GLOBAL PORTFOLIO STRATEGY

LPL Research

SEPTEMBER 2023

AFTER DOWN AUGUST, SEASONALLY WEAK SEPTEMBER ON TAP

LPL RESEARCH'S MONTHLY MARKET OUTLOOK

Key changes from August report:

- Upgraded energy to positive from neutral
- Downgraded consumer staples to negative from neutral
- Upgraded consumer discretionary to neutral from negative
- Upgraded energy commodities to positive from neutral
- Downgraded precious metals commodities to neutral from positive

Stocks broke a five-month winning streak in August, as the S&P 500 Index lost 1.6% for the month, slightly lowering its year-to-date gain to a still solid 18.7%. Losses came as market participants continued to debate the likelihood of another Federal Reserve (Fed) rate hike and the improving economic outlook pushed the 10-year Treasury yield up well over 4%. As September began, the month's weak seasonal track record garnered significant attention from analysts and strategists.

Core bonds, as measured by the Bloomberg Aggregate Bond Index, were marginally lower for August as markets continue to buy in a higher for longer interest rate environment due to a still resilient U.S. economy. Higher yields may mean another opportunity for investors to add to high quality fixed income.

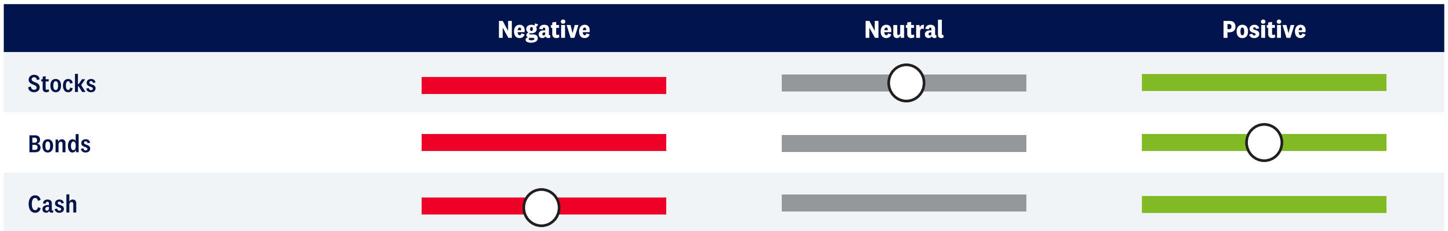
As discussed in our *Midyear Outlook 2023: The Path Toward Stability*, the LPL Research Strategic and Tactical Asset Allocation Committee (STAAC) sees the risk-reward trade-off between equities and fixed income as roughly balanced given elevated equity valuations and higher yields.

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 elevated and the bond market offers very attractive yields.
- 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.
- If the Fed has finished raising rates, then we could soon start to see lower yields on intermediate-term fixed income securities. Our year-end 2023 target for the 10-year Treasury yield is 3.25% to 3.75%.
- 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%	3.25% to 3.75%*
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 is 3.25% to 3.75%. The forecast moderating inflation, reduced Fed policy support, an aging demographic in need of income, higher global debt levels, and the expected end to the Fed rate hiking campaign in 2023.

**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.

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 09/05/23.

LPL Financial

LPL RESEARCH STRATEGIC AND TACTICAL ASSET ALLOCATION COMMITTEE

LPL Research Tactical Asset Allocation as of 9/1/2023

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 and Developed International, Staying Neutral on Style

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 with stock valuations elevated and bonds offering very attractive yields. The Committee now 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 and look better from a technical perspective following August outperformance. However, they are more expensive and mega-cap technology leadership is unlikely to be sustained through the remainder of the year.
	Mid Caps			Beneficiary of a potential soft landing while valuations are attractive, but credit conditions may 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			The market's increasing confidence in a soft landing for the U.S. economy and attractive valuations helped small caps in July but that tailwind did not carry through to August. LPL Research's forecast for a mild recession within the next six to nine months suggests caution.
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 three months. Technical analysis trends still lean toward growth.
	Value			Value stocks remain more attractively valued than historical averages and offer leverage to possible soft landing, particularly energy. However, the Committee maintains a bias toward growth due to strong technical analysis trends, falling inflation, and the possibility of lower interest rates.
Region	United States			The U.S. economy may be headed for a late-2023 or early-2024 recession and may have trouble outgrowing Europe and Japan in the coming year. So while falling inflation, the impending end of the Fed's rate hiking campaign, and resilient corporate profits have supported a U.S. market rally, valuations suggest developed international equities may offer more upside the rest of year.
	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. China is an interesting short-term trade on stimulus news.

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

Upgrading Consumer Discretionary and Energy, Downgrading Consumer Staples, Introducing Slight Cyclical Tilt

The STAAC has upgraded the energy sector to positive from neutral due to firming oil and natural gas prices on 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. Among economically sensitive, or cyclical, sectors, the Committee recommends two overweights (energy and industrials) and no underweights following this 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	The sector lagged in August even as commodity prices firmed. China's disappointing recovery and incremental weakness in Europe have offset the better-than-expected performance by the U.S. economy. Valuations are reasonable. Technicals are mixed.
	Energy			4.5	Best sector performer for second straight month in August as oil and natural gas rose. Support from OPEC+ supply cuts and improving demand backdrop in the U.S. Attractive valuations and positive technicals support the upgrade. Chinese weakness a key risk.
	Industrials			8.5	Capital expenditures, infrastructure and defense spending trends are favorable. Fair valuations and supportive technical analysis picture. Watching signs of deteriorating growth in Europe. Slower U.S. economy toward the end of the year is a key risk.
	Communication Services			8.7	Excellent Q2 earnings season amid digital media strength. Regulatory headlines becoming less frequent. Attractive valuations. Strong earnings growth. Positive technicals. Cord cutting/streaming economics a key risk for traditional media.
	Consumer Discretionary			10.5	Biggest upside surprise, strongest Q2 earnings growth of all sectors. Consumers keep spending as job market holds up. Impact of higher rates less damaging than previously thought. Valuations now closer to fair. Positive technicals support an upgrade.
	Technology			28.2	After stellar first half, sector has cooled some in July and August. Easing inflation and artificial intelligence enthusiasm are supportive. Rising interest rates remain a risk. Valuations are elevated. Overbought conditions are easing, and the trend is your friend.
	Financials			12.5	Tighter financial conditions, higher capital requirements for second tier banks, and an inverted yield curve are among our concerns, but valuations are attractive, big banks have gotten stronger since SVB's failure, and earnings outlook is firming up.
Defensive	Utilities			2.4	Utilities have been hurt by their defensiveness and regulatory pressure. Interest rate sensitivity may help if interest rates move lower as LPL Research expects. More market volatility in weak upcoming seasonal period could boost relative strength.
	Healthcare			13.2	Defensive sectors have remained out of favor as U.S. economy has outperformed. COVID-19 comparisons, patent expirations, and Medicare drug negotiations are notable challenges for drug makers. Attractive valuations. Weak technicals.
	Consumer Staples			6.5	Downgrade reflects mediocre fundamentals and poor technicals, as the market continues to favor cyclical sectors over defensives. Lower inflation has helped ease margin pressures some, but pricing power has waned and valuations aren't particularly attractive.
	Real Estate			2.4	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 generally higher in August 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 August 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

Diverging Paths

The broad commodity sector declined in August, snapping a two-month winning streak. Weakness in metals along with agriculture and livestock markets dragged the Bloomberg Commodity Index (BCOM) down 1.2%. A rebound in the dollar also created headwinds for the space. The greenback rose 1.7% and recaptured the 200-day moving average, leaving the May highs near 104.70 as the next major resistance hurdle to clear.

Continued stimulus measures in China and economic resiliency in the U.S. helped energy outperform. WTI crude oil climbed 2.2% and surpassed key resistance at $83.25, validating a breakout from about a nine-month bottoming process. The next area of resistance for WTI now sets up at $93.75. Natural gas rallied 5.0% and although volatile, continued its streak of higher highs and higher lows. Overall, we believe there is sufficient technical evidence to upgrade our view on the energy commodity sector to positive from neutral.

Metals declined in August amid broad-based selling pressure. Industrial metals underperformed precious metals due to their increased leverage to China's deteriorating economic conditions. Copper dropped 5.9% before finally finding support near the June lows. Other metals followed suit, including a 9% drop in nickel. Despite the declines, the broad industrial metals group did not break down to new lows, leaving us with our neutral view on the space.

Precious metals also declined last month after a relief rally in the space concluded at the 200-day moving average. Given the technical deterioration and concerning rebound in the dollar, we are downgrading our view on precious metals to neutral from positive.

	Neg. Neutral Pos.	Relative Trend	Rationale
Energy			The technical setup for energy continues to improve. WTI has officially broken out from a bottom after clearing key resistance at $83.25. Signs of tightening supply are becoming evident on the futures curve and short positioning has dissipated from multi-year high levels. The breakout was confirmed by bullish momentum despite a stronger dollar and underwhelming economic data in China. Natural gas continues to generate higher highs and higher lows after finding support near $2.00. We suspect upside could face strong resistance around the $3.00 resistance level. Based on the continued technical progress, we are upgrading our view on the energy commodity sector to positive from neutral.
Precious Metals			Precious metals struggled last month against the stronger dollar. Gold, the most negatively correlated commodity to the greenback, shed 1.3%. Silver slid 1.8% and posted a fifth straight monthly decline. While both metals are holding up above their 200-day moving averages, they have made limited technical progress, prompting our downgraded view this month to neutral from positive.
Industrial Metals			Industrial metals underperformed last month. Copper fell 5.9% before finding support off the June lows, while nickel dropped 9%. While the sector did not carve out any new lows, there is insufficient evidence to make the call that a bottom has been set. We maintain our neutral view on industrial metals.
Agriculture (Ag) & Livestock			Ag and livestock markets declined last month. Wheat plunged 14% and violated support off the May lows. Slowing demand and an uptick in Russian supply weighed on the commodity. Corn fell 8.5% and finished the month at year-to-date lows. Soft commodities outperformed and partially offset the weakness in grains. Lean hogs declined 21% and dragged down the broader livestock space. Above-average inventories and slowing order volume from China weighed on the space. Live cattle rose modestly and remained in an uptrend. We remain neutral on ag and livestock.

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

Commodity and Event Driven Managers Perform Well in August

The alternative investment strategy universe as a whole was moderately lower in August based on preliminary data from Hedge Fund Research (HFR) and Barclay Hedge. Commodity focused managers continued to perform well as energy markets and a few select soft commodities staged strong rallies on the back of increasing supply pressures. Managed futures strategies also posted positive returns, but gains were more muted as volatility remains depressed outside of commodities. Returns from global macro managers in August were somewhat mixed, but here too the lower levels of realized volatility within global equities and fixed income has acted as a hindrance. Emerging market managers had a very poor August and gave back a large part of their year-to-date gains on growing concerns of a deflationary impulse in China. In contrast, event driven strategies had some of the best returns in the alternative universe. In particular, merger arbitrage focused strategies which had their second best month of the year. Long/short equity strategies also navigated the end of Q2 earnings season well and finished with small gains on the month.

Given the current macro backdrop of burgeoning central bank policy divergences and general low levels of volatility across assets, we believe global macro managers remain in a good position to identify potential asymmetric trading opportunities across fixed income, currency and commodities markets. If volatility begins to rise from current depressed levels, managed futures strategies should also stand to benefit as they tend to be largely trend following in nature and generally perform well during periods when volatility is transitioning higher across asset classes.

Multi-strategy funds also remain 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.

Managed futures are speculative, use significant leverage, may carry substantial charges, and should only be considered suitable for the risk capital portion of an investor’s portfolio.

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