MARKET INSIGHT

First 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 March 31, 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

First Quarter 2023

MARKET INSIGHT QUARTERLY

Q1 2023 at a Glance

Sector	Q1 2023
Gross Domestic Product*	1.1%
S&P 500 Index	7.5%
Bloomberg Aggregate Bond Index	2.96%
Bloomberg Commodity Index	-5.36%

Source: LPL Research, Bloomberg, FactSet, 3/31/2023

* Bloomberg consensus as of 3/31/2023

Figures for S&P 500 Index, Bloomberg Barclays Aggregate Bond Index, and Bloomberg Commodities Index are total returns from 01/01/2023 - 3/31/2023 (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.

Equities Gained in the First Quarter as Inflation Decelerates

The S&P 500 continued its rebound from the fourth quarter 2022, returning 7.5% including dividends. The Dow Jones Industrial Average posted a marginal gain of 0.9% in the first quarter. The big winner was the Nasdaq Composite, which gained 17.1% during the quarter as growth outpaced value, reversing some of last year's growth underperformance.

Fears that an overly aggressive Federal Reserve (Fed) would cause a recession did not go away and many market participants believe policymakers will cut rates later this year. Falling inflation firmed the market's view that price increases had peaked, despite OPEC+ production cuts and China's reopening, while helping keep long-term interest rates stable and stock valuations supported. Fourth quarter earnings season can be characterized as difficult as earnings tracked below analyst expectations, causing many to slash 2023 estimates.

The major theme of 2023 appears to be whether present Fed policy will cause additional challenges due to a lackluster economic landscape. Bank balance sheets have become a new worry for investors in recent weeks, with some fearing higher interest rates and ineffective hedging strategies may leave some additional poorly positioned banks in need of capital.

Large Caps Outperformed Small Caps as Investors Bid Last Year's Laggards Higher

Large and small cap stocks delivered positive results during the first quarter, however, large caps performed better on the back of strong performance from the communication services and information technology sectors. During the quarter, the large cap dominated Russell 1000 Index returned 7.5%, compared to 2.4% for the small cap Russell 2000 Index. Small caps ended 2022 with several perceived advantages, such as relatively attractive valuations and less exposure to international economic risks. However, small caps can be more susceptible to economic challenges and financial stress, evidenced by their notable underperformance following last month's banking turmoil.

Growth Dominating so Far in 2023

Growth-style stocks far outpaced their value counterparts during the first quarter, as the Russell 1000 Growth Index returned 14.4%%, compared to the 1.0% return for the Russell 1000 Value Index. At a macro level, as inflation recedes, odds of a Fed pivot increase, and upside risk to interest rates diminishes, a more favorable environment for growth equities should emerge. For the beginning of 2023, growth received a boost from its overweights in the information technology and consumer discretionary sectors. Communication services, which leans slightly toward growth, led all sectors for the quarter.

Concentrated leadership was a major theme this quarter. Ten of the largest technology names contributed to 88% of the S&P 500 Index's first quarter gains. Narrow leadership, in general, reflects a less healthy rally than one with broader participation. Other breadth metrics show broader participation, as about 60% of S&P 500 stocks finished the quarter above their 200-day moving average, suggesting breadth is not a major concern at this point.

Unexpected Resilience in Europe Continues to Drive International Gains

Developed international equities, as tracked by the MSCI EAFE Index, delivered another strong quarterly performance to outpace emerging markets (MSCI EM Index). International equities added 8.6% during the quarter, while EM gained just over 4.0%.

EAFE's strong quarter was attributable to several factors, including the weakening U.S. dollar, unexpected resilience of European economies, and muted energy prices given potential energy shock concerns from the Russia-Ukraine conflict. Europe held up particularly well, notably France and Germany, while losses in India and modest gains in China drove most of the MSCI Emerging Markets underperformance. In terms of sectors, most of the quarterly outperformance by international equities over EM came from the consumer discretionary and financials sectors. Underperformance by U.S. healthcare and industrials companies drove most of the outperformance of developed international equities compared with the U.S.

Positive Q1 for Core Bonds as Global Central Banks Focus on Price Pressures

Bond market returns were positive for the first quarter, as the Bloomberg Aggregate Bond Index returned 3.0%. Core bonds are attempting to rebound from 2022, the worst year on record as the Aggregate Bond Index ended the year down 13.0%. Treasury yields rebounded this quarter as many investors expect the Fed is not only near the end of its aggressive rate hiking campaign, but could pivot to interest rate cuts later in 2023. As such, the most interest rate-sensitive sectors of the bond market (corporate and mortgage securities in particular) underperformed slightly. High quality municipals were up 2.8% as mortgage securities returned 2.5% during the quarter.

High Yield Credit Outperforms

High yield credit outperformed despite recent bank failures, tightening bank lending standards, and concerns over a global economic slowdown. U.S. corporate high yield bonds outperformed both core bonds as well as investment grade bonds. For the quarter, high yield bonds were up 3.6%, while the higher quality segment of the corporate credit market was up over 3.5%. The fundamental backdrop for corporate borrowers is starting to tighten given the most recent bank failures.

Commodities Pull Back as Inflation Eases

Commodity markets gave back 5.4% in the first quarter, based on the Bloomberg Commodity Index. Signs of cooling inflation in the U.S., slowing global growth, warmer weather reducing seasonal heating demand, and a drop in oil prices were among the reasons commodities sold off during the quarter.

Natural gas lost just over 50% for the quarter. The commodity pulled back as warmer-than-expected weather caused demand to drop off amid an unexpected increase in natural gas supplies. Crude oil finished down 5.7% during the quarter despite China's economic reopening supporting energy demand.

Metals were a bright spot during the first quarter, as gold prices rose 8.2% and copper 7.9%, while silver lost just 0.3%. Part of the optimism stemmed from a significant increase in buying by the People's Bank of China, as they focus on diversifying away from their dollar holdings. In addition, given financial concerns, investors sought metals as a means of diversification.

All commodities performance is based on Bloomberg commodity indexes.

Please see our Outlook 2023: Finding Balance publication for additional descriptions and disclosures.

A LOOK AHEAD

Economy. The global economy will likely slow from the upper-2% range in 2022 down to below 1% in 2023. Much depends on China's growth path. The LPL Research forecast calls for gross domestic product (GDP) growth between 0.2% and 0.8% for the year, slightly better than the Eurozone (-0.4% to +0.2%), but slower than emerging markets (+2.9% to +3.5%). The longer inflation is uncontained, the riskier the growth prospects.

Inflation. We entered 2023 with a slightly different trajectory for inflation, particularly services inflation. Services prices have been stubbornly accelerating as rent prices and health services costs rose. We could potentially be entering a new regime as rents across the country are showing signs of abating. This transition period for services prices may mark the start of a period in which inflation convincingly decelerates toward the Fed's long-run target of 2%.

Stocks. If stocks are going to continue higher in 2023, a prompt end to the Fed's rate hiking campaign will likely be a key component—likely in May—because stocks may not get much support from earnings in the near term. Higher interest rates may challenge stock valuations, but we still see potential for additional gains for stocks over the next nine months, as recession fears potentially abate and inflation falls. LPL Research remains comfortable with its year-end S&P 500 fair value target of 4,300–4,400, based on a price-to-earnings ratio (P/E) of 18 and a 2024 EPS estimate of $240, although in the end the P/E may be a bit higher and the earnings number a bit lower.

Bonds. The Fed's determination to keep rates higher for longer caused U.S. Treasury yields to move significantly higher in 2022. There are a range of scenarios we think could play out over the rest of this year. However, given our view that the U.S. economy could eke out slightly positive economic growth in 2023, we think 10-year Treasury yields may end the year between 3.25% and 3.75%, supporting attractive fixed income returns.

Please note: All return figures are as of March 31, 2023, unless otherwise stated.

Past performance is not indicative of future results. The economic forecasts set forth in the presentation may not develop as predicted.

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.

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FIRST QUARTER DATA

Technology and Growth Shares on Top as Financials and Value Lag

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

Sector	Q1 2023
Information Technology	21.8%
Communication Services	20.5%
Consumer Discretionary	16.1%
S&P 500	7.5%
Materials	4.3%
Industrials	3.5%
Real Estate	1.6%
Consumer Staples	0.8%
Utilities	(3.2)%
Healthcare	(4.3)%
Energy	(4.7)%
Financials	(5.6)%

Growth and Developed International Lead as Most Asset Classes Post Gains

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

Asset Class	Q1 2023
Large Growth	14.4%
Mid Growth	9.1%
Large Foreign	8.6%
S&P 500	7.5%
Russell 3000	7.2%
Small Growth	6.1%
Emerging Markets	4.0%
Mid Value	1.3%
Large Value	1.0%
Small Value	(0.7)%

Weaker Dollar Spurs Developed International Debt; Preferred Stocks Lead in Q1

Bond market performance, ranked by first quarter returns**

Sector	Q1 2022
Preferred Stocks	9.6%
Foreign Bonds (Unhedged)	3.7%
High-Yield Corporates	3.6%
Investment-Grade Corporates	3.5%
Foreign Bonds (Hedged)	3.4%
TIPS	3.3%
High-Yield Munis	3.5%
Bloomberg U.S. Agg	3.0%
Bank Loans	2.9%
Munis	2.8%
High-Yield Munis	2.7%
MBS	2.5%
U.S. Treasuries	2.3%

*Sources: LPL Research, Bloomberg, FactSet as of 3/31/2023

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All data as of 3/31/2023

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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.

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.

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