

STRONG START TO 2023

LPL RESEARCH'S MONTHLY MARKET OUTLOOK

Key changes from January report:

- Upgraded developed international equities to neutral from negative
- Upgraded industrial metals to positive from neutral

Stocks took a step forward in putting a tough 2022 behind them with solid gains in January, as the S&P 500 returned 6.3% for the month. The growth-heavy Nasdaq fared better with a 10.7% monthly advance, led by double-digit gains in mega-cap technology stocks including Apple (AAPL), Amazon (AMZN), and Alphabet/Google (GOOGL). The Dow Jones Industrial lagged with a gain of just 2.9%.

Besides the end of seasonal tax loss selling, investor sentiment got a boost from further progress on inflation and signs that a “soft-ish” landing for the U.S. economy might still be possible, despite the Federal Reserve’s (Fed) aggressive tightening moves to date. Economic resilience in Europe and China’s reopening provided further support.

Core bonds, as measured by the Bloomberg Aggregate Bond Index, were up 3.1 % during the month, to start erasing last year’s deep losses. Treasury yields were generally lower this month as there were further signs that inflationary pressures were starting to ease.

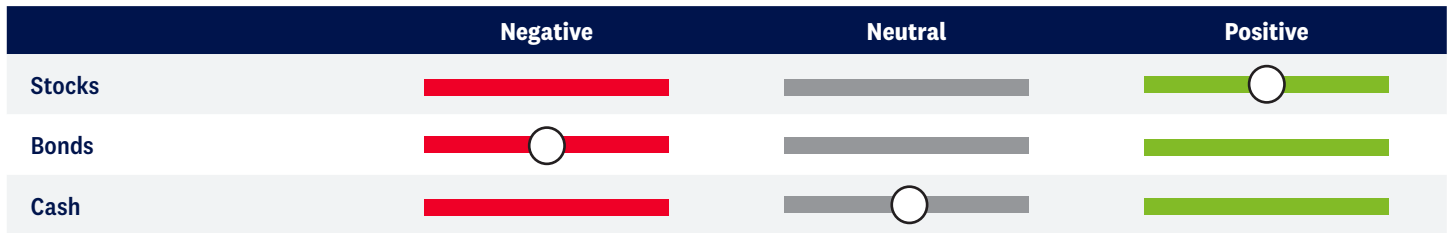
The Strategic and Tactical Asset Allocation Committee’s (STAAC) S&P 500 year-end 2023 fair value target of 4,400-4,500 is based on a price-to-earnings ratio of 18.5 and 2024 S&P 500 earnings per share forecast of \$240.

INVESTMENT TAKEAWAYS:

- The STAAC maintains its overweight equities recommendation, supported by attractive equity valuations relative to fixed income and the approaching end of the Fed’s rate hiking campaign.
- The Committee maintains its preference for value-style stocks based on relative valuations and technical analysis, despite the strong start to the year for growth stocks. Growth may need a steadier economy and lower inflation to sustain strength.
- Strong recent performance of non-U.S. stocks, attractive valuations, and the weakening U.S. dollar have narrowed the gap between U.S. and developed international equities despite economic challenges in Europe.
- We continue to recommend a slight underweight allocation to fixed income as we think there is greater upside potential in equities.
- 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%.
- Shorter maturity corporate credit, mortgage-backed securities, and high yield bonds (for income-oriented investors) look attractive.

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
<ul style="list-style-type: none"> U.S. Equities Value Stocks 	<ul style="list-style-type: none"> Healthcare Energy Industrials 	<ul style="list-style-type: none"> Mortgage-Backed Securities Short Maturity High Quality Corporates High Yield Bonds 	<ul style="list-style-type: none"> Low-Beta Alts (Event Driven, Market Neutral, Multi-Strategy)

2023 MARKET FORECASTS

Look For Stocks to Regain Balance in 2023, Setting Up Potential Double-Digit Gains

	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	4,400-4,500	4,400-4,500**

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 4,400-4,500 is based on a price-to-earnings ratio (PE) of 18.5 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 01/31/23.

LPL RESEARCH STRATEGIC AND TACTICAL ASSET ALLOCATION COMMITTEE

LPL Research Tactical Asset Allocation as of 2/01/23

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	80.4%	76.0%	4.4%	69.7%	64.0%	5.7%	53.3%	48.0%	5.3%	36.9%	32.0%	4.9%	20.0%	16.0%	4.0%
Large Value	13.0%	10.8%	2.2%	11.0%	9.1%	1.8%	8.5%	6.9%	1.7%	5.9%	4.6%	1.3%	3.1%	2.3%	0.9%
Large Blend	17.6%	16.7%	0.9%	14.3%	14.1%	0.2%	10.7%	10.5%	0.1%	7.1%	7.0%	0.1%	3.4%	3.5%	-0.1%
Large Growth	20.5%	20.5%	-0.1%	16.6%	17.3%	-0.7%	12.2%	13.0%	-0.8%	8.0%	8.7%	-0.6%	3.7%	4.3%	-0.6%
Small/Mid Value	11.1%	7.9%	3.2%	10.4%	6.7%	3.7%	8.3%	5.0%	3.2%	6.0%	3.3%	2.7%	3.7%	1.7%	2.0%
Small/Mid Blend	13.4%	13.5%	0.0%	12.7%	11.3%	1.3%	9.9%	8.5%	1.4%	7.2%	5.7%	1.5%	4.3%	2.8%	1.5%
Small/Mid Growth	4.7%	6.5%	-1.8%	4.8%	5.5%	-0.7%	3.7%	4.1%	-0.4%	2.8%	2.7%	0.0%	1.8%	1.4%	0.4%
INTERNATIONAL EQUITY	17.6%	19.0%	-1.4%	15.3%	16.0%	-0.7%	11.7%	12.0%	-0.3%	8.1%	8.0%	0.1%	5.0%	4.0%	1.0%
Developed (EAFE)	12.4%	12.0%	0.4%	10.6%	10.0%	0.6%	8.7%	8.0%	0.7%	5.6%	5.0%	0.6%	5.0%	4.0%	1.0%
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%	15.9%	-1.5%	23.1%	24.1%	-1.0%	31.8%	31.8%	0.0%
MBS	0.0%	0.0%	0.0%	4.0%	4.5%	-0.5%	10.2%	10.5%	-0.3%	16.3%	15.9%	0.4%	22.5%	21.0%	1.5%
IG Corporates	0.0%	0.0%	0.0%	2.8%	3.7%	-0.9%	7.1%	8.6%	-1.5%	11.4%	13.0%	-1.6%	15.8%	17.2%	-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%
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%
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 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

STAAC Upgrades Developed International to Neutral, Maintains Positive U.S. View

The STAAC maintains its overweight equities recommendation, supported by attractive equity valuations relative to fixed income and the approaching end of the Fed’s rate hiking campaign. The Committee maintains its preference for value-style stocks based on relative valuations and technical analysis, despite the strong start to the year for growth stocks. Growth may need a steadier economy and lower inflation to sustain strength. Strong recent performance of non-U.S. stocks, attractive valuations, and the weakening U.S. dollar have narrowed the gap between U.S. and developed international equities despite economic challenges in Europe.

STAAC maintains a cautious outlook for emerging market equities due to soft earnings and geopolitical uncertainty—though China’s reopening and U.S. dollar weakness have helped emerging markets (EM) equities recently, and the group may have more left in it as a short-term trade. Key risks include a potentially overly aggressive Fed, a significant recession, a broader military conflict in Europe, U.S-China tensions, and a disruptive COVID-19 wave in China.

	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 exposed to weakness in Europe, are more expensive, and may lag in early stages of the next bull market.
	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 and technical analysis trends have improved.
	Small Caps			Attractive valuations, improving technical analysis trends, and relative insulation from economic risks overseas are supportive of small caps. If recession fears calm, small caps may sustain outperformance. 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, a positive energy sector view, and technical analysis signals, despite growth’s strong start to the year.
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			Strong recent performance of non-U.S. stocks, attractive valuations, and the weakening U.S. dollar have narrowed the gap between U.S. and developed international equities despite economic challenges in Europe, leading to STAAC’s further increase in developed international in its latest asset allocation.
	Emerging Markets			The Committee maintains a cautious outlook for emerging market equities due to soft earnings and geopolitical uncertainty—though U.S. dollar weakness and China’s reopening have helped non-U.S. equities recently. The group may have more left in it as a short-term trade given the amount of pessimism reflected in valuations and potential for further U.S. dollar weakness.

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.

EQUITY SECTORS

Favor Energy, Healthcare, and Industrials

The STAAC has positive views of the energy, healthcare, and industrials sectors. The supply-demand backdrop for energy remains favorable as China reopens and the long-term price uptrend remains intact. Healthcare tends to perform well late in economic cycles with its relative earnings stability and should benefit from favorable demographic trends. Resilient capital investment activity and positive technical analysis trends drove the Committee’s recent industrials sector upgrade. The macroeconomic outlook will likely become more favorable for growth sectors in the first half of 2023, but we urge patience toward technology and consumer discretionary until the macroeconomic environment improves and our technical analysis work indicates sustained strength may be more likely.

	Sector	Overall View	Relative Trend	S&P Wgt	Rationale
Cyclical	Materials			2.8	Support from infrastructure spending, China’s reopening, and recent weakening U.S. dollar. Falling natural gas prices should help chemical company profits. Outlook for metals prices appears positive, though technicals are mixed overall. Reasonable valuations.
	Energy			5.1	Remains in a long-term uptrend despite pullback late last year. Global supply remains tight. China’s reopening may soon provide a boost, and further U.S. dollar weakness may help oil. Valuations still reasonable despite huge rally over the past two years.
	Industrials			8.3	Solid capital expenditures growth, infrastructure spending, strong defense spending, and technical analysis trends are supportive. January upgrade was driven more by technical analysis than anything else and comes despite challenging global economic climate.
	Communication Services			8.0	A toughening regulatory environment for this digital media-heavy sector, weak earnings revisions, and weak performance trends have underpinned our negative view. Nonetheless, a strong start to 2023 as January’s top performer is impressive.
	Consumer Discretionary			10.6	Inflation is eroding purchasing power as consumer spending slows, the sector is historically not a strong mid-to-late cycle performer, and valuations are elevated. However, a strong start to 2023 is encouraging.
	Technology			26.7	Despite prospects for a more favorable macro environment in 2023, neither earnings nor valuations justify optimism. Recommend only a modest underweight at this point until technical analysis trends improve.
	Financials			11.6	December upgrade primarily driven by technical analysis. Near-term outlook for loan growth and capital markets activity is constrained. Inverted yield curve still weighing on banks. Earnings growth likely to resume in 2023 and valuations remain attractive.
Defensive	Utilities			2.9	Recent dip in interest rates, green-energy spending trends, and still elevated recession risk should be supportive, but utilities lagged significantly in January. Valuations are still high and defensive sectors have generally been out of favor so far in 2023.
	Healthcare			14.6	Late-cycle economy, earnings stability, and demographics are supportive. Weakness in January due to market’s preference for stocks with high sensitivity to broad market advances (higher beta) and tough pandemic comparison. Fair valuations.
	Consumer Staples			6.6	Although consumer staples companies are likely to lag the broad market when the next bull market begins and valuations are elevated, recent relative strength suggests a neutral view is prudent. Lower inflation could help ease margin pressures in coming quarters. Watching early signs of weakening trend.
	Real Estate			2.8	Our January real estate downgrade reflected weakening technical analysis trends. Sector performance did improve in January as interest rates fell and technology and communications industries’ performance improved. Decent yield 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.

FIXED INCOME

A Good Start to the Year for Fixed Income

After the worst year on record for core bonds, January brought some reprieve to fixed income investors with returns, for most markets, positive during the month. Credit in particular started the year off strong. And despite the rally in fixed income, yields are still above longer term averages so we believe opportunities in fixed income remain. Shorter maturity investment grade corporates and Agency mortgage-backed securities (MBS) look attractive. 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 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				Yields in many credit markets exceed their longer-term averages so prospects for future returns may have improved. While credit spreads could widen due to an economic slowdown, current high yields should help offset losses.
	Duration				With higher yields and, we think, the improved diversification benefits of bonds, we’ve upgraded our view of duration to “neutral” relative to our index.

		Neg.	Neutral	Pos.	Rationale
Sectors	U.S. Treasuries				Yields traded meaningfully higher last year along with Fed rate hikes. Volatility is likely to remain elevated though, as the Fed continues to reduce Treasury reinvestments. Yield spreads to international sovereigns remain attractive but have recently narrowed. Inflation breakeven rates leave Treasury Inflation- Protected Securities (TIPS) fully valued, particularly for longer-maturity securities.
	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				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. European banks likely to stay under pressure as the European Central Bank (ECB) hikes rates.
	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, while volatility is likely to remain elevated.
	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 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

Metals Melt Up as Energy Cools

The breakdown in the U.S. dollar against the currencies of the country’s major trading partners helped underpin strength in the broad metals complex. China’s economic reopening, and fiscal spending aimed at bolstering its economy, added additional tailwinds to the broader metals complex, including gold, copper, and zinc. Furthermore, the People’s Bank of China has been a significant buyer of gold, recently adding to reserves for the first time in over three years, as the bank seeks to diversify its dollar holdings. Technically, gold, silver, and platinum are trending higher with momentum indicators pointing to more upside ahead. We maintain our positive view on **precious metals**. **Industrial metals** have also benefited from this backdrop, including copper, which rose over 10% in January. Most industrial metals have broken out from bottoms and are now entering uptrends, prompting an upgrade of our view to positive from neutral view on the space.

Our **energy** commodities view is neutral with a negative bias. Weakness in natural gas markets weighed heavily on the broader energy space, as prices faced a combination of elevated supply and underwhelming heating demand. Futures plunged over 30% and are oversold on a short-term basis; however, there are limited technical signs suggesting the selling pressure is over. Crude oil dipped as recession fears offset demand optimism from China’s reopening. The supply-side for oil remains constructive and supported by OPEC+, which is unlikely to change production quotas due to elevated uncertainty over the global economy. Furthermore, with Russia facing sanctions over its oil exports and threatening to cut off exports to any country abiding by the price cap imposed by the European Union, the volatile oil market faces supply constraints that could help support prices. While crude oil has made some minor technical progress, there is insufficient technical evidence to confirm a bottom has been set.

	Neg. Neutral Pos.	Relative Trend	Rationale
Energy			Supply dynamics appear constructive for oil, while demand will be heavily influenced by China’s reopening. Oil prices have recently bounced off oversold levels but there is insufficient evidence to confirm a bottom has been set. Natural gas remains technically weak as futures have yet to find support amid their current sell-off. We maintain our neutral view on energy commodities with a negative bias.
Precious Metals			Gold, silver, and platinum have broken out above key resistance levels with bullish momentum. We suspect more upside lies ahead and maintain our positive view on precious metals.
Industrial Metals			Industrial metals remain supported by a weaker U.S. dollar and China’s reopening, including increased infrastructure spending. Most metals have broken out from bottoms and are now entering uptrends, prompting an upgrade of our view to positive from neutral view on the space.
Agriculture (Ag) & Livestock			Ag advanced marginally this month on the back of strength in the softs index (sugar, coffee, cotton). Grains were mixed, with soybeans outperforming due to drought-led supply constraints. Increased Chinese demand has helped drive cattle futures near record highs, while lean hogs dropped over 10%. Overall, there has been limited technical progress in the space and we remain neutral on ag and livestock.

ALTERNATIVE INVESTMENTS

Modest Start to 2023

With traditional equity and bond markets performing very well in January, alternative investment strategies underperformed due to their inherent lower-market exposure. 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.

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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