LPL RESEARCH

MARKET INSIGHT QUARTERLY

July 9 2015

SECOND QUARTER 2015 IN REVIEW

STOCKS EKED OUT MODEST GAINS IN TOUGH QUARTER FOR THE BOND MARKET

- **Economic growth saw a bounce back in the second quarter, after "transitory factors" hurt growth in the first quarter.** This bounce back was muted, however, as the stronger dollar and energy-related capital spending cuts that hurt first quarter activity lingered into the second quarter. The labor market got back on track in the second quarter, keeping the Federal Reserve (Fed) on course to begin hiking rates in late 2015. Overseas, the monetary policy stimulus in Japan, the Eurozone, and China continues to support growth, but uncertainty over Greece could be a drag moving forward.
- **Stocks eked out 10th consecutive quarterly gain.** The S&P 500 produced its 10th straight positive quarter during the second quarter of 2015, though with only a meager 0.3% total return. After evidence of a U.S. economic snapback helped drive gains throughout much of the quarter, stocks nearly surrendered all of those gains late in the quarter when concerns about a potential Greek exit from the Eurozone, a possible stock market bubble in mainland China, and a possible Puerto Rico default all contributed to a 1.9% drop for the S&P 500 in June. Second quarter gains brought the S&P 500's total return for the first half of 2015 to 1.2%.

Please note: All return figures are as of June 30, 2015, unless otherwise stated.

Past performance is not indicative of future results.

The economic forecasts set forth in the presentation may not develop as predicted.

Stock investing entails risk including loss of principal.

Bonds are subject to market and interest rate risk if sold prior to maturity.

Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Alternative strategies may not be suitable for all investors. The management of alternative investments may accelerate the velocity of potential losses.

1 Q2 2015 AT A GLANCE

	Q2 2015
GDP*	2.5%
S&P 500 Index	0.3%
Barclay's Aggregate Bond Index	-1.7%
Bloomberg Commodity Index	4.7%

Source: LPL Research, Bloomberg, FactSet 06/30/15

*Bloomberg consensus as of June 30, 2015.

Figures for S&P 500, Barclays Aggregate Bond Index, and Bloomberg Commodity Index are total returns from 4/1/15–6/30/15.

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment.

- **Quarterly winning streak for bonds was broken.** The second quarter of 2015 marked the first quarterly loss for the Barclays U.S. Aggregate Bond Index since the fourth quarter of 2013. The index posted a total return of -1.7% for the quarter, bringing the year-to-date total return into the red (-0.1%) for the first half of 2015. Interest rates rose modestly during the quarter on improving domestic economic data. Renewed Greek concerns and a dovish Fed meeting helped to halt the rise in interest rates late in the quarter.
- **Oil bounced back as imbalances began to correct.** The Bloomberg Commodity Index was a beneficiary of a rebound in oil prices and gained 4.7% on the quarter. Oil benefited primarily from planned production cuts and falling rig counts as the energy market made some progress toward rebalancing supply with demand. The powerful U.S. dollar rally reversed course during the quarter, which also aided the commodity complex. Grains enjoyed broad gains as persistent rains across the Midwest called into question the quality of harvests. Gold was virtually flat for the quarter while silver fell modestly and copper struggled with China growth fears.
- **Event driven strategies led gains, while trend following encountered a sharp reversal.** During the quarter, merger arbitrage paced the broader event driven category, while less directional equity strategies were best able to weather the late quarter sell-off. After leading alternative strategy returns for much of the last year, trend following managed futures managers saw their first quarter returns erased, as many of their model-based signals were whipsawed due to sideways trading patterns.

A LOOK FORWARD

We expect the U.S. economy will expand at a rate of 3% in 2015,* led by both consumer and business spending, which would be the highest annual advance since 2010. Tempered by increasing levels of volatility, stocks are poised to advance mid- to high-single-digits on the back of steady earnings growth. Battling the dual threats of the Fed's impending rise in rates and expanding economic growth, we believe bonds offer very limited return potential in 2015.

For more insight into our forecasts, please see our *Midyear Outlook 2015: Some Assembly Required.*

*As noted in the *Outlook 2015*, LPL Research expects GDP to expand at a rate of 3% or higher, which matches the average growth rate of the past 50 years. This is based on contributions from consumer spending, business capital spending, and housing, which are poised to advance at historically average or better growth rates in 2015. Net exports and the government sector should trail behind.

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 NEW MARKET INSIGHT QUARTERLY & MARKET INSIGHT MONTHLY

The updated quarterly edition of *Market Insight* provides a high-level overview of what occurred in the economy, stock and bond markets, commodities, and alternative strategies during the previous quarter. For more detailed performance data and commentary, we provide a monthly review in the new *Market Insight Monthly* publication.

Access past issues of the *Market Insight Monthly* on the Resource Center, or here:

- [April 2015 in Review]
- [May 2015 in Review]
- [June 2015 in Review]

2 HEALTHCARE & CONSUMER DISCRETIONARY TOPPED Q2 2015 SECTOR RANKINGS; UTILITIES STRUGGLED

S&P 500 Sector Performance, Ranked by Second Quarter Returns

Sector	Q2 2015
Healthcare	2.8%
Consumer Discretionary	1.9%
Financials	1.7%
Telecom	1.6%
S&P 500	0.3%
Technology	0.2%
Materials	-0.5%
Consumer Staples	-1.7%
Energy	-1.9%
Industrials	-2.2%
Utilities	-5.8%

3 SMALL GROWTH AND INTERNATIONAL WERE THE PLACES TO BE IN Q2

Domestic & International Asset Class Performance, Ranked by Second Quarter Returns

Asset Class	Q2 2015
U.S. Small Growth	2.0%
Developed International (Large Foreign)	0.8%
Emerging Markets	0.8%
U.S. Large Growth	0.1%
U.S. Large Value	0.1%
U.S. Mid Growth	-1.1%
U.S. Small Value	-1.2%
U.S. Mid Value	-2.0%

4 BANK LOANS FARED WELL AS RATES ROSE; PUERTO RICO WEIGHED ON HIGH-YIELD MUNIS

Bond Market Performance, Ranked by Second Quarter Returns

Sector	Q2 2015
Bank Loans	0.6%
High-Yield Corporates	0.0%
Emerging Markets Debt	-0.3%
Mortgage-Backed Securities	-0.7%
Municipal Bonds	-0.9%
Preferred Securities	-1.0%
TIPS	-1.0%
Foreign Bonds (Unhedged)	-1.5%
U.S. Treasuries	-1.6%
Barclays U.S. Aggregate	-1.7%
Investment-Grade Corporates	-2.9%
Municipal High-Yield	-3.0%
Foreign Bonds (Hedged)	-3.2%

Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index so these are not actual results an investor would achieve.

Bond Market Asset Class Indexes: Foreign Bonds (hedged) – Citigroup Non-U.S. World Government Bond Index Hedged for Currency; Preferred Securities – Merrill Lynch Preferred Stock Hybrid Securities Index; Treasury – Barclays U.S. Treasury Index; Mortgage-Backed Securities – Barclays U.S. MBS Index; Investment-Grade Corporate – Barclays U.S. Corporate Bond Index; Municipal – Barclays Municipal Bond Index; Municipal High-Yield – Barclays Municipal High-Yield Index; TIPS – Barclays Treasury Inflation-Protected Securities Index; Bank Loans – Barclays U.S. High-Yield Loan Index; High-Yield – Barclays U.S. Corporate High-Yield Index; Emerging Market Debt – JP Morgan Emerging Markets Global Index; Foreign Bonds (unhedged) – Citigroup Non-U.S. World Government Bond Index (unhedged)

Sources: LPL Research, FactSet 06/30/15

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

The sectors are represented by the 10 S&P 500 Global Industry Classification Standard (GICS) indexes.

Asset classes based on Russell 1000, Russell 3000 Growth and Value Indexes, Russell 2000, Russell Midcap Index, MSCI EAFE, MSCI Emerging Markets Index.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly.

General Stock & Debt Equity Risks

Stock investing may involve risk including loss of principal.

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.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

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.

High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

Mortgage-backed securities 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, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

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.

Credit risk is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

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.

Definitions

Default rate is the interest rate charged to a borrower when payments on a revolving line of credit are overdue. This higher rate is applied to outstanding balances in arrears in addition to the regular interest charges for the debt.

The presidents of regional Federal Reserve Banks are commonly classified as hawks or doves. Hawks generally favor tighter monetary policy, with less monetary support from the Federal Reserve. Doves are the opposite, generally favoring easing of monetary policy.

Global macro strategy is a hedge fund strategy that bases its holdings—such as long and short positions in various equity, fixed income, currency, and futures markets—primarily on overall economic and political views of various countries (macroeconomic principles).

Merger arbitrage is a hedge fund strategy in which the stocks of two merging companies are simultaneously bought and sold to create a riskless profit. A merger arbitrageur looks at the risk that the merger deal with not close on time, or at all. Because of this slightly uncertainty, the target company's stock will typically sell at a discount to the price that the combined company will have when the merger is closed. This discrepancy is the arbitrageur's profit.

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.

Index Definitions

The Barclays U.S. Corporate High Yield Index measures the market of USD-denominated, noninvestment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging markets debt.

The Barclays U.S. High Yield Loan Index tracks the market for dollar-denominated floating-rate leveraged loans. Instead of individual securities, the U.S. High-Yield Loan Index is composed of loan tranches that may contain multiple contracts at the borrower level.

The Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

The Barclays U.S. Corporate Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market.

The Barclays U.S. Treasury Index is an unmanaged index of public debt obligations of the U.S. Treasury with a remaining maturity of one year or more. The index does not include T-bills (due to the maturity constraint), zero coupon bonds (strips), or Treasury Inflation-Protected Securities (TIPS).

The Barclays U.S. Mortgage Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

The Barclays U.S. Treasury TIPS Index is a rules-based, market value-weighted index that tracks inflation-protected securities issued by the U.S. Treasury.

The BofA Merrill Lynch Preferred Stock Hybrid Securities Index is an unmanaged index consisting of a set of investment-grade, exchange-traded preferred stocks with outstanding market values of at least $50 million that are covered by Merrill Lynch Fixed Income Research.

The Bloomberg Commodity Index is calculated on an excess return basis and composed of futures contracts on 22 physical commodities. It reflects the return of underlying commodity futures price movements.

The JP Morgan Emerging Markets Bond Index is a benchmark index for measuring the total return performance of international government bonds issued by emerging markets countries that are considered sovereign (issued in something other than local currency) and that meet specific liquidity and structural requirements.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market.

The Russell Midcap Index offers investors access to the mid cap segment of the U.S. equity universe. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid cap segment and is completely reconstituted annually to ensure that larger stocks do not distort the performance and characteristics of the true mid cap opportunity set. The Russell Midcap Index includes the smallest 800 securities in the Russell 1000.

The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indexes that represent developed markets outside of North America: Europe, Australasia, and the Far East.

The MSCI Emerging Markets Index captures large and mid cap representation across 23 emerging markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Barlcays U.S. Municipal Index covers the USD-denominated, long-term, tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

The Barclays Municipal High Yield Bond Index is comprised of bonds with maturities greater than one-year, having a par value of at least $3 million issued as part of a transaction size greater than $20 million, and rated no higher than 'BB+' or equivalent by any of the three principal rating agencies.

The Citigroup Non-U.S. World Government Bond Hedged Index measures the performance of fixed-rate, local currency, investment grade sovereign bonds. This index is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 25 years of history available. It provides a broad benchmark for the global sovereign fixed income market, excluding the U.S., with currencies hedged against the U.S. dollar.

RES 5137 0715 | Tracking #1-399194 (Exp. 11/15)