Slide 1

When it comes to the US economy, it's proven more resilient than many people expected in the first half of the year. Stronger-than-expected economic data and resilient corporate earnings have supported markets and pushed expectations for a US recession out to next year. However, despite this start to the year, the outlook for the economy going forward is still for slow growth as the tightening in credit conditions will likely pose a greater headwind to economic activity in the quarters ahead.

Today, we will assess the performance of this past year for the markets and economy, considering trends in growth, jobs, inflation, profits, the rest of the world, and the US dollar. And then we will consider the implications of all these things for those investing across asset classes and highlight the importance of taking a balanced view to asset allocation.

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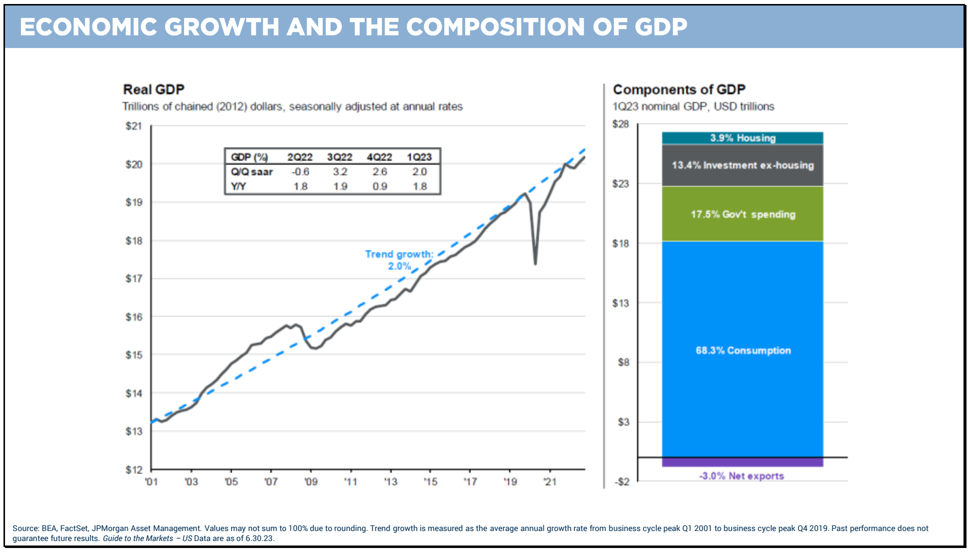
Slide 3



As mentioned, the US economy remained resilient in the second quarter of 2023, and this has widened the runway for a potential soft landing. But taking a quick look across each sector of the economy tells us economic momentum is still slowing.

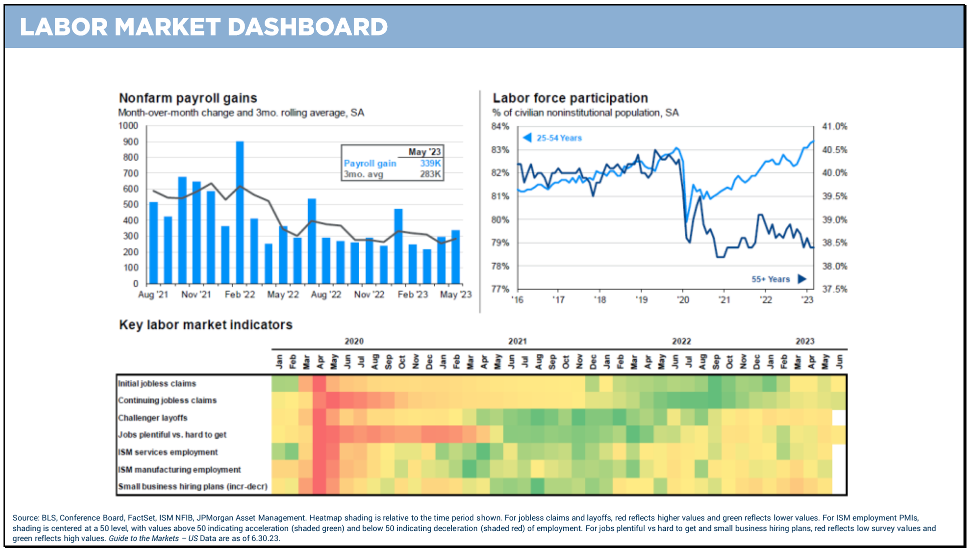
Business spending appears to be one of the most at risk areas of the economy. Recent layoffs in the tech sector could weigh on research and development spending, while increased caution among lenders and slowing corporate profits could constrain capital expenditures. Additionally, elevated vacancies in the office and retail sectors should weigh on construction spending, but this could be partially offset by rising demand in warehousing and data centers.

Consumers are still feeling the lagged effects of less fiscal stimulus and higher inflation, depleting their savings balances and taking on more debt to maintain their current lifestyles. The personal savings rate has fallen to 4.2% this year, well below its long-term average of 8.9%, suggesting savings will need to increase over the next few years. This, along with the forthcoming resumption of student loan payments, should weigh on consumer spending in the coming months.

The housing market appears to be stabilizing, though at low levels, as tight housing supply and steadying mortgage rates are signaling that the worst is behind us. Trade should be a mild drag on the economy due to the lagged impact of a strong dollar. However, the global economy has been gaining steam and the trade-weighted dollar has now fallen by 10% from its peak, which should limit the damage of deteriorating trade moving forward.

Overall, the US economy should continue to grow at a tempered pace from here, and while a recession is not guaranteed, a slower-moving economy will be increasingly sensitive to shocks. There remain risks on the horizon, most notably weakness in commercial real estate, that could push this slow-moving economy into a recession within the next year.

Slide 4



The labor market has been a bright spot throughout this economic expansion, but cracks are beginning to emerge. Recent employment reports have shown the economy continues to add jobs at a robust pace, but the trend of job gains has been slowing over the past year. Improved labor force participation has so far supported job growth, with the participation rate for adults aged 25 to 54 having fully recovered to pre-pandemic levels.

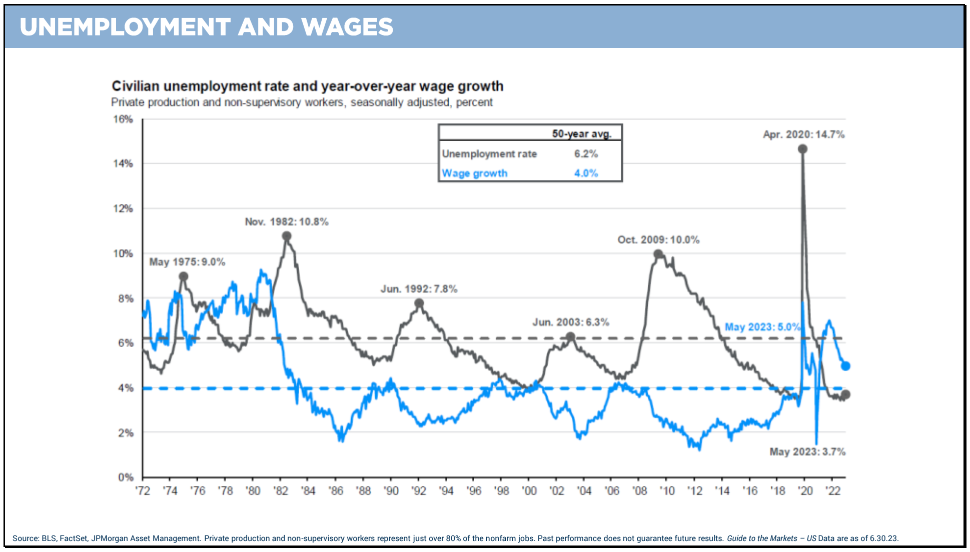
However, while the short-term impacts of the pandemic have now abated, aging demographics continue to place a structural limit on labor supply growth. The participation rate for adults aged 55 and over has remained depressed, reflecting an aging Baby Boomer population that has permanently left the workforce. Even with higher wages and low unemployment, the labor force participation rate may be at its peak.

Other labor market data also suggest a trend of normalization, as shown by the wave of yellow on the heatmap. In particular, weekly initial claims for unemployment have been trending higher to average: 240,000 in the second quarter, compared to an annual average of 214,000 in 2022. While this modest increase is still indicative of a healthy labor market, claims may begin picking up more rapidly if layoff announcements become more widespread.

Employees are also losing some confidence in their job prospects, as shown by recent declines in the Conference Board survey measure that asks individuals if jobs are plentiful versus hard to get. Business surveys are showing similar trends, with the PMI measures of services and manufacturing employment and small business hiring plans moderating in recent months.

Tying this all together, cooling demand for labor suggests that job growth should decelerate in the coming months. Indeed, it may even turn negative, which would signal the economy is likely entering into a recession.

Slide 5

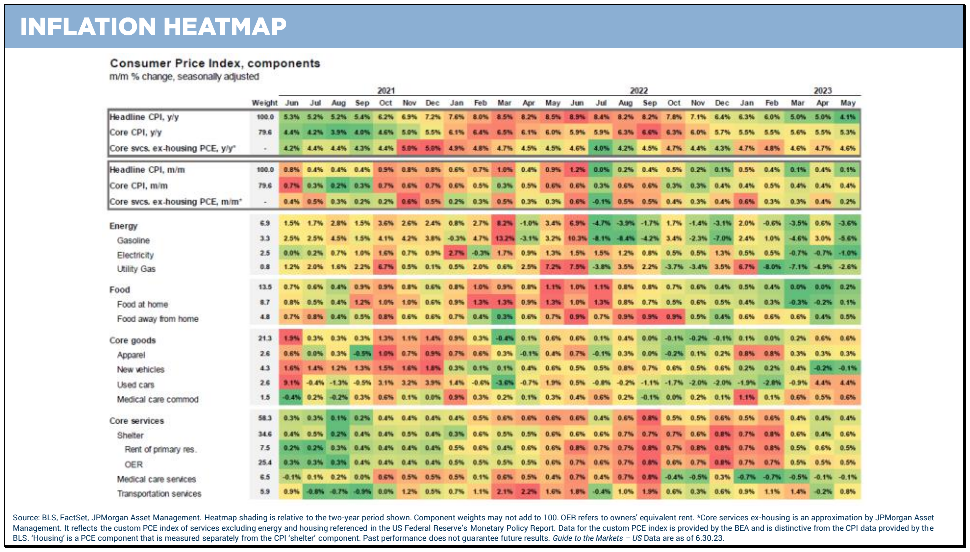


A tight labor market has allowed the unemployment rate to hover around its 50-year lows despite cooling demand, averaging at 3.5% this year after an uptick to 3.7% in May. Importantly, cooling labor market conditions has contributed to a moderation in wages, which only grew by 0.3% month-over-month in May for all private workers. Year-over-year wage growth has now come down to 4.3% from a peak of 5.9% in March of 2022.

There is also a limit to how much the unemployment rate could rise going forward, as US businesses still face a structurally smaller labor force than prior decades. Diminished legal immigration, particularly over the course of the pandemic, and Baby Boomers reaching retirement age have left the economy short of workers.

As businesses reel back hiring efforts in the face of slower demand and higher costs, we may see unemployment rise further by the end of the year, but only modestly. However, wage growth should continue to decelerate and help give the Federal Reserve confidence that inflation is sustainably coming down.

Slide 6



INFLATION HEATMAP

Consumer Price Index, components
m/m % change, seasonally adjusted

		2021							2022													2023				
	Weight	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Headline CPI, y/y	100.0	5.3%	5.2%	5.2%	5.4%	6.2%	6.9%	7.2%	7.6%	8.0%	8.5%	8.2%	8.5%	8.9%	8.4%	8.2%	8.2%	7.8%	7.1%	6.4%	6.3%	6.0%	5.0%	5.0%	4.1%
Core CPI, y/y	79.6	4.4%	4.2%	3.9%	4.0%	4.6%	5.0%	5.5%	6.1%	6.4%	6.5%	6.1%	6.0%	5.9%	5.9%	6.3%	6.6%	6.3%	6.0%	5.7%	5.5%	5.5%	5.6%	5.5%	5.3%
Core svcs. ex-housing PCE, y/y*	-	4.2%	4.4%	4.4%	4.3%	4.4%	5.0%	5.0%	4.9%	4.8%	4.7%	4.5%	4.5%	4.6%	4.0%	4.2%	4.5%	4.7%	4.4%	4.3%	4.7%	4.8%	4.6%	4.7%	4.6%
Headline CPI, m/m	100.0	0.8%	0.4%	0.4%	0.4%	0.9%	0.8%	0.8%	0.6%	0.7%	1.0%	0.4%	0.9%	1.2%	0.0%	0.2%	0.4%	0.5%	0.2%	0.1%	0.5%	0.4%	0.1%	0.4%	0.1%
Core CPI, m/m	79.6	0.7%	0.3%	0.2%	0.3%	0.7%	0.6%	0.7%	0.6%	0.5%	0.3%	0.5%	0.6%	0.6%	0.3%	0.6%	0.6%	0.3%	0.3%	0.4%	0.4%	0.5%	0.4%	0.4%	0.4%
Core svcs. ex-housing PCE, m/m*	-	0.4%	0.5%	0.3%	0.2%	0.2%	0.6%	0.5%	0.2%	0.3%	0.5%	0.3%	0.3%	0.6%	-0.1%	0.5%	0.5%	0.4%	0.3%	0.4%	0.6%	0.3%	0.3%	0.4%	0.2%
Energy	6.9	1.5%	1.7%	2.8%	1.5%	3.6%	2.6%	2.4%	0.8%	2.7%	8.2%	-1.0%	3.4%	6.9%	-4.7%	-3.9%	-1.7%	1.7%	-1.4%	-3.1%	2.0%	-0.6%	-3.5%	0.6%	-3.6%
Gasoline	3.3	2.5%	2.5%	4.5%	1.5%	4.1%	4.2%	3.8%	-0.3%	4.7%	13.2%	-3.1%	3.2%	10.3%	-8.1%	-8.4%	-4.2%	3.4%	-2.3%	-7.0%	2.4%	1.0%	-4.6%	3.0%	-5.6%
Electricity	2.5	0.0%	0.2%	0.7%	1.0%	1.6%	0.7%	0.9%	2.7%	-0.3%	1.7%	0.9%	1.3%	1.5%	1.5%	1.2%	0.8%	0.5%	0.5%	1.3%	0.5%	0.5%	-0.7%	-0.7%	-1.0%
Utility Gas	0.8	1.2%	2.0%	1.6%	2.2%	6.7%	0.5%	0.1%	0.5%	2.0%	0.6%	2.5%	7.2%	7.5%	-3.8%	3.5%	2.2%	-3.7%	-3.4%	3.5%	6.7%	-8.0%	-7.1%	-4.9%	-2.6%
Food	13.5	0.7%	0.6%	0.4%	0.9%	0.9%	0.8%	0.6%	0.8%	1.0%	0.9%	0.8%	1.1%	1.0%	1.1%	0.8%	0.8%	0.7%	0.6%	0.4%	0.5%	0.4%	0.0%	0.0%	0.2%
Food at home	8.7	0.8%	0.5%	0.4%	1.2%	1.0%	1.0%	0.6%	0.9%	1.3%	1.3%	0.9%	1.3%	1.0%	1.3%	0.8%	0.7%	0.5%	0.6%	0.5%	0.4%	0.3%	-0.3%	-0.2%	0.1%
Food away from home	4.8	0.7%	0.8%	0.4%	0.5%	0.8%	0.6%	0.6%	0.7%	0.4%	0.3%	0.6%	0.7%	0.9%	0.7%	0.9%	0.9%	0.9%	0.5%	0.4%	0.6%	0.6%	0.6%	0.4%	0.5%
Core goods	21.3	1.9%	0.3%	0.3%	0.3%	1.3%	1.1%	1.4%	0.9%	0.3%	-0.4%	0.1%	0.6%	0.6%	0.1%	0.4%	0.0%	-0.1%	-0.2%	-0.1%	0.1%	0.0%	0.2%	0.6%	0.6%
Apparel	2.6	0.6%	0.0%	0.3%	-0.9%	1.0%	0.7%	0.9%	0.7%	0.6%	0.3%	-0.1%	0.4%	0.7%	-0.1%	0.3%	0.0%	-0.2%	0.1%	0.2%	0.8%	0.8%	0.3%	0.3%	0.3%
New vehicles	4.3	1.6%	1.4%	1.2%	1.3%	1.5%	1.6%	1.8%	0.3%	0.1%	0.1%	0.4%	0.6%	0.5%	0.5%	0.8%	0.7%	0.6%	0.5%	0.6%	0.2%	0.2%	0.4%	-0.2%	-0.1%
Used cars	2.6	9.1%	-0.4%	-1.3%	-0.5%	3.1%	3.2%	3.9%	1.4%	-0.6%	-3.6%	-0.7%	1.9%	0.5%	-0.8%	-0.2%	-1.1%	-1.7%	-2.0%	-2.0%	-1.9%	-2.8%	-0.9%	4.4%	4.4%
Medical care commod	1.5	-0.4%	0.2%	-0.2%	0.3%	0.6%	0.1%	0.0%	0.9%	0.3%	0.2%	0.1%	0.3%	0.4%	0.6%	0.2%	-0.1%	0.0%	0.2%	0.1%	1.1%	0.1%	0.6%	0.5%	0.6%
Core services	58.3	0.3%	0.3%	0.1%	0.2%	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%	0.6%	0.6%	0.6%	0.4%	0.6%	0.8%	0.5%	0.5%	0.6%	0.5%	0.6%	0.4%	0.4%	0.4%
Shelter	34.6	0.4%	0.5%	0.2%	0.4%	0.4%	0.5%	0.4%	0.3%	0.6%	0.5%	0.5%	0.6%	0.6%	0.6%	0.7%	0.7%	0.7%	0.6%	0.8%	0.7%	0.8%	0.6%	0.4%	0.6%
Rent of primary res.	7.5	0.2%	0.2%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%	0.4%	0.6%	0.6%	0.8%	0.7%	0.7%	0.8%	0.7%	0.8%	0.8%	0.7%	0.8%	0.5%	0.6%	0.5%
OER	25.4	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.6%	0.7%	0.6%	0.7%	0.8%	0.6%	0.7%	0.8%	0.7%	0.7%	0.5%	0.5%	0.5%
Medical care services	6.5	-0.1%	0.1%	0.2%	0.0%	0.6%	0.5%	0.5%	0.5%	0.1%	0.6%	0.5%	0.4%	0.7%	0.4%	0.7%	0.8%	-0.4%	-0.5%	0.3%	-0.7%	-0.7%	-0.5%	-0.1%	-0.1%
Transportation services	5.9	0.9%	-0.8%	-0.7%	-0.9%	0.0%	1.2%	0.5%	0.7%	1.1%	2.1%	2.2%	1.6%	1.8%	-0.4%	1.0%	1.9%	0.6%	0.3%	0.6%	0.9%	1.1%	1.4%	-0.2%	0.8%

Source: BLS, FactSet, JPMorgan Asset Management. Heatmap shading is relative to the two-year period shown. Component weights may not add to 100. OER refers to owners' equivalent rent. *Core services ex-housing is an approximation by JPMorgan Asset Management. It reflects the custom PCE index of services excluding energy and housing referenced in the US Federal Reserve's Monetary Policy Report. Data for the custom PCE index is provided by the BEA and is distinctive from the CPI data provided by the BLS. 'Housing' is a PCE component that is measured separately from the CPI 'shelter' component. Past performance does not guarantee future results. *Guide to the Markets – US* Data are as of 6.30.23.

Inflation is now steadily declining after hot inflation squeezed consumer wallets for the better part of the last two years and contributed to a swift rise in interest rates. Headline CPI inflation has come down from its peak of 8.9% year-over-year last June to 4.1% in May. As we show here, a modest monthly pace of core inflation has been sustained for the better part of the last seven months.

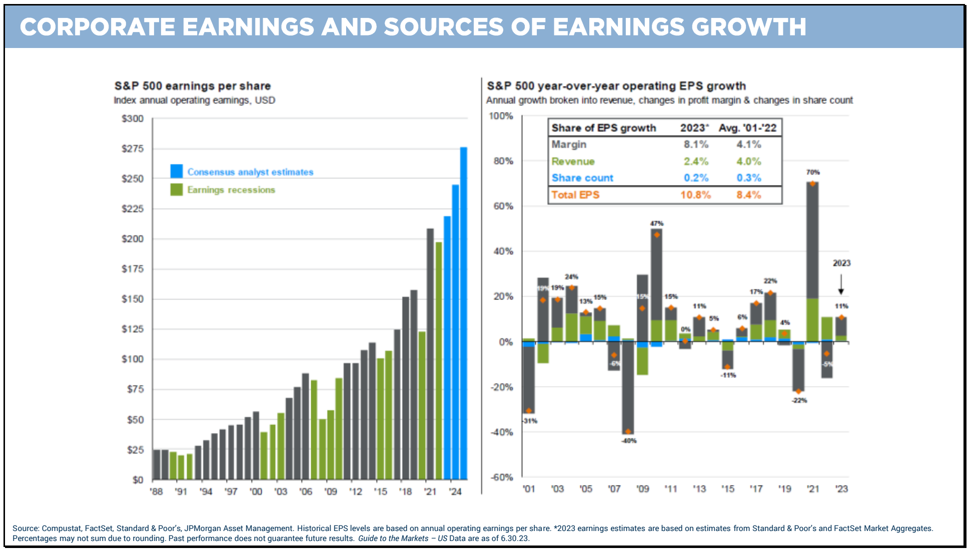
Importantly, the major hotspots of inflation from the last two years have now turned and are contributing to disinflation in many of the key components of inflation. After Russia's invasion of Ukraine sent global commodity prices soaring early in 2022, energy prices have been declining since the second half of last year.

Improved supply chains and lower consumer demand have also allowed inflation to ease across core goods categories. Shelter inflation has been the stickiest part of core inflation but is now starting to ease. Since it reflects market conditions with a significant lag, it should continue to decline over the next year to reflect the stall in price increases for new transactions in the rental market.

The remaining problem for inflation, therefore, is core services prices outside of housing, a measure Chairman Powell has frequently quoted when referencing inflationary pressures. This measure remains elevated. However, it seems to reflect the lagged effect of the same supply chain issues that impacted core goods prices, as transportation services account for the bulk of remaining inflation. Fortunately, improved supply chains and easing labor market tightness should allow this measure of inflation to come down, particularly in 2024.

While inflation may not be falling as fast as the Fed would like, it is gradually falling to much more manageable levels. I expect CPI inflation will decline to 3.5% year-over-year by the end of this year and towards 2 - 3% by the end of 2024, even without a US recession.

Slide 7

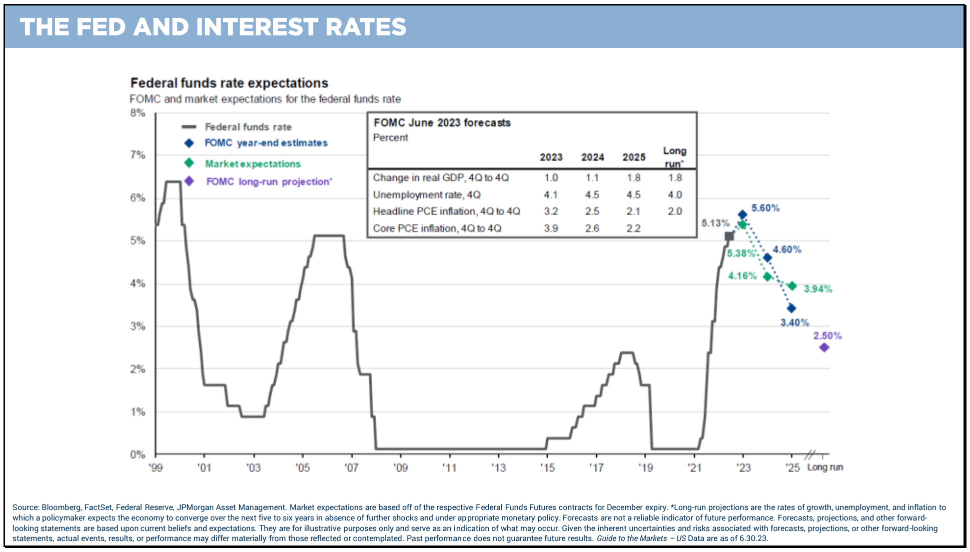


Despite economic headwinds, equity markets have had a solid 2023 so far, supported by a better-than-expected first quarter earnings season and expectations for a forthcoming end to Fed tightening. S&P 500 operating earnings per share rose 6.4% from a year earlier and 4.3% from the fourth quarter. Profit margins also rose to 11.7%, indicating that companies have had success in defending margins. That said, risks to earnings remain to the downside. With heightened risk of recession in the coming year, profit estimates should come under further pressure.

Current commentary also suggests that firms plan on reining in investment, although cuts will not be evenly distributed. Investment in equipment tends to see the largest pullback in investment as the economy slows, suggesting we may see cuts within the manufacturing and mining sectors. However, investment in technology, specifically artificial intelligence, should continue to rise as companies seek to optimize processes for long-term cost savings.

At the current juncture, it is difficult to be overly bullish in equities. While performance this year has been better, it has been entirely driven by valuation expansion on the back of lower interest rate expectations, with the top 10 companies in the S&P 500 accounting for 13.8 percentage points of the 14.9% price return year-to-date. Expectations for policy easing may also be too optimistic. As expectations adjust, multiples could come under further pressure. This, along with slowing growth weighing on earnings expectations, creates a challenging backdrop for equities ahead. Given this, I prefer a defensive stance in equities with a focus on quality and cash flow generation.

Slide 8



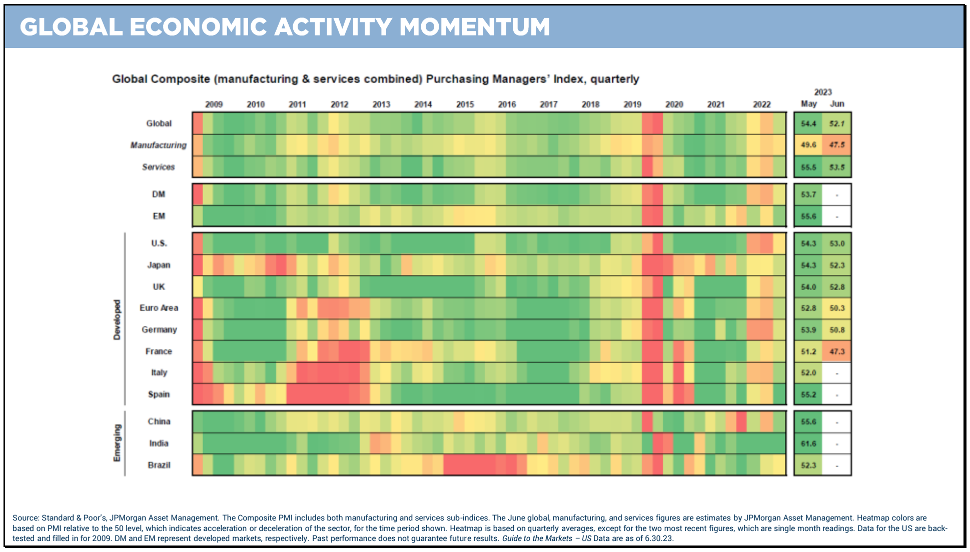
Since the beginning of 2022, the Federal Reserve has hiked rates by a cumulative 500 basis points in an attempt to combat persistent and high inflation. At their June meeting, the Fed voted to leave the federal funds rate unchanged at a target rate of 5.00% - 5.25% for the first time since tightening began. While this move was widely telegraphed, forward guidance was decidedly hawkish.

The Fed's updated dot plot suggested that the pause in June may just be a skip. The median FOMC member now expects a year-end federal funds rate of 5.6%, implying two more rate hikes this year with no cuts until 2024. The committee also increased their forecast for rates in 2024 and 2025, reflecting the committee's concern that elevated inflation may warrant highly restrictive monetary policy for longer.

This more hawkish outlook also stems from the Fed's expectations of a more resilient US economy. Compared to the March Summary of Economic Projections, the median expectation for real GDP and core PCE inflation increased materially, while the median forecast for the unemployment rate fell to 4.1% from 4.5%. The committee does acknowledge inflation is trending in the right direction but emphasized they need further evidence inflation is under control before calling an end to tightening.

In light of the Fed's continued hawkishness, market expectations have become more in line with Fed guidance. Following the May FOMC meeting, futures markets were pricing in three cuts and a year-end rate near 4.25%, whereas now, there are no more cuts priced in for this year and year-end rate expectations have risen above 5%.

Slide 9



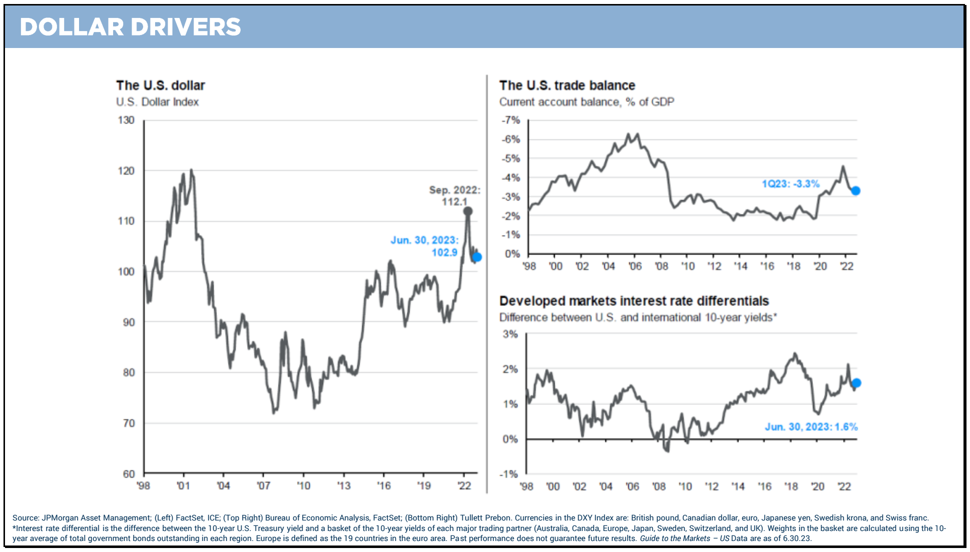
At the end of last year, the global economy was losing steam. Only 27% of the countries we show on this slide registering a manufacturing PMI above 50 in the fourth quarter of 2022, the level associated with accelerating economic momentum. At the time, energy troubles left Europe at heightened risk of recession and zero-Covid policies were dragging on activity in China.

In 2023, however, the global economy has gained speed. Now all of the countries shown on this page have a manufacturing PMI above 50, while the global services PMI is at an 18-month high. Fortunately, the two risks in Europe and China have turned in the other direction. In Europe, energy prices fell after a mild winter allowed natural gas inventories to improve and fiscal stimulus is further supporting Eurozone economies.

In China, the lifting of zero-COVID policies has allowed for a rebound in consumption after three years of sheltered activities. Travel and leisure spending have bounced back strongly, but a rebound in other services and goods spending remains dependent on a recovery in private business and consumer confidence, which has so far been tepid.

Still, China's recovery will act as a strong tailwind for its trading partners and tourist destinations across Europe and Asia. As such, divergent paths of growth across the global economy are beginning to emerge with the US slowing while Europe, China and broader Asia accelerate.

Slide 10



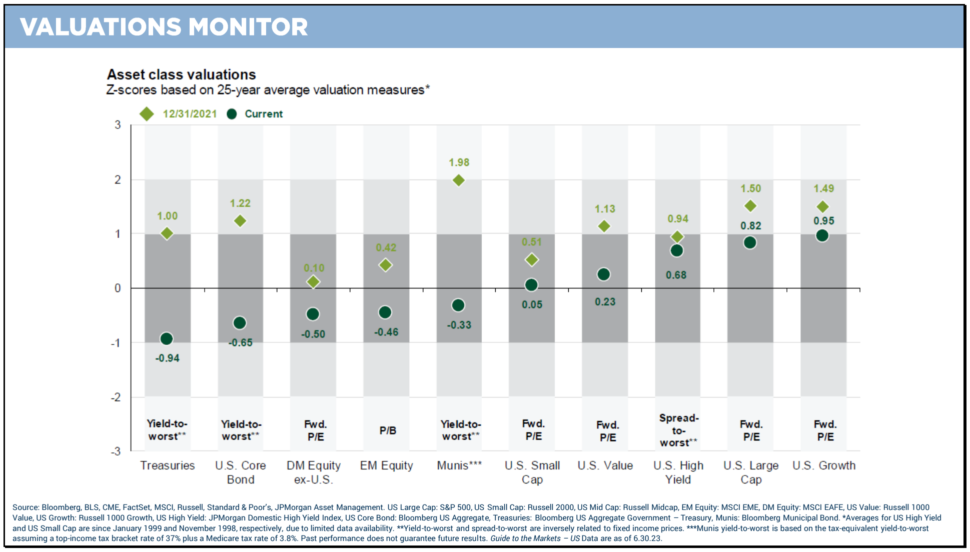
The trade-weighted dollar has weakened by roughly 10% since it reached a 20-year high last September. Although the dollar stabilized during the second quarter, economic forces point to further declines ahead.

Specifically, narrowing interest rate differentials and widening growth rate differentials should continue to weigh on the dollar. After the Fed's aggressive tightening campaign caused interest rate differentials to widen in 2022, the Fed pause in June and continued global tightening efforts have led to a narrowing in differentials.

Additionally, better than expected growth in China and Europe and slowing growth in the US suggest further downward pressure on the dollar as global growth outpaces the US. Moreover, long term fundamentals still pose headwinds. While the dollar has fallen from its peak, it is still trading near 20-year highs and remains expensive versus fair value. Moreover, the US trade deficit now amounts to 3.2% of GDP. This partly reflects the negative impact of the dollar on the competitiveness of US manufacturing and should help push the dollar down going forward, as US demand for overseas goods, services, and assets increases the demand for other currencies.

Over the long run, we expect economic forces to gradually drive the dollar down. In the near term, narrowing growth and interest rate differentials should prevent any sustained periods of appreciation. However, the dollar remains a safe haven asset and could still see bouts of strong performance during periods of uncertainty.

Slide 11



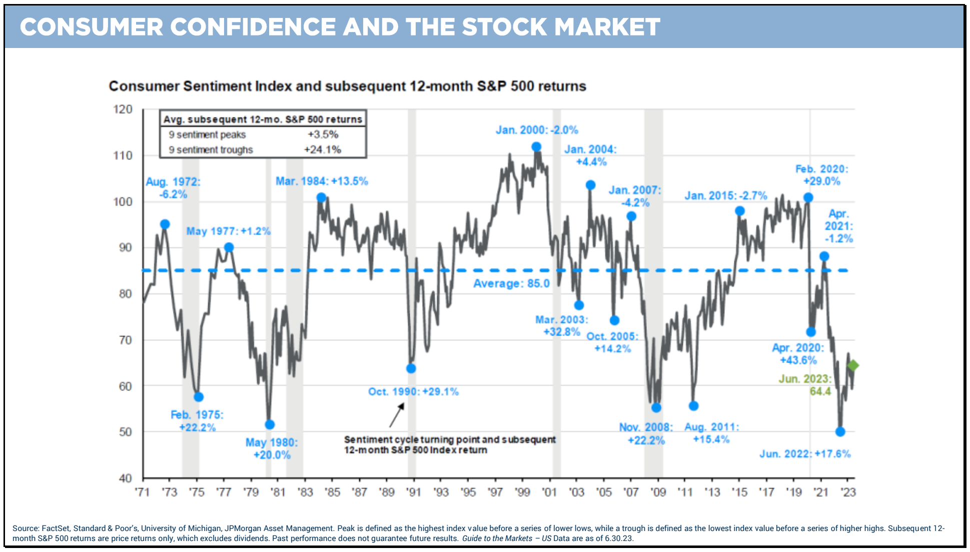
In the wake of last year's broad market sell-off, lower valuations presented investors with a new slate of opportunities across asset classes. While markets have recovered from their lows, current valuations still look more attractive compared to lofty levels at the end of 2021.

On this slide, we show 10 of the major asset classes and styles and their valuations, expressed as z-scores versus their respective 25-year history. This allows us to illustrate how normal or abnormal current valuations are. As you can see, asset classes across the board are much cheaper today compared to the end of 2021, but by varying degrees. Fixed income continues to look attractive as US Treasuries, core bonds, and municipal bonds remain below their average valuation levels.

International equities continue to trade at a historic discount while some areas of the US market, specifically large cap and growth, still look expensive after strong performances in the second quarter.

When positioning portfolios for the remainder of 2023 and beyond, it is important to assess both the remaining risks on the horizon, as well as the menu of opportunities presented in the aftermath of last year's market corrections. Within equities, investors may want to lean into international markets and focus on finding the attractively valued companies within the US style spectrum. Moreover, the current opportunity presented in fixed income could pass rather quickly once the Fed begins lowering rates, and investors would be well-served to take advantage of current yields.

Slide 12



Consumer sentiment has since staged a modest recovery since hitting a new trough in June of last year. However, banking sector turmoil, fears of a U.S. default and the growing weight of the Fed's aggressive tightening campaign kept consumer sentiment depressed in the second quarter. Looking ahead, increased risk of recession and weakening in the labor market could keep consumer sentiment depressed this year.

When investors feel gloomy and worried about the outlook, their natural tendency is to sell risk assets in general and stocks in particular. However, history suggests that trying to time markets in this way is a mistake. This slide shows the University of Michigan Index of Consumer Sentiment stretching back over the past 50 years with nine distinct peaks and troughs noted. We also show how much the S&P 500 went up or down in the 12 months following the peaks or troughs. On average, buying at a confidence peak yielded a return of 3.5%, while buying at a trough returned 25.0%.

This is not to argue US stocks will return anything like a 25% return in the year ahead. Many other factors will determine that outcome. However, it does suggest that in planning for the remainder of 2023 and beyond, investors should focus on what they own and valuations, rather than when to buy and sell and how they feel about the world.

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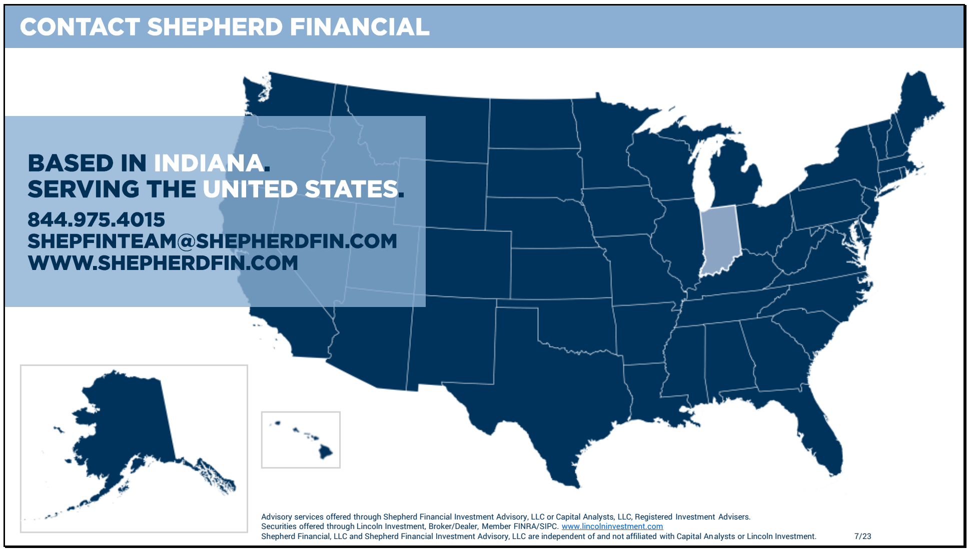

If you'd like to chat with one of our team members, you can always call us at 844.975.4015 or 317.975.5033. Please don't hesitate to reach out for help!

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DEFINITIONS AND DISCLOSURES

This material is a market commentary and is being provided for educational purposes only. The views and opinions expressed herein are those of the author and may or may not represent the views of Capital Analysts or Lincoln Investment. The material presented is provided for informational purposes only, from sources deemed to be reliable; however, there can be no guarantee as to the accuracy of the information. Nothing contained herein should be construed as a recommendation to buy or sell any securities. This material may include forward-looking statements that are subject to certain risks and uncertainties. Actual results, performance, or achievements may differ materially from those expressed or implied. As with all investments, past performance is no guarantee of future results. No person or system can predict the market.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. There are some risks associated with investing in the stock markets: 1) Systematic risk - also known as market risk, this is the potential for the entire market to decline; 2) Unsystematic risk - the risk that any one stock may go down in value, dependent of the stock market as a whole. This also incorporates business risk and event risk; and 3) Opportunity risk and liquidity risk. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. Small and mid-cap stocks may be subject to a higher degree of risk than larger, more established companies' securities, including higher risk of failure and higher volatility. The illiquidity of the small and mid-cap markets may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost. In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities).

Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. 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. Treasury bills (T-bills) are short-term securities with maturities of one year or less issued at a discount from face value. Treasury bills are the primary instrument used by the Federal Reserve in its regulation of money supply through open market operations. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from $1000 to $1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. Treasury bonds (T-bonds) are long-term debt instruments with maturities of ten years or longer issued in minimum denominations of $1,000. 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. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

Prior to rolling over assets from an employer-sponsored retirement plan into an IRA, it's important that you understand your options and do a full comparison on the differences in the guarantees and protections offered by each respective type of account as well as the differences in liquidity loans, types of investments, fees, and any potential penalties. A variable annuity is an insurance contract which offers three basic features not commonly found in mutual funds: (1) annuity payout options that can provide guaranteed income for life; (2) a death benefits; and (3) tax-deferred treatment of earnings. When applicable, the tax deferred accrual feature is already provided by the tax-qualified retirement plan (e.g. 403(b), IRA, etc.) The U.S. Securities and Exchange Commission (Investor Tips: Variable Annuities) has suggested that for most investors, it would be advantageous to make the maximum allowable contribution to a tax-qualified retirement plan before investing in a variable annuity. The separate account of a variable annuity is not a mutual fund. While separate accounts may have a name similar to a mutual fund, it is not the same pool of funds and will experience difference performance than the mutual fund of the same or similar name. In addition, the financial ratings of the issuing insurance company do not apply to any non-guaranteed separate accounts. The value of the separate accounts that are not guaranteed will fluctuate in response to market changes and other factors. Variable annuities are designed to be long-term investments and early withdrawals may be subject to tax penalties and charges. None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation.

Treasury inflation protected securities (TIPS) refer to a treasury security that is indexed to inflation in order to protect investors from the negative effects of inflation. TIPS are considered an extremely low-risk investment since they are backed by the U.S. government and because the par value rises with inflation, as measured by the consumer price index (see below), while the interest rate remains fixed.

Growth investments focus on stocks of companies whose earnings/profitability are accelerating in the short-term or have grown consistently over the long-term. Such investments may provide minimal dividends which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. Value investments focus on stocks on income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stock may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

The consumer price index (CPI) measures price of a fixed basket of goods bought by a typical consumer, widely used as a cost-of-living benchmark, and uses January 1982 as the base year. Core CPI is the consumer price index (CPI) excluding energy and food prices.

The purchasing managers' index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting.

Consult your financial professional before making any investment decision.

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DEFINITIONS AND DISCLOSURES

A commodity is a basic good used in commerce that is interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. When they are traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade.

A mortgage-backed security (MBS is a type of asset-backed security that is secured by a mortgage, or more commonly, a collection("pool") of sometimes hundreds of mortgages.

The U.S. Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations (bonds, notes, and bills). The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

The information shown does not constitute investment advice and does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. Asset allocation and diversification do not ensure a profit or protect against loss. There is no assurance that any investment process will consistently lead to successful results. There are risks associated with investing, including the risk of loss of principal.
The information provided is not intended to be a complete analysis of every material fact respecting any portfolio, security, or strategy and has been presented for educational purposes only.

Specific Risk Considerations

Fixed income investing involves interest rate risk. When interest rates rise, bond prices generally fall. Stock investments are subject to market risk, which means that the value of the securities may go up or down in response to the prospects of individual companies, particular sectors and/or general economic conditions. Investments in real estate companies, including REITs or similar structures are subject to volatility and additional risk, including loss in value due to poor management, lowered credit ratings and other factors. Below investment grade (high yield) bonds are more at risk of default and are subject to liquidity risk.

AllianceBernstein, L.P. and JP Morgan Investment Management are separate entities and not legally affiliated with Lincoln Investment or Capital Analysts.

Benchmark Definitions

All indexes are unmanaged; it is not possible to invest directly in an index.

30-Day U.S. Treasury Bill Index: is an index based upon the average monthly yield of 30-Day Treasury Bills. Treasury Bills are secured by the full faith and credit of the U.S. Government and offer a fixed rate of return.

Barclays Aggregate Bond Index: is an index compromised of approximately 6,000 publicly traded bonds including U.S. government, mortgage-backed, corporate and Yankee bonds with an average maturity of approximately 10 years. This index is weighed by the market value of the bonds included in the index. This index represents asset types which are subject to risk, including the loss of principal.

Barclays Capital US Government Inflation-Linked Bond Index (US TIPS): measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index.

Barclays Global High Yield Index: is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US HIGH Yield, the Pan-European High Yield, and Emerging Markets Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities.

Barclays Inflation Linked US TIPS: measures the performance of the US Treasury Inflation Protected Securities ("TIPS") market. The index includes TIPS with one or more years remaining maturity with total outstanding issue size of $500m or more.

Barclays Long High Yield Corporate Bond Index: measures the longer duration component of the USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds.

Barclays US Govt/Credit 1-3 Yr: measures the performance of short-term government bonds issued by the US Treasury. Bonds must be fixed rate coupon and bullet maturity. They should be denominated in USD and pay coupon and principal in USD. Zero coupon bonds, inflation-Linked bonds and callable bonds are excluded.

Barclays US Govt Interm Index: measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

Barclays US Interm Credit Index: measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year and less than ten years.

BofA ML US HY Master II: BofA Merrill Lynch US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $100 million.

BofA ML US Treasury Bill 3 Month: Is a subset of The Bank of America Merrill Lynch 0-1 Year US Treasury Index including all securities with a remaining term to final maturity less than 3 months.

Bloomberg Barclays 1-3 Month US Treasury Bill Index: includes all publicly issues zero-coupon US Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in US dollars and must be fixed rate and non convertible.

(Benchmark Definitions continued on the next page.)

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Bloomberg Barclays Global Aggregate Corporate Bond Index: tracks the performance of investment-grade corporate bonds publicly issued in the global market and found in the Global Aggregate.

Bloomberg Barclays Global Treasury: Euro Bond Index: includes fixed-rate, local-currency sovereign debt that makes up the Euro Area Treasury sector of the Global Aggregate Index.

Bloomberg Barclays Global Treasury: Japan Bond Index: includes fixed-rate, local-currency sovereign debt that makes up the Japanese Treasury sector of the Global Aggregate Index.

Bloomberg Barclays Municipal Bond Index: a rules-based, market value-weighted index engineered for the long-term tax-exempt bond market.

Bloomberg Barclays US Corporate High-Yield Bond Index: represents the corporate component of the Bloomberg Barclays US High Yield Index.

Bloomberg Barclays US Treasury Index: includes fixed-rate, local-currency sovereign debt that makes up the US Treasury sector of the Global Aggregate Index.

Bloomberg Commodity Index: measures the performance of the commodities market. It consists of exchange-traded futures contracts on physical commodities that are weighted to account for the economic significance and market liquidity of each commodity.

Chicago Board Options Exchange (CBOE) Volatility Index (VIX): shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk.

Citi 1-3 Year Treasury Index: computes returns for the current or most recently issued 1-year, 2-year, and 3-year U.S. Treasury bills that have been in existence for the entire month.

Citi Non-US World Government Bond Index: is a benchmark index that includes institutionally traded bonds other than U.S. issues that have a fixed rate and a remaining maturity of one year or longer.

Goldman Sachs Commodity Index: is a world-production weighted total return index, including reinvested dividends, measuring investor returns from a fully-collateralized commodity futures investment. Due to market fluctuation, the commodities represented by this index may experience loss of invested principal and are subject to investment risk.

JPMorgan Emerging Market Bond Index Global: a benchmark index for measuring the total return performance of government bonds issued by emerging-market countries that are considered sovereign (issued in something other than local currency) and that meet specific liquidity and structural requirements. In order to qualify for index membership, the debt must be more than one year to maturity, have more than $500 million outstanding, and meet stringent trading guidelines to ensure that pricing inefficiencies do not affect the index.

Merrill Lynch High Yield Bond Index: is an index consisting of all domestic and Yankee high-yield bonds with a minimum outstanding amount of $100 million and maturing over 1 year. The quality range is less than BBB-/Baa3 but not in default (DDD1 or less). Split rated issues (investment grade by one rating agency and high-yield by another) are included in this index based on the bond's corresponding composite rating. This index represents asset types which are subject to risk, including the loss of principal.

MSCI ACWI (All Country World Index): is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

MSCI EAFE Index: is the Morgan Stanley Capital International Europe, Australia, Far East index, a total return index, reported in U.S. dollars, based on share prices and reinvested gross dividends of approximately 1,100 companies (only those securities deemed sufficiently liquid for trading by investors) from twenty countries. The securities represented in this index may experience loss of invested principal and are subject to investment risk. In exchange for greater growth potential, investments in foreign securities can have added risks. These include changes in currency rates, economic and monetary policy, differences in auditing standards and risks related to political and economic developments.

MSCI Emerging Markets Index: is a U.S. dollar denominated index comprised of stocks of countries with below average per capita GDP as defined by the World Bank, foreign ownership restrictions, a lax regulatory environment, and greater perceived market risk than in the developed countries. Within this index, MSCI aims to capture an aggregate of 60% of local market capitalization. Prior to 1988, the data represents the IFC Global Emerging Markets index. The securities represented by this index involve investment risks which may include the loss of principal invested.

MSCI World Index ex US: is a free float-adjusted market capitalization weight index that is designed to measure the equity market performance of 22 of 23 Developed Markets countries (excluding the United States). The Index consists of the fo9llowing 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

NAREIT Equity REIT Index: is comprised of real estate investment trusts which own or have an equity interest in rental real estate (rather than making loans secured by real estate collateral). REITs involve risk, including the loss of principal and the possible lack of liquidity.

Russell 1000 Index: measures the performance of the 1000 largest companies in the Russell 3000 index, which represent 92% of the total market capitalization of the Russell 3000 index. The stocks represented by this index involve investment risk which may include the loss of principal invested.

Russell 1000 Growth Index: measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. These stocks are selected from the 1,000 largest companies in the Russell 3000 index, which represent 92% of the total market capitalization of the Russell 3000 index. The stocks represented by this index involve investment risks which may include the loss of principal invested.

(Benchmark Definitions continued on the next page.)

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Russell 1000 Value Index: measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. These stocks are selected from the 1,000 largest companies in the Russell 3000 index, which represent 92% of the total market capitalization of the Russell 3000 index. The stocks represented by this index involve investment risks which may include the loss of principal invested.

Russell 2000 Index: measures the performance of the 2000 smallest companies in the Russell 3000 index, which represent 8% of the total market capitalization of the Russell 3000 index. The stocks represented by this index involve investment risk which may include the loss of principal invested.

Russell 2000 Growth Index: measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. These stocks are selected from the 2,000 smallest companies in the Russell 3000 index, which represent about 8% of the total market capitalization of the Russell 3000 index. The stocks represented by this index involve investment risks which may include the loss of principal invested.

Russell 2000 Value Index: measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. These stocks are selected from the 2,000 smallest companies in the Russell 3000 index, which represent about 8% of the total market capitalization of the Russell 3000 index. The stocks represented by this index involve investment risks which may include the loss of principal invested.

Russell 3000 Growth Index: measures the performance of the broad growth segment of the US equity market. It includes those Russell 3000 Index companies with high price-to-book ratios and higher forecasted growth rates.

Russell 3000 Value Index: measures the performance of the small to mid-cap value segment of the US equity market. It includes those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth rates.

S&P 500 Index: is an index of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. Investors cannot invest directly in an index.

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DEFINITIONS AND DISCLOSURES

The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy.

Inflation is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times.

Deflation is the decline in the prices of goods and services. Generally, the economic effects of deflation are the opposite of those produced by inflation, with two notable exceptions: 1) prices that increase with inflation do not necessarily decrease with deflation; 2) while inflation may or may not stimulate output and employment, marked deflation has always affected both negatively. A recession is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income, and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP), although the National Bureau of Economic Research (NBER) does necessarily need to see this occur to call a recession.

The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities).

S&P 500 Dividend Aristocrats measure the performance S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company.

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides an unbiased, comprehensive benchmark for this asset class.

The U.S. Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations (bonds, notes, and bills). The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

A yield curve is a curve on a graph in which the yield of fixed-interest securities is plotted against the length of time they have to run to maturity. An inverted yield curve is an interest rate environment in which long-term debt instruments have a lower yield than short-term debt instruments of the same credit quality.

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.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

Price/Earnings (P/E) ratio is the price of a stock divided by its earnings per share that gives investors an idea of how much they are paying for a company's earning power. High P/E stocks are typically young, fast-growing companies and are far riskier to trade than low P/E stocks.

Price to forward earnings is a measure for the price-to-earning ratio (P/E) using forecasted earnings. Price to book value compares a stock's market value to its book value. Price to cash flow is a measure of the market's expectations of a firm's future financial health. Price to dividends is the ratio of the price of a share on a stock exchange to the dividends per share paid in the previous year, used as a measure of a company's potential as an investment.

Small cap stocks may be subject to a higher degree of risk than larger, more established companies' securities, including higher risk of failure and higher volatility. The illiquidity of the small-cap market may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost.

Large Cap refers to companies with a market capitalization value of more than $10 billion. Large cap is an abbreviation of the term "large market capitalization." Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Emerging markets are sought by investors for the prospect of high returns, as they often experience faster economic growth as measured by GDP. Investments in emerging markets come with much greater risk due to political instability, domestic infrastructure problems, currency volatility and limited equity opportunities (many large companies may still be "state-run" or private). Also, local stock exchanges may not offer liquid markets for outside investors.

The unemployment rate percentage of total workforce who are unemployed and are looking for a paid job. Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of a weakening economy that may call for cut in interest rates. A falling rate, similarly, indicates a growing economy, which is usually accompanied by higher inflation rate and may call for increase in interest rates.