GLOBAL PORTFOLIO STRATEGY

LPL Research

APRIL 2023

STRONG MARCH DESPITE BANK STRESS

LPL RESEARCH'S MONTHLY MARKET OUTLOOK

Key changes from March report:

- Upgraded fixed income to neutral, downgraded cash to negative
- Upgraded large cap stocks from negative to neutral
- Downgraded small and midcap stocks to neutral from positive
- Upgraded communication services to neutral from negative
- Upgraded technology to neutral from negative
- Downgraded energy sector to neutral from positive
- Downgraded healthcare to neutral from positive
- Upgraded Preferred Securities to positive from neutral

Stocks rallied in March despite the failures of Silicon Valley Bank and Signature Bank, as market participants priced in a prompt end to rate hikes by the Federal Reserve (Fed). The S&P 500 gained 3.7% for the month, led by big gains in the technology sector. The growth-oriented Nasdaq benefited from the tech strength, rallying 6.8%, while the Dow Jones Industrial lagged with a 2.1% gain.

Core bonds, as measured by the Bloomberg Aggregate Bond Index, were up 2.5% during the month, as investors flocked to safe-haven assets.

Treasury yields were lower in March as markets are pricing in an end to the Fed rate hikes.

The Strategic and Tactical Asset Allocation Committee (STAAC) maintained its year-end S&P 500 fair value target of 4,300-4,400, based on a price-to-earnings ratio of 18 and 2024 S&P 500 earnings per share forecast of $240. In addition to the changes noted on this page, the Committee also slightly reduced its value overweight.

INVESTMENT TAKEAWAYS:

- The STAAC maintains a modest overweight equities allocation. Equity valuations have become less attractive, relative to fixed income, amid higher interest rates but may benefit from falling inflation and a prompt end to Fed rate hikes.
- The Committee slightly favors value-style stocks based on relative valuations, though based on our technical analysis work, the recent trend of growth outperformance may continue in the short run.
- The Committee maintains a slight preference for U.S. stocks over their non-U.S. counterparts despite premium valuations. The economic resilience of Europe is notable, but the U.S. is further along in its inflation fight.
- We recommend a neutral allocation to fixed income, with the modest equities overweight funded from cash.
- The Fed's determination to keep rates higher for longer caused U.S. Treasury yields to move significantly higher in 2022. Our year-end 2023 target for the 10-year Treasury yield is 3.25% to 3.75%.
- The selloff in the banking sector has provided an attractive opportunity in preferred securities; however, the risk/reward for core bond sectors (U.S. Treasury, Agency mortgage-backed securities (MBS), investment-grade corporates) is more attractive than plus sectors, in our view.

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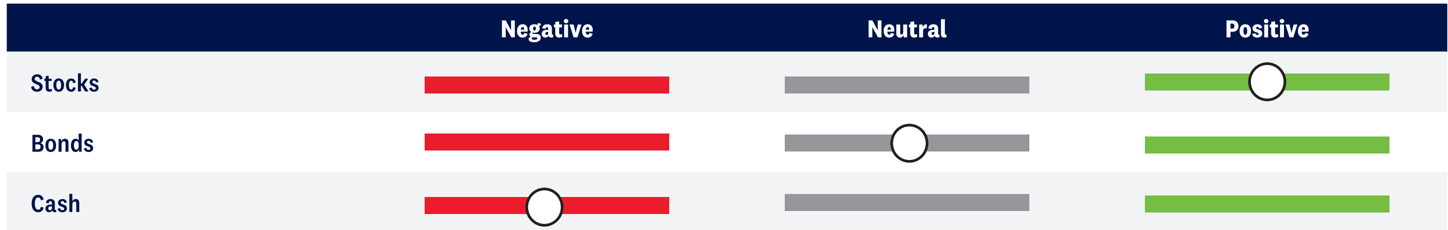
BROAD ASSET CLASS VIEWS

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 ▪ Value Stocks	▪ Industrials	▪ Mortgage-Backed Securities ▪ Short Maturity High Quality Corporates ▪ Preferred Securities	▪ Low-Beta Alts (Event Driven, Market Neutral, Multi-Strategy)

2023 MARKET FORECASTS

Still a Path to Double-Digit Gains for Stocks in 2023

	Previous	Current
10-Year U.S. Treasury Yield	3.25% to 3.75%	3.25% to 3.75%*
S&P 500 Index Earnings per Share	$220	$220
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 2023 forecast for the U.S. 10-year Treasury yield is 3.25% to 3.75%. The forecast moderating inflation, reduced Fed policy support, an aging demographic in need of income, higher global debt levels, and the expected end to the Fed rate hiking campaign in 2023.

**Our year-end 2023 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 and our S&P 500 earnings per share (EPS) forecast of $240 in 2024.

2023 ECONOMIC FORECASTS

Downshift in Global Growth

GDP Growth (Y/Y%)	2022	2023
United States	1.3% to 1.9%	0.2% to 0.8%
Eurozone	1.1% to 1.7%	-0.4% to 0.2%
Advanced Economies	1.4% to 2%	0.1% to 0.7%
Emerging Markets	2.6% to 3.2%	2.9% to 3.5%
Global	1.7% to 2.3%	1.3% to 1.9%

Source: LPL Research, Bloomberg

The economic forecasts may not develop as predicted.

All data, views, and forecasts herein are as of 03/31/23.

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LPL RESEARCH STRATEGIC AND TACTICAL ASSET ALLOCATION COMMITTEE

LPL Research Tactical Asset Allocation as of 4/1/2023

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%	83.0%	80.0%	3.0%	63.0%	60.0%	3.0%	43.0%	40.0%	3.0%	23.0%	20.0%	3.0%
U.S. EQUITY	80.0%	76.0%	4.0%	68.0%	64.0%	4.0%	51.5%	48.0%	3.5%	35.0%	32.0%	3.0%	18.5%	16.0%	2.5%
Large Value	18.0%	16.0%	2.0%	15.0%	13.5%	1.5%	11.0%	10.0%	1.0%	7.5%	6.5%	1.0%	4.0%	3.5%	0.5%
Large Blend	17.0%	16.0%	1.0%	14.5%	13.5%	1.0%	11.0%	10.0%	1.0%	7.5%	7.0%	0.5%	4.0%	3.5%	0.5%
Large Growth	15.5%	16.0%	-0.5%	13.0%	13.5%	-0.5%	10.0%	10.0%	0.0%	7.0%	6.5%	0.5%	3.5%	3.5%	0.0%
Small/Mid Value	10.5%	9.5%	1.0%	9.0%	8.0%	1.0%	7.0%	6.0%	1.0%	4.5%	4.0%	0.5%	2.5%	2.0%	0.5%
Small/Mid Blend	10.0%	9.0%	1.0%	8.5%	7.5%	1.0%	6.5%	6.0%	0.5%	4.5%	4.0%	0.5%	2.5%	2.0%	0.5%
Small/Mid Growth	9.0%	9.5%	-0.5%	8.0%	8.0%	0.0%	6.0%	6.0%	0.0%	4.0%	4.0%	0.0%	2.0%	2.0%	0.0%
INTERNATIONAL EQUITY	18.0%	19.0%	-1.0%	15.0%	16.0%	-1.0%	11.5%	12.0%	-0.5%	8.0%	8.0%	0.0%	4.5%	4.0%	0.5%
Developed (EAFE)	12.5%	12.0%	0.5%	10.5%	10.0%	0.5%	8.5%	8.0%	0.5%	5.5%	5.0%	0.5%	4.5%	4.0%	0.5%
Emerging Markets	5.5%	7.0%	-1.5%	4.5%	6.0%	-1.5%	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%	15.0%	15.0%	0.0%	35.0%	35.0%	0.0%	55.0%	53.0%	2.0%	75.0%	70.0%	5.0%
U.S. CORE	0.0%	0.0%	0.0%	14.0%	15.0%	-1.0%	33.0%	35.0%	-2.0%	52.0%	53.0%	-1.0%	71.0%	70.0%	1.0%
Treasuries	0.0%	0.0%	0.0%	7.0%	7.0%	0.0%	16.0%	16.0%	0.0%	25.0%	24.5%	0.5%	34.5%	32.5%	2.0%
MBS	0.0%	0.0%	0.0%	4.5%	4.5%	0.0%	11.0%	10.5%	0.5%	17.5%	15.5%	2.0%	23.5%	20.5%	3.0%
IG Corporates	0.0%	0.0%	0.0%	2.5%	3.5%	-1.0%	6.0%	8.5%	-2.5%	9.5%	13.0%	-3.5%	13.0%	17.0%	-4.0%
NON-CORE	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%	4.0%	0.0%	4.0%
Preferred	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%	4.0%	0.0%	4.0%
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 weights are equally distributed across growth, core, and value. Cap weights are based on the underlying holdings of the domestic benchmark indexes.

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

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EQUITY ASSET CLASSES

Going Neutral on Market Cap, Moving in that Direction on Style

The STAAC reduced its overweight equities allocation in March but maintains a slight preference for stocks over bonds. Equity valuations have become less attractive relative to fixed income at higher interest rate levels, but stocks may benefit from falling inflation and a prompt end to Fed rate hikes. The Committee slightly favors value-style stocks based, in part, on relative valuations, but our technical analysis work suggests the recent trend toward growth outperformance may continue in the short run. The Committee maintains a slight preference for U.S. stocks over their non-U.S. counterparts. The economic resilience of Europe and attractive valuations are notable, but the U.S. is further along in its inflation flight, supporting a neutral view of developed international equities. STAAC maintains a cautious outlook for emerging market equities due to soft earnings and geopolitical uncertainty, even as China's economy reopens. A potentially overly aggressive Fed that causes a hard landing, broader military conflict in Europe, and U.S-China tensions remain key risks.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			Large caps generally perform better during periods of economic uncertainty with stronger balance sheets, but they are more expensive than their small cap brethren and may lag in early stages of the next bull market. Technical analysis picture has improved.
	Mid Caps			Likely beneficiary of eventual improving economic outlook though halted merger and acquisition activity, as a result of tighter financial conditions, removes a potential positive catalyst. Midcap valuations are near 20-year lows versus large caps. Technical analysis trends have improved.
	Small Caps			Attractive valuations are still supportive of small caps over intermediate to longer time frames, but bank stress and recent deterioration in technical trends suggest caution is prudent in the short term. We would favor the higher quality S&P 600 Index over the Russell 2000.
Style	Growth			The growth style may benefit from better economic conditions and superior earnings power in the first half of 2023. However, patience is prudent as we wait for a more favorable economic environment for growth, including lower inflation and greater interest rate stability.
	Value			The Committee maintains its preference for value-style stocks based on relative valuations and a still uncertain economic outlook, though technical analysis trends are pointing toward growth.
Region	United States			Our outlook calls for the U.S. economy to outperform Europe's in 2023, though Europe's economic resilience in the face of its energy crisis has helped improve the outlook for developed international equities. STAAC expects falling inflation, the impending end of the Fed's rate hiking campaign, and resilient corporate profits may support attractive domestic equity returns in 2023.
	Developed International			Solid year-to-date performance of non-U.S. stocks, resilience of European economies, and attractive valuations have narrowed the gap between U.S. and developed international equities, supporting the STAAC's recently upgraded neutral view. The U.S. dollar is a wildcard.
	Emerging Markets			The Committee maintains its cautious outlook for emerging market equities due to soft earnings and geopolitical uncertainty. Technical conditions have deteriorated some even as China's reopening unfolds. The U.S. dollar is a wildcard.

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

Industrials Is Our Top Pick

The STAAC has upgraded its views of communication services and technology, and downgraded its views of energy and healthcare. These changes were driven primarily by technical analysis, although the macroeconomic environment has become more favorable for growth-oriented sectors. Consumer discretionary and real estate each carry negative views. In addition to technical analysis, the digital media exposure in the communications services sector is benefiting from regulatory pressure on TikTok and cost cutting. Technology is also benefiting from cost cutting as well as strength in semiconductors. China's reopening has not benefited the energy sector enough to prevent technical deterioration. Healthcare's recent headwinds include its defensive characteristics, difficult COVID-19 comparisons, and key patent expirations. Resilient capital investment activity and positive technical analysis trends continue to support the Committee's positive industrials sector view.

	Sector	Overall View	Relative Trend	S&P Wgt	Rationale
Cyclical	Materials			2.6	Infrastructure spending and China's reopening have not translated into outperformance, though U.S. dollar weakness helps a bit. Falling natural gas prices should help chemical company profits. Reasonable valuations. Mixed technicals.
	Energy			4.6	Deterioration in technical analysis conditions drove the downgrade. Still, constrained production could keep supply fairly tight as China's reopening progresses. Valuations are still reasonable. Weakness in the U.S. dollar could be supportive.
	Industrials			8.7	Capital expenditures and defense spending trends are supportive despite elevated recession risk. Infrastructure a potential catalyst. Fair valuations. Positive technicals suggest improving outlook amid still-challenging global economic environment.
	Communication Services			8.1	Regulatory risk remains but possible Tiktok ban could help this digital media-heavy sector. Improving technical analysis picture and margin support from cost cutting also support this month's upgrade in view. Valuations remain attractive.
	Consumer Discretionary			10.1	The sector is historically not a good mid-to-late cycle performer, valuations are elevated, and earnings estimates remain under pressure. Not a group we would chase despite still-solid consumer balance sheets, healthy job market, and easing inflation pressures.
	Technology			26.1	Better technical analysis trends drive our upgrade. More favorable macro environment (easing inflation, lower and more stable interest rates) is also supportive. On the flip side, neither earnings growth nor earnings estimate revisions justify optimism. Rich valuations.
	Financials			12.9	Fears of more bank failures, tighter financial conditions, higher deposit costs, an inverted yield curve, and falling earnings estimates urge caution. But valuations are very low and the macroeconomic environment is improving, leaving us neutral.
Defensive	Utilities			2.9	Green-energy spending trends and elevated recession risk could offer relative support, but utilities have been hurt by cyclical sector leadership. Technical analysis trends suggest a more cautious view may be warranted. Recent dip in interest rates hasn't helped much.
	Healthcare			14.2	Defensive sectors are out of favor. Downgrade primarily reflects deteriorating technical analysis conditions, but tough COVID-19 comparisons and key patent expirations are also notable. Valuations remain attractive.
	Consumer Staples			7.2	Sector likely to lag when the next bull market begins. Lower inflation could help ease margin pressures in coming quarters and earnings estimates have been resilient recently. Mixed technicals. Valuations have come down but remain on the high side.
	Real Estate			2.6	Negative view reflects weak technical analysis trends and commercial real estate risk. For now, interest rate risk appears well contained, but that won't necessarily remain the case as the economic outlook potentially improves in the second half. Solid yields and fair valuations.

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. For sectors each sector's relative trend is versus the S&P 500.

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FIXED INCOME

Bonds Acting Like Bonds Again

The value proposition of core fixed income became evident after the collapse of Silicon Valley Bank (SVB) during the month. Interest rates moved materially lower and core fixed income provided the ballast to the corresponding equity market selloff. We continue to recommend investors take advantage of any back-up in yields by adding to high-quality fixed income. Valuations for riskier fixed income sectors remain rich, in our view. However, because of the selloff in the banking sector an allocation to preferred securities may be warranted.

We favor **municipal bonds** as a high-quality option for taxable accounts with tax-equivalent yields as attractive as they've been in over a decade. Additionally, for appropriate investors, we believe **high yield municipal bonds** offer an attractive tax-equivalent yield; however, we would expect additional volatility as economic growth concerns increase. Fundamentals in both markets remain solid though.

		Low	Medium	High	Rationale
Positioning	Credit Quality				We recommend an up-in-quality approach in allocating to fixed income sectors. While all-in yields for lower quality remain above longer-term averages, we think the risk/reward favors owning core bond sectors over the riskier sectors.
		Short	Int.	Long	
	Duration				The compensation for adding duration to portfolios isn't sufficient given the still elevated inflationary pressures. We remain neutral relative to our benchmark
		Neg.	Neutral	Pos.	Rationale
Core Sectors	U.S. Treasuries				Treasury yields fell during the month as investors sought safe haven assets after SVB collapsed but given the still elevated inflationary pressures, we could still see higher yields in the near term. The recent back-up in yields has likely increased the diversification benefits of owning U.S. Treasuries. Valuations for Treasury Inflation-Protected Securities (TIPS) are fair but shorter-maturity TIPS could provide a good hedge to unexpected inflation surprises.
	MBS				We remain constructive on Agency MBS. With yields and spreads at multi-year highs, we think MBS remain an attractive investment opportunity. The Fed has stopped new MBS purchases and balance sheet runoff is a potential risk though.
	Investment-Grade Corporates				We recommend a slight underweight to benchmarks but we think there is currently an opportunity to invest in shorter maturity corporate securities without taking on elevated levels of interest rate or credit risk. Fundamentals remain solid.
Plus Sectors	Preferred Securities				The selloff in the banking sector provides an opportunity to invest in senior securities. Higher credit quality among the riskier fixed income options. Bank fundamentals generally sound overall. Valuations have improved recently. European banks likely to stay under pressure as the European Central Bank (ECB) hikes rates.
	High-Yield Corporates				Yields for high yield bonds are above historical averages, but tighter lending standards have correlated with higher downgrades and defaults. The uncertain economic environment could increase near term volatility. The asset class may be better suited for long-term investors
	Bank Loans				Given the variable rate debt, higher interest rates may make repayment more challenging for some issuers. Fewer investor protections and illiquidity of individual loans remain concerns. Downgrades and defaults may increase if the economy slows/contracts.
	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 higher and a strong dollar could provide 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 three and 10 years, and short-term bonds are those with maturities of less than three 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

A Tale of Two Cities

The commodities sector remains a tale of two cities, characterized by strength in the metals complex offsetting continuous selling pressure across energy. The Bloomberg Commodity Index (BCOM) declined 0.6% and posted its fourth consecutive down month. Seasonality trends suggest the losing streak could be in jeopardy as April has been the best-performing month for BCOM. Since 1960, the index has historically generated an average monthly gain of 1.3% and finished positive 62% of the time. For context, the average return for all months during this timeframe is 0.4%.

The downgrade of rate hike expectations ended the U.S. dollar's recent relief rally, leaving the greenback below several support levels and vulnerable to additional selling pressure. Downside risk in the dollar supports our positive view on **precious** and **industrial metals**. The gold commodity has been in the spotlight with its recent rally toward the $2,000 milestone, although the silver commodity notably outshined the yellow metal with a double-digit gain. Industrial metals finished flat, which we view as a relatively constructive sign for the space given the increase in recession fears.

We are maintaining our neutral view on **energy** with a negative bias. Once again, natural gas markets weighed heavily on the broader energy space, as prices faced a combination of elevated stockpiles and underwhelming heating demand this winter. Futures are down over 50% this year and momentum is finally showing some early signs of a potential capitulation, raising the odds for a short-term relief rally but not enough for a confirmed bottom. Crude oil declined as rising recession fears offset optimism surrounding China's reopening. The supply side for oil remains constructive and supported by OPEC+.

	Neg. Neutral Pos.	Relative Trend	Rationale
Energy			Oil prices traded down to multi-month lows as recession fears weighed on the demand outlook. Technically, WTI will need to clear $82.50 to confirm a breakout from its bottom formation. Natural gas is historically oversold and entering a seasonally strong period. Momentum divergences are slowly emerging along with evidence of short covering/increased net long positions. Odds for a short-term relief rally are rising. We maintain our neutral view on energy commodities with a negative bias.
Precious Metals			Gold, silver, and platinum all capitalized on dollar weakness. While $2,000 is an important milestone for gold, resistance at $2,070 will be key for a breakout to new highs. Silver futures will need to clear resistance at $25.50 for the rally to continue. We maintain our positive view on the space.
Industrial Metals			Industrial metals faced selling pressure last month as the prospect of higher for longer rates reversed upside momentum from China's reopening. Copper weathered the selling pressure relatively well and held above its uptrend. Despite the recent setback, we believe the bullish demand catalysts for industrial metals, including China's reopening and increased global infrastructure spending, are still in play. We maintain our positive view on the space.
Agriculture (Ag) & Livestock			Ag was mixed this month as grains outperformed softs, although corn and wheat made minimal technical progress and wheat violated a longer-term uptrend. Chinese demand and tight supply due to mad cow in Brazil helped drive cattle futures toward record highs, while lean hogs broke down below key support. Overall the technical setup remains mixed for the space, and we remain neutral on ag and livestock.

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ALTERNATIVE INVESTMENTS

Lackluster Relative Performance

Alternative investment strategies struggled during March, specifically fixed income substitutes, as the Barclay's Aggregate gained over 2.5% during the month. We continue to advocate for diversifying alternative investment exposure across several low- beta allocations. Specifically, in the event driven, market neutral, and low-beta single and multi-manager strategies. 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 were on display in 2022 and reinforced the benefit of these strategies within the context of a broader portfolio. In regards to the event-driven industry, we're closely watching how the increase in interest rates will further impact the merger and acquisition backdrop. To date, we've seen a significant decrease in announced deals. Due to this environment, we believe 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.

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IMPORTANT DISCLOSURES

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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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