GLOBAL PORTFOLIO STRATEGY

LPL Research

JANUARY 2022

AFTER AN OUTSTANDING 2021, WHAT WILL STOCKS DO FOR AN ENCORE?

LPL RESEARCH'S MONTHLY MARKET OUTLOOK

Key changes from December's report:

- Upgraded growth to neutral, downgraded value to neutral
- Upgraded large caps to neutral, downgraded small and mid caps to neutral
- Upgraded healthcare to neutral, downgraded industrials to neutral

Stocks rose slightly in December, as the S&P 500 returned 4.5% for the month, bringing the 2021 return to nearly 29%. Stocks experienced volatility surrounding the Federal Reserve's hawkish pivot and emergence and rapid spread of the COVID-19 Omicron variant, but a solid economic growth and earnings backdrop, mostly mild symptoms, and favorable seasonal trends helped buoy investor sentiment.

Our year-end 2022 S&P 500 fair value target range is 5,000—5,100, based on a price-to-earnings ratio (PE) of 21—21.5 and our 2023 earnings per share (EPS) estimate of $235. We expect the 10-year Treasury yield to end the year between 1.75%—2.0%. Primary risks include restrictions on economic activity from COVID-19 spread in the U.S., lockdowns in Europe, prolonged supply chain disruptions, elevated inflation, higher interest rates, and geopolitics.

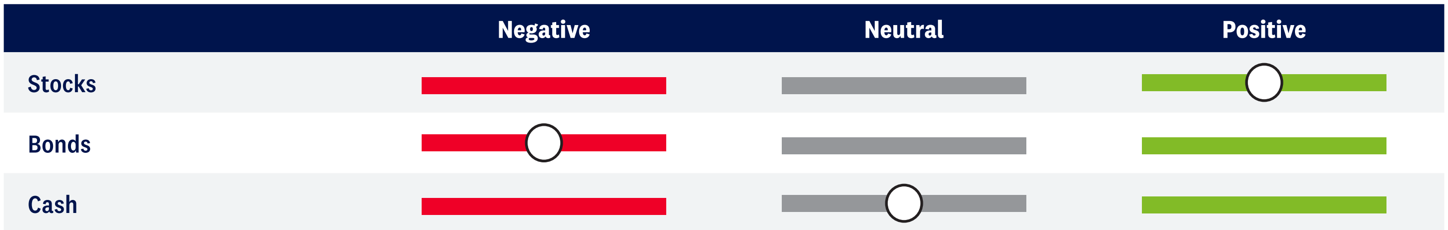
Against this backdrop, LPL Research continues to believe that tactical investors should tilt portfolios in favor of stocks over bonds relative to their respective targets.

INVESTMENT TAKEAWAYS:

- We expect solid economic and earnings growth to help U.S. stocks deliver solid gains in 2022. If we are approaching—or are already in—the middle of an economic cycle with at least a few more years left (our view), then we believe the chances of another good year for stocks in 2022 is quite high.
- We have squared up our views of the value and growth styles due to increasing COVID-19 risk, a growth-friendly interest rate environment, and relatively stronger technical trends for growth stocks.
- We have also leveled out our market cap views at neutral due to the maturity of the economic cycle and relatively stronger technical trends for large caps.
- Our healthcare upgrade reflects improving technical analysis trends and reduced policy risk.
- We continue to recommend a slight underweight allocation to fixed income as higher rates may put some pressure on bond returns.
- Although we've seen a move slightly higher in yields recently, reduction of Federal Reserve (Fed) policy support and a strengthening global recovery may push yields still higher in the months ahead.
- As interest rates have moved off last year's record lows, we no longer think a max underweight to Treasury securities is warranted. While yields may move modestly higher from current levels, the biggest moves may have already occurred.

BROAD ASSET CLASS VIEWS

LPL Research's Views on Stocks, Bonds, and Cash



OUR ASSET CLASS & SECTOR CHOICES

Equity Asset Classes	Equity Sectors	Fixed Income	Alternative Asset Classes
▪ U.S. Equities	▪ Financials ▪ Real Estate	▪ Mortgage-Backed Securities	▪ Event Driven

2022 MARKET FORECASTS

Higher Earnings Support Further Gains for Stocks

	Previous	Current
10-Year U.S. Treasury Yield	1.75%-2.0%	1.75%-2.0%*
S&P 500 Index Earnings per Share	$218	$220
S&P 500 Index Fair Value	NA	5,000-5,100**

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 Outlook 2022: Passing the Baton, our year-end 2022 forecast for the U.S. 10-year Treasury yield is 1.75%-2.0%. The forecast reflects above-trend inflation, an aging demographic in need of income, higher global debt levels, and anticipated rebalancing into fixed income from equities.

**As also noted in our Outlook 2022: Passing the Baton, our year-end 2022 fair-value target range for the S&P 500 of 5,000–5,100 is based on a price-to-earnings ratio (PE) of 20–21.5 and our S&P 500 earnings per share (EPS) forecast of $235 in 2023.

2022 ECONOMIC FORECASTS

Continued Strong U.S. Growth Expected

	2021	2022
United States	5.5%	4.0% to 4.5%
Developed ex-U.S.	4.6%	3.5% to 4.0%
Emerging Markets	6.4%	4.75% to 5.25%
Global	5.7%	4.25% to 4.75%

Source: LPL Research, Bloomberg

The economic forecasts may not develop as predicted.

All data, views, and forecasts herein are as of 12/29/21.

LPL RESEARCH STRATEGIC AND TACTICAL ASSET ALLOCATION COMMITTEE

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

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	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	82.3%	76.0%	6.3%	71.4%	64.0%	7.4%	54.6%	48.0%	6.6%	37.8%	32.0%	5.8%	20.0%	16.0%	4.0%
Large Value	12.0%	11.1%	0.9%	10.4%	9.3%	1.1%	7.9%	7.0%	1.0%	5.5%	4.7%	0.8%	2.9%	2.3%	0.6%
Large Blend	20.1%	18.5%	1.5%	17.4%	15.6%	1.8%	13.3%	11.7%	1.6%	9.2%	7.8%	1.4%	4.9%	3.9%	1.0%
Large Growth	19.5%	18.0%	1.5%	16.9%	15.2%	1.8%	12.9%	11.4%	1.6%	9.0%	7.6%	1.4%	4.7%	3.8%	0.9%
Small/Mid Value	10.1%	9.3%	0.8%	8.8%	7.8%	0.9%	6.7%	5.9%	0.8%	4.6%	3.9%	0.7%	2.5%	2.0%	0.5%
Small/Mid Blend	12.9%	11.9%	1.0%	11.2%	10.0%	1.2%	8.6%	7.5%	1.0%	5.9%	5.0%	0.9%	3.1%	2.5%	0.6%
Small/Mid Growth	7.7%	7.1%	0.6%	6.7%	6.0%	0.7%	5.1%	4.5%	0.6%	3.6%	3.0%	0.5%	1.9%	1.5%	0.4%
INTERNATIONAL EQUITY	15.7%	19.0%	-3.3%	13.6%	16.0%	-2.4%	10.4%	12.0%	-1.6%	7.2%	8.0%	-0.8%	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	3.3%	7.0%	-3.7%	3.0%	6.0%	-3.0%	1.7%	4.0%	-2.3%	1.6%	3.0%	-1.4%	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%	5.5%	6.6%	-1.1%	14.0%	15.5%	-1.5%	22.6%	23.5%	-0.9%	31.1%	31.0%	0.0%
MBS	0.0%	0.0%	0.0%	4.0%	4.5%	-0.5%	10.1%	10.5%	-0.3%	16.3%	15.8%	0.4%	22.4%	20.9%	1.5%
IG Corporates	0.0%	0.0%	0.0%	3.0%	3.9%	-0.9%	7.5%	9.0%	-1.5%	12.1%	13.7%	-1.6%	16.6%	18.1%	-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%
TIPS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
International	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
High-Yield Corporates	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Bank Loans	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%
Emerging Markets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
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%

This is not investment advice and may not be suitable for all investors; please see last page for additional disclosures and description.

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 Barcalys 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 Stocks Overweight, Squaring Up Cap and Style Preferences

We continue to favor stocks over bonds based on our expectation for above-trend economic growth in 2022 and continued solid earnings gains, though the COVID-19 Omicron variant and elevated inflation remain key risks to watch. We have squared up our views of the value and growth styles due to increasing COVID-19 risk in the near term, a growth-friendly interest rate environment, and relatively stronger technical trends for growth stocks. We have also leveled out our market cap views at neutral due to the maturity of the economic cycle and relatively stronger technical trends for large caps. Our emerging markets equities recommendation remains negative due to ongoing regulatory risks in China, which could slow earnings growth expectations while increasing uncertainty.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			Well-positioned for the pandemic due to greater financial strength and superior ability to manage through supply chain disruptions. Looking ahead, as the economic cycle matures in 2022, the environment may become more favorable for large cap companies.
Market Capitalization	Mid Caps			As the economic cycle matures, mid caps may see less benefit from their early cycle characteristics. At the same time, we believe mid cap stock valuations are relatively attractive and the merger and acquisition environment remains robust. Further, mid caps should perform relatively well in a post-Omicron rally should one materialize.
Market Capitalization	Small Caps			As the economic cycle matures, the environment for small cap stocks may become more challenging. Further, our technical analysis work suggests the path to sustained small cap outperformance may be difficult. However, small caps should do well in a potential post-Omicron rally while the robust merger environment, strong earnings growth prospects in 2022, and significantly reduced likelihood of meaningful tax increases in 2022 are supportive.
Style	Growth			We believe growth stocks will continue to garner support from strong earnings trends while the interest rate environment and technical analysis signals are both more favorable for growth, in our view. However, demand for growth stocks could wane at times when economic growth expectations and interest rates move higher.
Style	Value			Technical analysis is the primary factor driving our tempered view of the value style, though the lingering effects of COVID-19 and stubbornly low interest rates with a flatter yield curve create difficult macroeconomic conditions for value stocks. At some point as COVID-19 fears ease and economic activity picks up, we would anticipate a period of cyclical value stock outperformance, but that period may be short-lived and the timing is difficult to predict.
Region	United States			We maintain our preference for U.S. equities over their developed international counterparts due to our more favorable U.S. economic growth outlook and the strong U.S. dollar. Once a synchronized, global expansion materializes post-pandemic, prospects for developed international stocks to outperform U.S. stocks would greatly improve, in our view.
Region	Developed International			We favor the U.S. over developed international equities as 2022 begins, but international equities may become more attractive once a synchronized global expansion potentially materializes. Conditions for the growth-led U.S. market remain more favorable in our view despite high valuations, making near-term outperformance by value-oriented international stocks unlikely.
Region	Emerging Markets			Our emerging markets equities view remains negative due to ongoing regulatory risks in China, which could slow earnings growth expectations while increasing uncertainty. In our view, attractive valuations and monetary stimulus will not be enough to turn these markets around in the near term, in the absence of regulatory stability or meaningful U.S. dollar weakness.

EQUITY SECTORS

Balancing Out Cyclical and Defensive Sector Views with Healthcare Upgrade, Industrials Downgrade

We maintain a slight preference for economically sensitive "cyclical" sectors as 2022 begins, but as the economic cycle matures, we believe more balance between cyclical and defensive sectors is prudent. This month we have upgraded our view of the defensive healthcare sector from negative to neutral and downgraded our industrials sector view from positive to neutral. Our upgraded healthcare view reflects improving technical analysis trends and reduced policy risk. Deteriorating technical momentum and relatively weak earnings estimate revisions dampen the near-term outlook for industrials, among the sectors hardest hit by lingering COVID-19 disruptions. We maintain our positive financials and real estate views and our negative views of consumer staples and utilities.

	Sector	Overall View	Relative Trend	S&P Wgt	Rationale
Cyclical	Materials			2.5	Recent deterioration in relative strength, slower growth in China, a strong U.S. dollar, and delayed post-pandemic pickup in global growth offset benefits of infrastructure spending and inflationary environment. Valuations are fair, not compelling.
	Energy			2.7	Global demand is improving as economies open up while global supply increases have been gradual. However, we believe caution is warranted given the mixed technical analysis picture and risk of unanticipated supply at higher oil price levels.
	Industrials			7.7	Recent deterioration in technical momentum, relatively weak earnings estimate revisions, and ongoing supply chain disruptions dampen the near-term outlook, though the next leg of the reopening and more infrastructure spending will eventually help. Valuations are fair.
	Communication Services			10.3	A toughening regulatory environment for this digital media-heavy sector and weak technical analysis trends offset increasingly attractive valuations and keep us at neutral.
	Consumer Discretionary			12.6	Excess consumer savings and positive wealth effects are supportive but valuations remain elevated, inflation is eroding purchasing power, and the recovery in hospitality, travel, and leisure has taken longer than we anticipated amid Omicron variant spread.
	Technology			29.5	Our neutral style view coincides with a positive bias toward technology. Strong company fundamentals, favorable pandemic positioning, and bullish technical analysis trends help offset the risk that higher interest rates pressure elevated growth-stock valuations.
	Financials			10.7	Prospects for higher interest rates and solid loan demand in 2022 are keys to our positive view, though yield curve flattening after the Fed's "hawkish pivot" introduces risk. Valuations remain attractive. Watching technical analysis signals and rates closely.
Defensive	Utilities			2.4	Prefer real estate among defensives. Our view is it is too early in the economic cycle for utilities to outperform for any meaningful length of time. Green-energy spending catalyst may be losing steam. Interest rate risk for income sectors has fallen. Attractive valuations.
	Healthcare			13.2	Our upgraded view reflects the maturation of the economic cycle, improving technical analysis trends, and diminishing policy risk as the Build Back Better plan stalls. Demographic trends offer long-term support. Valuations are attractive.
	Consumer Staples			5.8	May see better relative performance as the economic cycle matures and enters middle stages, but slow-growth staples companies are getting squeezed by rising wholesale prices and wages. Interest rate risk for income sectors has fallen. Fair valuations.
	Real Estate			2.7	Benefits of reopening, the sector's tendency to effectively manage inflation, and healthy credit markets, are supportive. Bullish technical analysis trends. Defensive sectors have been attracting more interest recently. Interest rate risk for income sectors has fallen.

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.

FIXED INCOME

Limit Rate Sensitivity with Intermediate Focus

We suggest a blend of high-quality bonds with limited exposure to non-investment grade bonds in tactical portfolios. While we think the 10-year Treasury yield can still end this year between 1.50%—1.75% and move slightly higher next year, we think the big move higher in yields has already taken place. As such, we think it is no longer necessary to maintain a max underweight to interest rate sensitive fixed income assets. We've upgraded our view on Treasury securities to neutral. We still see some value in high quality corporate bonds but credit spreads have little room for further tightening. For income-oriented investors willing to take on more risk, we think bank loans still make sense, where appropriate.

We favor **municipal bonds** as a high-quality option for taxable accounts, although valuations relative to Treasuries remain elevated. Additionally, for appropriate investors, **high yield municipal bonds** offer an attractive tax-equivalent yield. Federal stimulus and prospects of higher personal tax rates provide support to muni markets.

		Low / Medium / High	Rationale
Positioning	Credit Quality		Credit spreads remain elevated, but the economic outlook may be supportive.
		Short / Int. / Long	
	Duration		We think marginally reducing the underweight to interest-rate sensitive assets makes sense at this point in the cycle.
		Neg. / Neutral / Pos.	**Rationale**
Sectors	U.S. Treasuries		Yields have traded slightly higher recently but we expect them to continue to increase marginally from current levels. However, we think the big move higher in yields has already happened and have increased our view of Treasuries to neutral. Yield spreads to international sovereigns remain attractive. Inflation breakeven rates leave TIPS fairly valued.
	MBS		The Fed has started to reduce its MBS purchases, which may temporarily put upward pressure on yields. Valuations remain relatively attractive to fair value so may attract additional yield buyers.
	Investment-Grade Corporates		Risks temper as economy improves and vaccine deployment progresses. Leverage metrics have increased, but cash levels are high. Interest-rate sensitivity has increased. Tight credit spreads limit attractiveness.
	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.
	High-Yield Corporates		Valuations have grown rich versus history but fundamentals remain sound. May be more attractive for income-oriented investors. We believe equities have more upside and high-quality options may be better diversifiers.
	Bank Loans		Economic environment is supportive and better sector mix than high yield. Economic acceleration may support demand. Fewer investor protections and illiquidity of individual loans remain concerns.
	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.

LPL Financial

COMMODITIES

Precious Metals May Be Running out of Catalysts

Our view of **industrial metals** remains positive, as prospects for a pickup in economic growth in the U.S. and more infrastructure spending help offset prospects for slowing demand from China and the headwind of a strong U.S. dollar.

Our **precious metals** view is neutral. Our strong economic outlook presents a headwind for defensive assets. While low interest rates are supportive, our technical analysis assessment of gold is less positive than copper. We expect higher interest rates in 2022, and inflation may be nearing its peak, potentially removing a positive catalyst.

Our **crude oil** view is neutral. A receding Omicron COVID-19 variant could push oil back toward to the high end of its recent range in the low $80s but the likely supply response at higher prices and our technical analysis work suggest breaking to new highs may prove difficult, setting up a likely range-bound scenario.

ALTERNATIVE INVESTMENTS

Mixed Ending to a Constructive Year

Alternative investments ended the year with rather wide-ranging performance across underlying sub-strategies. Overall, we remain focused on strategies that have historically acted as a way to diversify interest rate–related fixed income risk without simply adding stock-like exposure. These strategies include global macro, multi-strategy, equity market neutral, and our preferred solution—event driven. While these strategies all have their own characteristics, they've historically provided a risk/return profile similar to that of core fixed income, while having limited exposure to equity market movement. In contrast to core fixed income allocations, which struggle to play their traditional defensive role during periods of rising rates, these strategies may help protect portfolios in the current environment and act as a source of ballast.

While event driven funds ended the year on a difficult note, we maintain a positive view on the space and our three main tailwinds for the industry—high corporate cash balances, low borrowing rates, and the private equity industry's dry powder—remain in place. A robust deal flow environment allows event driven strategies to be more selective in choosing underlying transactions and also moderates position crowding within the industry. The 2021 total volume of global merger and acquisitions is the largest in history. Ongoing risks associated with event driven strategies include the price impact of transactions failing, regulatory risk, and the potential impact of changes in the tax landscape.

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.

LPL Financial