

# OUTLOOK

Ed.

2023

LPL RESEARCH PRESENTS

FINDING BALANCE



 LPL Financial



# Economy

# ECONOMIC FORECASTS

Inflation Set to Moderate in U.S.

2023 Annual Forecasts	GDP Growth (Y/Y%)	CPI (Y/Y%)
United States	0.50%	3.50%
Eurozone	-0.10%	4.80%
Advanced Economies	0.40%	4.50%
Emerging Markets	3.50%	5.60%
Global	1.70%	4.90%

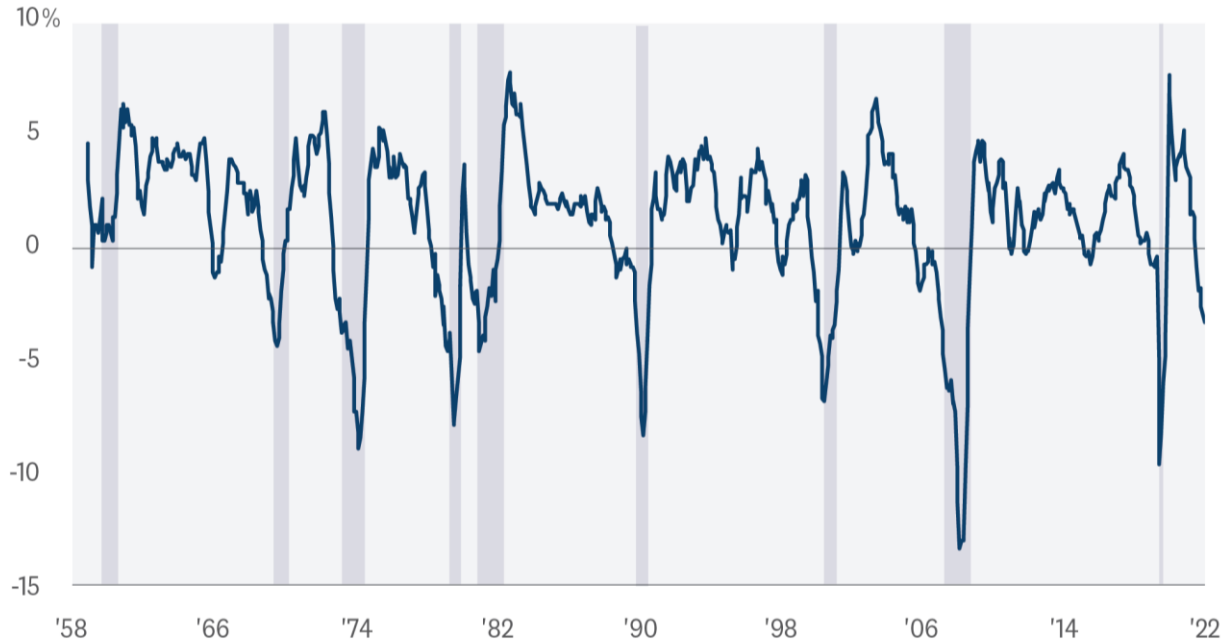
Source: LPL Research, Bloomberg

Any economic forecasts set forth may not develop as predicted and are subject to change.

# LEADING INDICATORS POINT TO MORE SLOWDOWN

Current Levels Correspond to Likely Recession

● Leading Economic Index (6-mo % change) ● Recession

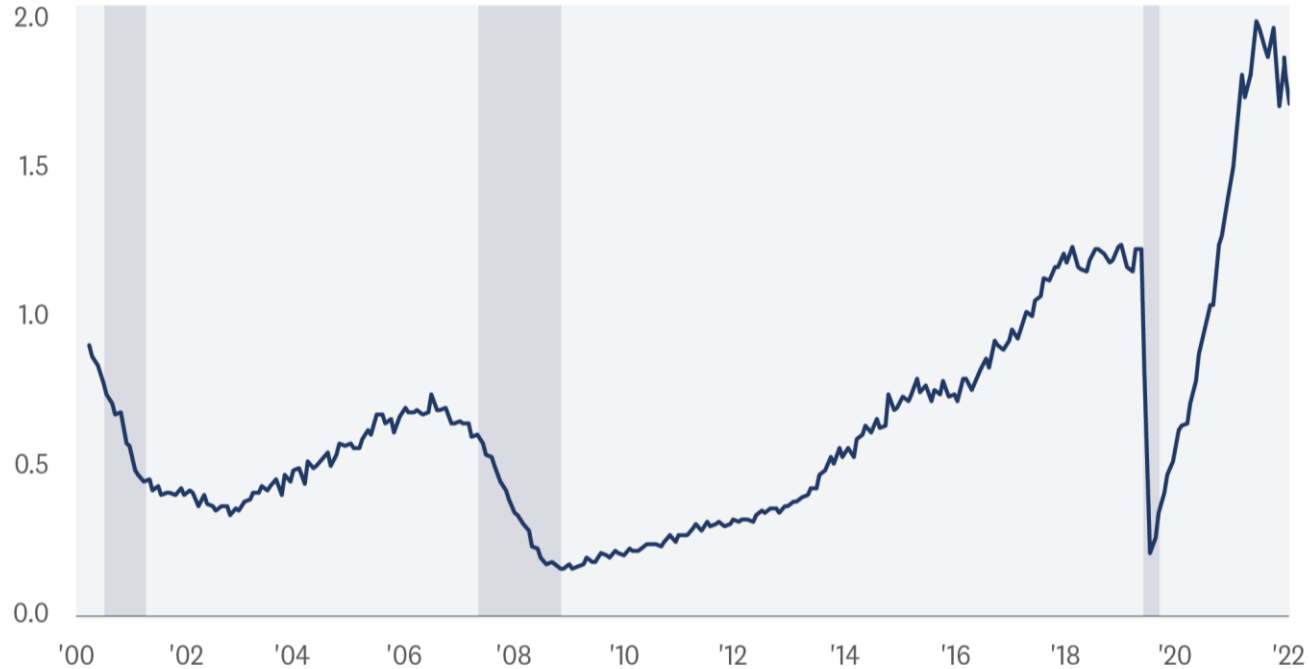


Source: LPL Research, Conference Board 11/18/22  
Indexes are unmanaged and cannot be invested in directly.  
Past performance is no guarantee of future results.

# NOT ENOUGH WORKERS TO FILL JOB OPENINGS

Roughly Two Openings Per Unemployed Individual

● Ratio of Openings to Unemployed

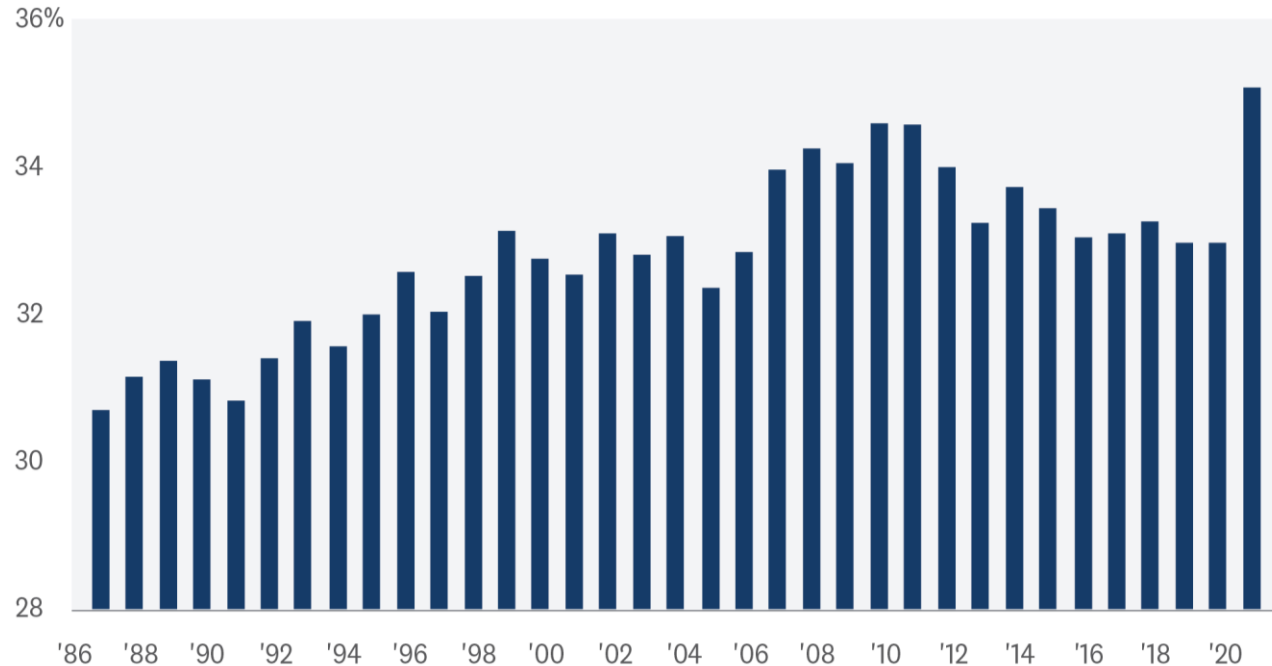


Source: LPL Research, Bureau of Labor Statistics 11/30/22

# A THIRD OF CONSUMER SPENDING GOES TO HOUSING

Lower Housing-Related Costs Should Help Household Budgets

● Housing as a Percent of Total Consumer Spending



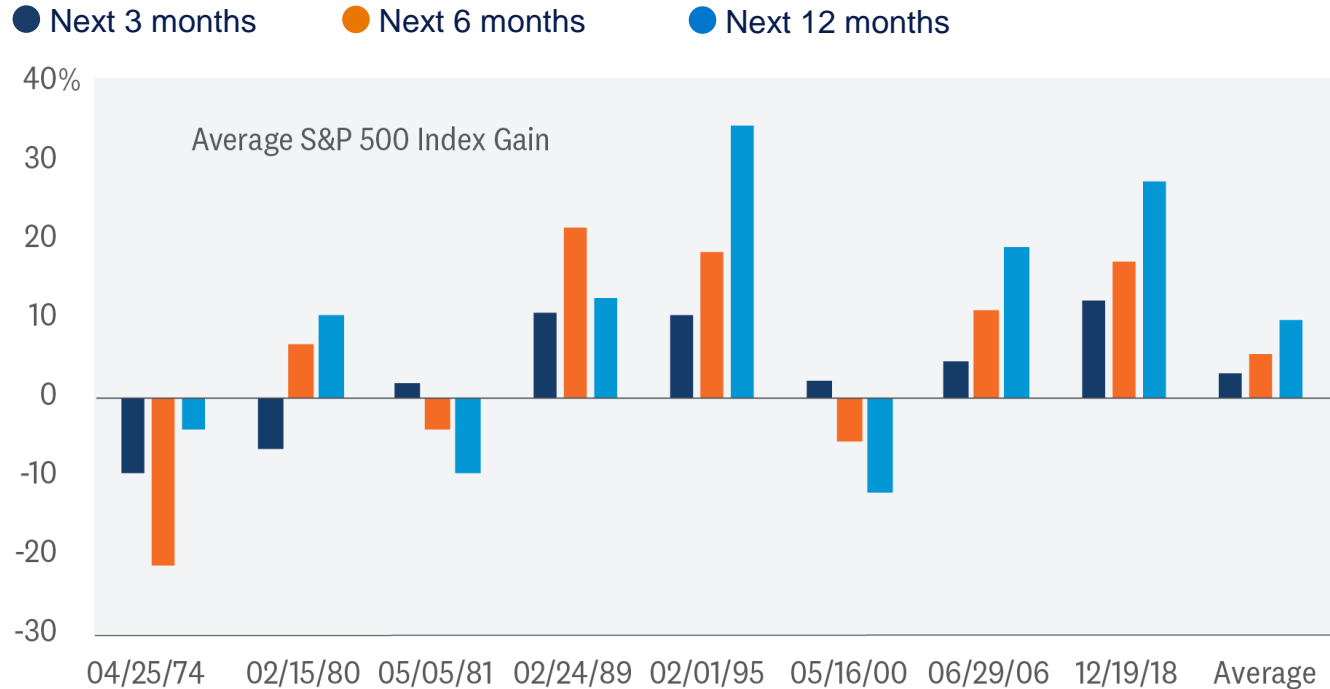
Source: LPL Research, Bureau of Labor Statistics 11/15/22



# Stocks

# STOCKS HAVE HISTORICALLY RISEN AFTER THE END OF FED RATE HIKE CYCLES

## Average S&P 500 Index Gain

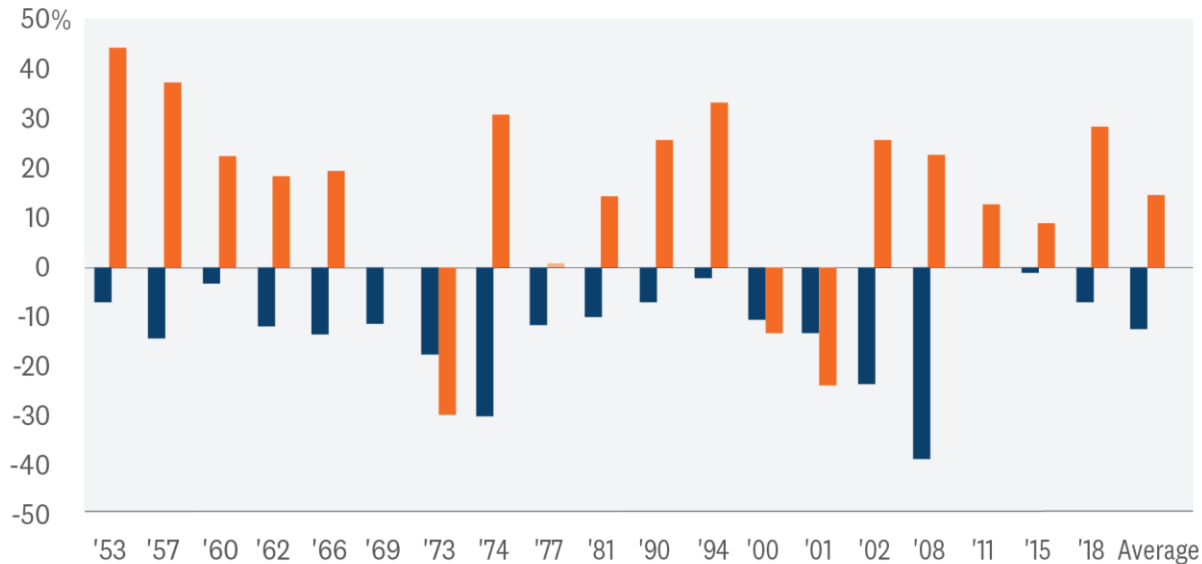


Source: LPL Research, FactSet, Ned Davis Research 11/15/22  
Indexes are unmanaged and cannot be invested in directly.  
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# STOCKS HAVE HISTORICALLY BOUNCED BACK AFTER DOWN YEARS

● Calendar Year S&P 500 Return      ● S&P 500 Return the Following Calendar Year



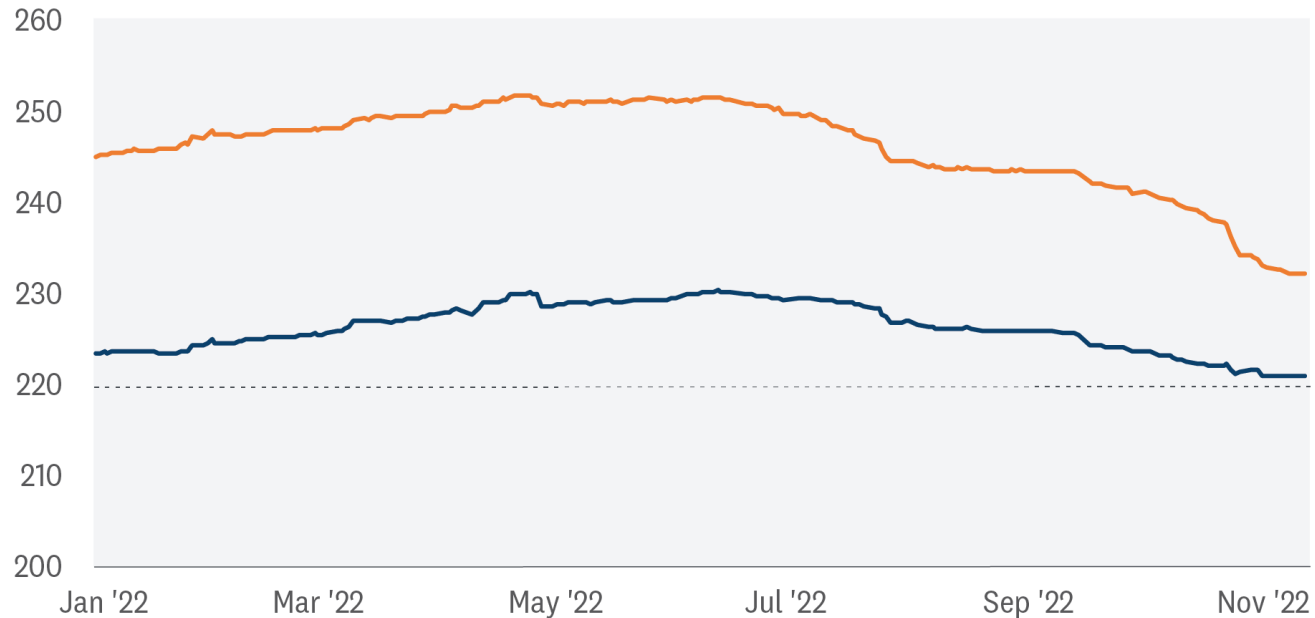
Source: LPL Research, FactSet 11/15/22

Indexes are unmanaged and cannot be invested in directly.

Past performance is no guarantee of future results. Returns displayed are price returns, excluding dividends. The modern design of the S&P stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

# POTENTIAL SLIGHT 2023 EARNINGS GAIN WOULD BE WELCOMED BY MARKETS

● Consensus S&P 500 EPS 2022    ● Consensus S&P 500 EPS 2023    ..... LPL Research 2023 Forecast



Source: LPL Research, FactSet 11/15/22  
Forecasts set forth may not develop as predicted and are subject to change.

# 2023 YEAR-END STOCK MARKET FORECAST SCENARIOS

	Bear Case	Base Case	Bull Case
<b>Estimated Probability</b>	<b>15%</b>	<b>60%</b>	<b>25%</b>
Economy	Recession	Flattish growth / possible mild recession	Soft landing
Inflation	Remains stubbornly high	Gradually eases	Falls faster than expected
Interest Rates	Stay high or rise further	Move gradually lower	Fall materially
Federal Reserve	Fed tightening continues well into 2023	Fed pauses in early spring 2023	Fed signals pause before year-end 2022
Earnings	Recession drives double-digit decline	Stall amid growth lull, cost pressures	Margins rebound as inflation falls
Geopolitics	U.S.-China tensions build, Russia-Ukraine escalation	Progress comes slowly in China, Ukraine	China eases COVID policies, Europe conflict contained
Valuations	Modest PE multiple compression	Modest PE multiple expansion	Sizable PE multiple expansion
Estimated P/E	16	18	20
2022 EPS	220	220	220
2023 EPS	200	220	235
2024 EPS	230	240	255
<b>Year-End 2023 S&amp;P 500 Fair Value Target</b>	<b>3680</b>	<b>4320</b>	<b>5100</b>

**Target: 4400-4500**

Source: Source: LPL Research

Estimates may not materialize as predicted. Indexes are unmanaged and cannot be invested in directly. P/E is a price/earnings ratio.



# Bonds

# 10-YEAR TREASURY FORECAST

	Hard Landing	Flattish Growth/ Mild Recession	Stagflationary Environment
Macro Conditions	Economic growth contracts.	Economic growth slows but still slightly positive.	Economic growth slows but still positive.
	Inflation expectations decline.	Inflation expectations steady and falling.	Inflation expectations increase.
	Fed cuts rates from restrictive levels.	Fed cuts rates but still restrictive.	Fed hikes rate into more restrictive territory.
	Global government bond yields fall.	Global government bond yields steady.	Global government bond yields elevated.
Year-end Fed Funds Rate	2.00%	4.50%	5.50%
Market-Implied Inflation	2.00%	2.50%	3.50%
2-Year Treasury Yield	2.00%	3.75%	5.00%
10-Year Global Bond Yields	1.00%	2.00%	3.00%
10-year Treasury Yield	2.75%	3.25% - 3.75%	4.75%

Source: Source: LPL Research  
 Estimates may not materialize as predicted.

# HYPOTHETICAL RETURNS: INTEREST RATE SCENARIO ANALYSIS (AS OF 10/24)

Change in Interest Rates	-1.0%	-0.5%	No Change	+0.5%	+1.0%
Bloomberg US Aggregate Bond Index	12.3%	9.5%	5.2%	3.9%	1.1%
Bloomberg MBS Index	12.7%	10.0%	5.4%	4.4%	1.6%
Bloomberg US Treasury Index	11.0%	8.3%	4.5%	2.9%	0.2%
Bloomberg US Corporate Index	14.2%	11.0%	6.1%	4.7%	1.5%
Bloomberg Intermediate Corporate Index	10.3%	8.5%	6.0%	4.9%	3.1%
Bloomberg US High Yield Corporate Index*	11.9%	10.2%	7.4%	6.6%	4.8%
*Assumes 6% Default Rate and 40% Recovery Rate					

Source: LPL Research, Bloomberg

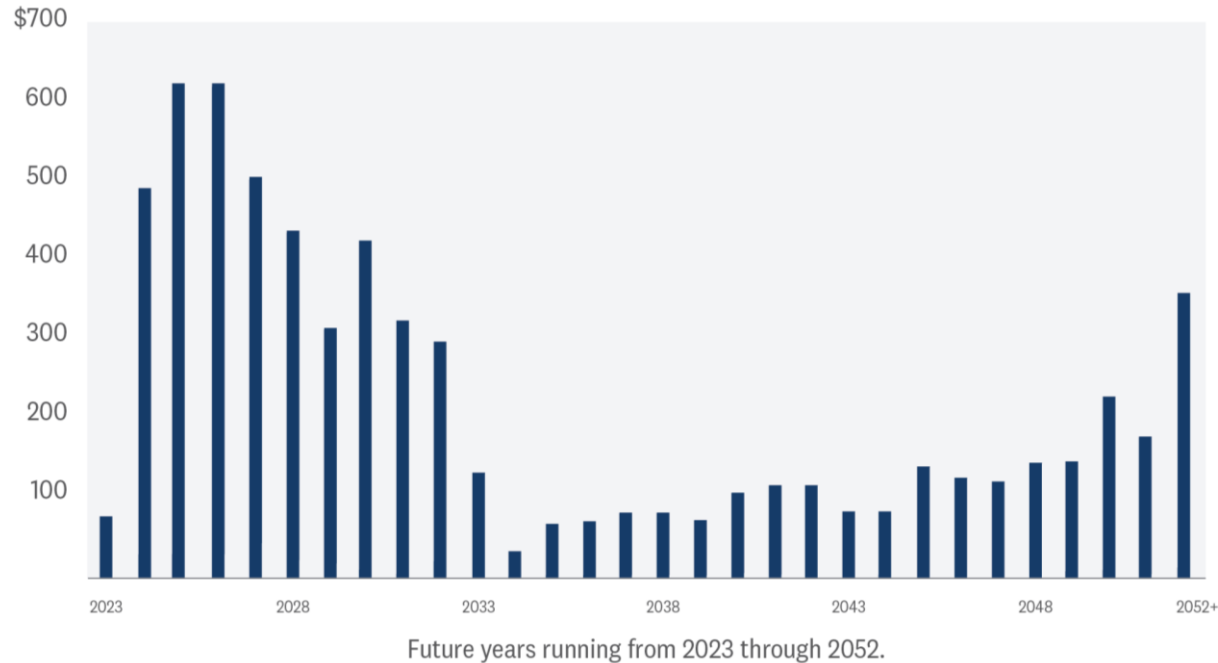
Any rate forecasts set forth may not develop as predicted and are subject to change.

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# LESS THAN 10% OF OUTSTANDING DEBT NEEDS TO BE REFINANCED BEFORE 2025

Corporate Debt Refinancings at Higher Interest Rate Levels is Expected to Remain Low

● Left Axis: Amount of Investment Grade Corporate Debt Maturing (Billions)



Source: LPL Research, Bloomberg, 10/31/22  
Past performance is no guarantee of future results.

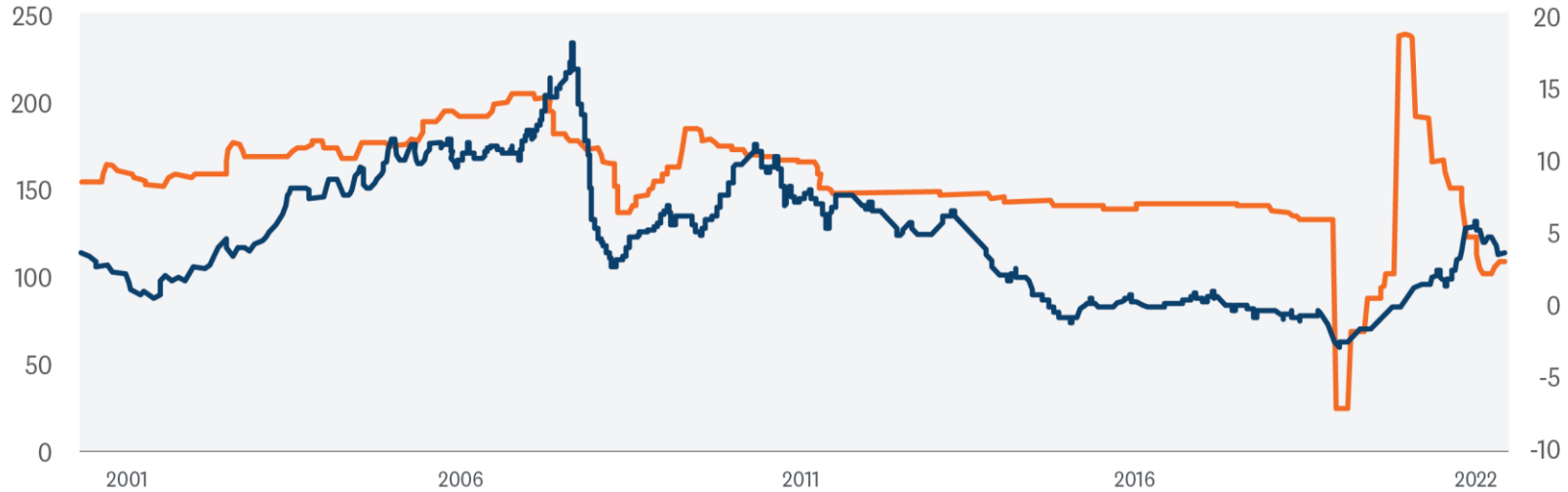


# Geopolitics



# COMMODITIES INDEX VS. CHINA GDP GROWTH RATE

● Bloomberg Commodity Index      ● China GDP Constant Price Cumulative YOY



Source: LPL Research, Bloomberg  
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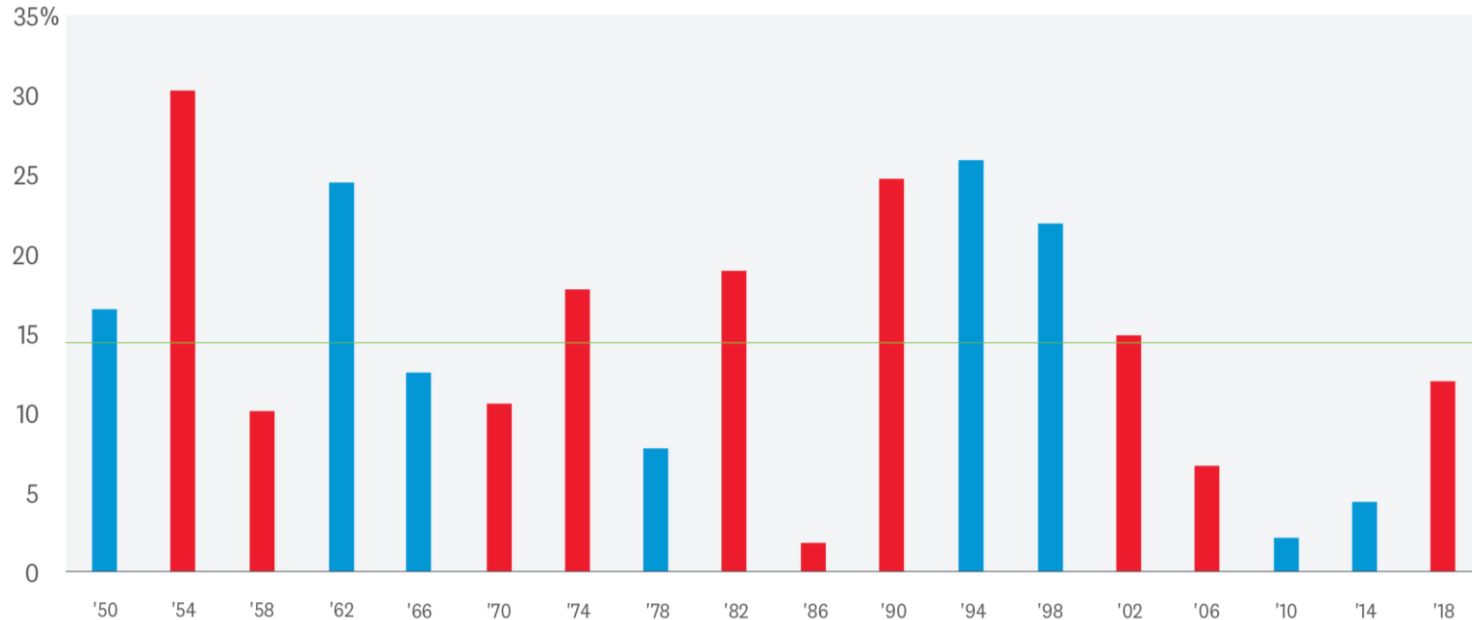


# Policy

# STOCKS HAVE ALWAYS GAINED A YEAR AFTER MIDTERMS (NO MATTER WHO'S IN OFFICE)

## S&P 500 Index Returns 1 Year After Midterm Elections (1950 to Current)

● Average if Democratic President: 14.5%   ● Average if Republican President: 14.8%   ● Average Gain: 14.7%

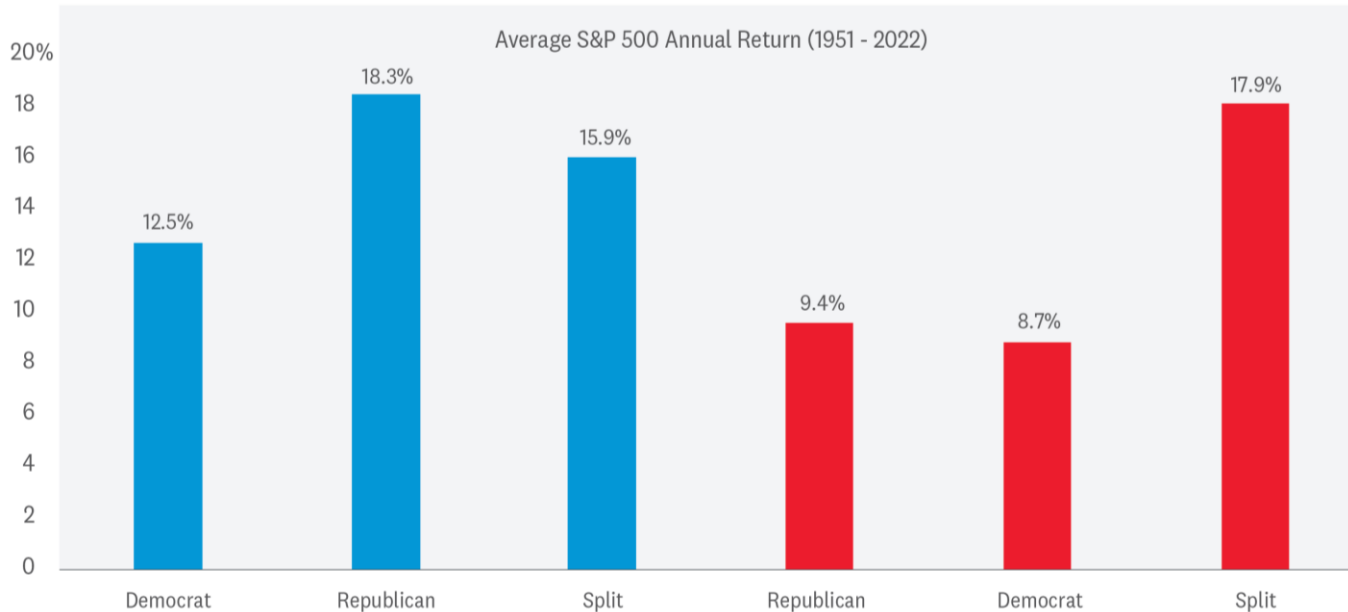


Source: LPL Research, Brookings Institute 11/15/22

Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

# DEMOCRATIC PRESIDENT WITH A REPUBLICAN OR SPLIT CONGRESS HAS BEEN A STRONG COMBINATION FOR STOCKS

● Democratic President    ● Republican President



Source: LPL Research, FactSet 11/13/22

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# IMPORTANT DISCLOSURES

**The PE ratio (price-to-earnings ratio)** is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

**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.

**The Standard & Poor's 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.

**The Bloomberg U.S. Aggregate Bond Index** is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

## Equity Risk:

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. 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. They 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.

## Equity Definitions:

**Cyclical stocks** typically relate to equity securities of companies whose price is affected by ups and downs in the overall economy and that sell discretionary items that consumers may buy more of during an economic expansion but cut back on during a recession. Counter-cyclical stocks tend to move in the opposite direction from the overall economy and with consumer staples which people continue to demand even during a downturn.

**A growth stock** is a share in a company that is anticipated to grow at a rate significantly above the average for the market due to capital appreciation.

**A Value stock** is anticipated to grow above the average for the market due to trading at a lower price relative to its fundamentals, such as dividends, earnings, or sales.

**Large-cap stocks** are issued by corporations with a market capitalization of \$10 billion or more, and small-cap stocks are issued by corporations with a market capitalization between \$250 million and \$2 billion.

# IMPORTANT DISCLOSURES

## Fixed Income Risks:

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. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Government bonds and Treasury bills are guaranteed by the US 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. 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. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

## Fixed Income definitions:

**Credit Quality** is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default. 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. The credit spread is the yield the corporate bonds less the yield on comparable maturity Treasury debt. This is a market-based estimate of the amount of fear in the bond market. Base-rated bonds are the lowest quality bonds that are considered investment-grade, rather than high-yield. They best reflect the stresses across the quality spectrum.

**The Bloomberg Aggregate U.S. Bond Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**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.

**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.

For a list of descriptions of the indexes and economic terms referenced in this publication, please visit our website at [lplresearch.com/definitions](http://lplresearch.com/definitions).

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