MARKET INSIGHT

Third Quarter 2023

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 September 30, 2023 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

Third Quarter 2023

MARKET INSIGHT QUARTERLY

Q3 2023 at a Glance

Sector	Q3 2023
Gross Domestic Product*	**1.3%**
S&P 500 Index	-3.3%
Bloomberg U.S. Aggregate Bond Index	-3.2%
Bloomberg Commodity Index	4.7%

Source: LPL Research, Bloomberg, FactSet, 9/30/2023

* Bloomberg consensus as of 9/30/2023

Figures for S&P 500 Index, Bloomberg Barclays Aggregate Bond Index, and Bloomberg Commodities Index are total returns from 06/01/2023 - 09/30/2023

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.

Equities Give Back Gains as the Federal Reserve Signals Rates Will Stay Higher-For-Longer

The S&P 500 lost ground during the third quarter, falling 3.3% including dividends to bring its nine-month return to 13.1%. The Dow Jones Industrial Average posted a loss of 2.1%, while last quarter's big winner, the Nasdaq Composite, pulled back 3.4% during the quarter as both growth and value lost about the same amount of ground. The Bloomberg Commodity Index was this quarter's winner given higher oil and soft commodity prices.

Pricing pressures continue to decline steadily as headline consumer inflation rate is at 3.7% on an annual basis as of September 2023, compared with 8.3% a year ago. Given the improvements in the inflation landscape as the economy has remained resilient, some market participants believe the Federal Reserve (Fed) could still produce a soft-landing.

However, the messaging from the September Federal Open Market Committee (FOMC) meeting suggests the narrative may be more complicated. The central bank indicated interest rates will remain higher for longer, and it would take longer to bring inflation down to its 2% target rate. The central bank's response to lingering pricing pressures and the subsequent path of longer-term interest rates remain key themes for global equities.

Corporate resilience continued to surprise Wall Street during second quarter earnings season. Still-high inflation and related cost pressures were among analysts' key concerns going into the quarter. Actual earnings came in over three percentage points better than expected, providing some ballast for stocks in a down quarter.

Even as inflation comes down and earnings improve, the global economic and geopolitical landscape remains challenging as the Fed and other major global central banks remain steadfast in their fight against inflation.

Large Caps Outperformed Small Caps as Both Lose Ground

Large and small cap stocks pulled back during the third quarter; however, large caps continued their outperformance on the back of sector leadership from energy and communication services. During the quarter, the large cap dominated Russell 1000 Index lost 3.2%, compared to 5.1% for the small cap Russell 2000 Index. Year to date, large caps are up more than four-fold vs. their small cap counterparts, 13% to 2.5%.

Even as small cap valuations appear attractive and provide less exposure to international economic risks, they are more susceptible to domestic economic challenges and financial stress, as evidenced by their notable underperformance.

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Growth Slightly Outperformed Value as Both Recede

Both growth and value lost ground during the quarter as the Russell 1000 Growth Index pulled back -3.1**%,** compared to the -3.2**%** deficit for the Russell 1000 Value Index. While growth outperformed modestly, the gap was smaller compared to the previous two quarters as some investors took advantage of attractive valuations. In addition, a rally in energy stocks following a 30% jump in crude oil helped the value style hold up better this quarter. During the first and second quarters of this year, growth received a sizable boost from its overweights in the information technology and consumer discretionary sectors.

Following concentrated returns in the first quarter when 10 of the largest technology names contributed to 88% of the S&P 500 Index returns, market breadth improved during the second quarter. However, this trend lost some ground in the third quarter as the S&P 500 outperformed the equal-weight S&P 500 Index.

International Equities Struggled to Keep Up with the U.S.

The U.S. continues to outperform international stocks as the MSCI EAFE Index lost 4.1% during the third quarter versus the S&P 500 Index's 3.3% decline. Emerging markets (EM) fared better than their developed counterparts, as the MSCI EM Index only lost 2.8%. China lost nearly 4%, Mexico gave back over 6%, while Brazil was down over 4.5%. Argentina was the bright spot, returning over 30% for the quarter on the back of a pro-reform August election.

Relative strength in the mega-cap U.S. growth stocks, especially in the high growth technology sector, made it difficult for developed international equity markets to outperform, especially with Germany mired in a technical recession and Europe struggling with inflation and a hawkish central bank. Japan's -1.5% second quarter decline in U.S. dollars was a bright spot as its economy continues to hold up relatively well amid continued accommodative monetary policy. A budding trend toward more shareholder-friendly corporate practices has increased interest in Japanese equities.

Strong Quarter for Credit as Higher Interest Rates Pressured Core Bonds

Core bonds, as defined by the Bloomberg U.S. Aggregate Index, lost additional ground during the quarter as central bank hawkishness pushed rates higher. The 3.2% decline for the index in the third quarter brought its year-to-date gain down to 1.2%.

Global central banks remain steadfast in curbing pricing pressures, even as inflation declines. The most credit-sensitive sectors of the bond market, including bank loans and corporate high-yield bonds, outperformed during the second quarter, while the most interest rate-sensitive sectors lagged, most notably U.S. Treasuries.

High yield credit outperformed during the quarter despite tightening bank lending standards and increasing defaults. The fundamental backdrop for corporate borrowers is starting to deteriorate as the global economy slows. Given our expectations of a slowing economy, LPL Research doesn't think valuations in general are compelling to invest in the riskier fixed income markets, with the exception of preferred securities where valuations continue to look attractive in the aftermath of the regional bank stresses.

Commodities a Bright Spot Given Energy and Soft Commodities

The Bloomberg Commodity Index returned 4.7% this quarter after losing 7.8% during the first half of this year. OPEC+ cuts in energy production amid solid global demand has aided oil prices.

Surging prices for soft, agricultural, commodities are entangling the inflation landscape. Many agricultural commodities have increased in price in recent months, given weather-related challenges worldwide. Futures contracts on orange juice, live cattle, raw sugar, and cocoa each hit year-to-date highs in September amid lower supplies. The S&P Goldman Sachs Commodity Index (GSCI) Softs (soft commodity) Index has increased more than 18% in 2023.

Gold lost ground, while industrial metals gained marginally this quarter as the dollar surged. Gold is still positive this year as global central banks acquire gold to increasingly diversify away from the dollar. Given the mixed performance for metals, continued rise of the dollar, and technical deterioration, LPL Research maintains a neutral view on both industrial and precious metals

All commodities performance is based on Bloomberg commodity indexes.

A LOOK AHEAD

Economy. LPL Research's baseline forecast is that the U.S. economy tips into recession during the first half of 2024 as consumer spending fades. Current Fed policy of higher-for-longer, which has put upward pressure on market-based interest rates, along with the latest better-than-expected economic data, leaves the soft-landing scenario for the U.S. economy less likely. A cooling job market could be the impetus for a modest economic contraction if consumers face declines in disposable income. While a cooling job market over the next six months may put some downward pressure on inflation, strong multi-family construction may also help housing inflation.

Stocks. LPL Research sees only modest gains for stocks over the rest of the year as valuations remain elevated relative to bonds offering some of the most attractive yields in decades. That said, corporate America's resilience has been impressive so far, and third quarter earnings season may mark the end of the earnings recession for the S&P 500. LPL Research maintains its year-end S&P 500 fair value target of 4,300–4,400, based on a price-to-earnings ratio (P/E) of approximately 19 and a 2024 EPS estimate of $230. Stronger earnings may justify a higher fair value S&P 500 target range.

Bonds. After one of the most significant rate hiking campaigns from the Fed in history, short term interest rates are at their highest levels in 17 years. The risk is these yields won't last, forcing investors to reinvest proceeds at lower rates. So, unless investors have short-term income needs, it may make sense to extend the maturity profile of fixed income holdings to lock in higher yields for longer. Historically, core bonds, as proxied by the Bloomberg Aggregate Bond Index, have performed well after the Fed has paused prior interest rate hiking cycles. LPL Research expects 10-year Treasury yields may end the year between 4.25% and 4.75%.

Please note: All return figures are as of September 30, 2023, unless otherwise stated.

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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.

THIRD QUARTER DATA

Energy Tops Sector Rankings as Income Sectors Real Estate and Utilities Lag

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

Sector	Q3 2023
Energy	12.2%
Communication Services	3.1%
Financials	(1.1)%
Healthcare	(2.7)%
S&P 500 Index	(3.3)%
Materials	(4.8)%
Consumer Discretionary	(4.8)%
Industrials	(5.2)%
Information Technology	(5.6)%
Consumer Staples	(6.0)%

Emerging Markets Led Amid Negative Performance Across the Board

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

Asset Class	Q3 2023
Emerging Markets	(2.8)%
Small Value	(3.0)%
Large Growth	(3.1)%
Large Value	(3.1)%
Russell 3000	(3.3)%
S&P 500 Index	(3.3)%
Large Foreign	(3.4)%
Mid Value	(4.5)%
Mid Growth	(5.2)%
Small Growth	(7.3)%

Strong Bank Loan Performance as Interest Rates Continued Their Climb

Bond market performance, ranked by third quarter returns**

Sector	Q3 2023
Bank Loans	3.0%
High-Yield Corporate	0.5%
Foreign Bonds (Hedged)	(1.8)%
TIPS	(2.6)%
U.S. Treasuries	(3.0)%
Investment-Grade Corporates	(3.0)%
Bloomberg U.S. Agg	(3.2)%
Preferred Stock	(3.6)%
Munis	(4.0)%
MBS	(4.1)%
High-Yield Munis	(4.2)%
Foreign Bonds (Unhedged)	(5.2)%

**Sources: LPL Research, FactSet as of 9/30/2023

All data as of 9/30/2023

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

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 U.S. Treasury Index; Mortgage-Backed Securities – Bloomberg U.S. MBS Index; Investment-Grade Corporate – Bloomberg U.S. Corporate Bond Index; Municipal – Bloomberg Municipal Bond Index; Municipal High-Yield – Bloomberg Municipal High Yield Index; TIPS – Bloomberg Treasury Inflation-Protected Securities Index; Bank Loans – Bloomberg U.S. High Yield Loan Index; High-Yield – Bloomberg 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.

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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.

The Bloomberg Global Aggregate Index measures the performance of global investment grade debt. The index includes treasury, corporate, and securitized fixed-rate bonds. 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.

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.

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.

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.

Precious metal investing involves greater fluctuation and potential for losses.

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