GLOBAL PORTFOLIO STRATEGY

LPL Research

JUNE 2023

DOWNGRADING EQUITIES TO NEUTRAL ON MORE BALANCED RISK-REWARD

LPL RESEARCH'S MONTHLY MARKET OUTLOOK

Key changes from May report:

- Downgraded equities to neutral from positive, upgraded fixed income to positive from neutral
- Downgraded industrial metals to neutral from positive

Stocks ended May slightly higher, as the S&P 500 Index returned 0.4% for the month. Gains were driven, in part by a solid back half of earnings season and anticipation that the debt limit would be raised by the early June "x-date." Meanwhile, market participants continued to debate whether the Federal Reserve (Fed) was done hiking rates and whether the economy was headed for a second half recession. The Dow Jones Industrial fared worse, losing 3.2% in May, while the Nasdaq Composite led the major averages on tech strength with a 5.9% monthly return.

Core bonds, as measured by the Bloomberg Aggregate Bond Index, were lower for May as markets priced out expected interest rate cuts by the Fed. Higher yields may mean another opportunity for investors to add to high quality fixed income.

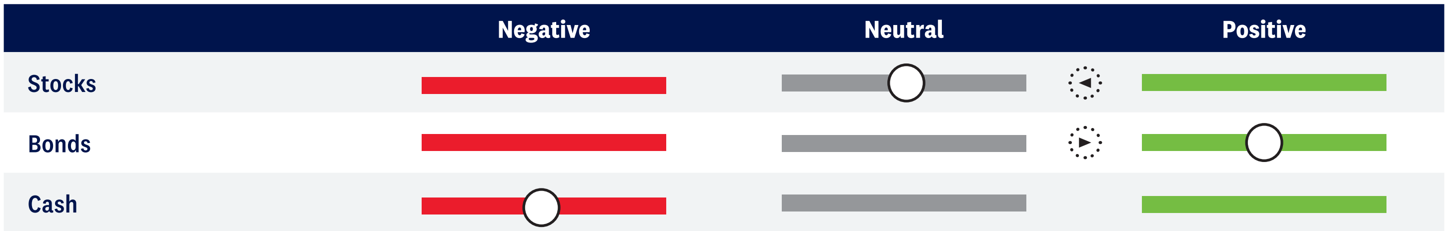
The Strategic and Tactical Asset Allocation Committee (STAAC) maintained its year-end S&P 500 fair value target of 4,300-4,400, but changed the math to get there: the target is based on a price-to-earnings ratio near 19 and a lowered 2024 S&P 500 earnings per share forecast of $230. The decision to lower equities exposure to benchmark weight was due to a combination of valuations, yields, and the likelihood of a late-2023 recession that leaves the risk-reward between stocks and bonds more balanced.

INVESTMENT TAKEAWAYS:

- The STAAC lowered its recommended equities allocation to neutral based on a less attractive risk-reward trade-off relative to fixed income. Increasing odds of a recession and less attractive equity valuations relative to fixed income temper enthusiasm.
- The Committee favors large cap stocks over their smaller brethren. Style views remain neutral overall, though our technical analysis work leans toward growth. The STAAC's regional preference remains developed international stocks over the U.S.
- 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.

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
▪ Developed International Equities	▪ Industrials	▪ Mortgage-Backed Securities ▪ Short Maturity High Quality Corporates ▪ Preferred Securities	▪ Alt asset class choices - global macro, short term Commodity Trading Advisor, and multi-strategy

2023 MARKET FORECASTS

Further Gains In 2023 May Be Modest

	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	$213
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) near 19 and our S&P 500 earnings per share (EPS) forecast of $230 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 06/01/23.

LPL RESEARCH STRATEGIC AND TACTICAL ASSET ALLOCATION COMMITTEE

LPL Research Tactical Asset Allocation as of 6/1/2023

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	95.0%	95.0%	0.0%	80.0%	80.0%	0.0%	60.0%	60.0%	0.0%	40.0%	40.0%	0.0%	20.0%	20.0%	0.0%
U.S. EQUITY	76.0%	76.0%	0.0%	64.0%	64.0%	0.0%	48.0%	48.0%	0.0%	32.0%	32.0%	0.0%	16.0%	16.0%	0.0%
Large Value	17.5%	16.0%	1.5%	14.5%	13.5%	1.0%	11.0%	10.0%	1.0%	7.0%	6.5%	0.5%	3.5%	3.5%	0.0%
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%	3.0%	1.0%
Large Growth	17.5%	16.0%	1.5%	14.5%	13.5%	1.0%	11.0%	10.0%	1.0%	7.0%	6.5%	0.5%	3.5%	3.5%	0.0%
Small/Mid Value	8.0%	9.5%	-1.5%	7.0%	8.0%	-1.0%	5.0%	6.0%	-1.0%	3.5%	4.0%	-0.5%	1.5%	2.0%	-0.5%
Small/Mid Blend	8.0%	9.0%	-1.0%	6.5%	7.5%	-1.0%	5.0%	6.0%	-1.0%	3.5%	4.0%	-0.5%	2.0%	2.0%	0.0%
Small/Mid Growth	8.0%	9.5%	-1.5%	7.0%	8.0%	-1.0%	5.0%	6.0%	-1.0%	3.5%	4.0%	-0.5%	1.5%	2.0%	-0.5%
INTERNATIONAL EQUITY	19.0%	19.0%	0.0%	16.0%	16.0%	0.0%	12.0%	12.0%	0.0%	8.0%	8.0%	0.0%	4.0%	4.0%	0.0%
Developed (EAFE)	16.0%	12.0%	4.0%	13.0%	10.0%	3.0%	10.5%	8.0%	2.5%	6.5%	5.0%	1.5%	4.0%	4.0%	0.0%
Emerging Markets	3.0%	7.0%	-4.0%	3.0%	6.0%	-3.0%	1.5%	4.0%	-2.5%	1.5%	3.0%	-1.5%	0.0%	0.0%	0.0%
BONDS	3.0%	0.0%	3.0%	18.0%	15.0%	3.0%	38.0%	35.0%	3.0%	58.0%	53.0%	5.0%	78.0%	70.0%	8.0%
U.S. CORE	3.0%	0.0%	3.0%	17.0%	15.0%	2.0%	36.0%	35.0%	1.0%	55.0%	53.0%	2.0%	74.0%	70.0%	4.0%
Treasuries	1.5%	0.0%	1.5%	8.5%	7.0%	1.5%	17.5%	16.0%	1.5%	27.0%	24.5%	2.5%	36.0%	32.5%	3.5%
MBS	1.0%	0.0%	1.0%	5.5%	4.5%	1.0%	12.0%	10.5%	1.5%	18.0%	15.5%	2.5%	24.5%	20.5%	4.0%
IG Corporates	0.5%	0.0%	0.5%	3.0%	3.5%	-0.5%	6.5%	8.5%	-2.0%	10.0%	13.0%	-3.0%	13.5%	17.0%	-3.5%
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.

EQUITY ASSET CLASSES

Favor Large Caps and Developed International, Staying Neutral on Style

The STAAC has lowered its recommended equities allocation to neutral due to a less attractive risk-reward trade-off relative to fixed income amid elevated odds of a recession by year-end. The Committee now favors large cap stocks over their smaller brethren due to tightening credit conditions related to bank stress and the deterioration in technical indicators for small caps. Technical analysis points to growth, but the magnitude of this year's technology rally that has left the sector overbought suggests a neutral stance is prudent at this time. The Committee continues to favor developed international stocks over U.S. due primarily to attractive valuations and favorable technical analysis trends, while maintaining a cautious view of emerging market equities. Key risks include a Fed-driven hard landing, broader military conflict in Europe, and escalation in U.S-China tensions.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			Large caps generally perform better during periods of economic uncertainty with stronger balance sheets, are relatively insulated from ongoing bank stress, and look better from a technical perspective. However, they are more expensive than their small cap brethren and may lag in early stages of the next bull market.
	Mid Caps			Eventual beneficiary of an improving economic outlook, but tight credit conditions, tepid merger and acquisition activity, and current technical analysis trends suggest caution is prudent despite attractive valuations.
	Small Caps			Tightening credit conditions related to ongoing bank stress and deteriorating technical indicators drove our recent downgrade, though valuations are still supportive over the intermediate to long-term. We continue to favor the higher quality S&P 600 Index over the Russell 2000.
Style	Growth			The growth style has benefited from falling inflation and superior earnings power, particularly among mega-cap technology companies, and has not been slowed by the recent increase in interest rates. Technical analysis trends point toward growth despite elevated valuations.
	Value			The Committee upgraded growth last month to reflect weakening value style technical trends, while the macroeconomic environment is favorable for growth. Top value sector, financials, faces fundamental headwinds. Attractive valuations are insufficient for a bullish view, in our opinion.
Region	United States			The U.S. economy may be headed for a late-2023 recession and may have trouble outgrowing Europe and Japan. The 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, but technical trends and valuations favor developed international equities.
	Developed International			Last month's upgrade reflected a combination of attractive valuations, the resilience of European economies, and positive technical analysis trends. The U.S. dollar is a wildcard but the Committee's intermediate to long term view is negative, creating a potential catalyst for international equities over the next 12-24 months. German recession presents risk.
	Emerging Markets			The Committee maintains its cautious outlook for emerging market equities due largely to a weakening earnings outlook as China's reopening continues to disappoint and geopolitical uncertainty. Weakness in industrial metals is sending a cautious China growth signal. The U.S. dollar is a wildcard. Technical conditions are weak.

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 Balanced Posture for Cyclicals and Defensives

The STAAC recommends a balanced mix of cyclical and defensive sectors. Among economically sensitive, or cyclical, sectors, the Committee recommends just one overweight (industrials), and just one underweight (consumer discretionary). Resilient capital investment activity continues to support the Committee's positive industrials sector view. Real estate, which is a recommended underweight, offers a mix of cyclical and defensive characteristics and faces heightened risk in the commercial real estate market.

	Sector	Overall View	Relative Trend	S&P Wgt	Rationale
Cyclical	Materials			2.4	China's reopening has been uneven. The sector needs better growth in China and/or U.S. dollar weakness to reverse recent downtrend. Falling natural gas prices should help chemical producers. Reasonable valuations. Downgraded industrial metals view this month.
	Energy			4.2	Deterioration in technical analysis conditions and uneven China recovery offset attractive valuations and potential for additional OPEC+ supply cuts. Constrained production could keep supply fairly tight. U.S. dollar is a wildcard.
	Industrials			8.2	Capital expenditures and defense spending trends are supportive. Infrastructure a potential catalyst. Fair valuations. Technicals are weakening as recession risks rise in the U.S. and the global economic environment remains challenging.
	Communication Services			8.8	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 supportive. Valuations remain relatively attractive. Strong earnings season.
	Consumer Discretionary			10.2	The sector is historically not a good mid-to-late cycle performer, labor markets are weakening, and valuations are elevated, but falling inflation, strong earnings season relative to expectations, and improving technicals are encouraging.
	Technology			28.1	Macro environment (easing inflation, stable interest rates) and artificial intelligence enthusiasm are supportive. NVIDIA (NVDA) blowout earnings helped justify premium valuations. Great earnings season. Overbought but the trend is your friend.
	Financials			13.5	Bank stress and related tightening financial conditions, an inverted yield curve, weaker earnings, and poor technicals suggest caution despite attractive valuations. Regional bank valuations are intriguing near tangible book value.
Defensive	Utilities			2.7	Utilities have been hurt by cyclical sector leadership and regulatory pressure. Technical analysis suggests more caution may be warranted. Interest rate sensitivity hasn't helped but could as rates potentially move lower along with inflation.
	Healthcare			13.7	Defensive sectors have been out of favor despite still-high recession risk in late 2023. Tough COVID-19 comparisons and key patent expirations are also notable. Valuations remain attractive while the technical analysis picture is deteriorating.
	Consumer Staples			6.9	Sector likely to lag when the next bull market begins. Lower inflation could help ease margin pressures in coming quarters. But technicals have deteriorated and valuations aren't compelling.
	Real Estate			2.4	Negative view reflects weak technical analysis trends and commercial real estate risk. Interest rate risk appears contained, at least in the near term. Solid yields and fair valuations but not an area we would look to for yield relative to core fixed income.

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 Second Bite of the Apple

U.S. Treasury yields were higher across the yield curve in May as markets finally bought into the notion that the Fed was going to keep interest rates higher for longer. As such, after spending the last few months in a narrow trading range, yields on high quality fixed income sectors have moved higher as well offering investors another opportunity to take advantage of attractive valuations. Aside from preferred securities, valuations for riskier fixed income sectors remain rich relative to core sectors, in our view.

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 broke out of their narrow trading range in May offering an attractive entry point. Last year's 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 particularly relative to lower rated corporates. Due to higher mortgage rates, the lack of new mortgage supply should help buoy prices.
	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 provided an opportunity to invest in these senior securities. Higher credit quality among the riskier fixed income options. Bank fundamentals generally sound overall. 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

When it Rains it Pours

Selling pressure continued to spread across the broad commodities sector in May. The Bloomberg Commodity Index (BCOM) declined 6.1% and posted its sixth straight down month, marking its longest losing streak since 2015. While the disinflationary trend in commodity prices is a welcomed sign for tackling stubbornly high inflation, the economic narrative points to more of a hard-landing than soft-landing story.

A relief rally in the dollar, rising recession risk, tightening financial conditions, and growing concerns over China's reopening were the primary catalysts behind the decline. Technically, the U.S. Dollar Index rose 2.5% after finding support from the February lows. A close above the declining 200-day moving average and March highs (105.75 area) would suggest the recent rebound is more than a relief rally off oversold levels.

Energy led losses last month within the commodities complex. Natural gas prices traded down 12%, despite a sizable intra-month rally off support near $2.00. While technical evidence for a bottom is building, fundamental support for a sustained recovery is limited. Crude oil was another weak spot last month. WTI prices sank 11% and closed back near support from the March lows ($64). Continued signs of an economic slowdown in China have weighed on the demand outlook and largely offset the latest OPEC+ supply cuts. Based on this backdrop, and that most components are oversold and holding above support from previous lows, we maintain our neutral view on energy with a negative bias.

Overbought conditions and the rebound in the dollar created headwinds for metals. Industrial metals lagged, with nickel and zinc down 15%. Copper dropped nearly 7% and violated a range of support levels along the way, including the closely watched 200-day moving average. As a result of the recent technical deterioration, we are lowering our view on industrial metals to neutral from positive. Precious metals traded down 2.9%, but technical damage was minimal. Gold found support off the February highs and held above its uptrend. We maintain our positive view on precious metals.

	Neg. Neutral Pos.	Relative Trend	Rationale
Energy			Natural gas dropped double-digits last month but did not break below support off the March lows. Momentum has positively diverged from price action and short positions are beginning to cover. Despite the progress, there is still insufficient technical evidence to make the case for a confirmed bottom. WTI crude oil dropped over 10% last month. China's uneven reopening continues to weigh on oil demand and sentiment. Technically, a close above $83.25 would validate a breakout from the current bottom formation. We maintain our neutral view on energy with a negative bias.
Precious Metals			Precious metals traded lower but outperformed last month. Gold found support off February highs and held above its uptrend. Despite a sizable drawdown, silver remained above its rising 200-day moving average. We view the recent weakness as a pullback within the context of a longer-term uptrend and maintain our positive view on precious metals.
Industrial Metals			Industrial metals traded lower last month after facing a challenging macro backdrop. Technical damage in copper was notable as the commodity violated its 200-day moving average. Demand catalysts and the technical backdrop have faded, prompting us to lower our view on industrial metals to neutral from positive.
Agriculture (Ag) & Livestock			Agriculture (ag) and livestock markets declined last month. Within grains, wheat and soybeans are oversold near support, setting up for a potential short-term relief rally. Bumper crop conditions and a jump in Russian supply have weighed on prices. We remain neutral on ag and livestock.

Any futures referenced are being presented as a proxy, not as a recommendation. The fast price swings in commodities will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.

ALTERNATIVE INVESTMENTS

Performance Dispersion Continues

Alternative investment performance was mixed in May based on the Hedge Fund Research (HFR) indexes. The global macro and managed futures categories led the gains, while the event driven category detracted. As we prepare for the second half of the year, we are growing more constructive on tactical, unconstrained, and alpha focused strategies that tend to perform well in higher market volatility while maintaining low beta to the traditional asset classes. While these funds gave back some of their strong 2022 gains during the first quarter as both equity and fixed income markets reversed their 2022 downtrends, mutual fund managers are expected to have robust rates and currency trading opportunities arising from active global central banks at different phases of the policy cycle. Short term managed futures mutual fund strategies that are designed to monetize from the spike in volatility or short term reversion from extended trends could also add value as the major asset classes are expected to have less directionality and more twists and turns. Lastly, we expect multi-strategy funds to continue to provide additional sources of uncorrelated returns and the potential to mitigate traditional equity and bond market risks.

Please see https://www.hfr.com/indices for further information on the indices

Definition: The HFRI 400 (US) Hedge Fund Indices are global, equal-weighted indices comprised of the largest hedge funds that report to the HFR Hedge Fund Research

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.

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.

Preferred stock dividends are paid at the discretion of the issuing company. Preferred stocks are subject to interest rate and credit risk. As interest rates rise, the price of the preferred falls (and vice versa). They may be subject to a call feature with changing interest rates or credit ratings.

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.

Managed futures are speculative, use significant leverage, may carry substantial charges, and should only be considered suitable for the risk capital portion of an investor’s portfolio.

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