GLOBAL PORTFOLIO STRATEGY

LPL Research

OCTOBER 2023

RATES HOLD KEY TO POTENTIAL FOURTH QUARTER RALLY

LPL RESEARCH'S MONTHLY MARKET OUTLOOK

Key changes from September report:

- Increased 10-year Treasury yield year-end target to 4.25% to 4.75% from 3.25% to 3.75%

Stocks fell in September as the month lived up to its reputation as a difficult one for stocks. The S&P 500 Index lost 3.6% for the month, lowering its year-to-date gain to 11.7% (excluding dividends). Losses came as interest rates broke through to new 16-year highs. As October began, improving seasonals, dysfunction in Washington, D.C., and economic impact of higher interest rates garnered significant attention from investors.

Despite inflationary pressures falling and the Federal Reserve (Fed) maintaining its current interest rate policy, core bonds, as measured by the Bloomberg Aggregate Bond Index, were lower in September by over 2.5%. The surprising resilience of the U.S. economy is causing the bond market to price out expected rate cuts causing longer term yields to rise. Higher yields may mean another opportunity for investors to add to high quality fixed income.

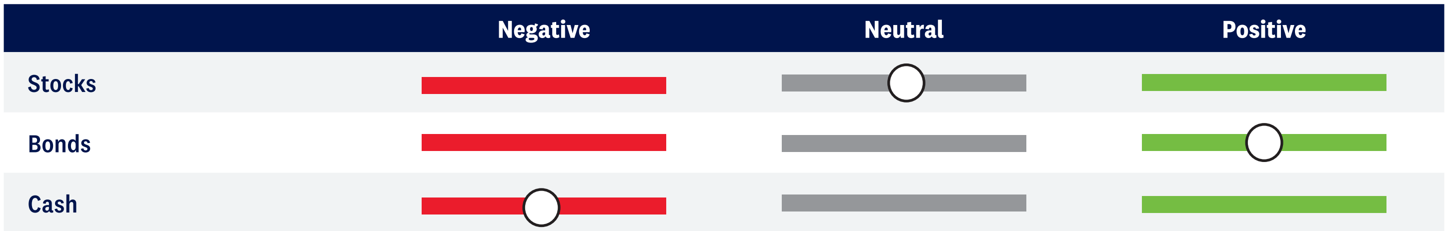
As discussed in our *Midyear Outlook 2023: The Path Toward Stability*, the LPL Research Strategic and Tactical Asset Allocation Committee (STAAC) sees the risk-reward trade-off between equities and fixed income as roughly balanced given elevated equity valuations and higher yields.

INVESTMENT TAKEAWAYS:

- The STAAC maintains its recommended neutral equities allocation based on the Committee's assessment that the risk-reward trade-off between equities and fixed income is roughly balanced. Stock valuations are not attractive at such high yield levels in the bond market.
- The Committee favors large cap stocks over their smaller brethren ahead of a likely economic slowdown toward the end of the year.
- Style views remain neutral overall. Our technical analysis work points toward growth, but valuations support value.
- The STAAC's regional preference remains developed international stocks over the U.S. and emerging markets (EM) due largely to valuations and better corporate governance in Japan, though recent economic weakness and waning relative strength in Europe are concerning.
- The bond market is coming to grips with the Fed's higher for longer narrative so expected rate cuts continue to get priced out, which has put upward pressure on longer maturity Treasury yields. Moreover, Treasury supply is expected to increase in the coming quarters, which will likely also keep pressure on yields. As such, our updated year-end 2023 target for the 10-year Treasury yield is 4.25% to 4.75%.
- The selloff in the banking sector has provided an attractive opportunity in preferred securities, however the risk/reward for core bond sectors (U.S. Treasury, Agency mortgage-backed securities (MBS), investment-grade corporates) is more attractive than plus sectors, in our view.

BROAD ASSET CLASS VIEWS

LPL Research's Views on Stocks, Bonds, and Cash



OUR ASSET CLASS & SECTOR CHOICES

Equity Asset Classes	Equity Sectors	Fixed Income	Alternative Asset Classes
▪ Developed International Equities	▪ Energy ▪ Industrials	▪ Mortgage-Backed Securities ▪ Short Maturity High Quality Corporates ▪ Preferred Securities	▪ Alt asset class choices - Global Macro, Short Term Managed Futures, and Multi-Strategy

2023 MARKET FORECASTS

Expect Yields to Pullback and Stocks to Be Choppy Through Year-End

	Previous	Current
10-Year U.S. Treasury Yield	3.25% to 3.75%	4.25% to 4.75%*
S&P 500 Index Earnings per Share	$213	$213
S&P 500 Index Fair Value	4,300 - 4,400	4,300 - 4,400**

Source: LPL Research, FactSet, Bloomberg

All indexes are unmanaged and cannot be invested into directly. The economic forecasts may not develop as predicted.

*Our year-end 2023 forecast for the U.S. 10-year Treasury yield has been updated and is now 4.25% to 4.75%. The Fed's higher for longer narrative and the poor supply/demand technicals for Treasury securities will likely keep interest rates at these elevated levels until the economic data weakens and/or inflation falls back in line with the Fed's longer term 2% target.

**Our year-end 2023 fair-value target range for the S&P 500 of 4,300-4,400 is based on a price- to-earnings ratio (PE) near 19 and our S&P 500 earnings per share (EPS) forecast of $230 in 2024.

Any forward-looking statements including economic forecasts may not develop as predicted and are subject to change.

2023 ECONOMIC FORECASTS

Downshift in Global Growth

GDP Growth (Y/Y%)	2023
United States	1.2%
Eurozone	0.6%
Advanced Economies	0.9%
Emerging Markets	3.8%
Global	2.3%

Source: LPL Research, Bloomberg

The economic forecasts may not develop as predicted.

All data, views, and forecasts herein are as of 10/06/23.

LPL RESEARCH STRATEGIC AND TACTICAL ASSET ALLOCATION COMMITTEE

LPL Research Tactical Asset Allocation as of 10/1/2023

INVESTMENT OBJECTIVE

	Aggressive Growth			Growth			Growth with Income			Income with Moderate Growth			Income with Capital Preservation		
	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference
STOCKS	95.0%	95.0%	0.0%	80.0%	80.0%	0.0%	60.0%	60.0%	0.0%	40.0%	40.0%	0.0%	20.0%	20.0%	0.0%
U.S. EQUITY	76.0%	76.0%	0.0%	64.0%	64.0%	0.0%	48.0%	48.0%	0.0%	32.0%	32.0%	0.0%	16.0%	16.0%	0.0%
Large Value	17.5%	16.0%	1.5%	14.5%	13.5%	1.0%	11.0%	10.0%	1.0%	7.0%	6.5%	0.5%	3.5%	3.5%	0.0%
Large Blend	17.0%	16.0%	1.0%	14.5%	13.5%	1.0%	11.0%	10.0%	1.0%	7.5%	7.0%	0.5%	4.0%	3.0%	1.0%
Large Growth	17.5%	16.0%	1.5%	14.5%	13.5%	1.0%	11.0%	10.0%	1.0%	7.0%	6.5%	0.5%	3.5%	3.5%	0.0%
Small/Mid Value	8.0%	9.5%	-1.5%	7.0%	8.0%	-1.0%	5.0%	6.0%	-1.0%	3.5%	4.0%	-0.5%	1.5%	2.0%	-0.5%
Small/Mid Blend	8.0%	9.0%	-1.0%	6.5%	7.5%	-1.0%	5.0%	6.0%	-1.0%	3.5%	4.0%	-0.5%	2.0%	2.0%	0.0%
Small/Mid Growth	8.0%	9.5%	-1.5%	7.0%	8.0%	-1.0%	5.0%	6.0%	-1.0%	3.5%	4.0%	-0.5%	1.5%	2.0%	-0.5%
INTERNATIONAL EQUITY	19.0%	19.0%	0.0%	16.0%	16.0%	0.0%	12.0%	12.0%	0.0%	8.0%	8.0%	0.0%	4.0%	4.0%	0.0%
Developed (EAFE)	16.0%	12.0%	4.0%	13.0%	10.0%	3.0%	10.5%	8.0%	2.5%	6.5%	5.0%	1.5%	4.0%	4.0%	0.0%
Emerging Markets	3.0%	7.0%	-4.0%	3.0%	6.0%	-3.0%	1.5%	4.0%	-2.5%	1.5%	3.0%	-1.5%	0.0%	0.0%	0.0%
BONDS	3.0%	0.0%	3.0%	18.0%	15.0%	3.0%	38.0%	35.0%	3.0%	58.0%	53.0%	5.0%	78.0%	70.0%	8.0%
U.S. CORE	3.0%	0.0%	3.0%	17.0%	15.0%	2.0%	36.0%	35.0%	1.0%	55.0%	53.0%	2.0%	74.0%	70.0%	4.0%
Treasuries	1.5%	0.0%	1.5%	8.5%	7.0%	1.5%	17.5%	16.0%	1.5%	27.0%	24.5%	2.5%	36.0%	32.5%	3.5%
MBS	1.0%	0.0%	1.0%	5.5%	4.5%	1.0%	12.0%	10.5%	1.5%	18.0%	15.5%	2.5%	24.5%	20.5%	4.0%
IG Corporates	0.5%	0.0%	0.5%	3.0%	3.5%	-0.5%	6.5%	8.5%	-2.0%	10.0%	13.0%	-3.0%	13.5%	17.0%	-3.5%
NON-CORE	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%	4.0%	0.0%	4.0%
Preferred	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%	4.0%	0.0%	4.0%
CASH	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	7.0%	-5.0%	2.0%	10.0%	-8.0%

For investors who have their own benchmarks, we would recommend emphasizing underweights or overweights relative to the individual benchmark at the most similar overall risk level.

Equity benchmark style weights are equally distributed across growth, core, and value. Cap weights are based on the underlying holdings of the domestic benchmark indexes.

Bond benchmark sector allocations are based on a look-through analysis of the major sector components of the Bloomberg US Aggregate Bond Index.

Treasuries include other government related debt. MBS includes other securitized debt.

Abbreviations: TAA - tactical asset allocation; MBS - mortgage-backed securities; IG corporates - investment-grade corporates; TIPS - Treasury inflation-protected securities.

EQUITY ASSET CLASSES

Favor Large Caps, Staying Neutral on Style, with Slight Preference for Developed International for Now

The STAAC maintains its recommended neutral equities allocation based on the Committee's assessment that the risk-reward trade-off between equities and fixed income is roughly balanced. Stock valuations are not attractive at such high yield levels in the bond market. The Committee favors large cap stocks over their smaller brethren due to potentially slower economic growth and tighter credit conditions, though valuations remain attractive for high-quality small caps. Technical analysis points to growth over value, but valuations remain elevated for growth stocks broadly. The Committee continues to slightly favor developed international stocks over U.S. due mostly to valuations and increasingly more shareholder friendly management teams in Japan, but currencies have not been helping and Europe has clearly weakened. Key risks to equities include overtightening by the Fed, broader military conflict in Europe, and escalation in U.S-China tensions.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			Large caps generally perform better during periods of economic uncertainty with stronger balance sheets. However, they are more expensive and mega-cap technology leadership may be challenged in the rising rate environment. From a technical perspective, large caps look better following outperformance in August and September, based on Russell indexes.
	Mid Caps			Beneficiary of a potential soft landing while valuations are attractive, but credit conditions have started to tighten, merger and acquisition activity is tepid, and current technical analysis trends suggest caution is prudent. Watching for further improvement in market breadth.
	Small Caps			Near-term performance may depend on the market's confidence in the soft landing scenario now that rates have moved so much higher. Attractive valuations have not helped high-quality small caps over the past two months. Recession expectations keep getting pushed out but we expect a weaker economy to weigh on small caps at some point over the next six months.
Style	Growth			The growth style, particularly technology-oriented companies, has benefited from falling inflation and superior earnings power this year. But rich valuations and higher interest rates have caused relative performance to level off the past four months. Technical analysis trends still lean toward growth.
	Value			Value stocks are relatively attractive vs. their historical averages and would benefit from a soft landing, particularly energy. However, the Committee maintains a bias toward growth due to better technical analysis trends, falling inflation, solid earnings gains, and the possibility that falling interest rates will act as a catalyst for growth.
Region	United States			The U.S. economy may be headed for a late-2023 or early-2024 recession and could even have trouble outgrowing Europe and Japan in the next year. Positives include falling inflation, an innovation advantage, the impending end of Fed rate hikes, and resilient corporate profits. Headwinds include elevated valuations, especially compared to developed international equities.
	Developed International			The Committee continues to slightly favor developed international stocks over U.S. due mostly to more attractive valuations and increasingly more shareholder friendly management teams in Japan. Recent deterioration and waning relative strength in Europe is concerning, however, while currencies have not helped lately and technical conditions have weakened.
	Emerging Markets			The Committee remains cautious toward emerging market equities due largely to disappointing earnings and ongoing geopolitical uncertainty, though valuations remain attractive and there are pockets of opportunities. The Committee favors Latin America to take advantage of near-shoring trends and firming commodity prices. India is an interesting opportunity. Stimulus is key to China's near-term direction.

Relative trend is an assessment of the intermediate term price trend and performance between various asset classes and sectors. For regions and styles the relative trends are compared to each other.

EQUITY SECTORS

Favor Energy and Industrials for Cyclical Value Tilt

The STAAC upgraded the energy sector to positive from neutral in September due to firming oil and natural gas prices, an improved supply/demand balance, and attractive valuations bolstered by improved financial discipline from oil and gas producers. The Committee now recommends a slight cyclical tilt over defensive sectors with consumer staples the accompanying downgrade last month. Among economically sensitive, or cyclical, sectors, the Committee recommends two overweights (energy and industrials) and no underweights following last month's consumer discretionary upgrade. The Committee now favors energy over industrials, though resilient capital investment activity continues to support a positive industrials sector view. Real estate, which offers a mix of cyclical and defensive characteristics and faces heightened risk in the commercial real estate market, remains underweight.

	Sector	Overall View	Relative Trend	S&P Wgt	Rationale
Cyclical	Materials			2.5	Performed roughly in line with S&P 500 in September as commodities overall were mixed. China's disappointing recovery and incremental weakness in Europe have offset a resilient U.S. economy. Reasonable valuations. Mixed technicals.
	Energy			4.5	Best sector performer for third straight month in September on higher oil and natural gas prices and more shareholder friendly producers. Support from OPEC+ supply cuts and solid U.S. demand. Attractive valuations. Favorable technicals. China and Europe are risks.
	Industrials			8.2	Capital expenditures, infrastructure, and defense spending trends are generally positive. Potential slower capital investment later this year is a risk, as is a potential government shutdown in mid-November. Reasonable valuations, favorable technicals.
	Communication Services			9.1	Regulatory risks back to the fore with Google (GOOGL) antitrust trial but valuations, earnings growth, and technicals are all supportive. Cord cutting/streaming economics remains a key risk for traditional media
	Consumer Discretionary			10.7	Consumers are holding up relatively well despite higher rates. Earnings rebound has been impressive. But credit card delinquencies are rising, student loan payments have restarted, and energy prices are up. Jobs holding up. Fair valuations. Favorable technicals.
	Technology			27.9	Underperformer in September as rising rates hurt long duration earnings stream. Direction of interest rates is key to near-term outlook. Artificial intelligence enthusiasm still helpful. Rich valuations. Overbought conditions easing. Positive technicals.
	Financials			12.6	Surging interest rates, rising credit card delinquencies, an inverted yield curve, and higher capital requirements for second tier banks are among the stiffest headwinds, but valuations are attractive and big banks are healthy. Mixed technicals.
Defensive	Utilities			2.3	Drag from defensive characteristics has transitioned to interest rate sensitivity drag. With the sector extremely oversold and rates potentially nearing a top, this is a sector to watch for a possible near-term bounce. Risk is lasting cyclical leadership.
	Healthcare			13.3	Relative performance improved as stocks fell in September. COVID-19 comparisons, patent expirations, and Medicare drug negotiations are notable challenges for drug makers. Earnings momentum is waning. Attractive valuations. Weak technicals.
	Consumer Staples			6.6	September downgrade reflected mediocre fundamentals and poor technicals. Lower inflation has helped ease margin pressures, but pricing power waning. Fair valuations. Technicals remain unfavorable. LPL Research prefers cyclical sectors.
	Real Estate			2.3	Weak technical analysis trends while commercial real estate deterioration and rising interest rates are both concerning at this point. Solid yields and fair valuations, but not an area we would look to for yield relative to core fixed income.

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies. Relative trend is an assessment of the intermediate term price trend and performance between various asset classes and sectors. For sectors each sector's relative trend is versus the S&P 500.

FIXED INCOME

Favor Up-In-Quality Approach with a (Small) Allocation to Preferreds

Longer-maturity Treasuries were higher in September as the market continues to reprice expectations for the Fed's policy path, pricing out some of the anticipated rate cuts throughout 2024 while also shifting the expected "neutral" rate higher. Yields on high quality fixed income sectors moved higher as well, offering investors another opportunity to take advantage of attractive valuations. Importantly, starting yields are the best predictor of long-term returns and with starting yields at levels last seen over a decade ago, the return prospects for fixed income have improved as well. That said, aside from preferred securities, valuations for riskier fixed income sectors remain rich relative to core sectors, in our view.

We favor **municipal bonds** as a high-quality option for taxable accounts with tax-equivalent yields as attractive as they've been in over a decade. Additionally, for appropriate investors, we believe **high-yield municipal bonds** offer an attractive tax-equivalent yield; however, we would expect additional volatility as economic growth concerns increase. Fundamentals in both markets may have peaked but remain solid.

		Low Medium High	Rationale
Positioning	Credit Quality		We recommend an up-in-quality approach in allocating to fixed income sectors. While all-in yields for lower quality remain above longer-term averages, we think the risk/reward favors owning core bond sectors over the riskier sectors.
		Short Int. Long	
	Duration		The compensation for adding duration to portfolios isn't sufficient given the still elevated (but falling) inflationary pressures. We remain neutral relative to our benchmark.
		Neg. Neutral Pos.	**Rationale**
Core Sectors	U.S. Treasuries		Treasury yields moved higher in September offering an attractive entry point. Last year's back-up in yields has likely increased the diversification benefits of owning U.S. Treasuries. Valuations for Treasury Inflation- Protected Securities (TIPS) are fair, but shorter-maturity TIPS could provide a good hedge to unexpected inflation surprises.
	MBS		We remain constructive on Agency MBS. With yields and spreads at multi-year highs, we think MBS remain an attractive investment opportunity particularly relative to lower rated corporates. Due to higher mortgage rates, the lack of new mortgage supply should help buoy prices.
	Investment-Grade Corporates		We recommend a slight underweight to benchmarks, but we think there is currently an opportunity to invest in shorter maturity corporate securities without taking on elevated levels of interest rate or credit risk. Fundamentals remain solid.
Plus Sectors	Preferred Securities		The selloff in the banking sector provided an opportunity to invest in these senior securities. Higher credit quality among the riskier fixed income options. Bank fundamentals generally sound overall. European banks likely to stay under pressure as the European Central Bank (ECB) hikes rates.
	High-Yield Corporates		Yields for high yield bonds are above historical averages, but tighter lending standards have correlated with higher downgrades and defaults. The uncertain economic environment could increase near term volatility. The asset class may be better suited for long-term investors
	Bank Loans		Given the variable rate debt, higher interest rates may make repayment more challenging for some issuers. Fewer investor protections and illiquidity of individual loans remain concerns. Downgrades and defaults have increased and could increase still if the economy slows/contracts.
	Foreign Bonds		Valuations have improved, but potential currency volatility still remains a challenge.
	EM Debt		Central banks have largely ended rate hikes as inflationary pressures are starting to abate. A strong dollar could provide a headwind to prices. Valuations are relatively attractive but idiosyncratic risks remain. Liquidity can be an added risk during periods of stress.

Yield spread is the difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings, and risk. Bank loans are loans issued by below investment- grade companies for short-term funding purposes with higher yield than short-term debt and involve risk. For the purposes of this publication, intermediate-term bonds have maturities between three and 10 years, and short-term bonds are those with maturities of less than three years.

All bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. 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. Investing in foreign and emerging market debt (EMD) securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors. Municipal bonds are subject to availability, price, and 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. Federally tax-free but other state and local taxes may apply. Mortgage-backed securities (MBS) are subject to credit, default, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extension risk, the opposite of prepayment risk, market, and interest rate risk.

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.

COMMODITIES

Dollar Headwinds Persist

The broad commodity sector declined in September after facing a relentless rally in the U.S. Dollar Index. The greenback climbed 2.5% last month amid an ongoing 11-week winning streak underpinned by surging interest rates and the repricing of expectations for higher-for-longer monetary policy. The Bloomberg Commodity Index (BCOM) slid 1.2% after failing at the neckline (109) of a potential head and shoulders bottom formation.

It wasn't all bad news across the commodities complex. Energy was once again the standout, posting a 3.9% gain. The energy commodity sector has been up for four consecutive months, amassing a 30% price gain over this period. Crude oil has captured most of the headlines after its recent breakout from a bottom formation. While oil has since pulled back from overbought levels, the improving technical and supply and demand backdrop suggests the path of least resistance remains higher. Natural gas is following suit after posting back-to-back 5% rallies in August and September. Prices have now recaptured the 50- and 200-day moving averages, leaving $3 as the last hurdle to clear before a breakout from a bottom formation can be confirmed. We maintain our positive view on the energy commodity sector.

Metals declined in September after being dragged down by weakness in gold and silver. Both precious metals suffered sizable technical damage after they broke below support from their summer lows. Oversold conditions have developed, raising the odds for a potential relief rally on a near-term horizon; however, there is limited technical evidence pointing toward any imminent capitulation. Industrials metals advanced, although copper failed at an important downtrend. An underwhelming economic recovery in China and signs of increased supply continue to weigh on copper prices. We maintain our neutral view on both the industrial and precious metals group.

Ag and livestock markets declined last month. Grains underperformed within the space as selling pressure continued in wheat and soybeans. Record Russian supplies of wheat hitting the market and weak demand from China have largely underpinned the declines. Softs were flat, with sugar sticking out with a 4% rally that lifted prices out from a four-month consolidation range. Livestock also finished near the flatline, buoyed by a 2.5% rally in live cattle.

	Neg. Neutral Pos.	Relative Trend	Rationale
Energy			The technical setup for energy remains bullish. WTI has surpassed key resistance at $83.25. Signs of tightening supply have become increasingly evident on the futures curve, while U.S. stockpiles have dropped to historically low levels. While overbought conditions recently sparked a pullback, the path of least resistance for oil appears higher. Natural gas continues to generate higher highs and higher lows after finding support near $2.00. A close above $3.00 would validate a breakout from its current bottom formation.
Precious Metals			Precious metals struggled last month against the stronger dollar. Gold, the most negatively correlated commodity to the greenback, fell 4.7%, while silver dropped 9.3%. Both precious metals are oversold but there is insufficient technical evidence suggesting the selling pressure is over.
Industrial Metals			Industrials metals advanced as rallies in aluminum and zinc offset declines in copper and nickel. Copper's pullback was notable as prices failed at a key downtrend, leaving the May lows as the next area of support. An underwhelming economic recovery in China and signs of increased supply continue to weigh on prices.
Agriculture (Ag) & Livestock			Ag and livestock markets declined last month. Record Russian supplies of wheat flooding the market and weak demand from China underpinned the selling pressure. Softs were flat, with sugar sticking out with a 4% rally that lifted prices out of a four-month consolidation range. Livestock also finished near the flatline, buoyed by a 2.5% rally in live cattle.

Any futures referenced are being presented as a proxy, not as a recommendation. The fast price swings in 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.

ALTERNATIVE INVESTMENTS

Macro and Managed Futures Providing Uncorrelated Returns and Portfolio Diversification in Times of Volatility

The alternative investment strategies posted mixed results in September based on the preliminary data from Hedge Fund Research (HFR).

Improving Bottom Up Stock Picking Environment

Equity L/S strategies posted mixed results in September. With the steep sell-off in equity markets, long biased Equity L/S strategies underperformed while low-net/market neutral Equity L/S were able to positive results. The stock dispersion has risen meaningfully in recent months, lending improved trading environment for low-net/market neutral Equity L/S strategies focused on bottom up stock picking. Event Driven strategies posted small gains as Merger Arbitrage and Special Situations strategies gained from the marginal pick up in global M&A deal volume and some of the catalyst events. Lastly, Relative Value strategies were generally down, with the Covertible Arbitrage strategies detracting the most due to the rise in volatility.

Remain constructive on Global Macro, Managed Futures and Multi-Strategy

Tactical Trading Strategies, namely Global Macro and Managed Futures, were the leading performers, helping to provide uncorrelated returns and portfolio diversification for investors. Global Macro was the major beneficiary of the US rates curve dis-inversion which was brought by the strong US economic data that has pushed recession expectations out and brought back “higher for longer” rates expectations. They also gained from other tactical themes in commodities, currencies and equities as well. Looking forward, we expect Global Macro managers to continue to find ample trading opportunities, with heavier focus on inter-regional relative value opportunities that arise from the divergence in economic conditions and central bank policies. Within Managed Futures, both trend followers and short-term strategies posted gains. Many of them were able to profit from the sell-off in rates and rally in crude oil prices. With respect to equities, some of the short-term models were able to profit from the sharp sell-off of the market that came with the rise of volatility while trend followers focused on further reducing their equity beta. Given the continued uncertainties around the economy and fiscal and monetary policy, we expect the volatility to transition higher and remain constructive on both Global Macro and Managed Futures strategies that tend to perform in such regimes and provide uncorrelated returns and portfolio diversification for investors.

Multi-strategy funds posted muted returns, reflecting the mixed performance across the underlying strategies. Multi-strategy remains a core focus of ours as we believe they can supply additional sources of uncorrelated returns and help dampen portfolio volatility in an environment where interest rates are expected to remain persistently elevated.

Please see https://www.hfr.com/indices for further information on the indices

Definition: The HFRI 400 (US) Hedge Fund Indices are global, equal-weighted indices comprised of the largest hedge funds that report to the HFR Hedge Fund Research

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.

IMPORTANT DISCLOSURES

This material has been prepared for informational purposes only, and is not intended as specific advice or recommendations for any individual. There is no assurance that the views or strategies discussed are suitable for all investors and they do not take into account the particular needs, investment objectives, tax and financial condition of any specific person. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing. Any economic forecasts set forth may not develop as predicted and are subject to change.

Stock investing involves risk including loss of principal. 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 and 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. Corporate bonds are considered higher risk than government bonds. Municipal bonds are subject to availability and change in price. 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. U.S. Treasuries may be considered “safe haven” investments but do carry some degree of risk including interest rate, credit, and market risk. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

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.

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.

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.

Credit Quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. 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. Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. It is expressed as a number of years.

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.

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.

Event driven strategies, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position.

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.

Investing in foreign and emerging markets 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. All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

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.

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.

All index data from FactSet.

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

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