

LOOKING AHEAD TO 2021

LPL Research's Monthly Global Review and Look Forward

Stocks rose sharply in November after falling the prior two months, as the S&P 500 Index returned nearly 11%. Progress on COVID-19 vaccines and post-election policy clarity buoyed investor sentiment, offsetting surging COVID-19 cases in the United States and many parts of the world. Credit-sensitive bonds such as high-yield corporates performed well, while the Bloomberg Barclays Aggregate Bond Index rose a solid 0.98% as yields fell. Our 2021 forecasts call for mid-to-high-single-digit gains for stocks and near-flat to low-single-digit returns for bonds.

KEY CHANGES FROM NOVEMBER'S REPORT:

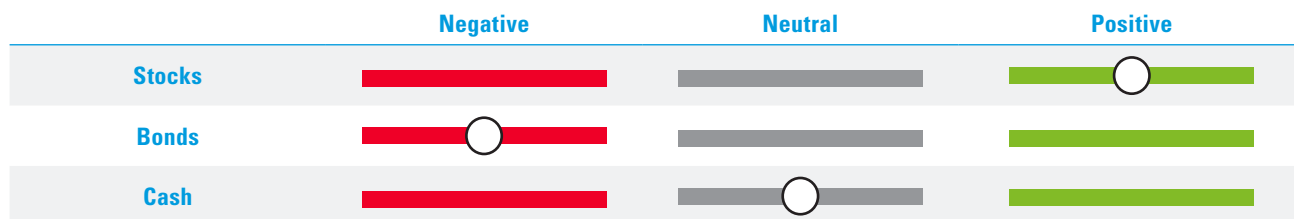
- Upgraded industrial metals view to positive, downgraded precious metals view to neutral

INVESTMENT TAKEAWAYS

- Our new 2021 year-end fair value target for the **S&P 500 Index** is 3,850–3,900, as noted in *Outlook 2021: Powering Forward*. Our target is based on a price-to-earnings (PE) multiple of 20 and our preliminary 2022 earnings forecast of \$190.
- Our **equities** recommendation remains overweight. We continue to favor stocks over bonds based on our expectation for a strong economic and earnings recovery in 2021, supported by additional fiscal stimulus, continued progress in combatting COVID-19, and the likely continuation of the low-rate environment.
- Key near-term risks include containing the latest wave of COVID-19 while awaiting vaccines and lingering political uncertainty ahead of the runoff elections for Georgia's two Senate seats on January 5, 2021.
- We maintain our preference for **growth stocks** as 2021 begins, bolstered by strong earnings trends and favorable positioning for the pandemic. But as the economic recovery progresses in 2021, we would expect cyclical value stocks to get a boost.
- We expect solid economic growth across Asia to support continued outperformance by stocks in **emerging markets** (EM) over their **developed international markets** counterparts. EM may garner additional support from potential easing of US-China trade tensions, while performance for European and Japanese stocks could improve if the US dollar weakens.
- Our **fixed income view** remains **underweight**. While Federal Reserve (Fed) policy and modest inflationary pressure for now may limit the risk of a large rate move, rising rates may still put some pressure on bond returns while economic improvement may help support riskier assets going out a full year.
- We favor a blend of **high-quality intermediate bonds** with a modest underweight to **USTreasuries** and an emphasis on short-to-intermediate maturities with sector weightings tilted toward **mortgage-backed securities** (MBS).

BROAD ASSET CLASS VIEWS

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



OUR ASSET CLASS & SECTOR CHOICES

Equity Asset Classes	Equity Sectors	Fixed Income	Alternative Asset Classes
<ul style="list-style-type: none"> Emerging Markets Equities Growth Equities 	<ul style="list-style-type: none"> Communication Services Healthcare Materials Technology 	<ul style="list-style-type: none"> Mortgage-Backed Securities 	<ul style="list-style-type: none"> Event Driven

2020–2021 MARKET FORECASTS

Expect Solid Gains for Stocks in 2021 as COVID-19 Progress Continues

	2020	2021
10-Year US Treasury Yield	1.0–1.5%	1.25–1.75%
S&P 500 Earnings per Share	\$125–130	\$165
S&P 500 Fair Value	3,450–3,500*	3,850–3,900**

Source: LPL Research, FactSet, Bloomberg

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

*As noted in our [Weekly Market Commentary](#) dated 09/14/2020, our year-end 2020 fair-value target range for the S&P 500 of 3,450–3,500 is based on a price-to-earnings ratio (PE) of 21 and potential normalized S&P 500 earnings per share (EPS) of \$165 in 2021–22.

**As noted in our [Outlook 2021: Powering Forward](#) dated 12/08/2020, our year-end 2021 fair-value target range for the S&P 500 of 3,850–3,900 is based on a PE of 20 and our preliminary 2022 S&P 500 EPS forecast of \$190 in 2022.

2020–2021 ECONOMIC FORECASTS

End of Pandemic to Usher in Strong Global Economic Recovery in 2021

	2020	2021
United States	-3% to -5%	4 to 4.5%
Developed ex-US	-5% to -7%	3.75% to 4.25%
Emerging Markets	flat to 2%	5% to 5.5%
Global	-1% to -3%	4.5% to 5%

Source: LPL Research, Bloomberg

The economic forecasts may not develop as predicted.

All data, views, and forecasts herein are as of 12/04/20.

EQUITY ASSET CLASSES

Sticking with Growth as 2021 Begins

We favor stocks over bonds in 2021 based on our expectation for a strong economic and earnings recovery, supported by additional fiscal stimulus, continued progress combating COVID-19, and still-low interest rates. We maintain our preference for growth stocks as 2021 begins, but as the economic recovery progresses next year, cyclical value stocks may get a boost. We expect solid economic growth across Asia to support continued outperformance by stocks in emerging markets over their developed international markets counterparts. Emerging markets may garner additional support from potential easing of US-China trade tensions.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			The relatively greater financial strength enjoyed by most large cap companies has helped during the pandemic. But smaller market cap companies tend to perform better early in economic expansions and during the early stages of bull markets, which has caused market participation to broaden out.
	Mid Caps			Mid caps enjoy some of the early cycle characteristics of small caps, and therefore, should perform well as a more durable recovery develops. We believe mid cap stock valuations are more attractive than those of small caps in general.
	Small Caps			As 2021 approaches, we maintain our neutral view of small caps . But as the end of the pandemic comes into view, the chances of sustained small cap leadership may improve. The early-stage bull market and beginning of the new economic expansion provide tailwinds for small cap stock relative performance.
Style	Growth			We maintain our preference for growth stocks as 2021 begins, bolstered by strong earnings trends and favorable positioning for the pandemic. As the economic recovery progresses next year, we would expect cyclical value stocks to get a boost.
	Value			As a more durable economic recovery emerges, likely in the first half of 2021, we would expect cyclical value stocks to perform well. Value stocks remain attractively valued relative to their growth counterparts. A possible additional fiscal stimulus package could provide additional support.
Region	United States			Among developed markets, we remain US-focused, but international developed equities have become more interesting as the world moves closer to the end of the pandemic and the US dollar weakens. We see solid gains for US stocks in 2021, but the gap between US and developed international stocks has started to narrow.
	Developed International			As a more durable economic expansion materializes and the US dollar potentially weakens further, performance for European and Japanese markets may improve. We give the edge to Japan over Europe based on the country's massive stimulus efforts and relative success containing COVID-19.
	Emerging Markets			We expect solid economic growth across Asia to support continued outperformance by emerging market equities over developed markets in 2021. China has led the way out of the global health crisis and is the only major economy in the world expected to grow in 2020. US-China tensions may calm some under a Biden administration. Political instability in certain emerging countries carries risk.

Trend is measured by relative performance of the index for the past 12 months, minus the most recent month, compared to the other indexes in a particular sector or asset class grouping.

EQUITY SECTORS

Continue to Favor Cyclical Sectors

As we look ahead to 2021 and more progress reopening the economy, we continue to favor cyclical sectors in general. More specifically, we recommend a combination of sectors well positioned for the pandemic (communication services and technology) and those expected to benefit from accelerating economic growth in 2021 (industrials and materials). Our positive healthcare view is attributable to attractive valuations and emerging policy clarity.

	Sector	Overall View	Relative Trend	S&P	Rationale
Cyclical	Materials			2.7	As China's economy outpaces the rest of the world, metal and agriculture prices have firmed. Beneficiary of weak US dollar and strong housing market. Additional fiscal stimulus, likely in early 2021, would help.
	Energy			2.5	Defaults are poised to rise with oil prices still below producers' marginal cost. Reaching a more economical \$50 per barrel price may be difficult with US supply overhang and possible relaxation of Iran sanctions.
	Industrials			8.7	Capital spending hit hard by the pandemic, but the sector will benefit when an eventual durable economic recovery comes into view. Beneficiary of a strong Chinese economy and weak US dollar.
	Communication Services			11.1	Beneficiary of the stay-at-home environment. Regulatory risk under split Congress scenario appears manageable, in our view. Valuations appear reasonable for the sector overall.
	Consumer Discretionary			11.1	Historically a strong early-cycle performer. E-commerce and housing are booming, supporting our neutral view despite rich valuations and likely long wait for hospitality, travel, and leisure industries to fully recover.
	Technology			27.6	Strong earnings outlook, benefiting from work-from-home environment and some powerful secular mobile and cloud computing trends; valuations are still reasonable overall, in our view.
	Financials			10.6	Positive bias on steeper yield curve, rising interest rates, and improving economic outlook, but rates are still low, big bank dividends are capped, a durable economic expansion isn't here yet, and fiscal stimulus prospects have moderated.
Defensive	Utilities			2.8	Valuations are reasonable, but we still expect interest rates to rise and green energy investment may be limited if Republicans hold onto the Senate, removing a potential positive catalyst. Favor healthcare among defensives.
	Healthcare			13.7	Still-strong healthcare spending outlook, favorable demographics, resilient earnings, attractive valuations, and potential split Congress scenario that largely maintains the policy status quo are all supportive.
	Consumer Staples			6.7	Well positioned for the pandemic with resilient revenue, which may help some as the latest wave of COVID-19 rages. However, the sector is historically a poor relative performer early in economic cycles.
	Real Estate			2.5	Fundamentals are mixed overall, with particular challenges in the retail and office areas. Favor healthcare, technology, and industrial segments.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

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 intermediate bonds in tactical portfolios. We expect the 10-year Treasury yield to climb to 1.25–1.75% in 2021 with a bias toward the lower end as economic activity continues to recover. Compensation for longer-maturity, rate-sensitive bonds remains unattractive, in our view, supporting our positive view of MBS. We still see incremental value in corporate bonds over Treasuries, but credit spreads are no longer attractive. We favor municipal bonds as a high-quality option for taxable accounts, although valuations relative to Treasuries have largely normalized.

		Low	Medium	High	Rationale
Positioning	Credit Quality				Valuations are starting to tilt expensive, but the economic outlook may be supportive despite near-term risks.
	Duration				Extraordinarily low interest rates and prospects of economic acceleration increase interest-rate risk.

		Neg.	Neutral	Pos.	Rationale
Sectors	US Treasuries				Yield spreads to international sovereigns remain attractive. Valuations have become expensive after COVID-19-related demand. Inflation breakeven rates leave TIPS fairly valued.
	MBS				Fed buying is supportive, spreads are wider than other quantitative easing (QE) periods, and refinancing and prepayment slowing. MBS may provide some resilience if rates rise. Diversifying source of yield among high-quality options.
	Investment-Grade Corporates				Risks tempered as economy improves and vaccine development progresses, but valuations have retraced to pre-COVID-19 levels and appear rich compared to history. Leverage metrics have increased, but cash levels are high. Margins have improved as businesses have cut costs. Interest-rate sensitivity has increased.
	Preferred Stocks				Higher credit quality among the riskier fixed income options. Bank fundamentals sound overall. Can be rate sensitive.
	High-Yield Corporates				Valuations approaching rich versus history as spreads have nearly retraced to pre-COVID-19 levels. Economic environment remains challenging, but vaccine developments are a positive. Distressed high-yield bond levels are back to pre-COVID-19 levels and defaults have slowed. More attractive for income-oriented investors. We believe equities have more upside and high-quality options may be better diversifiers.
	Bank Loans				Weaker investor protections and Fed unlikely to raise rates for some time, which may limit investor demand. Valuations approaching neutral. Distressed loans levels have recovered to pre-COVID-19 levels and defaults have slowed.
	Foreign Bonds				Rich valuations, interest-rate risk, and potential currency volatility are among the negatives.
	EM Debt				Dovish central banks improve the valuation picture and stronger global growth could be supportive, but spreads no longer attractive. 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

Favor Precious Metals

We have downgraded our **precious metals** view to neutral due primarily to our technical analysis work suggesting less potential for near term upside. The attractiveness of precious metals is reduced by the improving economic outlook and rising interest rates, though US dollar weakness and the latest surge in COVID-19 may help attract some interest in the gold commodity and support the price. Note that we included a negative bias toward precious metals last month.

We have upgraded our view of **industrial metals** to positive, reflecting China's strong economic growth outlook, an improving outlook for growth in the United States, and the strong technical momentum of **copper**. Note that we included a positive bias toward industrial metals last month.

Our **crude oil** outlook remains negative, though we acknowledge the global demand outlook has improved recently as COVID-19 vaccine development has progressed rapidly. In the near-term, tighter restrictions and consumers' and businesses' greater reluctance to travel may slow the recovery in demand. Should WTI Crude Oil break above \$50 per barrel, making it profitable for many producers to turn on their wells, we would anticipate the US supply overhang to limit further gains.

ALTERNATIVE INVESTMENTS

Favor Event-Driven Strategies

The HFRX Event Driven Index gained 2.1% during November, bringing year-to date gains to 6.6%. Given the risk-averse profile of event-driven funds, the industry was unable to keep pace with the exceptionally strong performance of traditional equity markets; however, the merger and acquisition environment remains robust. On the closing side and consistent with past years, firms have been actively looking to complete previously announced transactions on time and by year-end, which in turn allows event-driven funds the ability to redeploy capital into a rapidly expanding opportunity set.

So far, Q4 2020 has had a significant increase in new deal announcements across market caps and sectors, as management teams seek to make up for pandemic-related disruptions. Going forward, they are supported by access to cheap funding, private equity cash piles, and the ability to use all-time-high share prices for share transactions.

While this backdrop has been healthy for transactions, unfortunately it's led to the average deal spread tightening to roughly 5%, which is in line with the historical average and something we are closely considering. At this point, we believe the sheer number of investment opportunities across the event-driven space compensates for the average deal spread, and we believe skilled active managers can continue to add value. If spreads continue to decline and if merger announcements were to taper off, we would consider revising event-driven strategies as our top alternative investment pick.

A LOOK BACK AT THE PRIOR MONTH

Economy: Recovery Starts To Lose Some Momentum

Economic data released in October suggested the US economic recovery remained on track.

- **Conference Board's Leading Economic Index (LEI).** The Conference Board's Leading Economic Index (LEI) rose 0.7% month over month in October. This follows a similar increase in September after April's 1.4% increase. The Institute for Supply Management (ISM) New Orders Index, average weekly initial claims for unemployment insurance (inverted), and the Leading Credit Index (inverted) led the way among positive contributors. Manufacturers' new orders for nondefense capital goods, excluding aircraft—one proxy for business investment—declined in October. While this number still signals continued economic growth, it reinforces that the pace of the recovery is slowing.
- **Payrolls and Labor.** The US economy added 245,000 jobs in November according to the US Bureau of Labor Statistics, missing Bloomberg survey estimates of 460,000, while the unemployment rate dipped 0.2% to 6.7%. The labor market has been grappling with the troubling rise in COVID-19 cases and related restrictions. Weekly jobless claims have been increasingly volatile as well, reflecting the uncertainty businesses face in making hiring decisions.
- **Inflation.** Inflationary pressure eased in October, as the core Consumer Price Index fell month over month, but it did rise 1.6% year over year. Producer prices, measured by the core Producer Price Index, increased 1.1% year over year—below expectations and reflecting limited pricing power among producers during the pandemic. While inflation has gained from low levels, this data reaffirms it may take some time to reach the Fed's inflation target.
- **US Consumer.** The Conference Board's Consumer Confidence Index fell in November after slipping in October. The Present Situations and Expectations indexes both fell slightly, suggesting fading economic momentum. Elsewhere, October's increase in US retail sales was the slowest since the spring, reflecting COVID-19 impact and fading stimulus.
- **US Manufacturing.** After taking a breather in September, manufacturing activity reaccelerated in October as the ISM Manufacturing Purchasing Managers' Index (PMI) climbed to 59.3, the highest level since September 2018. The New Orders Index also jumped to the highest level since 2004. Manufacturing is better insulated from COVID-19 than services and remains one of the strongest segments of the US economy.
- **US Business.** Fed surveys in October reflected decelerating economic momentum and continued bifurcation between goods and services. The National Federation of Independent Business (NFIB) Small Business Optimism index remained unchanged in October from September. The 104 reading is relatively high, though the NFIB noted looming uncertainty, likely reflecting election jitters and rising COVID-19 cases.
- **Policy.** While the bulk of election uncertainty has passed, a runoff election in Georgia means the composition of Congress remains undecided, dampening the prospects for a near-term fiscal stimulus bill. However, recent headlines suggest a slimmed-down bill in the range of \$900 billion could be reached by year-end. There have been no changes to the Fed's policy framework, but the threat to the economy of rising COVID-19 cases may prompt the Fed to extend the maturity schedule or pace of its Treasury purchases.

EQUITIES

One of the Best Novembers For The S&P 500

November's 10.9% gain for the S&P 500 was the best November performance for the index since 1928 (when it was the S&P 90). The Dow Jones Industrial Average Index's 11.9% gain was its best month since 1987—and the best of all months, not just November. Vaccine progress and post-election policy clarity buoyed investor sentiment, offsetting surging COVID-19 cases in the United States and many parts of the world. November's rally brought the S&P 500's return for the first 11 months of 2020 to 14%; the index is poised to deliver its first positive annual return after being down 30% or more at any point during the year.

Style/Capitalization

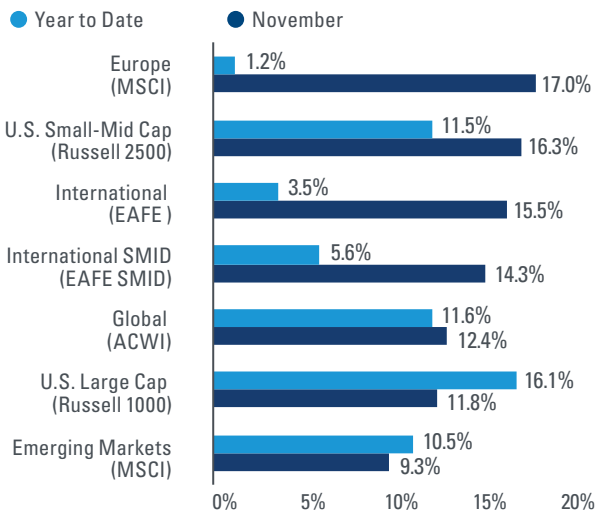
Small cap stocks not only outperformed **large caps** for the third straight month in November, but the small cap Russell 2000 Index posted its best single-month return in its history at 18.4%. Small caps, which are generally helped more by improving prospects for reopening the economy in 2021, beat large caps across all sectors, but saw particular strength in the consumer discretionary, healthcare, and technology sectors.

Mid cap stocks also outpaced large caps for the month, benefiting from relative strength in communication services and technology. The **value style** outperformed **growth** for the third straight month, with particular strength in the communication services and technology sectors. Like small caps, value stocks generally benefit more from reopening the economy.

Global Equities

Developed international stocks, represented by the MSCI EAFE Index, beat both the MSCI EM Index and the S&P 500 in November, the first time that has happened since September 2019. The developed international benchmark got a boost from strong gains in France, Japan, and the United Kingdom. The emerging markets index, which lagged both the US and developed international markets during the month, was weighed down by a modest gain for China, which offset strength in Brazil and South Korea. Country market data was sourced from MSCI country indexes.

GLOBAL INDEX PERFORMANCE (Sorted by Monthly Return)

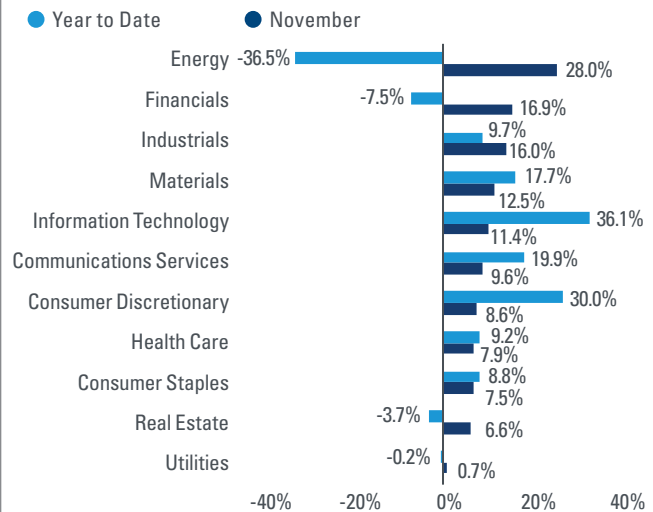


Source: LPL Research, FactSet 11/30/20

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Stock investing involves risk, including loss of principal. Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

S&P 500 SECTOR PERFORMANCE (Sorted by Monthly Return)



FIXED INCOME

Mixed Performance

In early November following the US elections, the 10-year Treasury yield rallied to nearly 1%. But rising COVID-19 cases and fading stimulus hopes seemed to weigh on long-term rates later in the month. The 10-year Treasury yield finished with a modest month-to-month decline, ending November at 0.84%. The Treasury yield curve flattened slightly in November, as long-term rates fell more than short-term rates.

The investment-grade bond market delivered a solid, positive return of nearly 1% for the month, led by strength in corporates, as shown in the Fixed Income Performance Table. Treasuries and MBS also produced positive monthly returns, but both bond sectors lagged the Bloomberg Barclays US Aggregate Bond Index's 0.98% gain. Investors favored lower-quality bonds during November, as emerging markets bonds, high-yield corporates, and bank loans delivered the strongest returns in fixed income. Higher-quality municipal bonds trailed higher-quality taxable bonds, while high-yield municipals rose 2.4%, handily surpassing the returns of high-quality municipals.

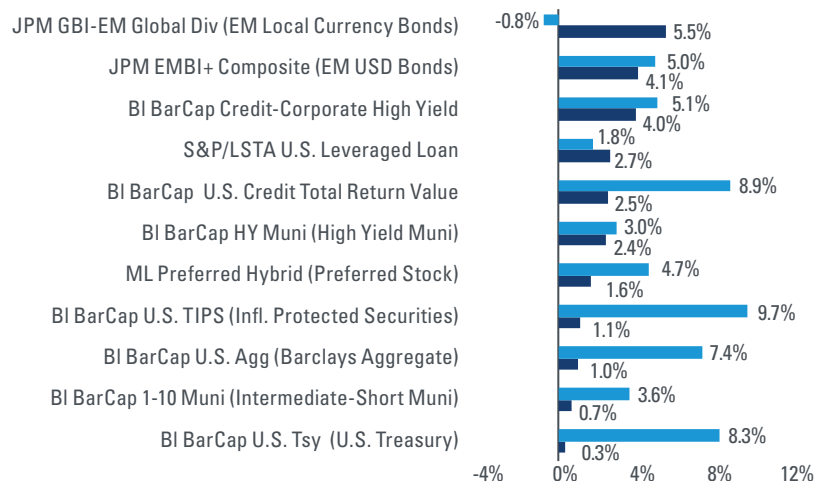
COMMODITIES

Solid Gains Overall

Commodities gained 3.5% in November as measured by the Bloomberg Commodities Index, as COVID-19 vaccine optimism encouraged market participants to embrace risk and the US dollar weakened. Crude oil prices gained 25% for the month on anticipation of a demand pickup from an economic reopening, despite the possibility that the Biden administration may relax sanctions on Iran. Natural gas prices followed their historical seasonal pattern and fell. Copper's double-digit gain convincingly beat gold, which fell during the month, in a nod to global cyclicity. Most major soft commodities rose on strong Chinese demand, a weaker dollar, and technical buyers following strong recent price momentum.

FIXED INCOME PERFORMANCE (Sorted by Monthly Return)

● Year to Date ● November



Source: LPL Research, Bloomberg, FactSet 11/30/20

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

US Treasury Yields

Security	10/31/20	11/30/20	Change in Yield
3 Month	0.09	0.08	-0.01
2 Year	0.14	0.16	0.02
5 Year	0.38	0.36	-0.02
10 Year	0.88	0.84	-0.04
30 Year	1.65	1.58	-0.07

AAA Municipal Yields

Security	10/31/20	11/30/20	Change in Yield
2 Year	0.33	0.27	-0.06
5 Year	0.63	0.53	-0.10
10 Year	1.25	1.11	-0.14
20 Year	1.75	1.54	-0.21
30 Year	1.87	1.65	-0.22

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 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.

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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