



LPL RESEARCH PRESENTS  
MIDYEAR

# outlook

2022

NAVIGATING TURBULENCE

 LPL Financial

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# Economy

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# 2023 ECONOMIC FORECASTS

Forecast Shows Downshift, but Likely Not a Recession

GDP Growth (Y/Y%)	2022	2023
United States	1.9 to 2.5	1.3 to 1.9
Eurozone	2.1 to 2.7	1.5 to 2.1
Advanced Economies	2.2 to 2.8	1.9 to 2.5
Emerging Markets	3.1 to 3.7	3.6 to 4.2
Global	2.5 to 3.1	2.8 to 3.4

Inflation (Y/Y%)	2022	2023
United States	6.6 to 7.2	3.5 to 4.1
Eurozone	6.7 to 7.3	3.6 to 4.2
Advanced Economies	6.5 to 7.1	3.8 to 4.4
Emerging Markets	6.8 to 7.4	4.2 to 4.8
Global	6.5 to 7.1	3.9 to 4.5

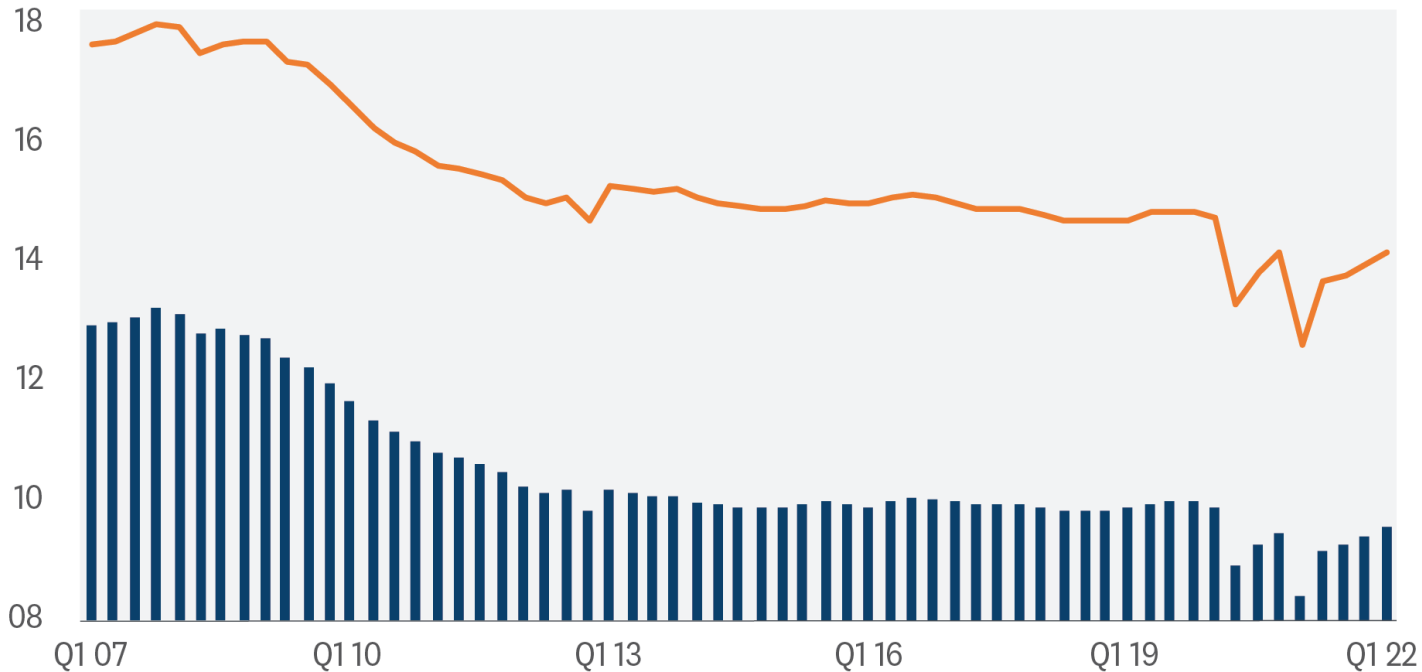
Source: LPL Research 06/30/22  
Forecasts may not develop as predicted

# 2023 ECONOMIC FORECASTS

## Consumers Deleveraged Since Financial Crisis

● Debt-Service Ratio (%)

● Financial Obligations Ratio (%)



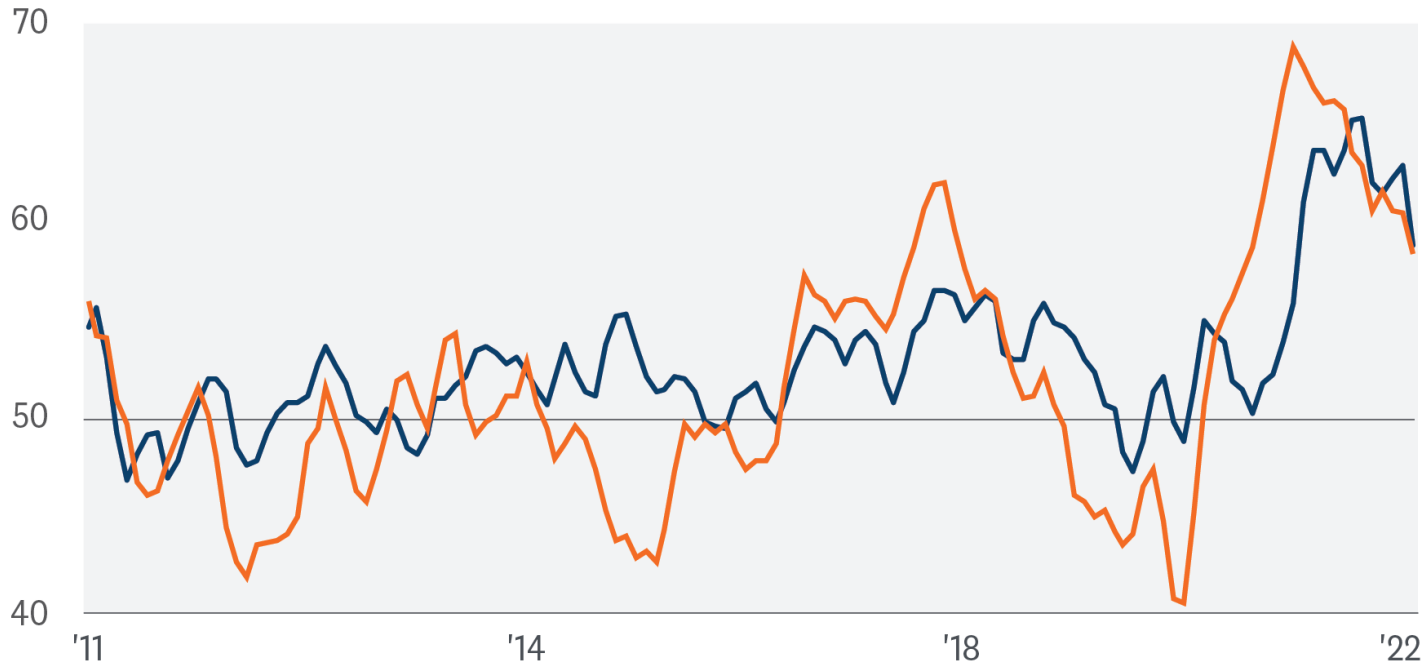
Source: LPL Research, Federal Reserve Board 06/30/22

# 2023 ECONOMIC FORECASTS

## Business Backlogs Decline As China Reopens

● ISM Services: Orders Backlog  
(3-month moving average)

● ISM Manufacturing: Orders Backlog  
(3-month moving average)

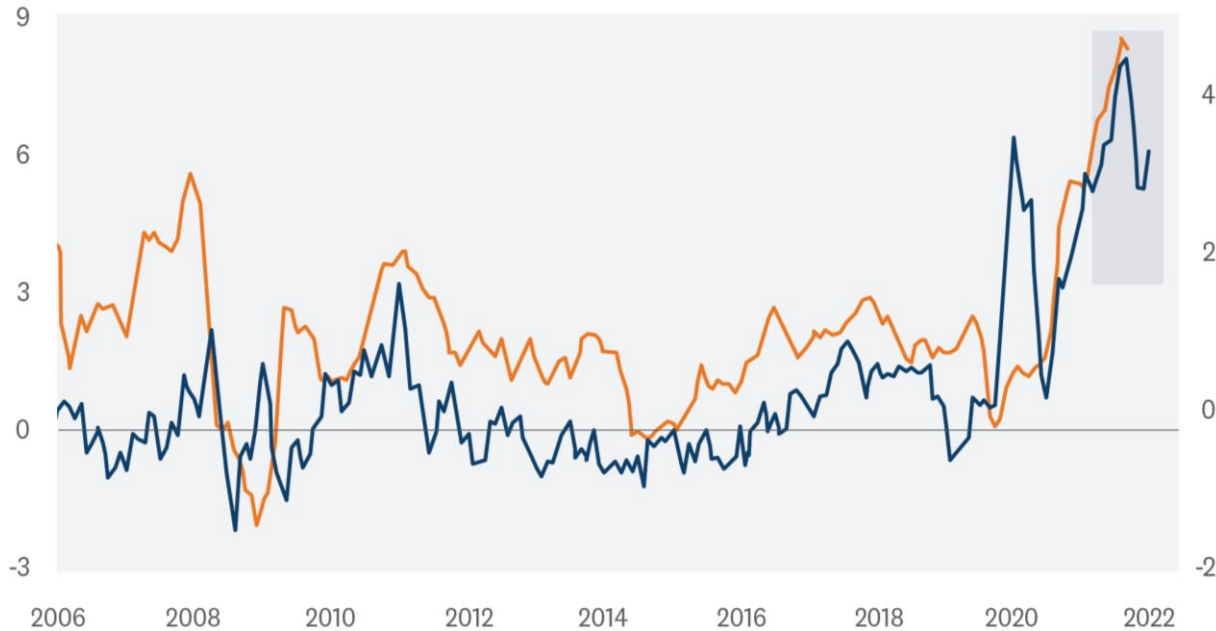


Source: LPL Research, Institute for Supply Management 06/02/22

# 2023 ECONOMIC FORECASTS

## Consumer Prices Should Ease as Supply Chains Improve

● NY Fed Supply Chain Pressure Index [Right Axis]      ● CPI (YoY%) — lagged 4 months [Left Axis]



Source: LPL Research, New York Federal Reserve, Bureau of Labor Statistics 06/30/22  
Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.



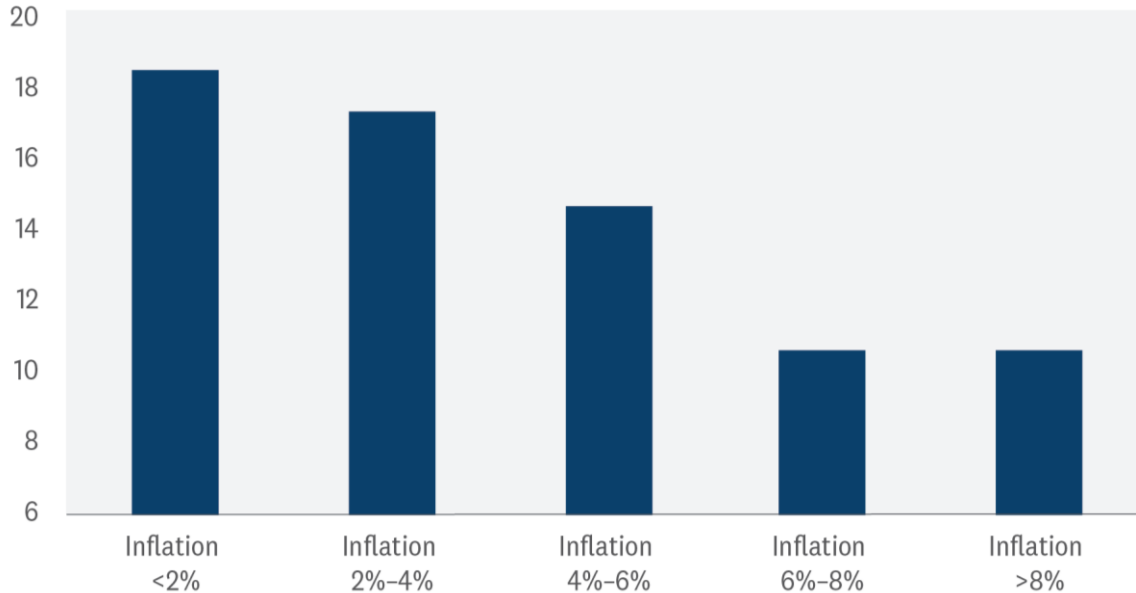
# Stocks

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# 2023 STOCKS FORECASTS

## Lower Inflation Typically Means Higher Valuations

● Average S&P 500 Price-to-Earnings Ratio Under Various Inflation Scenarios



Source: LPL Research, Bloomberg 06/30/22 (Data 1962 – 2022)

Inflation represented by the annual change in the Consumer Price Index. Indexes are unmanaged and cannot be invested in directly.

Past performance is no guarantee of future results.

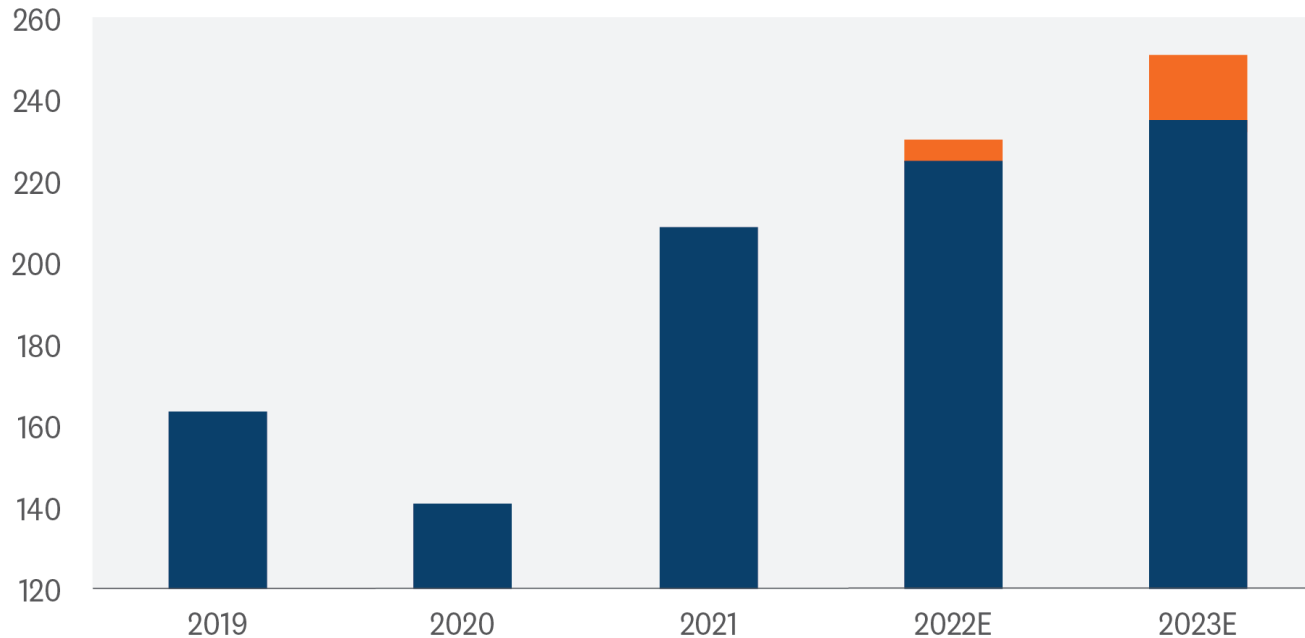
Forecasts may not develop as predicted.



# 2023 STOCKS FORECASTS

## LPL Research Earnings Estimates Appear Conservative

- LPL Research S&P 500 EPS (Actuals / Forecast)
- LPL Research vs. Consensus S&P 500 Earnings Per Share (LPL vs. Consensus)



Source: LPL Research, FactSet 06/27/22

Indexes are unmanaged and cannot be invested in directly. Estimates may not develop as predicted

# 2023 STOCKS FORECASTS

The Earnings Outlook Brings Potential Support For Second Half Stock Gains

2022 and 2023 U.S. Market Forecasts	
S&P 500 Fair Value at Year End	4,300 to 4,400
2022 S&P 500 Earnings Per Share	\$225
2023 S&P 500 Earnings per Share	\$235

Source: LPL Research 06/30/22

Indexes are unmanaged and cannot be invested in directly. Estimates may not develop as predicted.



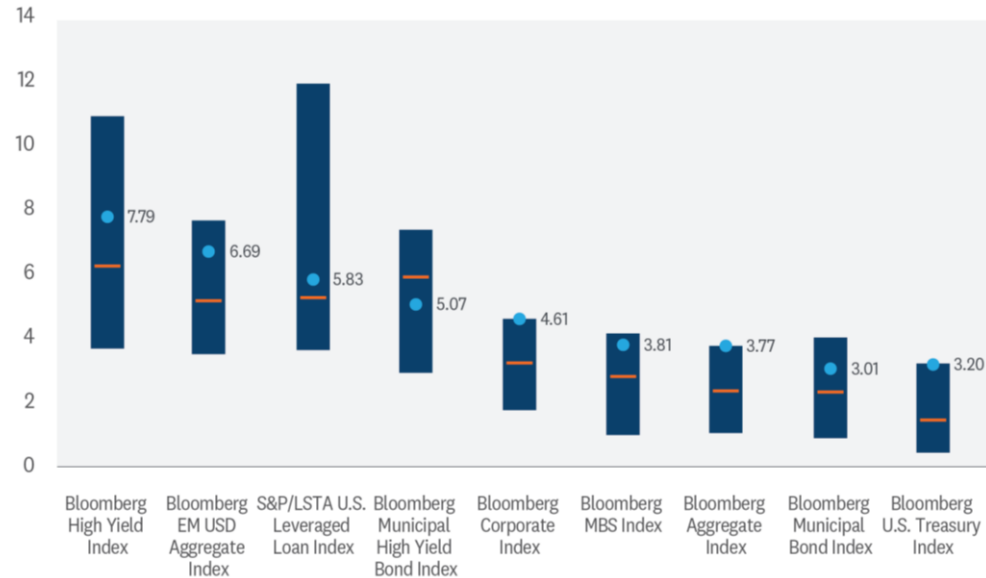
# Bonds

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# 2023 BONDS FORECASTS

## Yields Across Fixed Income Sectors are Above Longer-Term Averages

- Bars represent range of yields bars
- Dash represents median yields
- Circles represent current yields



Source: LPL Research, Bloomberg, 06/30/22

\*Yield-to-Worst is the minimum yield that can be received on a bond, assuming the issuer doesn't default on any of its payments

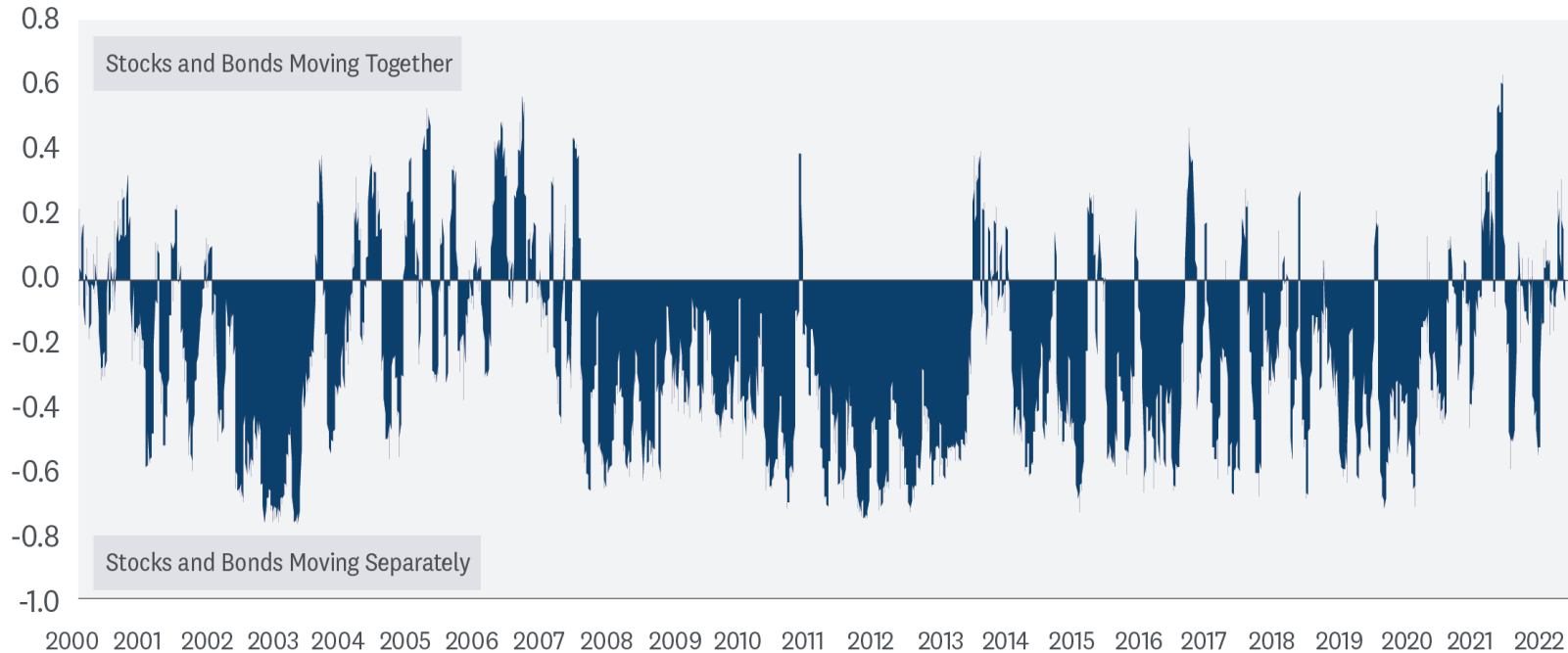
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Forecasts may not develop as predicted.

# 2023 BONDS FORECASTS

## Are Bonds Starting to Act Like Equity Diversifiers Again?

● 30-Day Rolling Correlation of the Bloomberg Aggregate Index to the S&P 500 Index



Source: LPL Research, Bloomberg, 06/30/22

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results



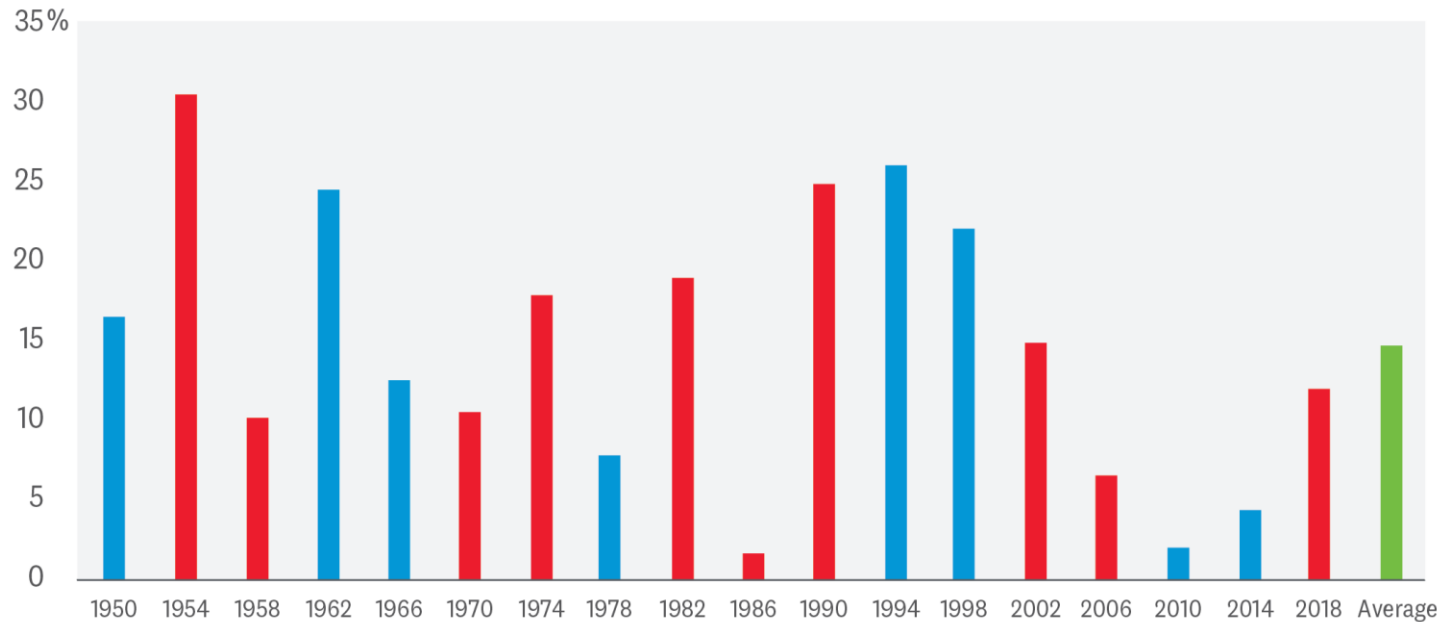
# Policy

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# MIDTERMS ARRIVAL AFFECTS POLICY OUTLOOK

## Stocks Have Gained A Year After Midterms Every Time

● Democratic President      ● Republican President      ● Average S&P 500 Index Annual Return (1950 – 2018)



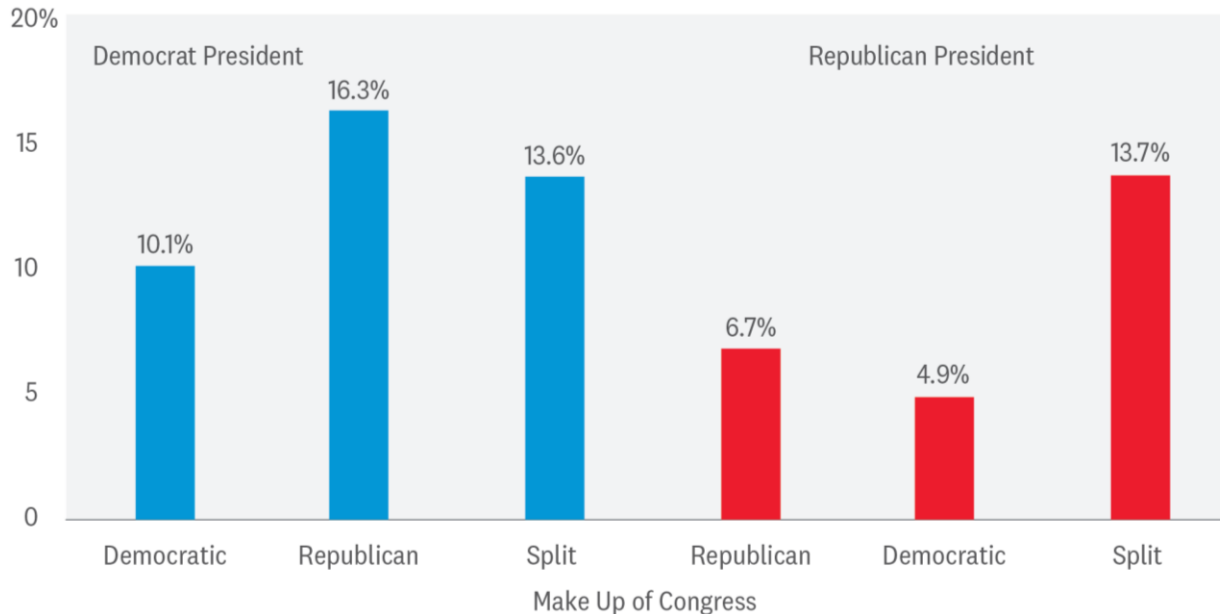
Source: LPL Research, FactSet 06/30/22

All indexes are unmanaged and cannot be invested into directly. The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90. Past performance is no guarantee of future results.

# MIDTERMS ARRIVAL AFFECTS POLICY OUTLOOK

## Stock Performance Based On Congress Makeup

Average S&P 500 Index Annual Return (1950 – 2021)



Source: LPL Research, Bloomberg 06/30/22. Data are from 1950–2021.

All indexes are unmanaged and cannot be invested into directly.

Past performance is no guarantee of future results. The modern design of the S&P 500 stock index was first launched in 1957.

Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.



# Conclusion

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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.

# IMPORTANT DISCLOSURES

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