LPL Financial

75 State Street, 22nd Floor
Boston, MA 02109

4707 Executive Drive
San Diego, CA 92121

1055 LPL Way
Fort Mill, SC 29715

October 5, 2022

Dear Valued Investor,

First, we want to acknowledge the tremendous damage and displacement caused by Hurricane Ian. Our thoughts are with those impacted by this devastating storm.

This has clearly been a challenging year for households. Stocks and bonds are both down significantly. Elevated food and gas prices continue to stretch budgets, and higher interest rates have increased borrowing costs. But we continue to see signs that the worst may be behind us. Gas prices are falling. Inflation pressures stemming from supply chain disruptions are easing. And the Federal Reserve (Fed) has taken these price increases seriously and is doing its job by raising short-term interest rates. While the Fed may still gradually increase rates throughout this year, it has already done a lot even as asset prices have come under increasing pressure.

As the third quarter comes to an end, it's admittedly difficult to be optimistic about stock and bond markets right now. The most recent quarter saw both stocks and bond prices fall in tandem again. The negative returns for both markets were the third consecutive quarterly declines for stocks and bonds. Of the 187 quarters since 1976, there has never been a period that has seen negative quarterly returns for both stocks and bonds three quarters in a row. Said another way, this is the longest period since 1976 that bonds haven't played the traditional role in portfolios by offsetting losses in the stock market.

So why own bonds at all? The value proposition for core bonds is that they tend to provide liquidity, diversification, and positive total returns to portfolios. Unfortunately, none of those values is 100% certain all the time. Like all markets, fixed income investing involves risks and, at times, negative returns. However, despite the historically poor start to the year, we think the value proposition for core bonds has actually improved recently. Investing is a forward-looking exercise and with the move higher in yields that has already taken place this year, we believe now could be as good as it's been in quite some time for core bonds. Starting yields on most fixed income asset classes are hovering around the highest yields we've seen in over a decade. So we don't think now is the time to abandon your existing allocation to bonds and in fact, it could be worth a look for those investors underinvested in bonds.

We acknowledge how difficult it is to stay invested during these bouts of market volatility. But markets have already priced in a lot of bad news, and we think we are closer to the end of this negative cycle than the beginning. Potential catalysts for a rebound in the near-term include third quarter earnings season, midterm elections, tailwinds from a seasonally strong fourth quarter historically, and the Fed possibly signaling a pause in rate hikes by year-end. While there may be continued volatility in the near-term, we believe the surest path forward remains to stay true to your existing financial plan.

Please contact your financial advisor with questions.

Sincerely,

Lawrence Gillum, CFA, CAIA
Fixed Income Strategist
LPL Research

LPL Financial

This material is for general information only and is not intended to provide specific advice or recommendations for any individual. There is no assurance that the views or strategies discussed are suitable for all investors or will yield positive outcomes. Investing involves risks including possible loss of principal. Any economic forecasts set forth may not develop as predicted and are subject to change.

References to markets, asset classes, and sectors are generally regarding the corresponding market index. Indexes are unmanaged statistical composites and cannot be invested into directly. Index performance is not indicative of the performance of any investment and do not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

All index data from FactSet.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

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.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Past performance does not guarantee future results.

Asset allocation does not ensure a profit or protect against a loss.

For a list of descriptions of the indexes and economic terms referenced, please visit our website at lplresearch.com/definitions.

This research material has been prepared by LPL Financial LLC.

Securities and advisory services offered through LPL Financial (LPL), a registered investment advisor and broker-dealer (member FINRA/SIPC). Insurance products are offered through LPL or its licensed affiliates. To the extent you are receiving investment advice from a separately registered independent investment advisor that is not an LPL affiliate, please note LPL makes no representation with respect to such entity.

Not Insured by FDIC/NCUA or Any Other Government Agency | Not Bank/Credit Union Guaranteed
Not Bank/Credit Union Deposits or Obligations | May Lose Value