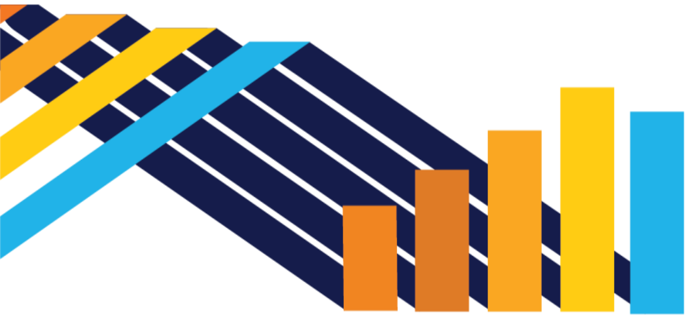
MARKET INSIGHT

Fourth Quarter 2021

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 December 30, 2021, 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



Fourth Quarter 2021

MARKET INSIGHT QUARTERLY

Q4 2021 at a Glance

Sector	Q4 2021
Gross Domestic Product*	6.0%
S&P 500 Index	11%
Bloomberg Aggregate Bond Index	0.0%
Bloomberg Commodity Index	-1.6%

Source: LPL Research, Bloomberg, FactSet, 12/31/2021

* Bloomberg consensus as of 12/31/2021

Figures for S&P 500 Index, Bloomberg Barclays Aggregate Bond Index, and Bloomberg Commodities Index are total returns from 10/01/2021 - 12/31/2021 (Q4)

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 ended a very strong 2021 on a high note

The S&P 500 returned 11.0% during the fourth quarter (including dividends)—its seventh straight quarterly gain to bring the 2021 return to 28.7%. The index, which set 70 record highs in 2021 (behind only 1995's 77), produced three straight years of double-digit gains for the first time since 2012-2014. The Nasdaq trailed the S&P 500 for the quarter and the year with 8.5% and 22.2% returns, as did the Dow Jones Industrials with gains of 7.9% and 21.0%.

During the fourth quarter, confidence that economic growth would not be materially impacted by the Omicron COVID -19 variant helped buoy investor sentiment, as less severe illness and fewer hospitalizations were observed compared to the Delta variant. Virus fears did cause stocks to pull back about 4% in late November, however, before a rally gained more than 4% in December. Meanwhile, corporate America continued to do an excellent job managing the supply chain disruptions, labor and materials shortages, and various related cost pressures, as evidenced by nearly 40% earnings growth delivered by S&P 500 companies during the third quarter.

Large caps beat small handily

Large cap stocks handily beat their small cap counterparts for the fourth quarter and full year based on the Russell market cap indexes. At a high level, the supply chain challenge companies faced for much of 2021 were easier for larger companies to manage, positioning them to perform better. Part of the small cap underperformance also reflected the market's preference for profits, as much of the performance gap between small caps and large caps during the fourth quarter and in 2021 came from the Healthcare sector, particularly biotech, with a greater proportion of less profitable and more speculative companies. Small cap indexes also had a hard time over the past year keeping up with the strong gains for some of the biggest market cap technology and internet companies such as Alphabet, Apple, and Microsoft.

Growth beat value but not by a lot

Growth-style stocks beat their value counterparts for the fourth quarter and full year, though annual returns were close. The Russell 1000 Growth Index returned 11.6% during the fourth quarter, outpacing the Value Index's 7.8% gain. For the year, the Growth Index returned 27.6%, slightly ahead of the 25.2% gain for the Value Index. Growth outperformance during the fourth quarter was driven almost entirely by technology strength, while for the full year it was attributable to the communication services and technology sectors. Specifically, weakness in traditional telecom weighed on value, while strength in semiconductor stocks propelled growth.

Tough year for emerging markets

Turning to regions, the pattern of U.S. outperformance throughout 2021 continued through year end, as developed international (MSCI EAFE Index) and emerging markets (MSCI EM Index) both underperformed the S&P 500 Index during the fourth quarter and the full year. Developed markets in Europe and Japan struggled with the pandemic while the U.S. dollar rallied throughout much of the year, weighing on international returns for U.S.-based investors. Developed international markets returned 11.8% for the year after a 2.7% gain in the fourth quarter. EM was actually down 1.2% in the fourth quarter and lost 2.2% for the year, driven lower by double-digit losses in China amid slowing growth, distressed property developers, and the government's regulatory crackdown.

Negative core bond returns for the year

Bond market returns were flat during the fourth quarter as the Bloomberg Aggregate Bond Index was up only 0.01%. For the year, the index was down 1.5%, which was only the fourth negative returning year since its inception in 1976—and the first since 2013.

While returns for the more interest-rate sensitive assets, such as corporates and U.S. Treasury securities, were positive for the quarter, U.S. mortgage-backed securities (MBS) were negative in anticipation of the Federal Reserve (Fed) tapering its MBS purchases earlier than originally expected. Conversely, a return of inflation worries helped Treasury Inflation-Protected securities (TIPS) generate positive returns for the quarter and the year.

Favorable environment for credit

Positive credit conditions continued to support riskier fixed income asset classes. High-yield bonds, bank loans, and high-yield municipals all generated positive returns during the quarter as the positive economic backdrop remained generally supportive for economically sensitive risk assets.

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.

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.

Solid gains for munis

Municipal bonds rebounded during the quarter, and were positive for the year, due to favorable supply/demand conditions that have kept the asset class well bid. Municipal bonds outperformed U.S. Treasury securities by more than 3.5 percentage points for the year.

Very strong 2021 for commodities

Commodities fell by a modest 1.6% in the fourth quarter but ended 2021 with a strong 27.1% gain for the year, making it the biggest gain in the Bloomberg Commodity Index since 31.8% in 2000. Fourth quarter losses were driven largely by natural gas, which plummeted nearly 40% during the last three months of the year. However, energy strength during the first nine months of the year helped propel the broad commodity index to the strong year as the global economy reopened and stimulated energy demand. Along with the more than 50% gain in energy, including 61% for crude oil, annual gains for industrial metals (30%) and agriculture (26%) helped offset weakness in precious metals.

Precious metals failed to shine

Precious metals were hurt by a strong U.S. dollar and reduced demand for safe havens in 2021 as the economy reopened and investors embraced riskier assets, failing to benefit from rising inflation. While precious metals rose about 4% during the fourth quarter, gold and silver were both down for the year as the Bloomberg Precious Metals Index fell 6%.

All commodities performance is based on Bloomberg commodity indexes.

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A LOOK AHEAD

Economy. As the U.S. economy moves more to mid-cycle, LPL Research forecasts 4.0–4.5% gross domestic product (GDP) growth in 2022. Fiscal and monetary policies played big roles in the economic recovery in 2021, but we see 2022 playing out as a handoff—from stimulus bridging a pandemic-driven recovery to an economy growing firmly on its own. As we move past COVID-19 globally, Europe and Japan could be ripe for potentially better economic growth in 2022. Meanwhile, emerging market economies may disappoint as growth in China could be constrained by regulatory crackdowns.

Inflation. 2021 was the year nearly everything was in a shortage, and it all translated to added inflationary pressures. Record numbers of ships waiting at ports, a lack of materials, unfilled job openings, higher commodity prices, and a myriad of supply chain disruptions have added to price pressures. While we believe these pressures will steadily decrease over the next year and we will eventually settle back to 2–2.5% inflation, it will likely be a gradual process.

Stocks. We expect solid economic and earnings growth this year to help U.S. stocks deliver gains in 2022. If we are approaching—or are already in—the middle of an economic cycle with at least a few more years left as we expect, then we believe the chances of another good year for stocks in 2022 are quite high. We believe the S&P 500 could be fairly valued at 5,000–5,100 at the end of 2022, based on a 2023 earnings per share estimate of $235 and an index price-to-earnings ratio between 21 and 21.5.

Bonds. We expect interest rates to move modestly higher in 2022 based on near-term inflation expectations above historical trends and improving growth expectations once the impact of the Delta and Omicron variants recede. Our year-end 2022 forecast for the 10-year Treasury yield is 1.75–2.00%. An aging global demographic that needs income, higher global debt levels, and rebalancing out of equities may keep interest rates from going much higher over the next year.

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FOURTH QUARTER DATA

Real Estate Tops Sector Rankings as Communication Services Struggles

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

Sector	Q4 2021
Real Estate	17.8%
Technology	16.7%
Materials	15.2%
Consumer Staples	13.3%
Utilities	12.9%
Consumer Discretionary	12.8%
Healthcare	11.2%
S&P 500	11.0%
Industrials	8.6%
Energy	8.0%
Financials	4.6%
Communication Services	0.0%

Emerging Markets and Small Caps Lag In Q4

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

Asset Class	Q4 2021
Large Growth	11.6%
S&P 500	11.0%
Russell 3000	9.3%
Mid Value	8.5%
Large Value	7.8%
Small Value	4.4%
Mid Growth	2.8%
Large Foreign	2.7%
Small Growth	0.0%
Emerging Markets	-1.2%

TIPS Gain in Q4 As Inflation Concerns Increase, Foreign And EM Bonds Lag

Bond market performance, ranked by fourth quarter returns**

Sector	Q4 2021
TIPS	2.4%
High-Yield Munis	1.2%
Preferred Stocks	1.1%
Munis	0.7%
High-Yield Corporates	0.7%
Bank Loans	0.4%
Investment-Grade Corporates	0.2%
U.S. Treasuries	0.2%
EM Debt	0.0%
Bloomberg U.S. Agg	0.0%
Foreign Bonds (Hedged)	0.0%
MBS	-0.4%
Foreign Bonds (Unhedged)	-2.0%

*Sources: LPL Research, Bloomberg, FactSet as of 12/31/2021

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All data as of 12/31/2021

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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.

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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.