

FURIOUS LATE-MONTH COMEBACK LEFT STOCKS UNCHANGED IN MAY

LPL RESEARCH'S MONTHLY MARKET OUTLOOK

Key changes from May report:

- Upgraded view of energy to positive from neutral
- Downgraded view of communications services from neutral to negative

Stocks staged a furious late-month rally to break even in May, but the S&P 500 Index ended the month down more than 12% year to date. The index fell more than 20% from its January 3 high on an intraday basis on May 20 but avoided closing 20% below the all-time high, keeping the bull market alive.

Market participants remained on edge due to high inflation and the risk that the Federal Reserve over-tightens monetary policy to combat it, sending the economy into recession. The lack of a cease-fire in Ukraine, ongoing COVID-19 lockdowns in China, and weakness in retail earnings further pressured investor sentiment.

The intense pressure on bonds over the first four months of the year eased up some in May, as the 10-year U.S. Treasury yield pulled back from near 3% to 2.83%.

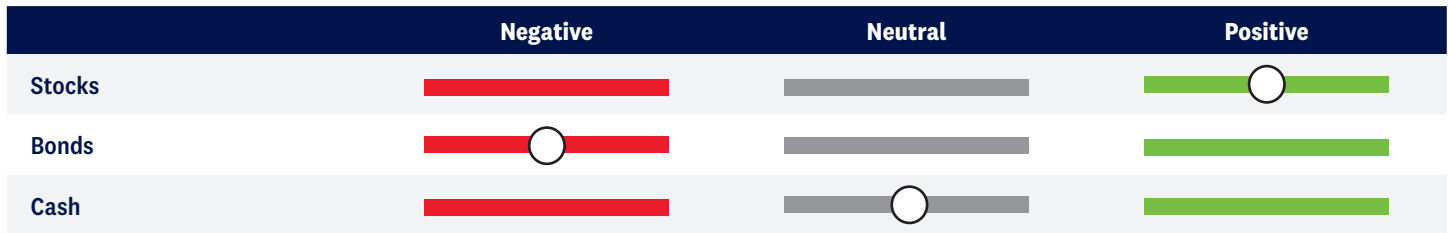
The Strategic and Tactical Asset Allocation Committee (STAAC) made only minor asset allocation changes for June, including shifting from communication services to energy, which translated into a modest value tilt. Our S&P 500 Index year-end fair value target range remains 4,800–4,900, based on a price-to-earnings ratio (PE) of 20.5 and our 2023 earnings per share (EPS) estimate of \$235.

INVESTMENT TAKEAWAYS:

- We continue to recommend a slight overweight to equities versus bonds on the belief that recession fears may be overdone.
- We suggest a slight tilt toward the value style in the short term, though we would expect an improved macroeconomic environment to create a more favorable environment for the growth style later this year, including falling inflation and stable interest rates.
- We would expect large caps to lead during this period of economic uncertainty, though attractive valuations and a U.S. focus may provide support for small caps in the near term.
- We continue to recommend a slight underweight allocation to fixed income as higher rates may put additional pressure on bond returns.
- Although we've seen a meaningful move higher in yields this year, broadening inflationary pressures and the reduction of Federal Reserve (Fed) policy support may push yields still higher in the months ahead. Our year-end target for the 10-year Treasury yield is 2.25% to 2.5% but expect yields to stay elevated in the 2.75% - 3.0% range in the near term.
- Shorter maturity corporate credit and high yield bonds (for income-oriented investors) are starting to look more 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 	<ul style="list-style-type: none"> Healthcare Real Estate Energy 	<ul style="list-style-type: none"> Mortgage-Backed Securities 	<ul style="list-style-type: none"> Event Driven Market Neutral Multi-Manager Strategies

2022 MARKET FORECASTS

LPL Research STAAC Committee Still Sees Stock Gains in 2022 on Back of Solid Earnings Growth

	Previous	Current
10-Year U.S. Treasury Yield	2.25%-2.5%*	2.25%-2.5%*
S&P 500 Index Earnings per Share	\$220	\$225
S&P 500 Index Fair Value	4,800-4,900**	4,800-4,900**

Source: LPL Research, FactSet, Bloomberg

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

*As noted in our [LPL Research blog](#) on 3/29/22, our year-end 2022 forecast for the U.S. 10-year Treasury yield is 2.25%-2.5%. 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.

**As also noted in our [Weekly Market Commentary](#) dated 3/28/22, our year-end 2022 fair-value target range for the S&P 500 of 4,800-4,900 is based on a price-to-earnings ratio (PE) of about 20.5 and our S&P 500 earnings per share (EPS) forecast of \$235 in 2023.

2022 ECONOMIC FORECASTS

Slower but Still Strong U.S. Growth Expected Europe Energy Crisis Likely to Remain a Drag

	Previous	Current
United States	2.7% to 3.2%	2.7% to 3.2%
Developed ex-U.S.	2.5% to 3.0%	2.5% to 3.0%
Eurozone	2.4% to 2.9%	2.4% to 2.9%
Emerging Markets	3.8% to 4.3%	3.8% to 4.3%
Global	3% to 3.5%	3% to 3.5%

Source: LPL Research, Bloomberg

The economic forecasts may not develop as predicted.

All data, views, and forecasts herein are as of 4/27/22.

LPL RESEARCH STRATEGIC AND TACTICAL ASSET ALLOCATION COMMITTEE

LPL Research Tactical Asset Allocation as of 6/1/2022

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	97.0%	95.0%	2.0%	82.0%	80.0%	2.0%	62.0%	60.0%	2.0%	42.0%	40.0%	2.0%	22.0%	20.0%	2.0%
U.S. EQUITY	79.5%	76.0%	3.5%	67.2%	64.0%	3.2%	50.8%	48.0%	2.8%	34.4%	32.0%	2.4%	18.0%	16.0%	2.0%
Large Value	11.8%	10.1%	1.7%	10.2%	8.5%	1.7%	7.8%	6.4%	1.4%	5.4%	4.3%	1.1%	2.9%	2.1%	0.8%
Large Blend	18.1%	17.3%	0.8%	15.3%	14.6%	0.7%	11.6%	10.9%	0.6%	7.8%	7.3%	0.6%	4.1%	3.6%	0.5%
Large Growth	20.4%	20.7%	-0.3%	17.1%	17.4%	-0.3%	12.8%	13.1%	-0.3%	8.6%	8.7%	-0.1%	4.4%	4.4%	0.0%
Small/Mid Value	10.6%	9.4%	1.2%	9.0%	7.9%	1.1%	6.9%	5.9%	1.0%	4.7%	4.0%	0.8%	2.5%	2.0%	0.6%
Small/Mid Blend	12.9%	12.3%	0.6%	10.9%	10.4%	0.5%	8.2%	7.8%	0.5%	5.6%	5.2%	0.4%	2.9%	2.6%	0.3%
Small/Mid Growth	5.8%	6.2%	-0.4%	4.8%	5.2%	-0.4%	3.6%	3.9%	-0.4%	2.4%	2.6%	-0.3%	1.2%	1.3%	-0.1%
INTERNATIONAL EQUITY	17.5%	19.0%	-1.5%	14.8%	16.0%	-1.2%	11.2%	12.0%	-0.8%	7.6%	8.0%	-0.4%	4.0%	4.0%	0.0%
Developed (EAFE)	10.3%	12.0%	-1.7%	8.6%	10.0%	-1.4%	7.0%	8.0%	-1.0%	4.4%	5.0%	-0.6%	4.0%	4.0%	0.0%
Emerging Markets	7.1%	7.0%	0.1%	6.2%	6.0%	0.1%	4.1%	4.0%	0.1%	3.2%	3.0%	0.2%	0.0%	0.0%	0.0%
BONDS	0.0%	0.0%	0.0%	16.0%	15.0%	1.0%	36.0%	35.0%	1.0%	56.0%	53.0%	3.0%	76.0%	70.0%	6.0%
U.S. CORE	0.0%	0.0%	0.0%	15.4%	15.0%	0.4%	34.6%	35.0%	-0.4%	53.8%	53.0%	0.8%	73.0%	70.0%	3.0%
Treasuries	0.0%	0.0%	0.0%	7.0%	6.8%	0.2%	15.7%	15.9%	-0.2%	24.4%	24.0%	0.3%	33.1%	31.8%	1.3%
MBS	0.0%	0.0%	0.0%	4.9%	4.5%	0.4%	11.1%	10.5%	0.6%	17.3%	16.0%	1.3%	23.5%	21.1%	2.4%
IG Corporates	0.0%	0.0%	0.0%	3.4%	3.7%	-0.2%	7.7%	8.6%	-0.8%	12.0%	13.0%	-0.9%	16.3%	17.1%	-0.8%
NON-CORE	0.0%	0.0%	0.0%	0.6%	0.0%	0.6%	1.4%	0.0%	1.4%	2.2%	0.0%	2.2%	3.0%	0.0%	3.0%
High-Yield Corporates	0.0%	0.0%	0.0%	0.6%	0.0%	0.6%	1.4%	0.0%	1.4%	2.2%	0.0%	2.2%	3.0%	0.0%	3.0%
CASH	3.0%	5.0%	-2.0%	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

Maintaining Slight Overweight to Stocks on Belief that Recession Fears May Be Overdone

The LPL Research STAAC continues to favor stocks over bonds as the Committee believes stocks have overly discounted the risk of recession. The Committee continues to expect above-trend, though slower, economic growth and continued solid earnings gains to support modest stock market gains in 2022. However, stubbornly high inflation, a potentially overly aggressive Federal Reserve, and possible broader military conflict in Europe present significant risks.

The Committee believes a slight tilt toward the value style is prudent given this month’s energy upgrade (a value sector), although stable economic growth, further earnings gains, and stable interest rates may set the stage for a growth turnaround starting this summer. Large caps may sustain leadership amid high economic uncertainty, though small caps may benefit from valuation support and their U.S. focus in the near term. The greater likely economic impact of the Russia-Ukraine conflict on Europe supports the Committee’s preference for U.S. equities over developed international and emerging markets.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			Amid high economic uncertainty, large cap stocks may maintain market leadership. Large caps are also better positioned to manage global supply chain disruptions than small caps but are more exposed to weakness in Europe.
	Mid Caps			If markets regain confidence in the economic outlook, mid caps may benefit from their economic sensitivity. Mid cap stock valuations are as attractive compared to large caps as they have been in over 20 years. Merger and acquisition environment has softened as monetary conditions have tightened.
	Small Caps			Small cap stock valuations have become attractive, smaller companies are relatively more insulated from economic weakness in Europe than larger cap companies, and earnings estimates were revised nicely higher in April and May. However, small caps may continue to struggle amid elevated recession fears and dampened merger activity.
Style	Growth			Later this year, we would anticipate the growth style benefiting from stable economic growth, low and stable interest rates, and superior earnings power. However, growth stocks are still relatively expensive as higher interest rates pressure valuations and high inflation favors value.
	Value			Cyclical value stocks including natural resources are benefiting from easing COVID-19 pressures and the ongoing commodities boom. Economic uncertainty is supporting the defensive value sectors such as utilities. Overall, value stocks remain attractively valued relative to growth.
Region	United States			The Russia-Ukraine conflict strengthens 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. Prior to the Russian invasion of Ukraine, the outlook for Europe and Japan had begun to improve. An eventual post-pandemic, synchronized global expansion could be supportive but has been delayed.
	Emerging Markets			Neutral view is tenuous given China COVID-19 lockdowns and war in Ukraine. Stimulus in China, attractive valuations, and fewer regulatory crackdown headlines allow us to remain at neutral for now. MSCI Emerging Markets Index has outperformed the S&P 500 Index since mid-March.

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

Upgrading Energy as Supply Disruptions to Continue and Technical Momentum Remains Strong

The STAAC Committee recommends a tilt toward defensive sectors, achieved in April with the decision to upgrade consumer staples, healthcare, and utilities, as economic uncertainty remains elevated. The moves also align with the strongest technical analysis trends. No technical trend is stronger than energy; after previously suggesting viewing the sector as a short-term hedge against Russian energy export disruption, it now looks like it may have more staying power. We maintain our positive healthcare and real estate views, while our negative views include two economically sensitive sectors negatively impacted by high inflation and a slowing economy: consumer discretionary and industrials. Opportunities for a more positive view of technology and other growth sectors may emerge over the next several months should the macro environment improve.

	Sector	Overall View	Relative Trend	S&P Wgt	Rationale
Cyclical	Materials			2.8	It looks like China may soon come off lockdowns, improving the outlook. The U.S. dollar may be rolling over which would be supportive. Infrastructure spending seems to be on the upswing. An inflation beneficiary. Valuations reasonable. Technicals positive.
	Energy			4.9	Technical analysis trends look very strong despite consolidating oil prices. Russian supply story likely to linger. China reopening lies ahead, supporting global demand outlook. Increase in production to replace Russian oil in global marketplace will take time.
	Industrials			7.8	Economic uncertainty in the U.S., weaker growth in Europe and China, and ongoing supply chain disruptions dampen the near-term outlook. However, earnings estimates have stabilized, more infrastructure spending will eventually help, and valuations are fair.
	Communication Services			8.7	A toughening regulatory environment for this digital media-heavy sector, below-average estimated 2022 earnings growth, weak earnings estimate revisions, and negative technical analysis trends drive the downgrade this month despite reasonable valuations.
	Consumer Discretionary			10.6	Consumers have been resilient but inflation is eroding purchasing power, relative strength has deteriorated, the sector is historically not a strong mid-to-late cycle performer, and earnings season proved very challenging for most retailers. Elevated valuations still.
	Technology			26.7	Potential peak in interest rates may help growth-stock valuations stabilize, making this an interesting buy-the-dip candidate. Earnings estimates are holding up well overall as heavy pandemic spending gets digested. Reasonable valuations, even below consumer staples.
	Financials			11.3	Expanding economy should help boost loan demand in 2022, though yield curve flattening and weaker European economies introduce risk. Technical analysis signals and rate environment contributed to April 2022 downgrade. Valuations remain attractive.
Defensive	Utilities			3.0	Technical analysis drove the April upgrade. Green-energy spending may help. Interest rates may have peaked. It may be too early in the economic cycle for utilities to sustain outperformance. Likely laggard in market rally. Elevated valuations.
	Healthcare			14.6	Maturing economic cycle, positive technical analysis trends, and diminishing policy risk as the Build Back Better plan stalls are supportive of the sector near-term. Demographic trends offer long-term support. Valuations are relatively attractive.
	Consumer Staples			6.6	Outperformance in recent pullback was to be expected, but slow-growth staple companies are getting squeezed by higher costs and valuations are elevated. However, interest rate risk is lessened by the big rate move and technical analysis picture has improved.
	Real Estate			2.8	Benefits of reopening, attractive yield, tends to effectively manage inflation, and exposure to secular technology tailwinds. Defensive sectors garnering support from economic uncertainty. Interest rates may have peaked. 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.

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

The Value Proposition for Fixed Income Broadly has Improved

With yields moving higher recently in most fixed income markets, we believe future returns for fixed income investors may have likely improved. We’re seeing increasing investment opportunities in shorter maturity securities such as short maturity investment grade corporates. Also, higher yields (and still low default expectations) for lower rated corporate credit markets make this area interesting as well. While there’s no guarantee that yields can’t go higher, at current levels, which are above longer-term averages in most markets, valuations for many fixed income assets are starting to look interesting again.

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.
	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.
	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 full, but higher yields would likely attract additional yield 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. Higher interest rates may support demand. 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				Rich valuations, interest-rate risk, and potential currency volatility are among the negatives.
	EM Debt				Central banks are becoming less accommodative as inflationary pressures in emerging markets are building, which 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

Commodities Benefiting from High Inflation, Oil Looks Poised for More Upside Potential

Broadly, trends remain positive in commodities, but we are watching pullbacks for signs of a potential change in trend.

We maintain our preference for industrial metals over precious. Our industrial metals view is neutral from a technical analysis perspective but the fundamentals look slightly better than neutral and are improving. We see favorable prospects for solid, though slower, economic growth in the U.S. in 2022 and more infrastructure spending. China may soon ease COVID-19 lockdowns. Signs of a U.S. dollar short-term top are encouraging.

Our precious metals view is neutral, though we acknowledge the bullish technical analysis setup for gold amid heightened geopolitical threats and prefer gold to silver. Though stubbornly high inflation and elevated recession risk may be supportive of defensive assets, above-trend U.S. economic growth may present a headwind for gold.

Our energy commodities view is positive, particularly crude oil. We noted last month that near \$100 per barrel, there may be an opportunity for another move higher within a positive overall trend. We now see potential for oil prices to break through resistance at \$115 after consolidating over the past three months as fighting in Ukraine continues and the summer driving season begins. Meanwhile, globally, the supply-demand balance for energy remains tilted toward the demand side.

ALTERNATIVE INVESTMENTS

Mixed Alts Performance

Alternative investment performance was mixed during May with noticeable dispersion across sub-strategies. Our preferred alternatives implementation, which now includes event-driven, market neutral, and low-beta single and multi-manager solutions, held up well against an increasingly volatile backdrop. Given the potential for continued market volatility, we believe diversifying alternative investment exposure across several low-beta allocations to be 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 protect portfolios in the current environment and act as a source of ballast during periods of high volatility. 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 multi-strategy and market neutral strategies may be used to seek 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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