GLOBAL PORTFOLIO STRATEGY

LPL Research

JULY 2022

STOCKS NEAR BEAR MARKET AMID HEIGHTENED RECESSION FEARS

LPL RESEARCH'S MONTHLY MARKET OUTLOOK

Key changes from June report:

- Lowered S&P 500 Index year-end fair value target from 4,800-4,900 to 4,300-4,400.
- Increased equity exposure in tactical asset allocation from 62% to 65%.
- Reduced low duration core bond allocation and increased allocation to small cap equities.

The S&P 500 Index entered a bear market in June, falling more than 20% from its January 3 high. After an 8.4% decline for the month, the index ended the first half down 20.6%, its worst first half since 1970.

Market participants remained on edge due to high inflation and the risk that the Federal Reserve over-tightens monetary policy to combat it, potentially sending the economy into recession. Although energy prices came down some, weakening economic data and the lack of a cease-fire in Ukraine offset the modest gas price relief.

The intense pressure on bonds over the first four months of the year returned in June as the 10-year U.S. Treasury yield hit a decade high 3.5% before falling back to near 3%. Volatility remains elevated.

The Strategic and Tactical Asset Allocation Committee (STAAC) changed its recommended asset allocation for July, shifting from core bonds to small cap equities. The Committee also lowered its S&P 500 Index year-end fair value target range to 4,300—4,400, based on a price-to-earnings ratio (PE) of 18-19 and an earnings per share (EPS) forecast of $235 for 2023.

INVESTMENT TAKEAWAYS:

- The STAAC Committee increased its recommended overweight to equities relative to bonds for July based on the belief that near-term recession fears are overdone. Rebounds from shallow bear markets and midterm election lows have been quite strong historically.
- 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.
- Attractive valuations and a U.S. focus may provide support for small caps once economic uncertainty begins to clear.
- 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 2.75% to 3.25% but we could see yields retest the earlier 3.50% to 3.75% range in the near term.
- Shorter maturity corporate credit and high yield bonds (for income-oriented investors) are starting to look more attractive.

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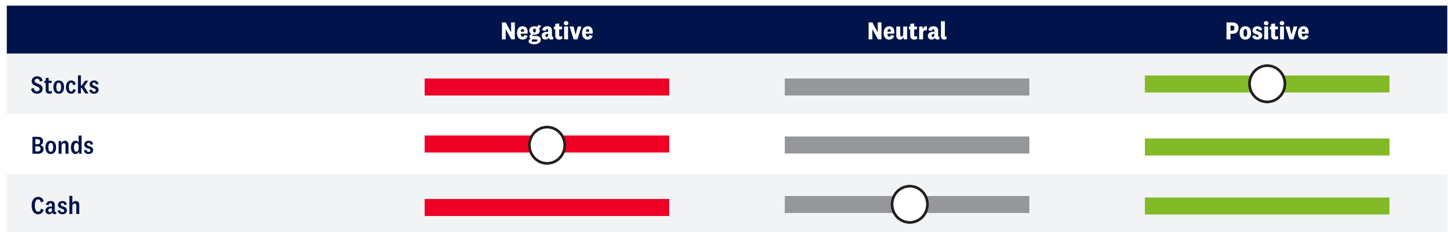
BROAD ASSET CLASS VIEWS

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	▪ Healthcare ▪ Real Estate ▪ Energy	▪ Mortgage-Backed Securities	▪ Low-beta alts (Event Driven, Market Neutral, Multi-strats)

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%*	2.75%-3.25%*
S&P 500 Index Earnings per Share	$225	$225
S&P 500 Index Fair Value	4,800-4,900	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 2022 forecast for the U.S. 10-year Treasury yield is 2.75%-3.25%. 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.

**Our year-end 2022 fair-value target range for the S&P 500 of 4,300–4,400 is based on a price- to-earnings ratio (PE) of 18-19 and our S&P 500 earnings per share (EPS) forecast of $235 in 2023.

2022 ECONOMIC FORECASTS

Downshift in Global Growth

	Previous	Current
United States	2.7% to 3.2%	1.9% to 2.5%
Eurozone	2.4% to 2.9%	2.1% to 2.7%
Advanced Economies	NA	2.2% to 2.8%
Emerging Markets	3.8% to 4.3%	3.1% to 3.7%
Global	3% to 3.5%	2.5% to 3.1%

Source: LPL Research, Bloomberg

The economic forecasts may not develop as predicted.

All data, views, and forecasts herein are as of 5/27/22.

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LPL RESEARCH STRATEGIC AND TACTICAL ASSET ALLOCATION COMMITTEE

LPL Research Tactical Asset Allocation as of 7/1/2022

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	80.4%	76.0%	4.4%	69.7%	64.0%	5.7%	53.3%	48.0%	5.3%	36.9%	32.0%	4.9%	20.5%	16.0%	4.5%
Large Value	11.8%	9.9%	1.8%	10.2%	8.4%	1.8%	7.4%	6.3%	1.2%	5.0%	4.2%	0.8%	2.6%	2.1%	0.5%
Large Blend	17.6%	16.7%	1.0%	15.0%	14.0%	0.9%	10.7%	10.5%	0.2%	7.1%	7.0%	0.1%	3.5%	3.5%	0.0%
Large Growth	21.7%	21.8%	0.0%	18.4%	18.3%	0.1%	13.3%	13.7%	-0.5%	8.8%	9.2%	-0.3%	4.4%	4.6%	-0.2%
Small/Mid Value	10.4%	9.1%	1.3%	9.3%	7.7%	1.6%	7.6%	5.8%	1.9%	5.5%	3.8%	1.7%	3.4%	1.9%	1.5%
Small/Mid Blend	13.4%	12.7%	0.7%	12.0%	10.7%	1.3%	9.9%	8.0%	1.8%	7.1%	5.4%	1.8%	4.4%	2.7%	1.7%
Small/Mid Growth	5.4%	5.8%	-0.4%	4.9%	4.9%	0.0%	4.4%	3.7%	0.7%	3.2%	2.4%	0.8%	2.1%	1.2%	0.9%
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%	4.5%	4.0%	0.5%
Developed (EAFE)	10.4%	12.0%	-1.6%	8.9%	10.0%	-1.1%	7.4%	8.0%	-0.6%	4.7%	5.0%	-0.3%	4.5%	4.0%	0.5%
Emerging Markets	7.2%	7.0%	0.2%	6.4%	6.0%	0.4%	4.3%	4.0%	0.3%	3.4%	3.0%	0.4%	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%	5.7%	6.8%	-1.1%	14.4%	16.0%	-1.5%	23.2%	24.2%	-1.0%	31.9%	31.9%	0.0%
MBS	0.0%	0.0%	0.0%	4.0%	4.5%	-0.5%	10.2%	10.6%	-0.3%	16.4%	16.0%	0.4%	22.6%	21.1%	1.5%
IG Corporates	0.0%	0.0%	0.0%	2.8%	3.6%	-0.9%	7.0%	8.5%	-1.5%	11.3%	12.8%	-1.6%	15.5%	17.0%	-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 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

Increasing Overweight to Stocks on Belief that Market is Overly Pricing in Recession Risk

The LPL Research STAAC has increased its allocation to stocks at the expense of bonds as the Committee believes stocks have overly discounted the risk of recession in the near term. The Committee expects trend-like economic growth and continued solid earnings gains to support robust stock market performance in the second half, consistent with historical strong rebounds from shallow bear markets and midterm election year lows. 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 for now, although renewed confidence in economic and earnings growth and stable interest rates may set the stage for a growth turnaround over the next couple of months. Small caps may benefit from valuation support and their U.S. focus in the near term as recession fears abate. The greater likely economic impact of the Russia-Ukraine conflict on Europe supports the Committee's preference for U.S. equities.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps	Neutral	Positive (green)	Large caps, which generally perform better during periods of economic uncertainty, are also better positioned to manage global supply chain disruptions than small caps but are more exposed to weakness in Europe.
Market Capitalization	Mid Caps	Neutral	Negative (red)	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.
Market Capitalization	Small Caps	Neutral	Negative (red)	Small cap stock valuations have become quite attractive, smaller companies are relatively more insulated from economic weakness in Europe than larger cap companies, and earnings estimates have held up well in recent months. Once recession fears calm, small caps may be poised for a run of outperformance.
Style	Growth	Neutral	Negative (red)	Later this year, we would anticipate the growth style benefiting from stable economic growth, 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.
Style	Value	Neutral	Positive (green)	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	Positive (green)	Positive (green)	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.
Region	Developed International	Negative (red)	Neutral (gray)	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.
Region	Emerging Markets	Neutral	Negative (red)	China's reopening, stimulus, easing regulatory pressures, and attractive valuations support our neutral view amid the ongoing war in Ukraine.

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.

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EQUITY SECTORS

Sticking with Energy Despite Pullback Amid Support from China Reopening, Continued US Growth

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 move also aligned with the strongest technical analysis trends. Despite recent weakness, the energy uptrend remains intact and supply-demand fundamentals remain supportive. 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 couple of months should the macro environment improve.

	Sector	Overall View	Relative Trend	S&P Wgt	Rationale
Cyclical	Materials	Neutral	Positive (green)	2.6	China is reopening, improving the outlook. The U.S. dollar may reverse which would be supportive. Infrastructure spending seems to be on the upswing. An inflation beneficiary. Valuations reasonable. Technicals positive.
Cyclical	Energy	Positive	Positive (green)	4.4	Technical analysis trends look positive despite consolidating oil prices. Russian supply story likely to linger. China reopening supports global demand outlook. Increase in production to replace Russian oil in global marketplace will take time.
Cyclical	Industrials	Negative	Neutral (gray)	7.7	Economic uncertainty in the U.S., weaker global growth, 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.
Cyclical	Communication Services	Negative	Negative (red)	9.0	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 drove the June downgrade despite reasonable valuations.
Cyclical	Consumer Discretionary	Negative	Negative (red)	10.8	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 retailers' profit margins are challenged. The valuations of the sector is still elevated.
Cyclical	Technology	Neutral	Negative (red)	27.2	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, below consumer staples.
Cyclical	Financials	Neutral	Neutral (gray)	10.8	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	Neutral	Positive (green)	3.0	Technical analysis drove the April upgrade. Green-energy spending may help. Interest rates may have peaked. Recession may be needed to sustain outperformance. Likely laggard in market rally. Elevated valuations.
Defensive	Healthcare	Positive	Positive (green)	14.9	Maturing economic cycle, positive technical analysis trends, and manageable policy risk are supportive of the sector near-term, though drug price reform still may be passed before midterms. Demographic trends offer long-term support. Reasonable valuations.
Defensive	Consumer Staples	Neutral	Positive (green)	6.8	Outperformance during bear market 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.
Defensive	Real Estate	Positive	Neutral (gray)	2.9	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.
		Short	Int.	Long	
	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

Is The Commodities Run Coming to an End?

Commodities broadly have been in strong uptrends since the beginning of the bull market run in March 2020. However, one by one, commodities appear to be falling off of those uptrends. Gold has traded sideways for nearly two years now, copper just broke to the downside from a year-long trading range, and numerous agricultural commodities have pulled back 20-30% over recent months.

Our energy commodities view remains most positive within the commodities space. While West Texas Intermediate (WTI) crude oil has recently corrected and has so far been unable to eclipse its March highs following the Russian invasion of Ukraine, it remains in a long-term uptrend, as do other commodities such as natural gas. The removal of China lockdowns only further provides fundamental support via firming demand.

While China's reopening provides a tailwind, it is not enough to counteract the strong technical breakdown we see recently in the most prominent industrial metal: copper. Copper and other industrial metals look broadly to have topped, as the global economy braces for a slowdown or possibly a recession. We have a negative bias towards industrial metals and now favor precious metals.

While we favor precious metals relative to industrial, our precious metals view remains neutral. Gold has traded sideways and is little changed over the past year and in recent months, and we see little reason to be long or short. Volatility in both stocks and bonds provides a healthy backdrop for demand from a fundamental standpoint, but they have been offset by dollar strength and rapidly rising real interest rates.

ALTERNATIVE INVESTMENTS

Alts Held Up Well In June Market Decline

Alternative investments performed very well on a relative basis during June as the equity and bond markets declined. Our preferred alternatives implementation, which now includes event-driven, market neutral, and low-beta single and multi-manager strategies, held up well against this 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 preserve portfolios in the current environment and act as a source of ballast during periods of high volatility. These characteristics have been on display this year and reinforced the benefit of these strategies within the context of a broader portfolio. 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 market neutral and multi-strategy strategies will 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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