

FIRST QUARTER 2020 IN REVIEW

April 2020

1 Q1 2020 AT A GLANCE

	Q1 2020
Gross Domestic Product*	1.1%
S&P 500 Index	-19.6%
Bloomberg Barclays Aggregate Bond Index	3.1%
Bloomberg Commodity Index	-23.3%

Source: LPL Research, Bloomberg, FactSet 03/31/20

*Bloomberg consensus as of March 31, 2020.

Figures for S&P 500 Index, Bloomberg Barclays Aggregate Bond Index, and Bloomberg Commodity Index are total returns from 12/31/19 – 03/31/20 (Q1).

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment.

Stocks Suffered Worst Quarter Since 2008 as COVID-19 Pandemic Spread Globally

- Longest-running bull market has come to an end.** The Russell 3000 Index slid 20.9% during the first quarter, its worst since fourth quarter 2008, as the COVID-19 pandemic halted a significant portion of the US economy and ended the longest-running bull market ever. The move from the February 19 all-time high for stocks to the start of the bear market (based on a 20% decline in the broad averages based on closing prices) was the fastest ever at 19 days. The rally off the March 23 lows—which reflected severely oversold conditions—through quarter-end totaled 16% on bold stimulus measures and signs of COVID-19 case stabilization.

Large cap stocks held up slightly better than small caps, bolstered by relatively stronger balance sheets and profit outlooks. Growth handily beat value on leadership from the growth-oriented healthcare and technology sectors. More broadly, more defensive sectors outperformed cyclicals as a significant amount of US economic activity was halted in March.

US stocks held up slightly better than their emerging and international developed markets counterparts, based on the MSCI EM and MSCI EAFE Indexes. A strong dollar dragged on dollar-based international performance. Within emerging markets, China was a relatively strong country performer with a 10% decline, based on the MSCI country indexes, while Brazil suffered most in losing 50%. Within developed international markets, the United Kingdom and Australia were among the biggest decliners while Switzerland held up relatively well.

- Treasuries provided safe haven amid credit downturn.** US Treasuries led within fixed income on safe-haven buying as investors shunned risk in response to the COVID-19 pandemic. The Federal Reserve (Fed) took the federal funds rate down to zero as the US economy contracted and inflation pressures moderated,

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The economic forecasts set forth may not develop as predicted.

further weighing on yields. The 10-year Treasury yield bottomed at 0.5% on March 9 before ending the volatile quarter at 0.7%.

The most economically sensitive fixed income sectors, such as high-yield bonds, emerging market debt, and bank loans, suffered the largest declines among major fixed income sectors we track, while even higher-quality investment-grade corporate bonds trailed the broad bond market benchmark by a wide margin. The Bloomberg Barclays US Aggregate Bond Index returned 3.15% during the quarter. Besides Treasuries and related Treasury Inflation-Protected Securities (TIPS), the only fixed income sectors that produced positive returns were mortgage-backed securities, bolstered by announced Fed purchases, and hedged currency foreign bonds.

- Gold benefited from the flight to safety.** The Bloomberg Commodity Index suffered a 23.3% drop in the first quarter of 2020. Crude oil was the major story in the commodities world, as the Saudi-Russian alliance to cap production unraveled. Oil prices collapsed in the aftermath, falling more than 65% for the quarter. Oversupply and seasonal factors punished natural gas prices, which fell more than 20%. Economically sensitive copper suffered from the COVID-19 global demand shock, falling 20% even as China opened up parts of its economy. Gold benefited from the flight-to-safety environment, gaining 4.5%, although other precious metals disappointed as both silver and platinum lost more than 20%. Major agricultural prices were mixed for the quarter but held up relatively well, particularly wheat prices. Commodity performance is based on the Bloomberg Commodity Index and its components.

A Look Forward

Forecasting is extremely difficult during this unprecedented uncertainty as the war against COVID-19 continues. The primary driver of economic and market performance moving forward will be the path of the virus and the timetable for reopening the US and global economies.

Based on currently available COVID-19 information, we expect a return to growth in the domestic economy sometime in the second half of 2020. The size and speed of the fiscal stimulus packages that Congress passed, in conjunction with bold measures from the Fed, should help to blunt the impact of the pandemic and position the economy for what we expect may be a powerful recovery. That said, we are tracking more toward our bear case gross domestic product (GDP) forecast for 2020 of around flat rather than our base case for 2020 domestic growth of 1–1.25%.

A potential second-half rebound in growth should also support the case for some increase in inflation expectations from current low levels. Our base case forecast for the 10-year Treasury yield at year-end is 1.25–1.75%, and if much of the economy remains shuttered longer than expected, our bear case is 0–0.5%.

Our 2020 year-end fair value target range for the S&P 500 Index is 3,150–3,200, based on a forward price-to-earnings ratio of 18 multiplied by a potential post-outbreak S&P 500 earnings per share run rate of about \$175. Though timing of a return to pre-outbreak earnings expectations is uncertain, we believe the mild inflation and low interest rate environment support these valuations. Although we recognize a lot will have to go right to reach these targets, we still believe stocks may present an attractive long-term opportunity at current levels, particularly relative to bonds. We continue to follow our playbook for guidance as the market's bottoming process continues.

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U.S. Treasuries may be considered "safe haven" investments but do carry some degree of risk including interest rate, credit, and market risk. They are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Please see our annual [Outlook 2020](#) publication for additional descriptions and disclosures.

2 BROAD-BASED EQUITY INDEX DECLINES AMID COVID-19 OUTBREAK

Domestic and International Asset Class Performance
Ranked by First Quarter Returns

Sector	Q1 2020
Large Growth	-14.1%
S&P 500 Index	-19.6%
Mid Growth	-20.0%
Russell 3000	-20.9%
Large Foreign	-22.7%
Emerging Markets	-23.6%
Small Growth	-25.8%
Large Value	-26.7%
Mid Value	-31.7%
Small Value	-35.7%

3 TECHNOLOGY AND HEALTHCARE LED AS ENERGY LAGGED

S&P 500 Sector Performance
Ranked by First Quarter Returns

Sector	Q1 2020
Technology	-11.9%
Healthcare	-12.7%
Consumer Staples	-12.7%
Utilities	-13.5%
Communication Services	-17.0%
Real Estate	-18.7%
Consumer Discretionary	-19.3%
S&P 500 Index	-19.6%
Materials	-26.1%
Industrials	-27.0%
Financials	-31.9%
Energy	-50.5%

Sources: LPL Research, FactSet 03/31/20

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

The S&P 500 sectors are represented by the 10 S&P 500 Global Industry Classification Standard (GICS) indexes.

The domestic and international asset class sectors are based on the Russell Midcap Growth, Russell 1000 Growth, S&P 500, Russell 3000, MSCI EAFE, Russell 1000 Value, Russell Midcap Value, Russell 2000 Growth, Russell 2000 Value, MSCI Emerging Markets Indexes.

4 US TREASURIES LED

Bond Market Performance
Ranked by First Quarter Returns

Sector	Q1 2020
U.S. Treasuries	8.1%
Bloomberg Barclays U.S. Agg	3.1%
MBS	2.8%
TIPS	1.7%
Foreign Bonds (Hedged)	1.3%
Munis	-0.6%
Foreign Bonds (Unhedged)	-1.9%
Investment-Grade Corporates	-3.1%
High-Yield Munis	-6.9%
Preferred Stocks	-8.5%
Bank Loans	-9.9%
Emerging Market Debt	-11.8%
High-Yield Corporates	-12.7%

Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index so these are not actual results an investor would achieve.

Bond Market Asset Class Indexes: Foreign Bonds (hedged) – Citigroup Non-U.S. World Government Bond Index Hedged for Currency; Preferred Securities – Merrill Lynch Preferred Stock Hybrid Securities Index; Treasury – Bloomberg Barclays U.S. Treasury Index; Mortgage-Backed Securities – Bloomberg Barclays U.S. MBS Index; Investment-Grade Corporate – Bloomberg Barclays U.S. Corporate Bond Index; Municipal – Bloomberg Barclays Municipal Bond Index; Municipal High-Yield – Bloomberg Barclays Municipal High Yield Index; TIPS – Bloomberg Barclays Treasury Inflation-Protected Securities Index; Bank Loans – Bloomberg Barclays U.S. High Yield Loan Index; High-Yield – Bloomberg Barclays U.S. Corporate High Yield Index; Emerging Market Debt – JP Morgan Emerging Markets Global Index; Foreign Bonds (unhedged) – Citigroup Non-U.S. World Government Bond Index (unhedged)

IMPORTANT DISCLOSURES

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Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

DEFINITIONS

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.

Yield is the income return on an investment. This refers to the interest or dividends received from a security and are usually expressed annually as a percentage based on the investment's cost its current market value or its face value.

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.

Small cap is a term used to classify companies with a relatively small market capitalization. The definition of small cap can vary, but it is generally a company with a market capitalization of between \$300 million and \$2 billion. The prices of small cap stocks are generally more volatile than large cap stocks.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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

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