

# ELECTION AND STIMULUS IN FOCUS

## LPL Research's Monthly Global Review and Look Forward

Stocks pulled back in September as COVID-19 cases rose, causing the economic recovery to begin to lose some momentum. Policymakers in Washington, DC, struggled to reach an agreement on a stimulus package, and markets got a bit jittery as Election Day approached. The Bloomberg Barclays Aggregate Bond Index was just shy of flat in September, with US Treasuries offering only slight gains despite equity market volatility. Most major credit-sensitive bond sectors had losses, driven by similar catalysts as stocks, but they still performed solidly for the quarter.

### KEY CHANGES FROM AUGUST'S REPORT:

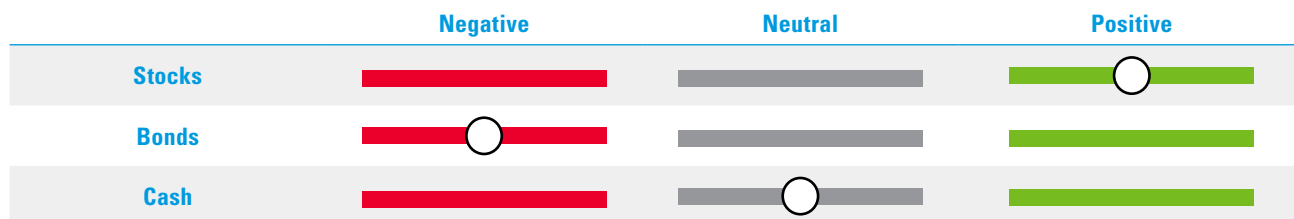
- Upgraded consumer discretionary stocks from negative to neutral
- Downgraded consumer staples stocks from neutral to negative

## INVESTMENT TAKEAWAYS

- **Our equities recommendation remains overweight.** Although election uncertainty and the possible need for additional virus containment measures present risks to markets, we continue to favor stocks over bonds in a low-rate environment with a safe and effective vaccine likely to be identified soon. President Donald Trump's health has been added to the list of things for investors to worry about. We wish him and the first lady a swift and full recovery.
- Our year-end fair value target for the **S&P 500 Index** is 3,450–3,500, which we increased in our September 14 *Weekly Market Commentary*. Our target is based on a price-to-earnings (PE) multiple of 21 and our normalized earnings forecast of \$165—our estimate of the earnings power of the S&P 500 once the pandemic is behind us.
- Despite significant outperformance during the pandemic and elevated valuations, we continue to believe **growth stocks** are better positioned for the economic recovery.
- We have upgraded our view of **consumer discretionary stocks** to neutral due to the early stage of the business cycle, strength in e-commerce and housing, and reopening progress.
- The relative strength of China's economy, a weakening US dollar, and low valuations enhance the attractiveness of **emerging market equities**, which we continue to favor over equities in **developed international markets**.
- **Our fixed income view remains underweight.** While Federal Reserve (Fed) policy and current economic uncertainty may limit the risk of yields moving substantially higher, further economic improvement may continue to 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"> <li>Emerging Markets Equities</li> <li>Growth Equities</li> </ul>	<ul style="list-style-type: none"> <li>Communication Services</li> <li>Healthcare</li> <li>Materials</li> <li>Technology</li> </ul>	<ul style="list-style-type: none"> <li>Mortgage-Backed Securities</li> </ul>	<ul style="list-style-type: none"> <li>Event Driven</li> </ul>

## 2020 MARKET FORECASTS

### COVID-19 Creates Significant Earnings and Interest Rate Uncertainty

	September Global Portfolio Strategy (GPS) Forecast	October 2020 Base Case	October 2020 Bear Case
10-Year US Treasury Yield	1.0–1.5%	1.0–1.5%	0–0.5%
S&P 500 Earnings per Share	\$125–130	\$125–130	\$110–115
S&P 500 Fair Value	3,250–3,300	3,450–3,500*	2,850

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 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.

## 2020 ECONOMIC FORECASTS

### COVID-19 May Have Sparked a Global Recession

	September GPS Base Case Forecast	October 2020 Base Case	October 2020 Bear Case
United States	-3% to -5%	-3% to -5%	-5% to -8%
Developed ex-US	-5% to -7%	-5% to -7%	-7% to -10%
Emerging Markets	flat to 2%	flat to 2%	flat to -3%
Global	-1% to -3%	-1% to -3%	-3% to -6%

Source: LPL Research, Bloomberg

The economic forecasts may not develop as predicted.

All data, views, and forecasts herein are as of 10/05/20.

## EQUITY ASSET CLASSES

### Sticking with Growth and Emerging Markets

Although election uncertainty and the possible need for additional virus containment measures present risks to markets, we continue to favor stocks over bonds in a low-rate environment with a safe and effective vaccine likely to be identified soon. From a style perspective, we believe growth stocks appear better positioned than value in the near term, but as a more durable economic recovery potentially emerges later this year, value could stage a turnaround. China is leading the way out of the global economic crisis, which we expect to support emerging market equities.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			The relatively greater financial strength typically enjoyed by <b>large cap</b> companies helps in an uncertain economic environment, but if the economic expansion becomes more durable, we would expect bull market participation to broaden.
	Mid Caps			<b>Mid caps</b> enjoy some of the early cycle characteristics of small caps and should perform well in a durable recovery. Mid caps are also more attractively valued than small caps, in our view, and benefit from robust merger and acquisition activity.
	Small Caps			The early-stage bull market and improving relative performance may set the stage for improved small cap stock performance, especially if evidence of a more durable economic expansion emerges.
Style	Growth			We maintain our preference for <b>growth stocks</b> over their value counterparts from a style perspective, but we remain watchful for a reversal given the magnitude and duration of outperformance. We believe the ability to grow earnings without much help from the economy, more resilient businesses, and generally better balance sheets favor growth.
	Value			As a more durable economic recovery potentially emerges later this year, <b>value stocks</b> could stage a turnaround. Valuations of value stocks relative to their growth counterparts are very depressed compared with their history.
Region	United States			Among developed markets, we remain US-focused, but COVID-19, a weak US dollar, and valuations have closed the gap between the United States and the rest of the developed world. The US market has a good sector mix for the current environment in our view, led by mega-cap growth stocks.
	Developed International			We expect economies in <b>Europe</b> to contract more than the United States or Japan in 2020 and continue to have structural concerns about the Eurozone. However, movement toward a coordinated fiscal response to COVID-19, potential further US dollar weakness, and attractive relative valuations make a more intriguing case.  Bloomberg's consensus forecasts for <b>Japan</b> 2020 GDP growth are calling for a smaller contraction than in Europe, supported by a very aggressive stimulus response. However, political uncertainty following Japan Prime Minister Shinzo Abe's resignation and earnings weakness temper our near-term enthusiasm.
	Emerging Markets			<b>China</b> has led the way out of the global crisis in terms of containing the virus and reopening its economy. Our positive <b>emerging markets</b> view is based on prospects for relatively better economic growth in 2020, attractive valuations, and a weaker US dollar.  Our primary concerns are increasing US-China tensions, emerging market's inability to convert economic growth into profits and shareholder value in recent years, political instability, and Brazil's and India's difficulty containing COVID-19.

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

We continue to favor cyclical sectors in general, but with an emphasis on sectors that we think are best positioned for the economic challenges presented by the pandemic, namely communication services, healthcare, and technology. We have upgraded consumer discretionary and downgraded consumer staples due primarily to the early-cycle environment. Our neutral view of industrials reflects a relatively weaker earnings outlook and potential underperformance in a pullback, though this sector would be expected to perform relatively well once a more durable economic recovery is in place.

	Sector	Overall View	Relative Trend	S&P	Rationale
Cyclical	Materials			2.6	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. Improved technical analysis trends drove August 2020 upgrade.
	Energy			2.0	Defaults are poised to rise with oil prices still below producers' marginal cost. Reaching a more economical \$50 per barrel price may be difficult.
	Industrials			8.4	Significant hits to capital spending have impaired the earnings outlook, richening valuations. Potential outperformer in an eventual durable economic recovery.
	Communication Services			10.8	Several industries benefit from stay-at-home environment. Recent weakness may present an opportunity with an above-average earnings outlook, fair valuations, and manageable regulatory risk, in our view.
	Consumer Discretionary			11.6	Historically a strong early-cycle performer. E-commerce and housing are booming, and stimulus has helped, supporting our upgraded view despite rich valuations and exposure to hard-hit areas such as travel.
	Technology			27.9	Strong earnings outlook, benefiting from work-from-home environment, and still reasonable valuations in our view. The recent correction may have provided an attractive entry point.
	Financials			9.8	Difficult environment with the economy contracting, depressed interest rates, and dividends capped. Weakness early in economic cycle is discouraging. Weak technical trends offset attractive valuations.
Defensive	Utilities			3.0	Valuations are reasonable, but we expect interest rates to rise, and we prefer healthcare or consumer staples for defensive sector exposure.
	Healthcare			14.2	Still-strong healthcare spending outlook, favorable demographics, resilient earnings, and attractive valuations. COVID-19 brings winners and losers but offers upside via biotech. We believe election-related policy concerns are overdone.
	Consumer Staples			7.0	Well positioned for the pandemic with relatively resilient revenue streams, but historically a poor relative performer early in economic cycles.
	Real Estate			2.7	Fundamentals are mixed overall, with particular challenges in the retail and office areas. Healthcare, technology, and industrial segments appear better positioned for the current environment.

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 modestly higher long-term rates over the rest of 2020 and into 2021 as economic activity continues to recover. Compensation for longer-maturity bonds remains unattractive, in our view, supporting our positive view of MBS. We still see incremental value in corporate bonds over Treasuries, but risks temper our view. We favor municipal bonds as a high-quality option for taxable accounts, although valuations relative to Treasuries have normalized.

		Low	Medium	High	Rationale
Positioning	Credit Quality				Valuations are neutral and economic improvement helps, but uncertainty remains somewhat elevated.
	Duration				Extraordinarily low interest rates and prospects of economic acceleration increase interest-rate risk, although upward pressure on rates has been limited.

		Neg.	Neutral	Pos.	Rationale
Sectors	US Treasuries				Yield spreads to international sovereigns remain elevated but have narrowed. Valuations have become very expensive after COVID-19-related demand. Expected low inflation in the short term diminishes the value of TIPS.
	MBS				Fed buying is supportive, spreads are wider than other quantitative easing (QE) periods, and MBS may provide some resilience if rates rise. Forbearance metrics are slowly declining but still elevated year over year. Diversifying source of yield among high-quality options.
	Investment-Grade Corps				Improving economy and Fed support help, but interest rate risk is a concern and valuations look full. Margins have improved as businesses cut costs. Favor high-quality noncyclical issuers.
	Preferred Stocks				Higher credit quality among the riskier fixed income options. Bank fundamentals firm prior to pandemic. Can be rate sensitive.
	High-Yield Corporates				Valuations approaching neutral although spreads have widened over the last month. High-yield fundamentals have declined. We believe equities have more upside, and high-quality options may be better diversifiers. Defaults expected to continue in more COVID-19-sensitive sectors. More attractive for income-oriented investors.
	Bank Loans				Weaker investor protections and Fed unlikely to raise rates for some time, which may limit investor demand. Defaults expected to continue in more COVID-19-sensitive sectors.
	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 may be vulnerable to COVID-19-related risk. Liquidity can be an added risk during periods of stress. Positive bias among higher-yielding options.

**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 continue to favor **precious metals**, which are benefiting from low interest rates and massive stimulus from the Fed. We anticipate further **US dollar** weakness, providing additional potential support for precious metals, particularly **gold**, though demand for safe havens may weaken as the recovery strengthens.

Our neutral **industrial metals** view reflects a still-challenging near-term global demand outlook; however, China has been the first major global economy to emerge from the health crisis and is supportive of industrial metals, notably **copper**.

Our **crude oil** outlook remains negative. While the US economic recovery has exceeded our expectations to date, risks that rising COVID-19 cases constrain demand are rising, and travel will be slow to come back. The US supply overhang may eventually cap gains if oil prices approach production costs in the \$50 per barrel range. Domestic crude is disadvantaged by being less levered to China's relatively stronger economy.

## ALTERNATIVE INVESTMENTS

### Favor Event-Driven Strategies

Event-driven strategies, which remain our preferred form of alternative investment implementation, performed well, as the HFRX Event Driven Index returned 1.65% during a month where both equity and bond markets finished in negative territory.

Merger and acquisition volumes have continued to rise since the spring, and going forward we are constructive on this trend continuing as the economic environment stabilizes. Additionally, while the average deal spread of roughly 7% has experienced significant compression since the March widening, this still represents an attractive level when compared with historical figures. As we approach the election, we're aware of the potential for additional volatility in announced deals seeking any form of regulatory approval, however, we also view current deal pricing to be adequate. Specific sectors such as information technology and healthcare often come under political pressure prior to an election. While any potential regulatory proposals should be closely watched, fund managers in the industry don't foresee any imminent and actionable political risk concerns that would impact an entire sector.

As the outlook and compensation for longer-maturity bonds remains muted, an allocation to an event-driven strategy can provide a similar risk/return profile, while adding an attractive source of diversification from traditional credit allocations.



## A LOOK BACK AT THE PRIOR MONTH

### Economy: Recovery Starting to Lose Momentum

Economic data released in September suggested the US economic recovery was beginning to slow.

- **Conference Board's Leading Economic Index (LEI)** rose 1.2% in August following a 2% increase in July, reflecting a slowing rate of improvement for the US economy as the effects of fiscal stimulus wane. Despite the continued growth of the LEI, the index remains in recession territory, still 4.7% below its February level. In particular, slowing growth for new orders of capital goods, residential construction, and consumer confidence pointed toward the uncertainty facing the economy as the fourth quarter began.
- **Payrolls and Labor.** Nonfarm payrolls increased 661,000 in September, missing consensus expectations, and below August's job gains. Despite the slowing momentum in the labor market, the unemployment rate declined from 8.4% to 7.9%. While we're encouraged by the continued growth in the labor market, permanent job losses have increased, and we've seen more corporate layoff announcements amid fading stimulus and rising COVID-19 cases.
- **Inflation.** The core Consumer Price Index continued to accelerate, rising 1.7% year over year as improving economic growth has helped prices stabilize. Producer prices, measured by the Core Producer Price Index, increased 0.4% during the month of August, signaling producers have become more successful at passing along higher raw material costs to customers. While recent data has shown an acceleration in inflation, returning to the Fed's 2% target will likely be a slow process.
- **US Consumer.** The Conference Board's Consumer Confidence Index increased in September after back-to-back monthly declines. The Present Situations Index and The Expectations Index each rose, reflecting improving optimism about the short-term outlook. Retail sales missed analysts' expectations in August, growing 0.6%, but remain above pre-pandemic highs. With the increase in consumer confidence in September, we are waiting to see if this will provide a tailwind for September's retail sales print.
- **US Manufacturing.** Manufacturing activity continued to expand in September, but it took a bit of a breather as the ISM Manufacturing Purchasing Managers Index declined to 55.4. The New Orders Index declined for the first time since April, while the measure of factory inventories increased, showing stockpiles have declined at a slower pace. While gauges of manufacturing activity slipped a bit, manufacturing activity remains a strong point of the economy.
- **US Business.** Regional Fed surveys continue to reflect a minor contraction in business conditions, which lines up with the tapering pace of economic growth we've seen as summer ends. However, the NFIB Small Business Optimism Index increased in August despite many survey reporters noting continued uncertainty about the future. Capacity utilization rose modestly to 71.4% from 71.1%, suggesting greater production efficiency.
- **Policy.** The possibility of a fifth COVID-19 relief bill remains uncertain, as the two sides remain far apart on the size of the package. Negotiations are ongoing after House Democrats passed a revised \$2.2 trillion aid package. While the Fed made no changes to the policy rate at the September meeting, it did revise its guidance to align with the shift toward "average inflation targeting," while voting members appear to expect rates to remain at the zero-bound until at least 2023.

## EQUITIES

### First Down Month Since March

Stocks' five-month win streak came to an end in September as the S&P 500 slipped 3.8%. A combination of election uncertainty, more COVID-19 spread, and the lack of agreement on a stimulus package in Washington, DC, dampened investor sentiment. The S&P 500 still returned 5.6% over a very volatile first nine months of 2020 that had a more than 33% peak-to-trough decline during February and March.

### Style/Capitalization

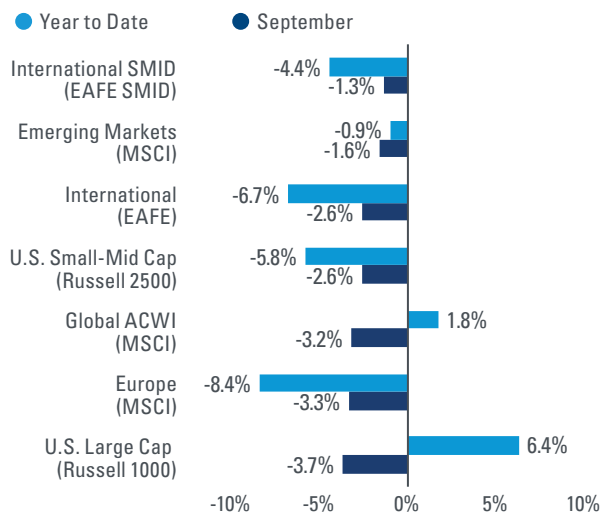
**Small cap stocks** slightly outperformed **large caps** in September, as the Russell 2000 Index slipped 3.3% compared to the nearly 4% loss for the large cap S&P 500. Though the performance differential between large and small was minimal, small caps benefited from superior performance in the consumer discretionary, healthcare, and technology sectors. **Mid cap stocks** outpaced both small and large caps for the month, getting a boost from gains in healthcare and materials stocks, and relatively smaller losses in technology. The **value style** finally outpaced **growth** in September for the first time in 12 months, as growth was dragged down by outsized losses in the communication services, consumer discretionary, and technology sectors. Year to date, the Russell 1000 Growth Index has still outperformed Value by more than 35 percentage points.

### Global Equities

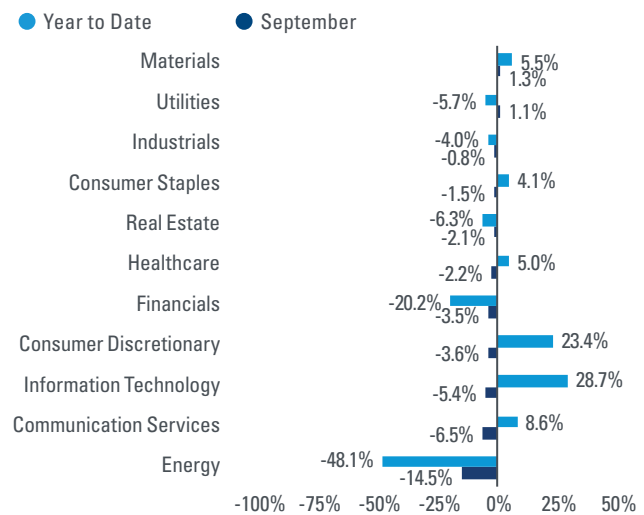
**Emerging markets** held up better than its **US** and **developed international** counterparts in September despite gains in the US dollar. The MSCI Emerging Markets Index lost 1.6% during the month, supported by gains in **South Korea, Taiwan, and India**, based on the MSCI country indexes. **China** underperformed amid tensions with the United States, despite its relative economic health. September's loss pulled the MSCI EM Index back into negative territory with a year-to-date loss of 0.9%.

Developed international equities lagged behind emerging markets but outperformed the United States with its 2.6% loss for the month, based on the MSCI EAFE Index. Japan was a strong performer, while Australia, France, and the United Kingdom lagged. Year to date, the MSCI EAFE has lost 6.7%.

#### GLOBAL INDEX PERFORMANCE (Sorted by Monthly Return)



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



Source: LPL Research, FactSet 09/30/20

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.



## FIXED INCOME

### Mixed Performance

Election uncertainty and the lack of agreement on new fiscal stimulus contributed to a risk-off environment in September, with spreads in lower-quality bond sectors rising as stocks fell. The 10-year Treasury yield fell slightly for the month, ending near 0.70%. The Treasury yield curve remained essentially stable, with minor changes to yields across the curve.

The investment-grade bond market was basically flat for the month, but **Treasuries** were able to deliver a positive monthly return, as shown in the Fixed Income Performance Table. The **Bloomberg Barclays US Aggregate Bond Index (Agg)** declined 0.05%, with weakness from **investment-grade corporate bonds** weighing on returns. The risk-off environment led to meaningful increases in spreads for certain lower-quality bond sectors. **High-yield corporates** and **emerging markets debt** both fell more than 1% during September. Higher-quality **municipal bonds** produced positive returns for investors during the month, outpacing higher-quality taxable bonds based on the performance of the Bloomberg Barclays US Aggregate Bond Index. High-yield municipals eked out a modest, positive monthly return and essentially matched the returns of high-quality municipals.

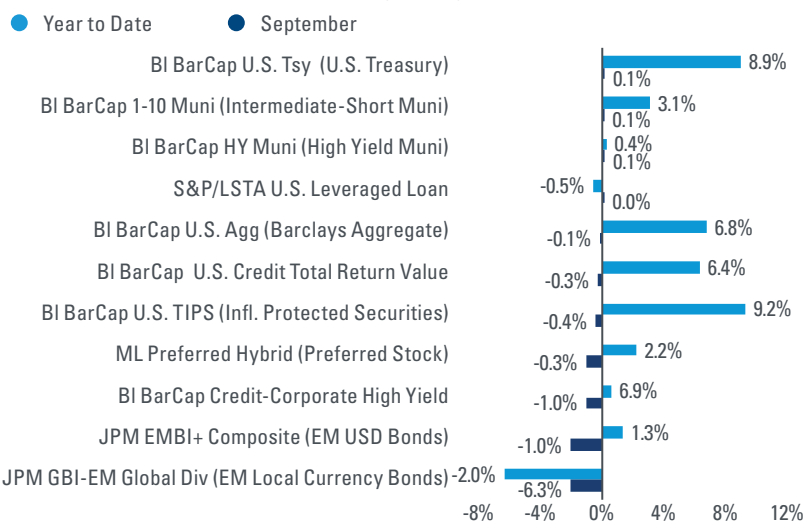
## COMMODITIES

### Solid Gains Overall

Commodities fell 3.4% in September, measured by the Bloomberg Commodities Index, and were impacted by the risk-off market tone and increasing uncertainty surrounding the domestic economic recovery. The index remains down 12.1% year to date.

COVID-19 second-wave concerns called future oil demand into question, sending prices down more than 6% for the month. **Natural gas** prices more than doubled crude's losses for the month after enduring a volatile third quarter. Major industrial metals were down on growth concerns, while precious metals fell despite the flight-to-safety environment, digesting impressive gains in recent months. Major agricultural prices rose due to improving economic signs coming out of China, the dominant buyer in many categories.

#### FIXED INCOME PERFORMANCE (Sorted by Monthly Return)



Source: LPL Research, Bloomberg, FactSet 09/30/20

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	8/31/20	9/30/20	Change in Yield
3 Month	0.11	0.10	-0.01
2 Year	0.14	0.13	-0.01
5 Year	0.28	0.28	0.00
10 Year	0.72	0.69	-0.03
30 Year	1.49	1.46	-0.03

#### AAA Municipal Yields

Security	8/31/20	9/30/20	Change in Yield
2 Year	0.25	0.26	0.01
5 Year	0.51	0.52	0.01
10 Year	1.10	1.12	0.02
20 Year	1.61	1.62	0.01
30 Year	1.72	1.74	0.02

## 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](http://lplresearch.com/definitions).

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