chain disruptions than small caps but are more exposed to weakness in Europe and are more expensive.
	Mid Caps			If markets regain confidence in the economic outlook, mid caps may benefit from their economic sensitivity. Mid cap stock valuations are near 20-year lows compared to large caps. Merger and acquisition environment has slowed as monetary conditions have tightened, removing a potential positive catalyst.
	Small Caps			Small cap valuations have become attractive and smaller companies are relatively more insulated from economic risks in Europe. Once recession fears calm, small caps may be poised for a run of outperformance. We would favor higher quality small caps such as those that make up the S&P 600 Index over the Russell 2000, which has a higher allocation to unprofitable companies.
Style	Growth			This fall we would anticipate the growth style benefiting from stable economic growth, stable interest rates, and superior earnings power. However, growth stocks are still relatively expensive and high inflation and rising interest rates favor value
	Value			Tailwinds from the reopening, commodities gains, and rising interest rates have waned. If recession fears ebb, defensive value sectors such as consumer staples and utilities may garner less support. Still, growth stocks face more interest rate risk and value stocks remain attractively valued relative to growth, so for now we remain slightly biased toward the value side.
Region	United States			The energy crisis in Europe has strengthened our conviction in favoring U.S. equities over their developed international counterparts and delays the synchronized global expansion. The U.S. economy is better positioned than Europe to withstand higher energy costs, particularly Germany which is very reliant on Russian energy.
	Developed International			Our March 2022 downgrade of international equities reflected Europe's heavy reliance on Russian energy. Germany appears to be on the cusp of a recession. An eventual post-pandemic, synchronized global expansion could be supportive but has been delayed.
	Emerging Markets			China's stimulus, easing regulatory pressures, and attractive valuations are supportive but recent earnings weakness, a weakening technical analysis picture, heightened U.S.-China tensions, and persistent COVID-19 lockdowns suggest caution may be warranted in the near term.

Relative trend is an assessment of the intermediate term price trend and performance between various asset classes and sectors. For regions and styles the relative trends are compared to each other.

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EQUITY SECTORS

Continue to Favor Energy, Healthcare, and Real Estate but Technology Starting To Look More Interesting

The STAAC continues to recommend a slight tilt toward defensive sectors as economic uncertainty remains elevated. The long-term energy uptrend remains intact and supply-demand fundamentals remain supportive. We maintain our positive healthcare view despite the effects of drug price reform in the Inflation Reduction Act, which we believe are more than fully priced in. The macro environment is becoming more favorable for growth sectors, suggesting technology may be ripe for a potential upgrade in the very short term. Our negative views are the energy sensitive consumer discretionary and consumer staples sectors and communication services.

	Sector	Overall View	Relative Trend	S&P Wgt	Rationale
Cyclical	Materials	Neutral	Negative	2.5	Infrastructure spending and inflation are supportive, while valuations are still reasonable. But technicals have weakened, China's economy is stalling, surging natural gas prices curb chemical company profits, and the U.S. dollar is surging.
Cyclical	Energy	Positive	Positive	4.6	Remains in a long-term uptrend despite consolidating oil prices. Global supply likely to remain tight for some time. Increase in production to replace Russian oil in global marketplace will take time, though China's reopening has stalled.
Cyclical	Industrials	Neutral (upgraded from negative)	Positive	7.9	Companies' reported solid capital expenditures growth in the second quarter and technical analysis trends have turned positive. Despite some infrastructure spending tailwinds, lackluster global growth and ongoing supply chain disruptions temper the outlook some.
Cyclical	Communication Services	Negative	Negative	8.4	A toughening regulatory environment for this digital media-heavy sector, below-average estimated 2022 earnings growth, weak earnings revisions, and negative technical analysis trends are driving our negative view despite reasonable valuations.
Cyclical	Consumer Discretionary	Negative	Negative	11.5	Inflation is eroding purchasing power, the sector is historically not a strong mid-to-late cycle performer, retailers' profit margins are challenged, and valuations are elevated. Still, sector performance has improved as energy prices have come down.
Cyclical	Technology	Neutral	Negative	27.1	Stable and low interest rates and slow economic growth would likely promote better growth style performance. Earnings results in Q2 were mixed but sector valuations are broadly reasonable. A sector to watch for a potential upgrade.
Cyclical	Financials	Neutral	Neutral	10.9	Lackluster economic growth, yield curve flattening, and weakening European economies introduce risk. Technical analysis signals and rate environment contributed to April 2022 downgrade. Valuations remain attractive.
Defensive	Utilities	Neutral	Positive	3.2	Technical analysis drove the April upgrade. Green-energy spending may help. Interest rates may have peaked, boosting yield sectors. Recession may be needed to sustain outperformance and valuations are elevated but technical momentum is strong.
Defensive	Healthcare	Positive	Neutral	14.2	Maturing economic cycle, demographics, and valuations remain supportive, but drug price reform has been passed, introducing near-term headline risk and modest long-term earnings risk.
Defensive	Consumer Staples	Negative (downgraded from neutral)	Positive	6.8	Slow-growth staple companies are getting squeezed by higher costs and valuations are elevated. Even though interest rate risk may be lower, this defensive sector may lag in a potential Q4 stock market rally.
Defensive	Real Estate	Positive	Neutral	2.9	Attractive yields, ability to manage inflation relatively well, and exposure to secular technology tailwinds are all positives. Valuations are still fair. As long as interest rates stabilize, the sector stands a good chance of outperforming.

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies. Relative trend is an assessment of the intermediate term price trend and performance between various asset classes and sectors.

Relative trend is an assessment of the intermediate term price trend and performance between various asset classes and sectors. For sectors each sector's relative trend is versus the S&P 500.

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FIXED INCOME

“Higher for Longer” and Seasonal Illiquidity were the Dominant Drivers of Higher Yields/Lower Prices in August.

As noted last month, we thought the recent decline in yields was premature as we didn’t think the Fed would stop raising and/or cut short-term interest rates anytime soon. That message was unequivocally reiterated at the recent Jackson Hole monetary symposium. As such, and given the continued poor liquidity in the Treasury market, yields were steadily higher throughout the month. However, we continue to see increasing investment opportunities in shorter maturity investment grade corporates and mortgage-backed securities. Also, higher yields (and still low default expectations) for lower rated corporate credit markets make this area interesting as well.

We favor **municipal bonds** as a high-quality option for taxable accounts and given the recent rate-driven selloff, valuations relative to Treasuries have improved. Additionally, for appropriate investors, we believe **high yield municipal bonds** offer an attractive tax-equivalent yield. Fundamentals in both markets remain solid.

		Low / Medium / High	Rationale
Positioning	Credit Quality		Yields in many credit markets exceed their longer-term averages so prospects for future returns may have improved. We think the economic outlook remains supportive as well.
		Short / Int. / Long	
	Duration		We think maintaining a slight underweight to interest-rate sensitive assets makes sense at this point in the cycle although duration is becoming more attractive.
		Neg. / Neutral / Pos.	**Rationale**
Sectors	U.S. Treasuries		Yields have traded meaningfully higher recently as the market has repriced the number of expected Fed rate hikes. Volatility is likely to remain elevated though as the Fed starts to reduce Treasury reinvestments. Yield spreads to international sovereigns remain attractive but have narrowed recently. Inflation breakeven rates leave TIPS fully valued, particularly for longer-maturity securities.
	MBS		The Fed has stopped new MBS purchases, and balance sheet runoff is a potential risk this year, which may put upward pressure on yields. Valuations remain attractive, so we could see additional buyers.
	Investment-Grade Corporates		The recent sell-off in corporate credit has impacted shorter maturity corporates disproportionately, so we think there is currently an opportunity to add to this area of the market without taking on elevated levels of interest rate or credit risk. Fundamentals remain solid.
	Preferred Stocks		Higher credit quality among the riskier fixed income options. Bank fundamentals sound overall. Can be rate sensitive but may be able to tolerate gradual increases. Valuations have improved recently.
	High-Yield Corporates		With total yields in high yield bonds above historical averages, though with arguably a higher-quality index disposition, the value proposition for high yield bonds has improved. Additionally, credit fundamentals remain sound. Volatility is likely to remain elevated though.
	Bank Loans		Economic environment is supportive and better sector mix than high yield. Given the variable rate debt though, higher interest rates may make repayment more challenging for some issuers. Fewer investor protections and illiquidity of individual loans remain concerns. While we’re still constructive on bank loans, the relative value proposition favors high yield bonds, in our view.
	Foreign Bonds		Valuations have improved but potential currency volatility still remains a challenge.
	EM Debt		Central banks are tightening aggressively as inflationary pressures remain stubbornly high and a strong dollar provides a headwind to prices. Valuations are relatively attractive but idiosyncratic risks remain. Liquidity can be an added risk during periods of stress.

Yield spread is the difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings, and risk. **Bank loans** are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk. For the purposes of this publication, **intermediate-term bonds** have maturities between 3 and 10 years, and short-term bonds are those with maturities of less than 3 years.

All bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. **Corporate bonds** are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer, coupon rate price, yield, maturity, and redemption features. Investing in **foreign and emerging market debt (EMD)** securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. **High-yield/junk bonds** are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors. **Municipal bonds** are subject to availability, price, and market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply. **Mortgage-backed securities (MBS)** are subject to credit, default, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extension risk, the opposite of prepayment risk, market and interest rate risk.

COMMODITIES

Natural Gas Continues Its Run, Outlooks For Most Other Key Commodities Dims

Most key commodities pulled back in August but gains in natural gas and agriculture kept the Bloomberg Commodity Index flat for the month. Broadly, the weakness was driven by continued COVID-19-related lockdowns in China, while ongoing fears about recession in the United States also caused markets to keep demand expectations modest. The strong U.S. dollar has added another headwind for commodities priced in dollars globally. From a technical perspective, commodities remain broadly in their long-term uptrends, but some technical deterioration has occurred in recent months.

Our energy commodities view is neutral but with a negative bias. The chart looks slightly more positive than industrial metals to us currently, especially on a long-term basis. While WTI crude oil is well off its March highs following the Russian invasion of Ukraine, it remains in a long-term uptrend and supplies are likely to remain tight in the near term. We expect the U.S. economy to grow in the second half, leaving China's delayed reopening as the primary factor keeping a cap on oil prices. Natural gas continues to surge, bolstered by restricted supplies from Russia into Europe, making it a better short-term trade right now than oil on a technical basis.

Lockdowns in China continue to pressure copper prices, which experienced a major technical breakdown in June and early July. Copper and other industrial metals look broadly to have topped as the global economy braces for a potential recession in Europe and takes down expectations for China's economic growth. Our industrial metals view is negative.

While precious metals looks better to us than industrial, our precious metals view is also negative. Gold has traded sideways to lower over the past couple of years, making it difficult to have any conviction in a call in either direction from a technical perspective. Meanwhile, interest rates are rising, the U.S. dollar continues its steady march higher, and inflation has started to come down, which are all working against gold and silver prices. Return prospects for equities look more favorable to us over the next 6-12 months.

ALTERNATIVE INVESTMENTS

Downside Protection Continues

Alternative investment strategies provided strong downside protection during a volatile month for equity and credit markets. Our preferred alternatives implementations, which include event driven, market neutral, and low-beta single and multi-manager strategies, continue to outperform traditional asset classes. Looking forward, we continue to advocate for diversifying alternative investment exposure across several low-beta allocations as an appropriate implementation method. While all of these strategies have their own characteristics, at their core they exhibit limited equity market and interest rate sensitivity. We believe these allocations may help preserve portfolios in the current environment and act as a source of ballast during potential periods of high volatility.

These characteristics have been on display this year and reinforced the benefit of these strategies within the context of a broader portfolio. In regards to the event-driven industry, our three main tailwinds remain in place. These include high corporate cash balances, low borrowing rates, and the private equity industry's dry powder.

Further diversification across market neutral and multi-strategy strategies may provide additional sources of uncorrelated returns and the potential to mitigate traditional equity and bond market risks. While currently not one of our preferred implementations, managed futures investors should be wary of further strength in equity and bond markets, as most strategies in the space have been consistently short since the beginning of the year.

IMPORTANT DISCLOSURES

This material has been prepared for informational purposes only, and is not intended as specific advice or recommendations for any individual. There is no assurance that the views or strategies discussed are suitable for all investors and they do not take into account the particular needs, investment objectives, tax and financial condition of any specific person. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing. Any economic forecasts set forth may not develop as predicted and are subject to change.

Stock investing involves risk including loss of principal. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies. Value investments can perform differently from the market as a whole and can remain undervalued by the market for long periods of time. The prices of small and mid-cap stocks are generally more volatile than large cap stocks. Bonds are subject to market and interest rate risk if sold prior to maturity.

Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Corporate bonds are considered higher risk than government bonds. Municipal bonds are subject to availability and change in price. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply. U.S. Treasuries may be considered "safe haven" investments but do carry some degree of risk including interest rate, credit, and market risk. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

Credit Quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. Credit ratings are published rankings based on detailed financial analyses by a credit bureau specifically as it relates to the bond issue's ability to meet debt obligations. The highest rating is AAA, and the lowest is D. Securities with credit ratings of BBB and above are considered investment grade. Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. It is expressed as a number of years.

Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

Event driven strategies, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks. All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

All index data from FactSet.

For a list of descriptions of the indexes referenced in this publication, please visit our website at lplresearch.com/definitions.

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