LPL RESEARCH PRESENTS:

MIDYEAR 2023

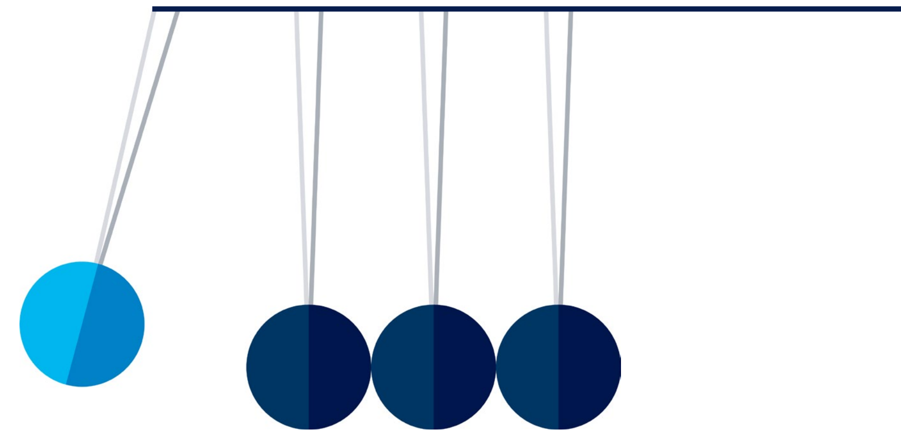
# OUTLOOK

## THE PATH TOWARD **STABILITY**

LPL Financial

Member FINRA/SIPC

# Economy



## A Moving Pendulum In A Stable Financial System

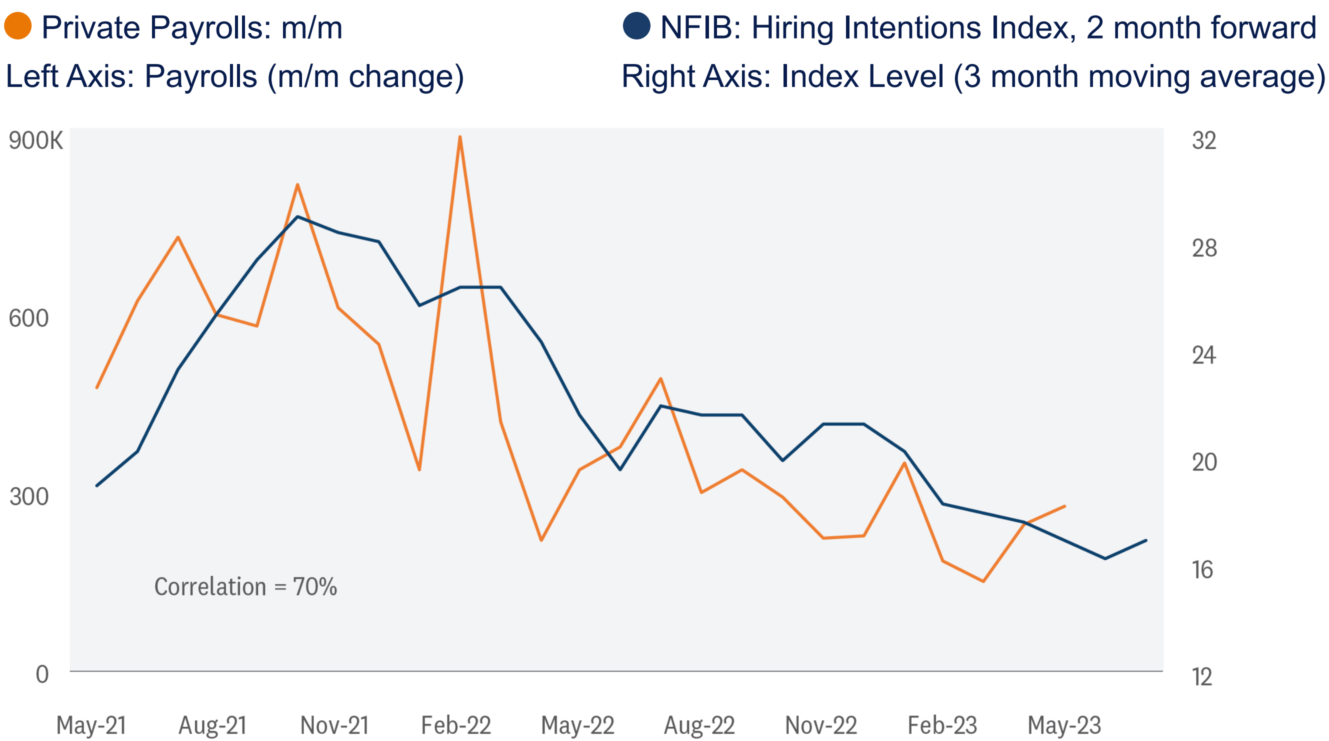
# INFLATION TO EASE DESPITE LOW UNEMPLOYMENT

| 2023 Annual Forecasts | GDP Growth (Y/Y%) | CPI (Y/Y%) | Unemployment Rate (December) |
|---|---|---|---|
| United States | 1.2% | 3.8% | 3.7% |
| Eurozone | 0.6% | 5.5% | 6.8% |
| Advanced Economies | 0.9% | 4.7% | 4.9% |
| Emerging Markets | 3.8% | 6.1% | 6.0% |
| Global | 2.3% | 5.2% | 5.1% |

Source: LPL Research 06/23/23
Economic forecasts may not develop as predicted and are subject to change.

# SMALL BUSINESSES PLAN TO SLOW HIRING

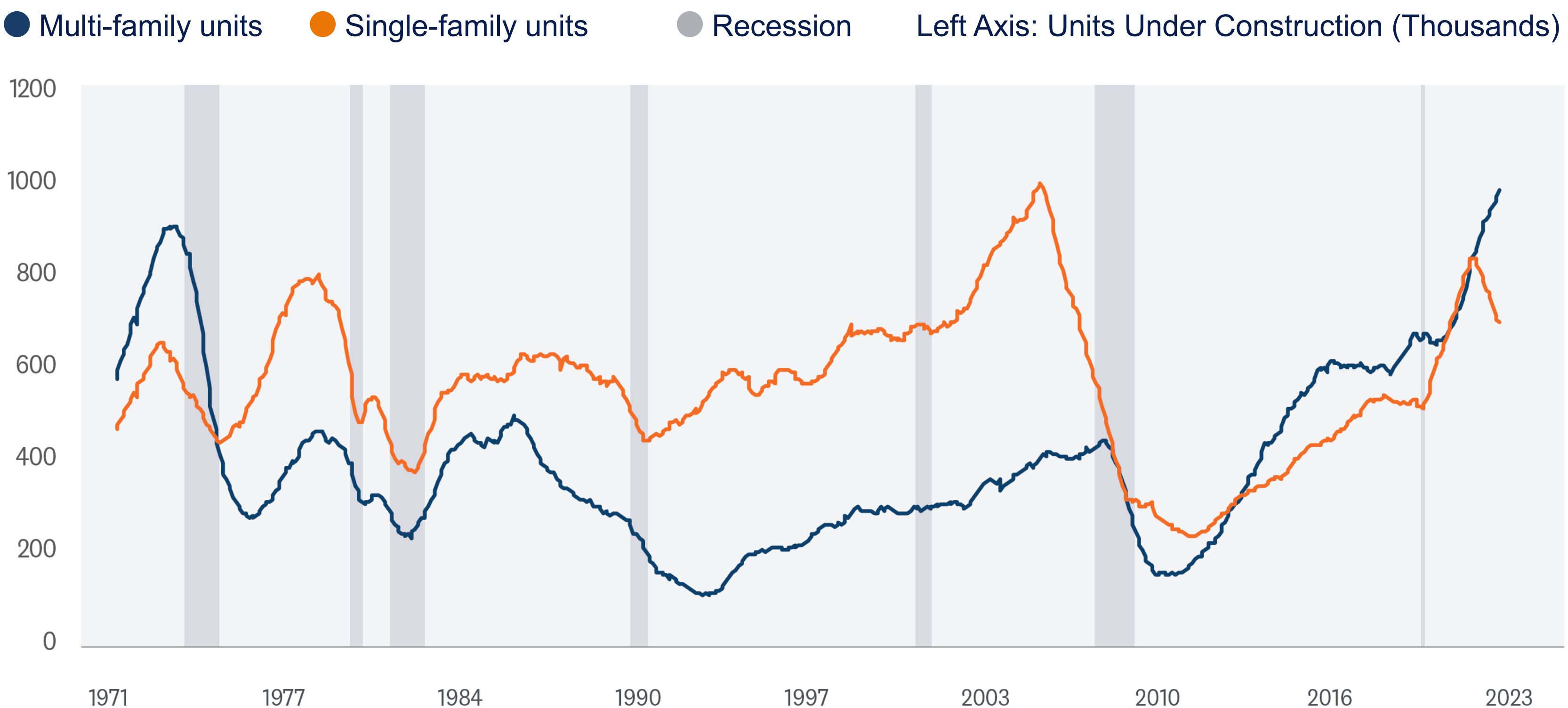
## A Weaker Labor Market Would Imply Rising Recession Risks




Source: LPL Research, Bureau of Labor Statistics, National Federation of Independent Business 06/23/23

# MULTI-FAMILY UNITS ON THE RISE

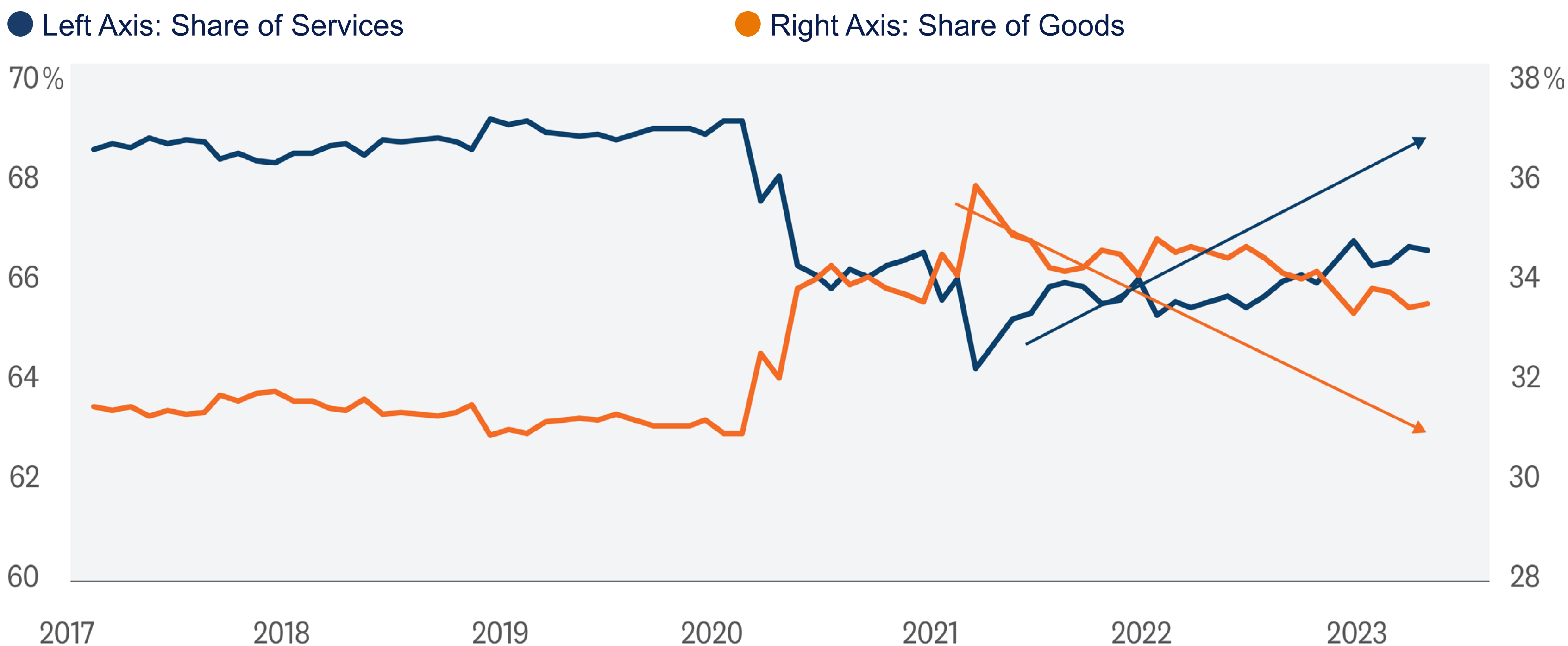
## Increased Supply Will Dampen Rents




Source: LPL Research, U.S. Census Bureau 06/20/23

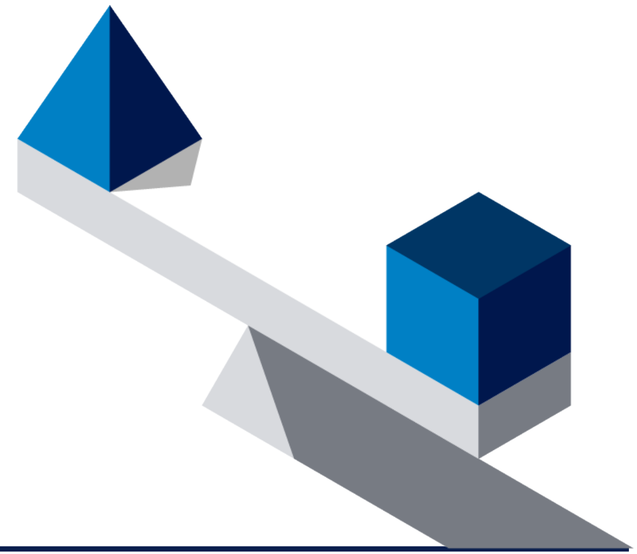
# SPENDING SLOWLY RETURNING TO PRE-PANDEMIC SHARE

## Consumers Will Likely Shift Away from Goods into Services




Source: LPL Research, Bureau of Economic Analysis 05/30/23

# Equities



## Weight Of Evidence Points To Modest Gains

# SUPPORTIVE STOCK MARKET INDICATORS

| Event | Average Gain/ Loss | Percentage of Positive Returns | Commentary |
|---|---|---|---|
| Years Following a Down Year | 15.2% (annual) | 84% | What goes down tends to go up. The average annual S&P 500 return since 1950 following a down year has been 15.2%. Two consecutive down years for the S&P 500 is also rare, occurring only three times in the past 80 years (1973-74, 2000-01, and 2001-02). |
| January Trifecta Years | 17.4% (annual) | 90% | Trifecta years include years when the S&P 500 generates positive returns during 1) the Santa Claus Rally period, 2) the first five days of January, and 3) during the month of January. All three of these indicators were hit this year. |
| Midterm Election Years | 16.8% (annual) | 89% | During year three of the presidential cycle, which we are in now, the S&P 500 has gained almost 17%, with 89% of years positive since 1950, more than any other year of the cycle. |
| New Bull Market | 18.9% (12 months) | 92% | The S&P 500 officially entered a bull market in June. It took 165 trading days to surpass the 20% qualifier for a technical bull market, marking the second longest period to confirm a new bull market in nearly 75 years. Forward returns after a bull market is confirmed have historically been strong. The S&P 500 has posted average gains of 18.9% 12 months after the index cleared the 20% threshold. |
| AAII Bull-Bear Spread* – Crossover Below Two | 9.9% (12 months) | 77% | Bearish sentiment has been prevalent over the last year. The bull minus bear spread among the American Association of Individual Investors (AAII) survey data remained negative for the majority of the last year, including over a two-standard deviation drop in December. Historically, declines in sentiment of this magnitude have served more as a contrarian indicator for stocks, evidenced by positive forward 12-month S&P 500 returns. |

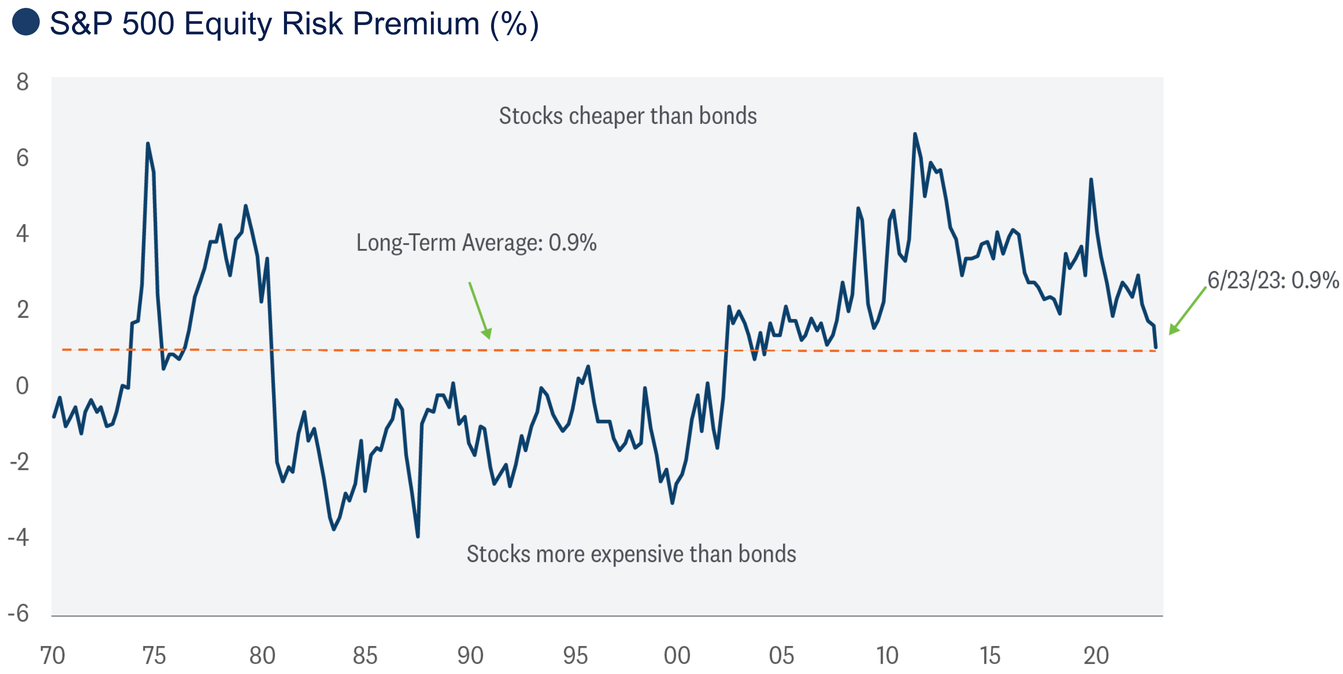
Source: Bloomberg, Factset 06/23/23

*Since 1987, filtered for crossovers occurring at least three months apart

The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

# STOCKS NO LONGER APPEAR ATTRACTIVE RELATIVE TO BONDS

## Higher Stock Valuations and Higher Interest Rates Dragging Down the Equity Risk Premium




Source: LPL Research, FactSet, Refinitiv, Bloomberg 06/23/23
S&P 500 equity risk premium is the S&P 500 earnings yield minus the US 10-year Treasury yield.
All indexes are unmanaged and cannot be invested into directly.

# 2023 S&P 500 EARNINGS SCENARIOS

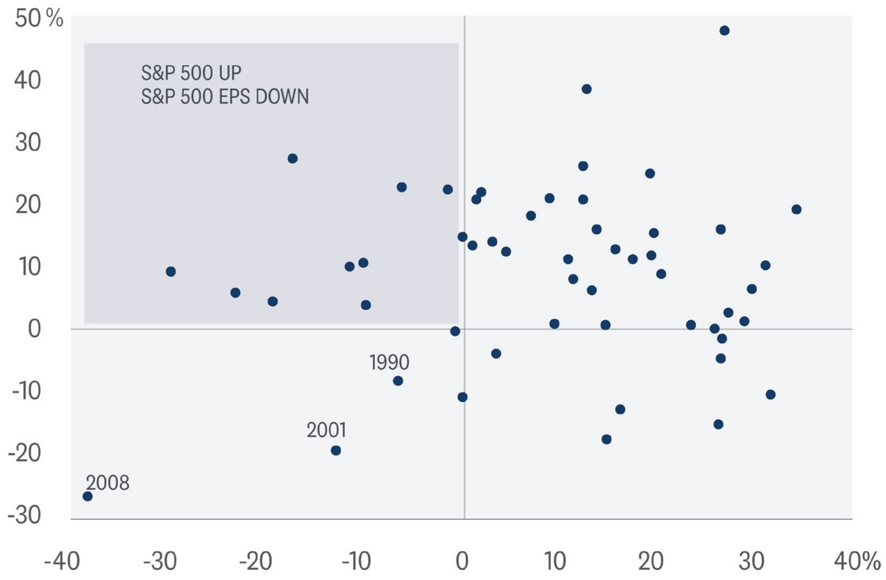
| Scenario | Potential Earnings ($ per share) | Estimated Probability |
|---|---|---|
| Muddle Through Economy | 220 | 20% |
| Mild, Short-Lived Recession | 212 | 65% |
| Garden Variety Recession | 205 | 15% |
| **Probability Weighted 2023 S&P 500 Earnings Per Share Estimate:** | **213** | |

Source: LPL Research 07/06/23
Economic forecasts may not develop as predicted and are subject to change.

# EARNINGS DECLINES DON'T NECESSARILY MEAN LOWER STOCK PRICES

## S&P 500 Index Annual Earnings Growth vs. Price Performance

X Axis: S&P 500 Annual Earnings Growth    Y Axis: S&P 500 Annual Price Gain

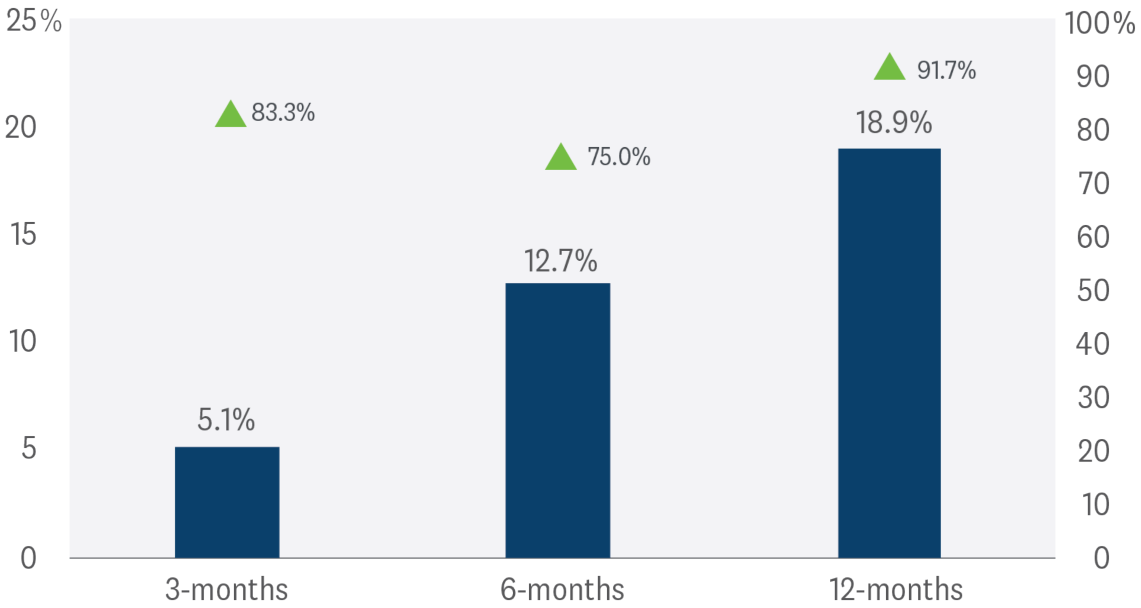



Source: LPL Research, Bloomberg, Refinitiv, FactSet 06/15/23 (data from 1970-Present)
Earnings are operating and exclude non-recurring, non-operating charges.
Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

# S&P 500 | END OF BEAR MARKETS

Left Axis: Average Gains Following a 20% Advance off a Bear Market Low

Right Axis: Percent of Positive Returns



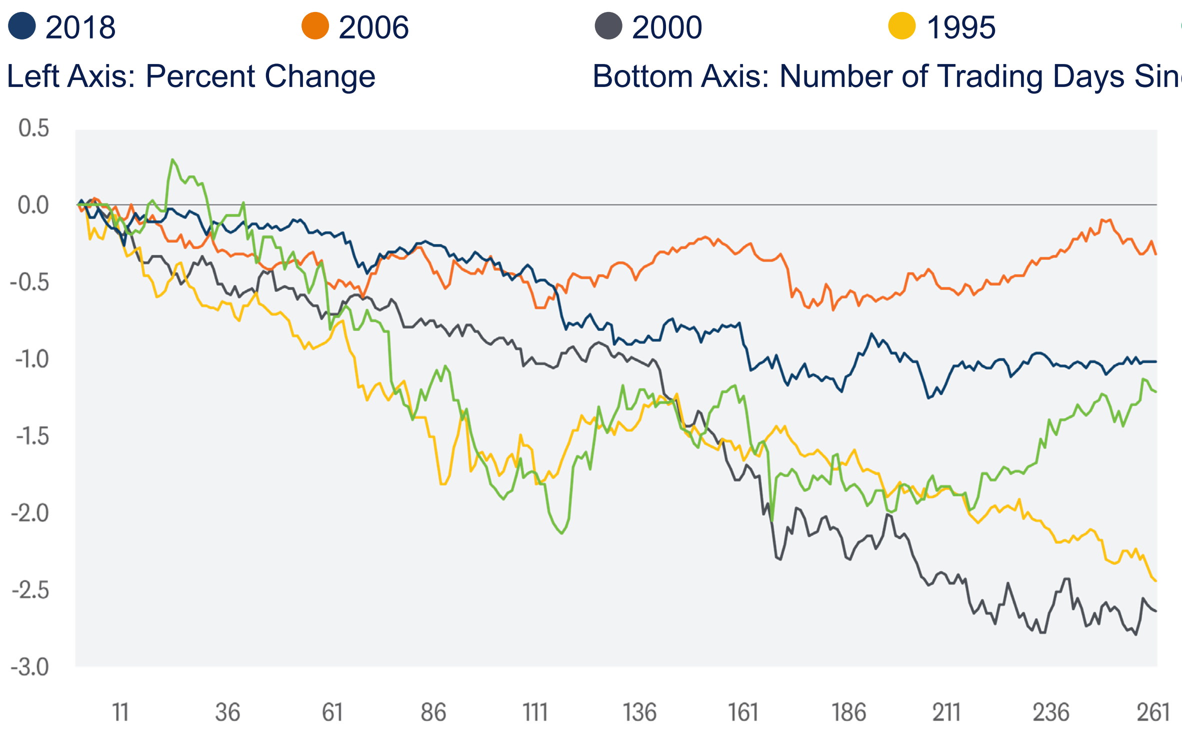

Source: LPL Research, Bloomberg 06/14/23
Data includes bear markets since 1949.
The modern design of the S&P 500 stock index was first launched in 1957.
Performance back to 1950 incorporates the performance of the predecessor index, the S&P 90.

# Bonds

Balancing Opportunities With Objectives

# ONCE THE FED IS DONE, WE COULD SEE LOWER TREASURY YIELDS

2-Year Treasury Yields Have Generally Been Lower by 1.5% After the Last Fed Rate Hike




Source: LPL Research, Bloomberg 05/30/23
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

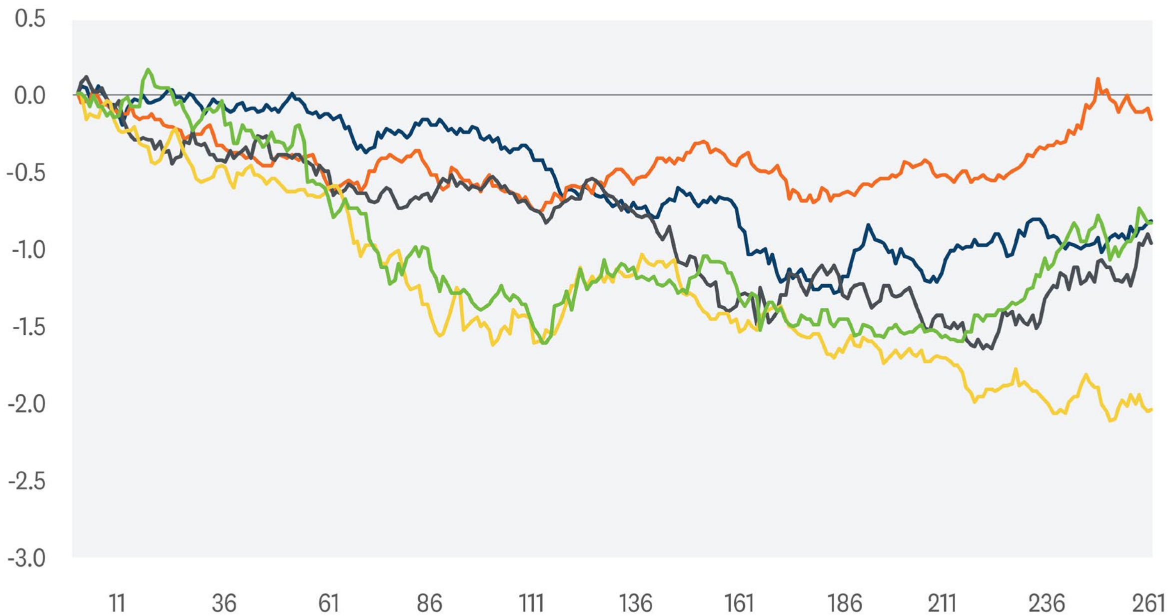
# ONCE THE FED IS DONE, WE COULD SEE LOWER TREASURY YIELDS

10-Year Treasury Yields Have Generally Been Lower by 1% After the Last Fed Rate Hike

2018 2006 2000 1995 1989

Left Axis: Percent Change

Bottom Axis: Number of Trading Days Since Last Fed Rate Hike




Source: LPL Research, Bloomberg 05/30/23

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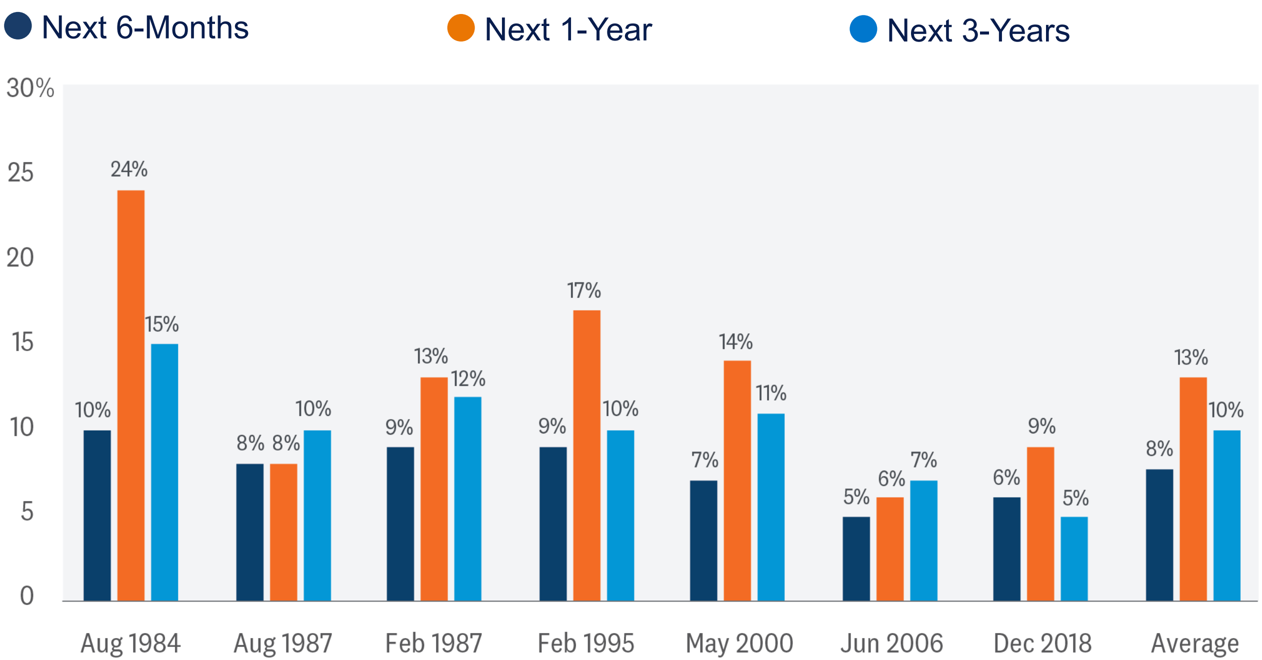
# CORE BONDS TEND TO DO WELL DURING FED PAUSES

Total Returns for the Bloomberg Aggregate Bond Index After Last Fed Rate Hike



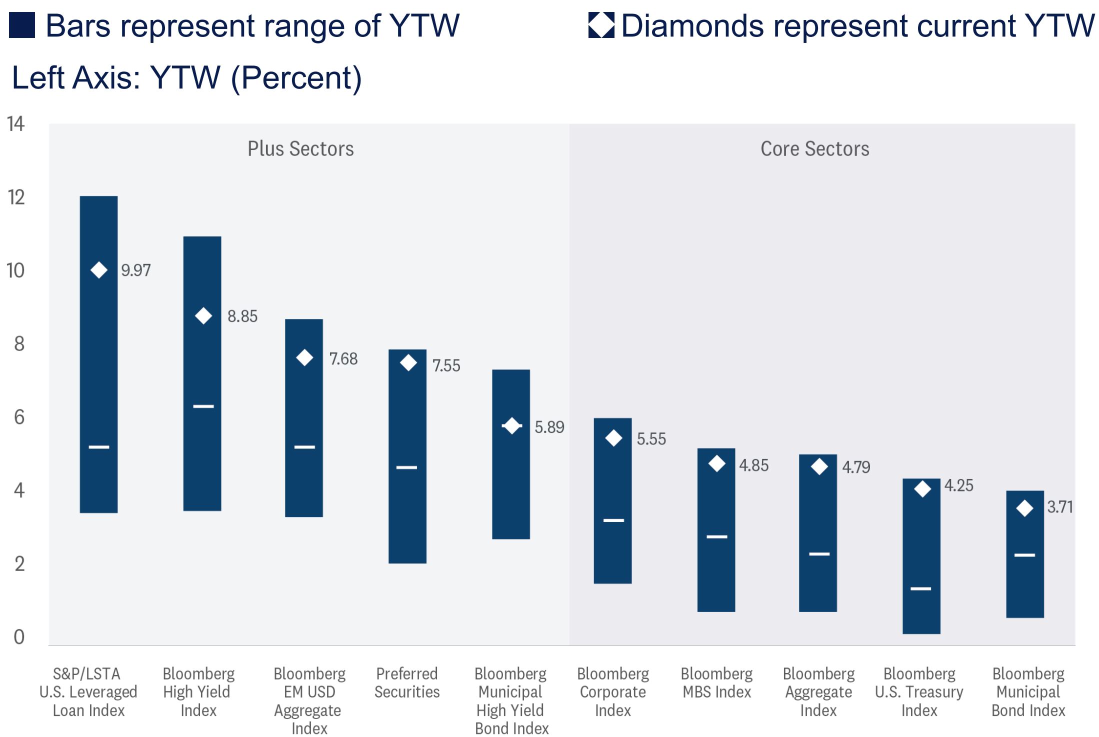

Source: LPL Research, Bloomberg 05/30/23

All indexes are unmanaged and can't be invested in directly. Past performance is no guarantee of future results.

The Aggregate Bond Index has been maintained by Bloomberg L.P. since August 24, 2016. Prior to then it was known as the Barclays Capital. Aggregate Bond Index and was maintained by Barclays. From June 1976 to November 2008 it was known as the Lehman Aggregate Bond Index.

# YIELDS ACROSS FIXED INCOME SECTORS ARE ABOVE LONGER-TERM AVERAGES

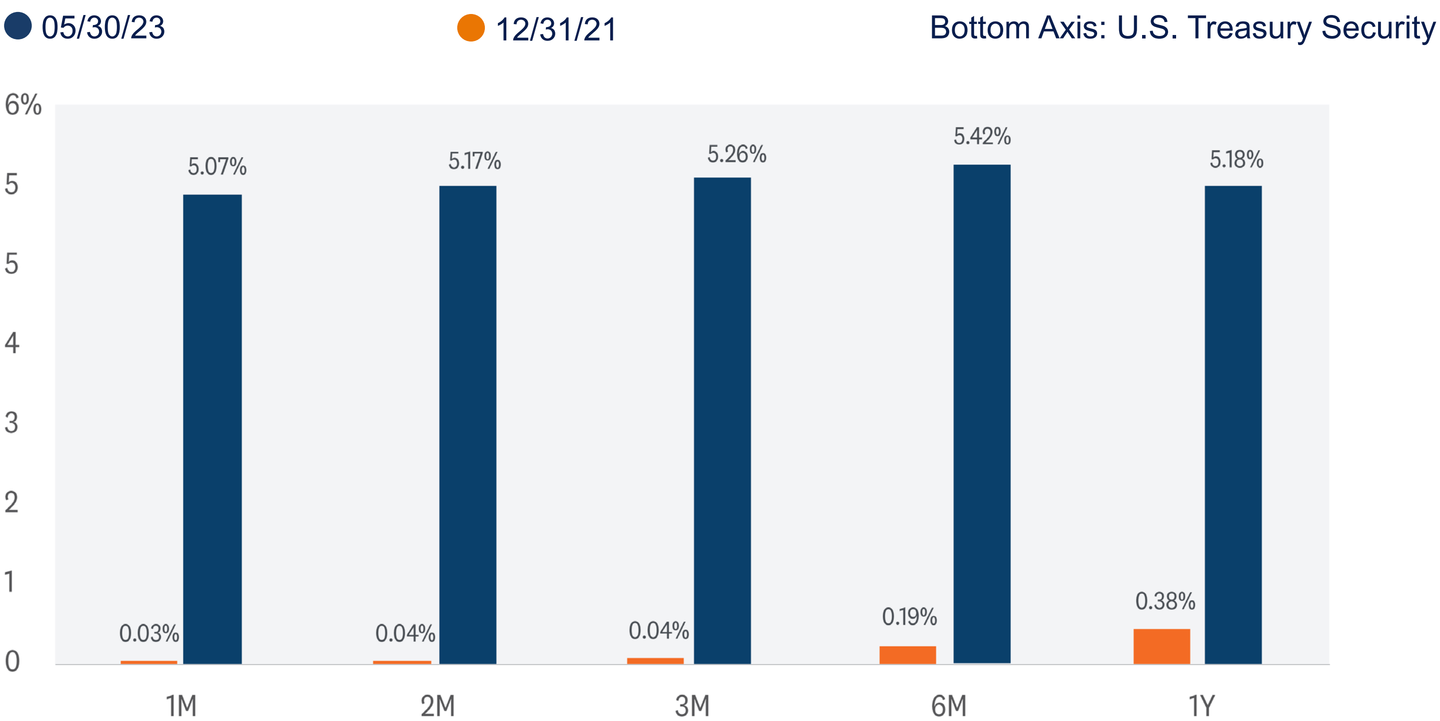
Yield-to-Worst (YTW) Across Fixed Income Sectors (%)- Since 2010




Source: LPL Research, Bloomberg 05/30/23
All indexes are unmanaged and can’t be invested in directly. Past performance is no guarantee of future results.

# YIELDS ON CASH AND CASH-LIKE INSTRUMENTS HAVE INCREASED MEANINGFULLY

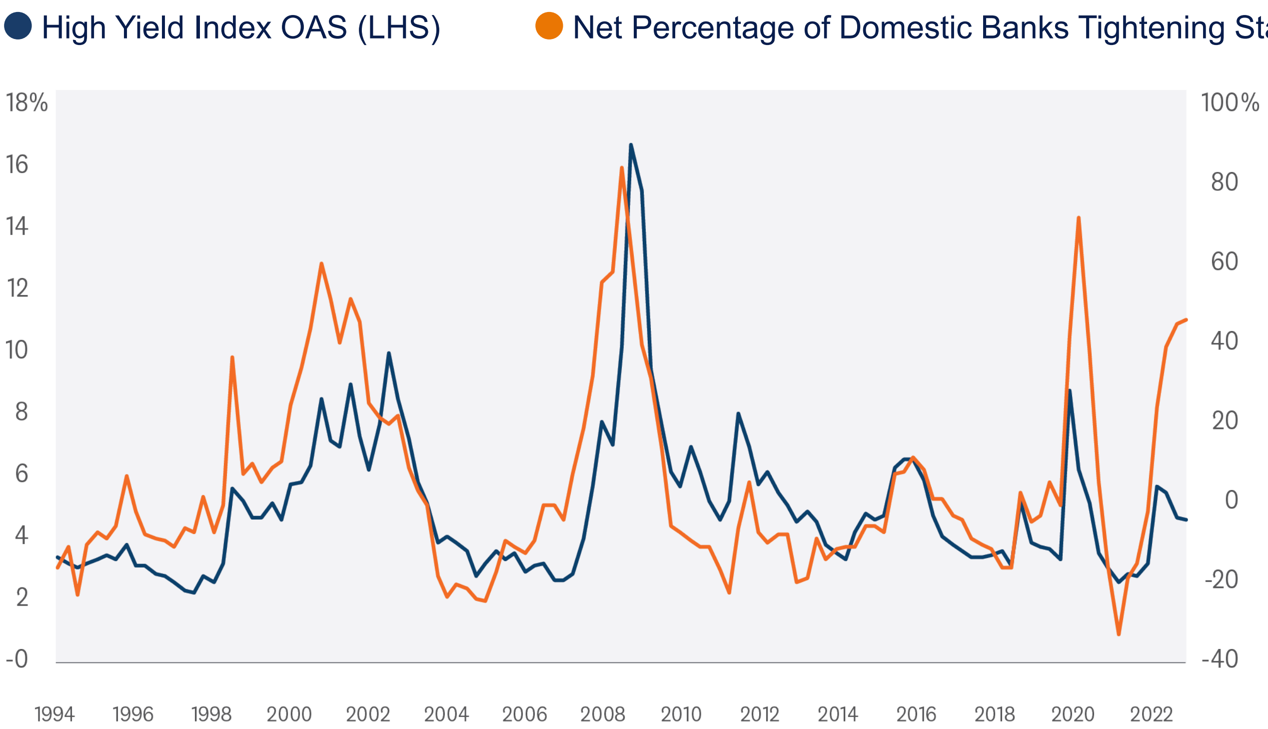
## Shorter Maturity Treasury Yields Highest in Over a Decade




Source: LPL Research, Bloomberg 05/30/23
Past performance is no guarantee of future results. All indexes are unmanaged and can't be invested in directly.

# BANK LENDING STANDARDS CONTINUE TO TIGHTEN

## Historically That Has Been Bad News For High Yield Companies




Source: LPL Research, Bloomberg 05/30/23

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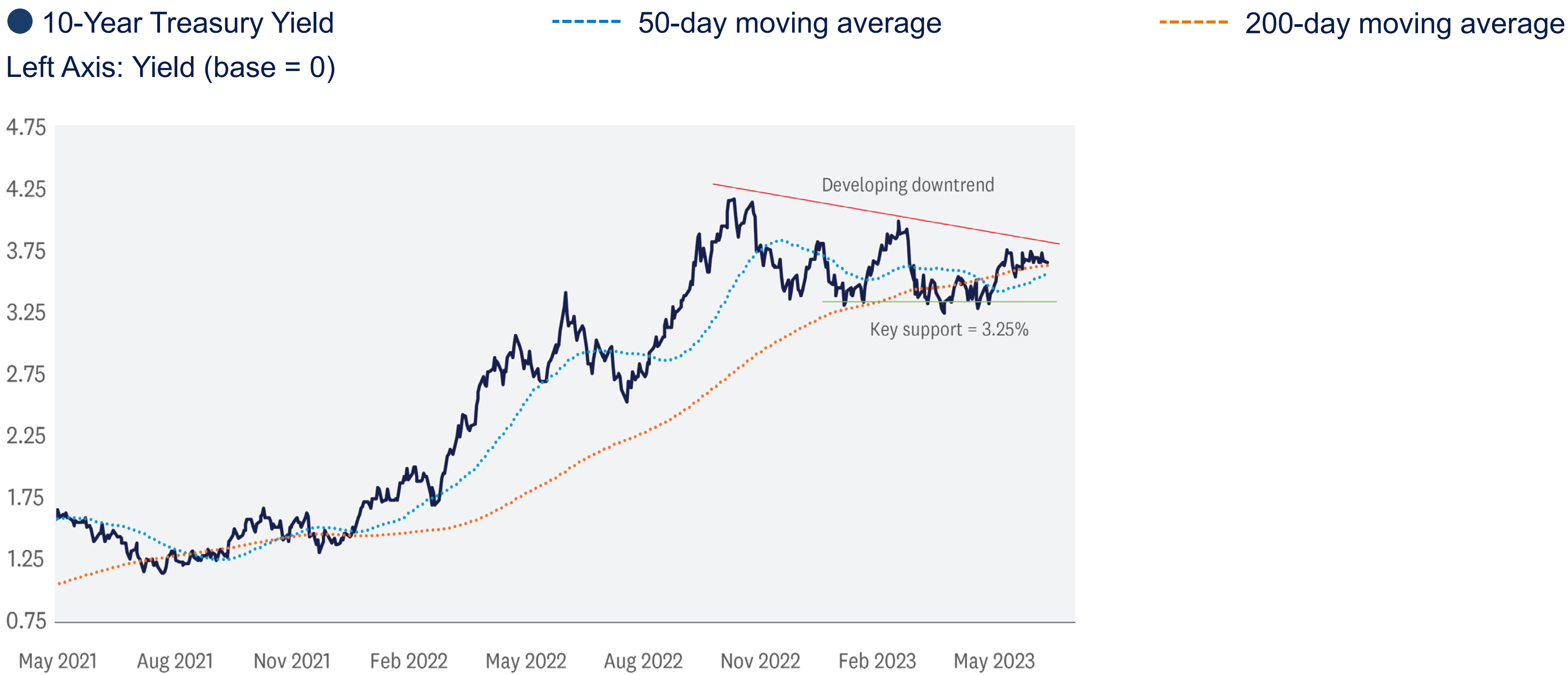
# TECHNICAL TRENDS SUGGEST THE HIGHS MAY BE IN




Source: LPL Research, Bloomberg 05/30/23
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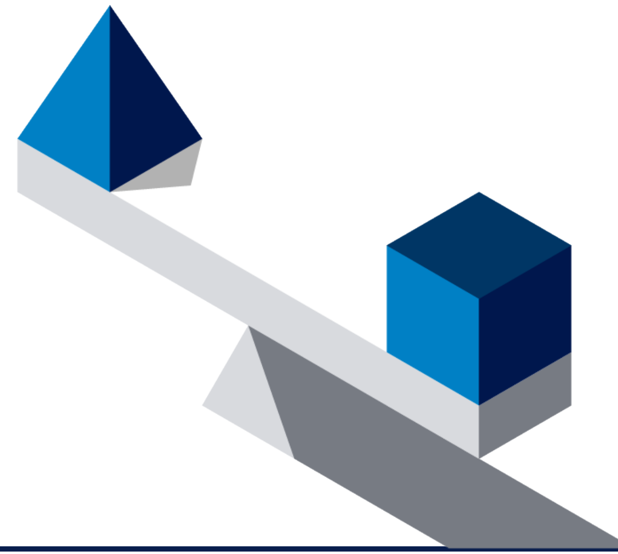
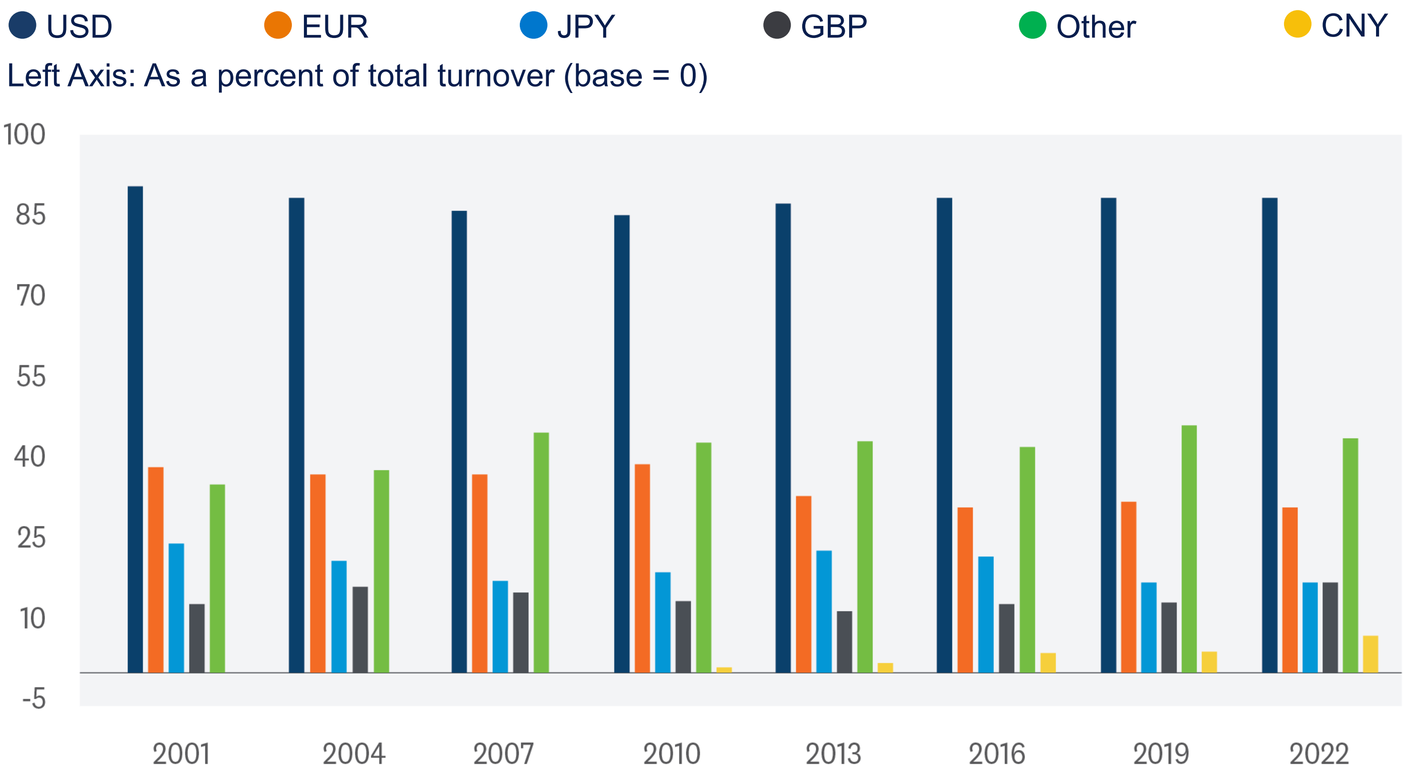
# Commodities and Currencies

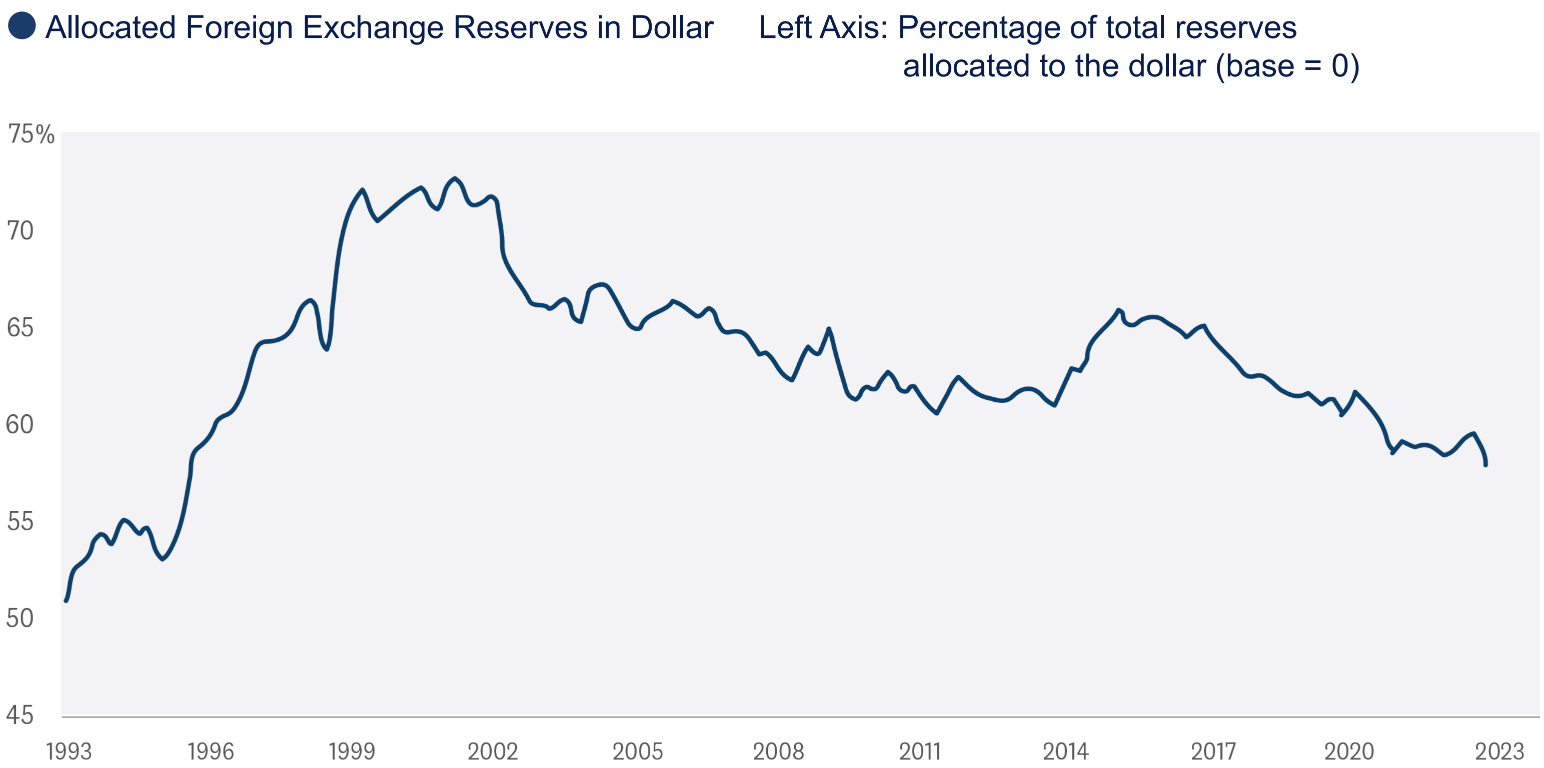


# FOREIGN EXCHANGE TURNOVER BY CURRENCY




Source: LPL Research. Bank of International Settlements Triennial Central Bank Survey 05/04/23
As FX transactions involve two currencies, the sum of shares in all individual currencies will total 200%.

# PERCENTAGE OF TOTAL ALLOCATED RESERVES IN THE U.S. DOLLAR




Source: LPL Research, FactSet 05/04/23
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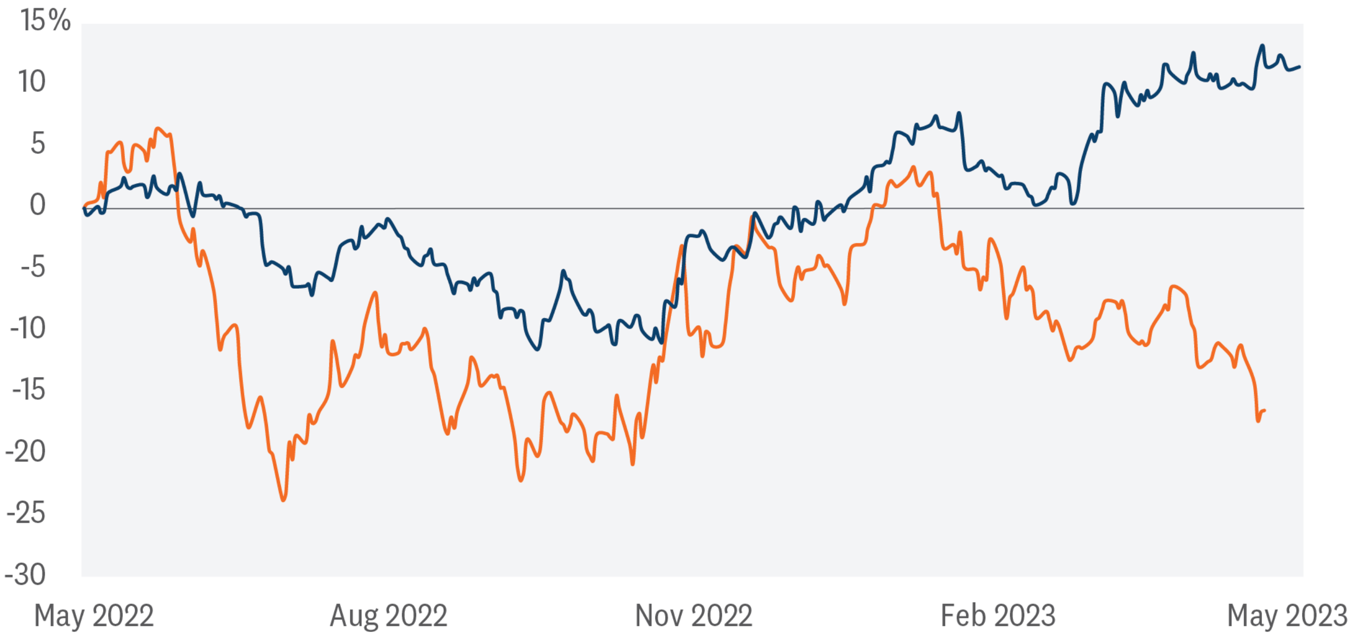
# INDUSTRIAL METALS VS. GOLD

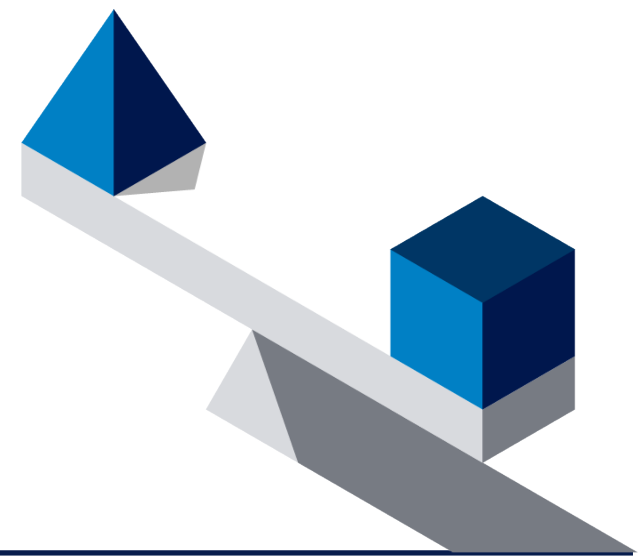
● Gold ● Bloomberg Industrial Metals Index

Left Axis: Normalized performance based on daily percent change

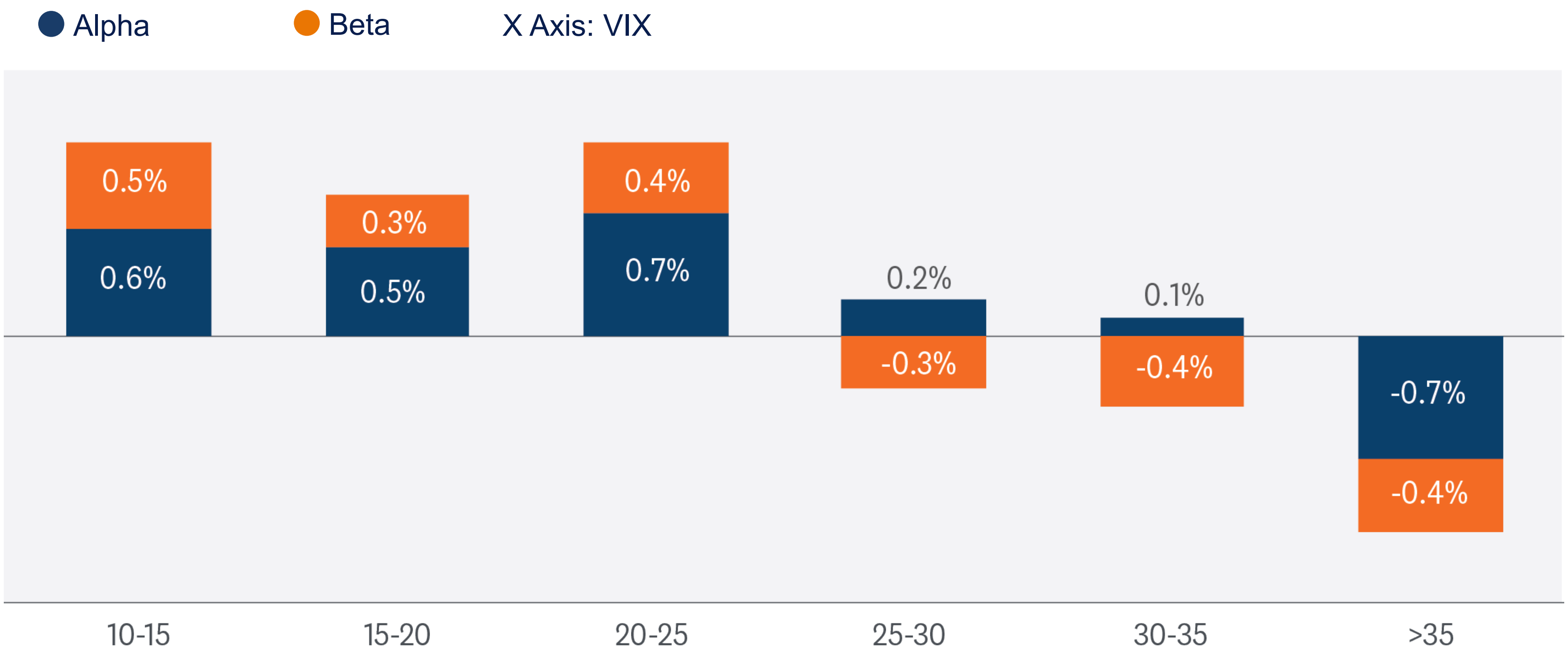



Source: LPL Research, Bloomberg, Data as of 05/30/23
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
Any futures referenced are being presented as a proxy, not as a recommendation.

# ALTERNATIVE INVESTMENTS

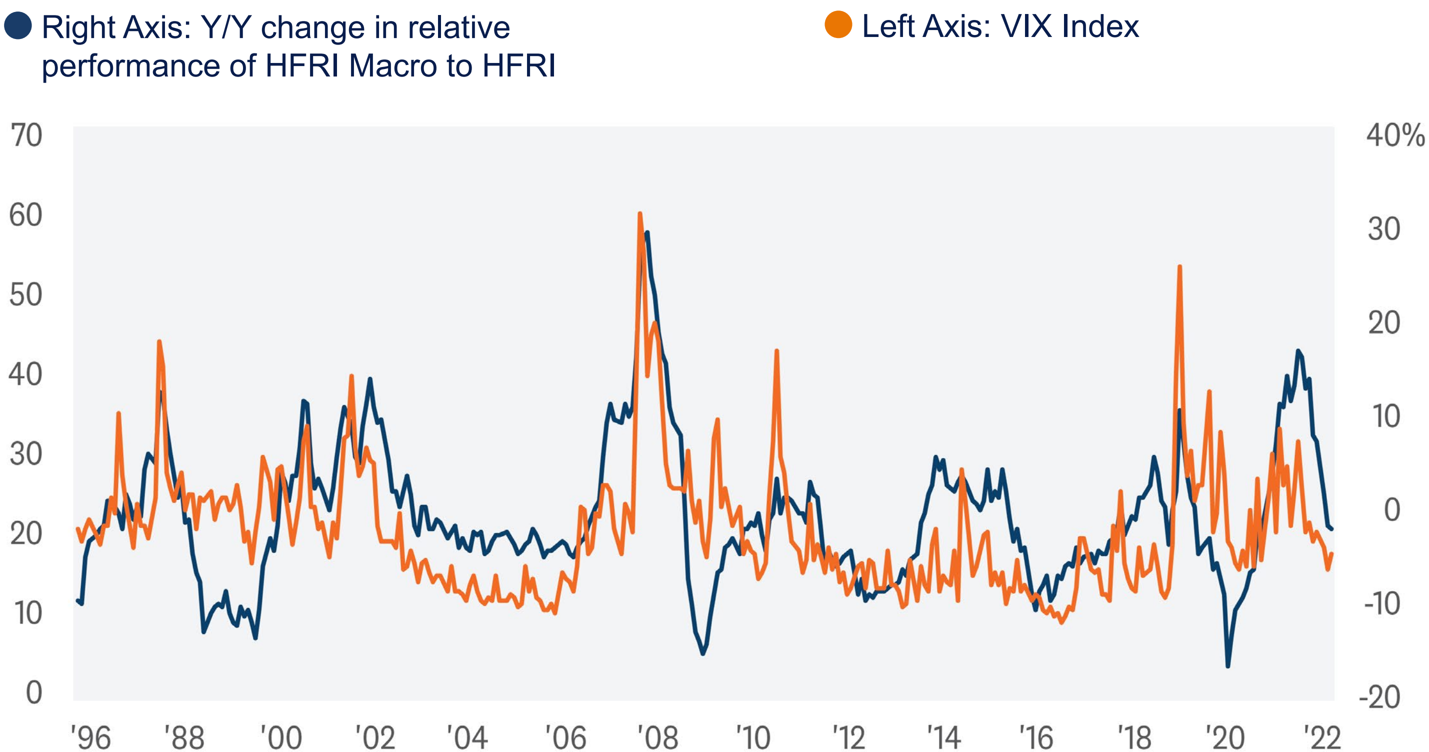


# HEDGE FUND CATEGORIES PRODUCE POSITIVE ALPHA IN MOST OF THE VOLATILITY REGIMES




Source: LPL Research, HFRI, CBOE, MSCI, FactSet, J.P. Morgan Asset Management
Data is based on availability as of 02/28/2023

# GLOBAL MACRO STRATEGIES TENDS TO OUTPERFORM DURING PERIODS OF VOLATILITY




Source: LPL Research, Hedge Fund Research, Inc., CBOE, MSCI, FactSet, J.P. Morgan Asset Management
Data is based on availability as of 02/28/2023

# THE STAAC SPECTRUM

## Tactical asset allocation recommendations

| Negative | Neutral | Positive |
|---|---|---|
| ▶ Emerging market equities | ▶ U.S. equities | ▶ International equities |
| ▶ Mid caps | ▶ Growth and value equities | ▶ Large caps |
| ▶ Small caps | ▶ Treasuries | ▶ Industrials |
| ▶ Consumer discretionary | ▶ Duration | ▶ Preferred securities |
| ▶ Real estate | | ▶ Precious metals |
| ▶ Foreign bonds | | ▶ Low beta alternative investments (Global Macro, Managed Futures, Multi-Strategy) |
| ▶ Investment grade corporates | | ▶ Mortgage-backed securities |

Source: LPL Research 07/06/23.

# GENERAL DISCLOSURES

The opinions, statements and forecasts presented herein are general information only and are not intended to provide specific investment advice or recommendations for any individual. It does not take into account the specific investment objectives, tax and financial condition, or particular needs of any specific person. There is no assurance that the strategies or techniques discussed are suitable for all investors or will be successful. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing.

Any forward-looking statements including the economic forecasts herein may not develop as predicted and are subject to change based on future market and other conditions. All performance referenced is historical and is no guarantee of future results.

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 does not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

# GENERAL RISK DISCLOSURES

Investing involves risk including the potential loss of principal.

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.

Investing in stock includes numerous specific risks including the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market. 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. They 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. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. 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. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk. Floating rate bank loans are loans issues by below investment grade companies for short term funding purposes with higher yield than short term debt and involve risk.

Preferred stock dividends are paid at the discretion of the issuing company. Preferred stocks are subject to interest rate and credit risk. As interest rates rise, the price of the preferred falls (and vice versa). They may be subject to a call feature with changing interest rates or credit ratings. The majority of preferred stocks outstanding are concentrated in the financial sector.

International debt securities involve special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. These risks are often heightened for investments in emerging markets.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

Municipal bonds are subject to availability and change in price. They are subject to 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. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

# GENERAL RISK DISCLOSURES

The fast price swings of commodities will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors. Precious metal investing is subject to substantial fluctuation and potential for loss.

Any company names noted herein are for educational purposes only and not an indication of trading intent or a solicitation of their products or services. LPL Financial doesn’t provide research on individual equities.

All index data from FactSet. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

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

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. 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. Investing in foreign and emerging markets debt or 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.

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

# GENERAL DEFINITIONS

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.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

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.

The Standard & Poor's 500 Index 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.

The Bloomberg U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The HFRI® Indices are broadly constructed indices designed to capture the breadth of hedge fund performance trends across all strategies and regions.

The HFRI Institutional Macro Index is a global, equal-weighted index of hedge funds with minimum assets under management of USD $500MM which report to the HFR Database and are open to new investments.

A company's market capitalization is the market value of its outstanding shares. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share. Classifications such as large-cap, mid-cap and small-cap are only approximations and may change over time.

**Equity Definitions**

Cyclical stocks typically relate to equity securities of companies whose price is affected by ups and downs in the overall economy and that sell discretionary items that consumers may buy more of during an economic expansion but cut back on during a recession. Counter-cyclical stocks tend to move in the opposite direction from the overall economy and with consumer staples which people continue to demand even during a downturn.

A Growth stock is a share in a company that is anticipated to grow at a rate significantly above the average for the market due to capital appreciation.

A Value stock is anticipated to grow above the average for the market due to trading at a lower price relative to its fundamentals, such as dividends, earnings, or sales.

Large cap stocks are issued by corporations with a market capitalization of $10 billion or more, and small cap stocks are issued by corporations with a market capitalization between $250 million and $2 billion.

# GENERAL DEFINITIONS

**Fixed Income Definitions**

Credit Quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default. 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.

The credit spread is the yield the corporate bonds less the yield on comparable maturity Treasury debt. This is a market-based estimate of the amount of fear in the bond market. Base-rated bonds are the lowest quality bonds that are considered investment-grade, rather than high-yield.

They best reflect the stresses across the quality spectrum.

The Bloomberg Aggregate U.S. Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment- grade fixed rate bond market, with index components for government and corporate securities, mortgage pass- through securities, and asset-backed securities.

This research material has been prepared by LPL Financial LLC.

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|---|---|---|---|

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