MARKET INSIGHT

First Quarter 2022

NEWS & VIEWS FROM LPL RESEARCH

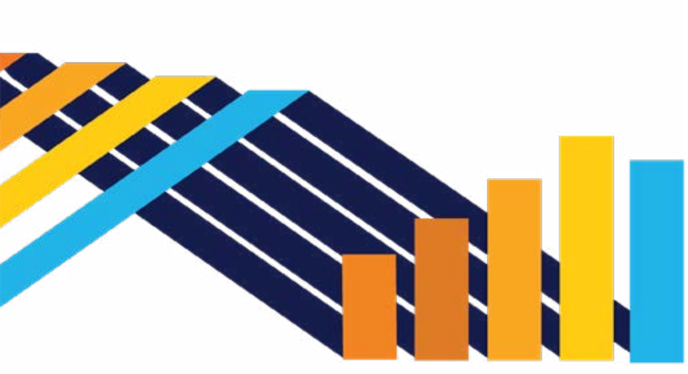
The economic forecasts set forth in the presentation may not develop as predicted. Please note: all return figures are as of March 31, 2022, unless otherwise stated. This information is not intended as authoritative guidance or tax or legal advice. You should consult with your attorney or tax advisor for guidance on your specific situation.

LPL Research

About us

LPL Financial Retirement Partners is the retirement-focused division of LPL Financial LLC dedicated solely to supporting financial professionals who service the retirement plan market. Our promise is to create services and resources so that financial professionals may deliver employers and employees exceptional experiences and high-quality programs by providing services that help save time, reduce exposure to fiduciary liability, and address both Internal Revenue Service and Department of Labor requirements. Our comprehensive analysis of retirement plans and plan design features establishes a strong foundation, and our structured service and employee communication model strives to ensure ongoing excellence.

LPL Financial Retirement Partners provides professional human capital gained through decades of experience working for, and with, some of the top defined contribution, defined benefit, and deferred compensation service providers in the industry. Our independent perspective has been utilized by thousands of companies nationwide, with billions in retirement plan assets. The economies derived from our scale and national presence enable us to give financial professionals outstanding resources to help plan sponsors evaluate, design, and negotiate high-quality retirement programs. For more information regarding our firm, please visit our website: www.lpl.com.



First Quarter 2022

MARKET INSIGHT QUARTERLY

Q1 2022 at a Glance

Sector	Q1 2022
Gross Domestic Product*	1.5%
S&P 500 Index	-4.6%
Bloomberg Aggregate Bond Index	-5.9%
Bloomberg Commodity Index	25.5%

Source: LPL Research, Bloomberg, FactSet, 3/31/2022

* Bloomberg consensus as of 3/31/2022

Figures for S&P 500 Index, Bloomberg Barclays Aggregate Bond Index, and Bloomberg Commodities Index are total returns from 1/01/2022 - 3/31/2022 (Q1)

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment.

Past performance is not indicative of future results.

Stocks struggled with higher inflation and sharply higher interest rates during the first quarter

The S&P 500 Index lost 4.6% during the first quarter (including dividends)—snapping its streak of seven straight quarterly gains since the pandemic-riddled losses of early 2020. A nearly 9% rally from March 8 through the end of the quarter pared losses. The Nasdaq fared worse with its 8.9% decline amid more pronounced weakness in growth-style stocks, while the Dow Jones Industrials held up a bit better in losing 4.1% for the quarter.

Investor sentiment has faced a number of challenges early in 2022. Chief among them has been inflation, which has caused the Federal Reserve (Fed) to dramatically accelerate its rate hiking plans, lifted interest rates to multi-year highs, and caused some parts of the Treasury yield curve to invert (short-term interest rates have moved above long-term interest rates). Russia's devastating military aggression in Ukraine has added to the market's angst by pushing energy prices higher and increasing recession risks, particularly in Europe.

The threats of higher inflation, rising interest rates, and a wider military conflict in Europe offset the good news of more of the U.S. economy reopening amid plummeting COVID -19 cases early in the year. Amid the difficult macroeconomic environment, corporate America continues to do an excellent job managing the supply chain disruptions, labor and materials shortages, and various related cost pressures, reflected in the increasing consensus earnings estimate for the S&P 500 Index year to date (source: FactSet).

Large caps beat small handily

Large cap stocks handily beat their small cap counterparts during the first quarter after very strong relative performance in 2021, based on the Russell market cap indexes. At a high level, small caps tend to underperform their large cap counterparts in down markets, so equity sensitivity was part of the story. Also, persistent supply chain challenges and intense pricing pressures are generally easier for larger companies to manage. Much of the small cap underperformance came from the consumer discretionary and healthcare sectors, particularly interest-rate-sensitive homebuilders and more speculative small cap biotech stocks.

Value rides energy wave, tech weakness hampers growth

Value-style stocks turned the tables in the first quarter, outpacing growth-style stocks handily after lagging during the fourth quarter and in 2021. The Russell 1000 Value Index lost just 0.7% during the first quarter, compared to the 9% decline in the Growth Index. At a macro level, high inflation and rising interest rates generally create a more favorable environment for value-style stocks. At the sector and industry level, value-style outperformance can be boiled down simply to energy strength (a value sector) and weakness in technology and social media (particularly Meta Platforms) on the growth side.

Russian energy dependence weighs on Europe

The U.S. outperformance witnessed in 2021 continued during the first quarter of 2022, as both developed international (MSCI EAFE Index) and emerging markets (MSCI EM Index) underperformed the S&P 500 Index during the quarter. The MSCI EAFE Index lost 5.8% during the quarter, while the MSCI Emerging Markets Index slipped 7%. Developed markets in Europe and Japan, particularly Germany, struggled with energy import dependence, while resource-rich countries such as Norway and Australia fared best. Meanwhile, the strong U.S. dollar trimmed international returns for U.S.-based investors.

The weakness in EM was driven primarily by losses in China and Russia. China's market has been weighed down by COVID-19 lockdowns, distressed property developers, and the government's regulatory crackdown. Russian stocks, which composed about 2% of the MSCI EM Index when the quarter began, fell nearly 70% during the quarter due to sanctions pressures. Taiwan and Korea fell in sympathy with China and global technology weakness, while EM losses were only partly offset by strong gains in resource-rich markets in Brazil and South Africa.

Negative core bond returns to start the year

Bond market returns were negative to start the year with the core bond index (the Bloomberg Aggregate index) off to the worst start to the year since 1980. The expectation of the Federal Reserve aggressively raising short-term interest rates this year to help fight stubborn inflationary pressures caused higher yields/lower prices in most fixed-rate coupon markets in the U.S.

The more interest-rate sensitive sectors, such as investment-grade corporates (-7.7%) and U.S. Treasury securities (-5.6%), were deeply negative for the quarter. Even U.S. mortgage-backed securities (MBS) were negative during the quarter (-4.8%) but, despite the prospects of less Fed support this year, not as negative as investment-grade corporates and Treasury securities. Finally, not even the return of more persistent inflation concerns could help Treasury Inflation-Protected Securities (TIPS) generate positive returns for the quarter as these securities were down to start the year as well.

U.S. Treasuries may be considered "safe haven" investments but do carry some degree of risk including interest rate, credit, and market risk. They 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.

Please see our annual Outlook 2022: Passing the Baton publication for additional descriptions and disclosures.

Favorable environment for credit

An important point about the negative returns we're seeing this year is that yields are moving higher because of the expectations of higher short-term interest rates and not an increase in credit risk. This is a huge distinction because higher credit/default risks could represent permanent impairments of capital. Despite the negative returns in credit markets this year, spreads in credit markets remain well behaved.

Mostly negative returns for non-U.S. fixed income

Yields on the debt of many developed and emerging countries rose during the quarter, albeit to varying degrees, as the prospects of reduced monetary support weighed on bond prices and pushed yields higher. Moreover, a number of central banks in emerging markets have started aggressively increasing interest rates to help reduce inflationary pressures.

No cover for munis

Despite improved fundamentals, municipal bonds were also caught up in the negative return environment during the quarter with the national index down -6.2%. Additional pressures were seen as mutual funds investors abandoned the space, which caused liquidations in a relatively illiquid environment. However, valuations have improved meaningfully.

Commodities time to shine

Commodities followed up a big 2021 (+27%) with another huge gain in the first quarter, as the Bloomberg Commodity Index rose 25.5% during the quarter. It was the biggest quarterly gain since the 29.9% surge during the third quarter of 1990. No surprise that the gains were driven primarily by energy (natural gas +58.3%, WTI Crude Oil +38.3%).

Strength in commodities was broad-based, with agriculture (+19.9%) and industrial metals (+22.7%) solidly higher. Even precious metals (+6.9%) delivered respectable gains despite sharply higher interest rates—which increase the opportunity cost of holding the gold commodity, for example—and the strong U.S. dollar. High inflation and increasing geopolitical threats provided support.

All commodities performance is based on Bloomberg commodity indexes.
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A LOOK AHEAD

Economy. LPL Research forecasts 2.7–3.2% gross domestic product (GDP) growth in 2022, lowered from 3.7% previously. The risk that high inflation trickles down to U.S. consumers, along with Russian energy disruption, drove the lowered GDP forecasts. Still, we expect above-trend U.S. economic growth in 2022, powered by solid consumer spending gains. Forecasts for GDP growth in developed economies excluding the U.S. and emerging markets were also reduced recently, to 2.5–3% and 3.8–4.3%, respectively, bringing the LPL Research global GDP growth forecast down about one percentage point to 3–3.5%.

Inflation. The confluence of supply constraints and surging demand has made pricing pressures a big concern for markets, consumers, and policy makers. Russian aggression only made things worse as commodities markets tightened amid global sanctions. The Federal Reserve is rightly concerned about the effects of inflation on the consumer. Rising prices put a squeeze on discretionary spending and real wages. The good news is we expect inflation to come down significantly as the year progresses.

Stocks. We see opportunities for stocks to return to record highs later this year on a combination of earnings gains and some recovery in valuations, though higher interest rates may limit potential increases in the price-to-earnings ratio (P/E) for the S&P 500. Our recently reduced S&P 500 year-end fair value target is 4,800 – 4,900, based on a P/E of 20.5 and our 2023 S&P 500 earnings per share forecast of $235. The path forward for stocks has gotten tougher, but our optimism rests on our belief that interest rates will soon stabilize and inflation is near its peak.

Bonds. Although we've seen a meaningful move higher in yields this year, broadening inflationary pressures and the reduction of Fed policy support may push yields still higher in the months ahead. We've increased our yearend target for the 10-year Treasury yield to 2.25% to 2.5% amid the aggressive repricing of Fed rate hike expectations.

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FIRST QUARTER DATA

Energy Laps the Field as Oil Prices Surge on Russia Supply Disruption

S&P 500 sector performance, ranked by first quarter returns*

Sector	Q1 2022
Energy	39.0%
Utilities	4.8%
Consumer Staples	-1.0%
Financials	-1.5%
Industrials	-2.4%
Materials	-2.4%
Healthcare	-2.6%
S&P 500	-4.6%
Real Estate	-5.9%
Technology	-8.4%
Consumer Discretionary	-9.0%
Communication Services	-11.9%

U.S. Value Tops Major Equity Asset Classes in Q1, Growth Struggled

Domestic and international asset class performance, ranked by first quarter returns**

Asset Class	Q1 2022
Large Value	-0.7%
Mid Value	-1.8%
Small Value	-2.4%
S&P 500	-4.6%
Russell 3000	-5.3%
Large Foreign	-5.8%
Emerging Markets	-6.9%
Large Growth	-9.0%
Mid Growth	-12.6%
Small Growth	-12.6%

Bank Loans and TIPS Held Up Relatively Well on Rising Rates, Higher Inflation

Bond market performance, ranked by first quarter returns**

Sector	Q1 2022
Bank Loans	-0.2%
TIPS	-3.0%
Foreign Bonds (Hedged)	-4.4%
High-Yield Corporates	-4.8%
MBS	-5.0%
U.S. Treasuries	-5.5%
Bloomberg U.S. Aggregate	-5.6%
Munis	-6.2%
High-Yield Munis	-6.5%
Foreign bonds (unhedged)	-7.1%
Investment-Grade Corporates	-7.7%
Preferred Stocks	-7.9%
EM Debt	-9.3%

**Sources: LPL Research, Bloomberg, FactSet as of 3/31/2022

*Sources: LPL Research, FactSet as of 3/31/2022

All data as of 3/31/2022

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The sectors are represented by the 11 S&P 500 Global Industry Classification Standard (GICS) indexes.

Asset classes are based on Russell 1000, Russell 3000 Growth and Value, Russell 2000, Russell Midcap, MSCI EAFE, and MSCI Emerging Markets indexes.

Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index so these are not actual results an investor would achieve.

Bond Market Asset Class Indexes: Foreign Bonds (hedged) – Citigroup Non-U.S. World Government Bond Index Hedged for Currency; Preferred Securities – Merrill Lynch Preferred Stock Hybrid Securities Index; Treasury – Bloomberg Barclays U.S. Treasury Index; Mortgage-Backed Securities – Bloomberg Barclays U.S. MBS Index; Investment-Grade Corporate – Bloomberg Barclays U.S. Corporate Bond Index; Municipal – Bloomberg Barclays Municipal Bond Index; Municipal High-Yield – Bloomberg Barclays Municipal High Yield Index; TIPS – Bloomberg Barclays Treasury Inflation-Protected Securities Index; Bank Loans – Bloomberg Barclays U.S. High Yield Loan Index; High-Yield – Bloomberg Barclays U.S. Corporate High Yield Index; Emerging Market Debt – JP Morgan Emerging Markets Global Index; Foreign Bonds (unhedged) – Citigroup Non-U.S. World Government Bond Index (unhedged)

IMPORTANT DISCLOSURES

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.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing. The economic forecasts set forth in this material may not develop as predicted. All performance referenced is historical and is no guarantee of future results.

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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.

Yield is the income return on an investment. This refers to the interest or dividends received from a security and are usually expressed annually as a percentage based on the investment's cost its current market value or its face value.

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.

Small cap is a term used to classify companies with a relatively small market capitalization. The definition of small cap can vary, but it is generally a company with a market capitalization of between $300 million and $2 billion. The prices of small cap stocks are generally more volatile than large cap stocks.

The S&P 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.

For a list of descriptions of the indexes referenced in this publication, please visit our website at lplresearch.com/definitions.

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