Portfolio Managers' Commentary

Emidio Checccone and **Brian Ear** | Second Quarter 2021

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Mr. Checccone joined DoubleLine in 2014. He is the Portfolio Manager of the Equity Value strategy. Prior to DoubleLine, Mr. Checccone spent six years at Huber Capital Management, where he was a Principal and Portfolio Manager. Prior to that, he worked at PRIMECAP Management Co. for six years, where he was a Principal and Financial Analyst. Mr. Checccone holds a B.A. in Social Studies from Harvard College and a J.D.-MBA from Harvard Law School and the Harvard Graduate School of Business Administration. He is a CFA® charterholder.

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Mr. Ear joined DoubleLine in 2016 as an Equity Analyst and is now a Portfolio Manager. Prior to DoubleLine, he spent two years at Compass North Advisors as a Consultant and six years at Palmyra Capital Advisors LLC, where he was a Principal and Portfolio Manager. Prior to that, Mr. Ear worked for five years at Hotchkis & Wiley Capital Management as an Equity Analyst. He holds a B.S. in Economics from the Wharton School of the University of Pennsylvania. Mr. Ear is a CFA® charterholder and a licensed CPA (inactive).

There will always be rocks in the road ahead of us.
They will be stumbling blocks or steppingstones;
it depends on how you use them.
- Friedrich Nietzsche

A bend in the road is not the end of the road...
Unless you fail to make the turn.
- Helen Keller

Step with care and great tact,
and remember that life's a great balancing act.
- Dr. Seuss

In the second quarter of 2021, the growth-to-value rotation partially reversed on wavering investor confidence about the economy and its status on the road to a post-pandemic recovery. Such rising uncertainty about the pace and sustainability of economic growth, and with it, prospects for continued progress on corporate earnings, prompted investors to shift portfolio exposures toward idiosyncratic secular growers perceived as safer bets with lower dependence on a post-pandemic rebound. As a result, growth stocks outperformed value shares even as the major indexes achieved new peaks yet again, all buoyed by the continued flood of liquidity into the financial system. During the quarter, the Russell 1000 Value (RLV) Index returned 5.21% while the Russell 1000 Growth (RLG) Index gained 11.9%, and the S&P 500 Index rose 8.6%. The representative portfolio of the DoubleLine Equity Value strategy (the "Portfolio") increased 6.21%, outperforming its benchmark, the RLV, by 100 basis points (bps).

We always expected the path to a recovery from last year's crisis would be unconventional and unpredictable, given how unprecedented the pandemic and the world's response to it were. The collapse and recovery in the current cycle are very different from normal downturns and also severe recessions or depressions. The pandemic stopped or hampered much economic activity via lengthy and never-before-seen lockdowns in ways that even the most severe prior crises had failed to do – witness, for example, the unprecedented 90%-plus falloff in air travel. Moreover, the governments' responses around the world, with coordinated fiscal and monetary stimulus, dwarfed anything previously seen. And just as the dynamics of the pandemic are unique versus historical precedent, so are the characteristics of the recovery. As a result, it is difficult to predict with high confidence the puts and takes behind the global reopening, although we continue to endeavor to respond rationally to the changing facts that we are observing.

The market anticipated a strong and rapid recovery and, over the trailing 12 months or so, posted positive returns on that outlook coming to fruition. However, in the quarter just completed, it appears that market commentators have begun to temper what were perhaps overly optimistic expectations about the pace and extent of that recovery. This has given rise to some concerns that the rate of earnings beats among cyclical companies might already have peaked. Moreover, certain aspects of a "normal" recovery or reflation phase have been hindered by the unique aspects of this crisis. For example, we have witnessed supply chain bottlenecks or misalignment of interests between reopening businesses and a labor force willing to collect paycheck protection dollars rather than return to work. These unique aspects of the reopening have led to a dramatic increase in inflationary pressures that might or might not prove transitory. Finally, the response of the Federal Reserve has become a key question, given the wide disconnect between where policy rates lie and where inflation is boiling over. While Fed Chair Jerome H. Powell continues to focus on the mandate of full employment, arguing for staying the course with accommodation rather than tapering asset purchases, concerns surrounding price stability raise the risk of a policy mistake. While we continue to maintain our Portfolio positioning for further gains in reflationary names, these unconventional characteristics of an investing environment, moving as it is beyond the pandemic, raise critical market risks worth exploring further.

Inflation has become a major worry of the market. Recently, inflation spiked more than expected, raising concerns that the economy could be running hot. Persistently high inflation could cause the Fed to tighten monetary policy sooner than expected and limit additional fiscal stimulus. In May, the Consumer Price Index (CPI) jumped to 5% year-over-year (YoY), above economists' expectation of 4.7%. Annualized based on May's month-over-month change, CPI was even higher at 8%. Core CPI (excluding food and energy) increased 3.8% YoY, the fastest rate since 1992. The Core Personal Consumption Expenditures Price Index (excluding food and energy), the Fed's preferred inflation measure, was up 3.4% YoY. While some of the sharp rise in inflation is attributable to the base effect that reflects the depressed economic activity at the start of the pandemic in 2020, the higher than anticipated CPI seems to also reflect general inflationary pressures from strong demand in addition to shortages in supplies and labor. Some investors are increasingly concerned that the economy is starting to overheat and that the Fed might be too slow in heading off high inflation. Even within the Fed, there is growing concern about higher inflation. According to the latest dot-plot projections from the June Federal Open Market Committee meeting, 11 Fed officials, compared to six in March, expect at least two rate hikes in 2023, implying inflation expectations have increased. Also, Chair Powell acknowledged that some inflation pressures were stronger and could persist longer than he had anticipated.

To what degree this inflation will be transitory is still up for debate. Our view on inflation remains nuanced, as we see the potential for some sources of pricing pressure to resolve as supply chain bottlenecks and government-driven misaligned incentives are reversed in the months ahead. That said, we recognize that some portions of the price increases will prove sticky and difficult to return to pre-pandemic levels. For example, some of the material input and commodity costs that skyrocketed, such as lumber, have already reversed in recent weeks. On the other hand, owners' equivalent rent (a proxy for homeowners' cost) has been rising, and this increase is unlikely to reverse.

To us, the largest inflation-related risk to corporate earnings is that labor costs will largely prove sticky. Even though the economy remains 6.8 million jobs below pre-pandemic levels, many small business owners have reported difficulty in filling job openings because many workers would prefer to collect government support rather than return to the workforce, or because school closures and a lack of available child care options have prevented such a return. This has undoubtedly slowed the pace of recovery for labor participation rates. In April, nonfarm payrolls increased by only 266,000, well short of the 1 million addition expected, while the unemployment rate rose to 6.1% versus an expectation of 5.8%. In the near term, the labor shortage will not only slow the reopening but also will contribute to inflationary pressures. Many businesses, such as Amazon, Walmart, Chipotle and Under Armour, have already increased wages to attract workers.

According to the U.S. Bureau of Labor Statistics, average hourly earnings increased 3.6% YoY in June, above the historical average. While it is true that changes in labor mix can have an impact on average hourly earnings, distorting real changes in wages, at an industry level, there are ample signs that wages might be increasing at a faster rate than expected. For the leisure and hospitality industry, wages increased 11.2% YoY in June after lagging other industries the prior year. *(Figure 1)*

U.S. Average Hourly Earnings

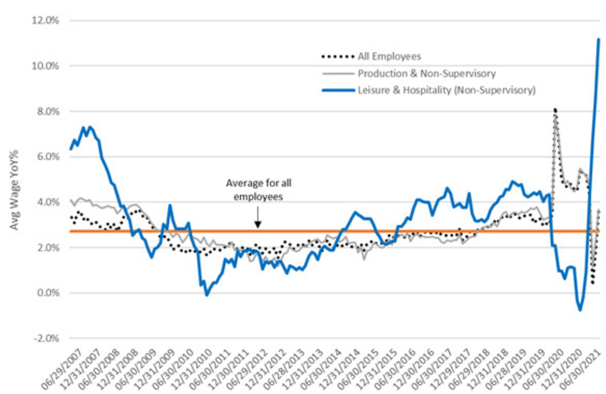

Figure 1
Source: FactSet, Bureau of Labor Statistics. Data as of June 30, 2021.

Some believe that the current labor shortage could be temporary, since the enhanced federal unemployment benefits are scheduled to expire on Sept. 6, including the $300 weekly benefit and the Pandemic Unemployment Assistance program, and because most schools and child care suppliers plan to reopen this fall. Perhaps guided by this belief in temporary wage pressures, some businesses are trying to limit or avert instituting more permanent labor cost increases, preferring instead to offer special bonuses or other perks as incentives. However, even if the supply of labor improves later in the year, we would expect wages to normalize at higher rates even if ongoing labor cost pressures begin to moderate. The reason for this is that wages have proved sticky in past cycles during much of the middle of the 20th century. Because today's wage hikes and other incentives will likely prove sticky, we would expect wage-related inflation levels to run higher than in the many years preceding the pandemic.

In short, we would expect broad inflation indicators to decline from the current highly elevated levels as the base effect diminishes, demand normalizes, and many of the shortages and bottlenecks are resolved. However, we expect inflation to settle above pre-pandemic levels as we expect some of the inflation, particularly surrounding rents and labor, to prove sticky. So as the economic recovery progresses, we expect inflation to continue to rise to a new normalized level above the 2.2% marked in 2019. This viewpoint would appear differentiated from both the bond market, which seems to believe that the bulk of the recent inflation is transitory – the implied breakeven inflation rate based on five-year Treasury Inflation-Protected Securities has moderated after peaking in May, ending the quarter below the current inflation rate at 2.47% – as does the Fed, with Chair Powell maintaining that the current inflation is mostly transitory. Importantly, modest or moderate rates of inflation have been favorable for equities generally and value stocks in particular as a historical matter, as they have generally signaled the economy was growing and healthy.

As noted, risk of a misstep by the Fed is another key concern for market participants, and while we continue to monitor statements from the U.S. central bank for clues on the timing of tapering plans, we do not expect a premature shift toward monetary tightening. The Fed has supplied an unprecedented amount of stimulus to support the economy during the pandemic. Through its quantitative easing program, assets at the Fed have doubled to $8 trillion since February 2020, allowing the central bank to inject trillions of dollars into the system. For the moment, the Fed remains committed to purchasing $120 billion per month of U.S. Treasuries and mortgage-backed securities. Concurrently, the federal funds rate has been reduced to near zero, facilitating material credit expansion. In addition, the government (via Congress) has spent trillions through its fiscal stimulus programs. Reversing quantitative easing, increasing the fed funds rate or implementing tight fiscal policies – such as increasing taxes or cutting government spending – would reduce liquidity, potentially undermining economic growth and thus creating headwinds for the equity market.

Despite market jitters about potential rate hikes, Fed officials do not expect to raise rates until late 2022 at the earliest. Furthermore, the Fed has made a significant change to its policy in this cycle, noting that "substantial further progress" toward maximum employment and stable inflation that averages 2% over time need to occur before the withdrawal of monetary accommodations. Of course, it plans to provide notice well in advance of taking any policy actions. We think this shift in monetary policy to an average inflation target could prolong economic growth along with the reflation trade as the policy shift increases the odds that Fed will allow monetary conditions to remain accommodative for longer. Additionally, in the prior three rate-hiking cycles, rising short-term interest rates due to the Fed might have caused a temporary pullback in the market but did not spark an extended downturn. Rather, the market trended higher and did not begin to falter until further rate hikes eventually caused the Treasury yield curve to invert. That said, we are in uncharted territory as it relates to record quantitative easing, fiscal stimulus and government debt levels, so the economy today could be more sensitive to any reduction in fiscal or monetary accommodations.

Meanwhile, additional fiscal stimulus could provide a further boost in the near term to economic growth. Currently, a new stimulus program focused on "hard" infrastructure projects, such as highways, bridges, ports and broadband investments, appears to be gaining traction in Congress. The total program could be over $1 trillion, and corporate or individual tax hikes are not expected to be part of the bill. Moreover, a portion of the $1.9 trillion stimulus passed in March is likely still flowing through to the economy. Personal savings remain high, implying not all the money received from the stimulus payments have been spent, so there is some potential for pent-up demand among consumers to translate into more spending activity. Finally, a large, incremental stimulus program focused on "human" infrastructure is also being considered, although we see that initiative as less likely to make its way through Congress at the currently proposed size of $3.5 trillion due to the inability of Democrats to win enough votes to support the requisite tax hikes to support such a large initiative. In other words, we do not see the Fed or Congress running the risk of undermining economic growth by prematurely removing either monetary or fiscal support in the near or medium term.

It is worth noting that the economy continues to recover, even as we observe some rather unique bumps in the road this time around. With most states fully reopened now thanks to the durability of the vaccine in keeping individuals out of the hospital, and with fiscal and monetary support still in place, economic growth should continue as the labor and supply chain issues are resolved. Consumer spending has been on the rise with spending on services, in particular, rebounding robustly. Although it might take some time for business activities to fully return to normal levels, businesses expect to increase capital investments again, and this is a positive indicator of future growth. *(Figure 2)* In sum, while there are continuing risks that the economy eventually overheats from supply chain disruptions or labor shortages, we believe the recovery will remain intact and actually still has some ways to go.

S&P 500 (ex-Financials) Capex YoY Growth

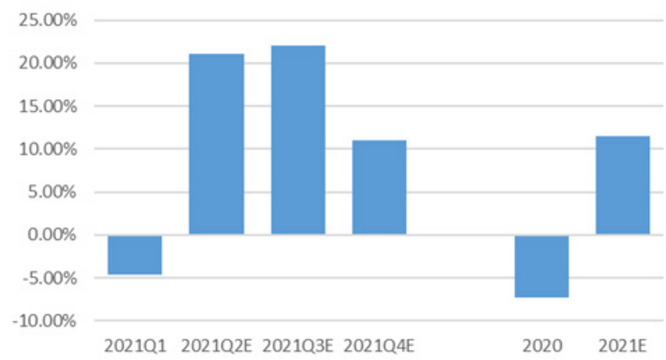

Figure 2
Source: FactSet, DoubleLine. "E" indicates estimated.

While some market participants have expressed concerns over peak earnings growth and positive earnings surprises, we expect cyclical value companies to continue posting attractive growth amid the ongoing recovery, supporting a return of the reflation trade. In the second quarter, earnings for cyclical sectors saw strong upward revisions, reflecting a rebound in the economy from state reopenings broadening as a growing proportion of the population got vaccinated. Within the S&P 500, upward earnings revision was strongest for cyclical sectors, with energy, materials and financials seeing the greatest positive revisions. On average, the bottom-up quarterly earnings per share (EPS) estimates for energy, materials and financials were revised up 36.6%, 16.8% and 9.3%, respectively, from March 21 to June 30. These compare to an average upward revision of 7.3% for the S&P 500. Full-year 2021 EPS estimates for energy, materials and financials, were revised up by 32.2%, 19.2% and 16.2%, respectively. The improved earnings outlook coincided with stronger expectations for economic growth. Real GDP YoY growth expectation increased to 13.1% by the end of the quarter from 11.7% at the start of the quarter. For calendar year 2021, the estimated real GDP growth rate increased to 6.5% at the end of the quarter from 5.8% on March 31. Value stocks could see further upward revision as the economy strengthens.

Importantly, value stocks continue to trade at a historically large discount to growth stocks. The valuation differential between growth and value stocks widened further in the second quarter and remains near or at historic highs across a broad set of valuation metrics. *(Figure 3)*

Growth Premium Over Value Is Near a Historic High Across most Valuation Multiples Except EV/FCF Ratio

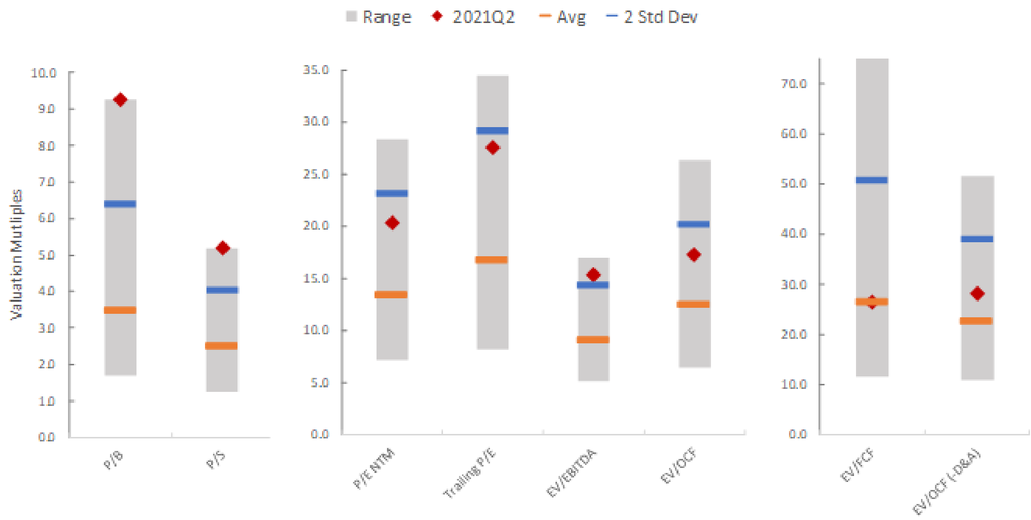

Figure 3
Source: FactSet, DoubleLine

On 2021 price-to-earnings multiples, the valuation spread between the RLV and the RLG increased due to relative earnings revisions as well as price performance. Despite rising stock prices, the RLV 2021 price-to-earnings multiple declined in the quarter as increases in earnings revisions exceeded stock price appreciations. *(Figure 4)* In contrast, the RLG 2021 price-to-earnings multiple expanded even as earnings were revised higher. As discussed in our recently published white paper ("Value Investing Is Dead? No, Long Live Value!"), the valuation spread does not appear to be fundamentally driven. Based on our analysis, the wide valuation disparity is not likely to be attributable to a select group of companies that have developed sustainable attractive business models or adverse divergences in profitability or return on assets of value stocks relative to growth stocks. Therefore, we would expect this disparity to converge toward historical norms over time. We continue to see value stocks offering attractive valuations with improving growth prospects while also paying higher dividend yields than the broad market.

With markets reaching all-time highs, fueled by strong equity flows, overall valuations have increased even further from already elevated levels, and the S&P 500 now stands well above historical averages. *(Figure 5)* This creates a challenge for further multiple expansion for the broad market indexes.

	FY2021 P/E 3/31/21	FY2021 P/E 6/30/21	P/E Change	Price Change	EPS Change
R1000 Growth	30.1x	32.6x	2.5	11.7%	3.3%
R1000 Value	18.8x	17.7x	(1.1)	4.7%	10.9%
Difference	11.3x	14.9x	3.6	7.0%	7.6%

Figure 4
Source: FactSet, DoubleLine

S&P 500	EV/ EBITDA	P/E LTM*	P/E FY1	P/E FY2	P/B	P/Sales
Current	18.8x	27.1x	22.5x	20.2x	4.5x	3.1x
Peak	19.5x	31.3x	28.4x	24.1x	5.4x	3.1x
Average	11.2x	18.9x	17.8x	15.6x	3.1x	1.7x

Figure 5
Source: FactSet, DoubleLine. Valuations are from January 31, 1996 to June 30, 2021. FY1 is current fiscal year; FY2 is following fiscal year. * Last Twelve Months

That said, we believe the relative value of value stocks means that we could see a renewed rotation into value stocks from growth stocks with challenging valuation multiples. Indeed, value stocks currently carry earnings multiples that are considerably lower than those of growth shares. Moreover, value shares offer strong earnings growth with the potential for positive surprise over the next two to three years, meaning that value stocks would appear to be the new growth names. *(Figure 6)*

	EPS Growth			P/E			PEG		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
R1000 Value	46.2%	9.8%	8.5%	17.7	16.2	14.9	0.38	1.65	1.75
R1000 Growth	23.7%	14.7%	10.5%	32.6	28.4	25.7	1.38	1.93	2.45
Delta	22.5%	-4.9%	-2.0%	-14.9	-12.2	-10.8	-1.00	-0.28	-0.70

Figure 6
Source: FactSet, DoubleLine
Estimated figures are provided for illustrative purposes only and are not a prediction of future performance. Estimates depend on, among other factors, future operating results, interest rates, economic and market conditions all of which may differ from the assumptions on which these estimates are based.

Of course, this sanguine view on value stocks presupposes that economic growth can be sustained. If the bear case (which we view as less likely) emerges, and it turns out that economic growth abates, then value stocks might lag given that many value stocks are more sensitive to the economy. Moreover, because value shares typically carry higher betas, they tend to decline more than the broad market during a market correction, reflecting investor fears that a fall in their profits will more than offset the benefit of their lower valuation multiples. While value stocks continue to trade at much larger than normal discounts to the lofty-multiple growth stocks, it is true that the valuation multiples of value stocks have also increased over time and are currently above their long-term historical averages. So while we continue to see relative value in value stocks, we would not expect such names to emerge unscathed in the event of a reversal in the recovery, whether such a setback is prompted by a dangerous coronavirus variant, a misstep by the Fed, a sudden loss of confidence in the U.S. dollar or some other unanticipated exogenous shock to the system.

One longer-term risk over which we are particularly concerned is the potential for some unintended consequences associated with the record stimulus and corresponding sharp rise in government debt. Government spending will continue to outpace revenues again in 2021, and the Congressional Budget Office estimates that the budget deficit will be about $2.3 trillion in 2021 even before accounting for the spending associated with the $1.9 trillion stimulus. Meanwhile, Congress is discussing additional stimulus that together could exceed an additional $3 trillion. Consequently, federal debt held by the public is projected to reach $22.5 trillion, or 102% of GDP, at the end of 2021, up from $16.8 trillion, or 79.2% of GDP, at the end of 2019. *(Figure 7)* Although we have not experienced any meaningful repercussions from this rapid rise in government debt, we worry that the impact will occur sometime in the future, following a loss of confidence in the U.S. dollar and our country's monetary system.

Federal Debt Held by the Public

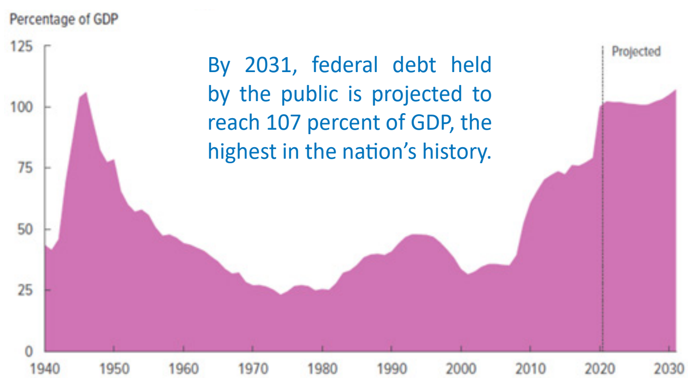

Figure 7
Source: Congressional Budget Office

That said, we think the apparent market concerns over the economic reopening and recovery are likely overdone, and so we would expect the reflation trade – which should benefit value stocks – will resume going forward. Given the stark difference in valuation multiples between growth and value stocks, we believe that a rotation to value stocks from growth stocks will be rewarded given the attractive earnings prospects and strong valuation setup for value names. Separately, as we have noted in the past, we also believe that active management will show its importance in the present investing environment, as salient differences in relative company positioning emerge and become increasingly important.

We will continue to seek sound long-term investment ideas and strike reasonable balances within our Portfolio among those investment ideas offering safety in uncertain times and those holdings representing compelling long-term value once a broader recovery is underway. Our differentiated fundamental value investment philosophy allows us to capture both of these opportunity scenarios in our ongoing effort to seek out solid relative returns.

We thank you for your continued interest in DoubleLine Equity. ■

Select Definitions

Basis Points (BPS) – Basis points (or basis point (bp)) refer to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% or 0.0001, and is used to denote the percentage change in a financial instrument. The relationship between percentage changes and basis points can be summarized as: 1% change = 100 basis points; 0.01% = 1 basis point.

Beta – Measure of the volatility – or systematic risk – of a security or portfolio compared to the market as a whole.

Consumer Price Index (CPI) – This index examines the weighted average of the prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by averaging price changes for each item in the basket. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

Core Personal Consumption Expenditures (PCE) Price Index – This index, published by the U.S. Bureau of Economic Analysis, measures prices paid by consumers for goods and services, excluding the volatility of food and energy prices, to gauge underlying inflation trends. It is the Federal Reserve's preferred index for tracking inflation.

Delta – Ratio that compares the change in the price of an asset, usually marketable securities, to the corresponding change in the price of its derivative. For example, if a stock option has a delta value of 0.65, this means that if the underlying stock increases in price by $1 per share, the option on it will rise by $0.65 per share, all else being equal.

Dot Plot – Simple statistical chart that consists of data points plotted as dots on a graph with x- and y-axes. Dot plots are well known as the method that the Federal Reserve uses to convey its benchmark federal funds rate outlook at certain Federal Open Market Committee (FOMC) meetings.

Earnings Per Share (EPS) – Calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

Enterprise Value (EV) – Measure of a company's total value, often used as a more-comprehensive alternative to equity market capitalization. EV includes in its calculation the market capitalization of a company but also short- and long-term debt as well as any cash on the company's balance sheet. EV is a popular metric used to value a company for a potential takeover.

Enterprise Value (EV)-to-Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) Ratio – The enterprise multiple, also known as the EV multiple, is a ratio used to determine the value of a company. The enterprise multiple, which is the enterprise value divided by EBITDA, looks at a company the way a potential acquirer would by considering the company's debt.

Enterprise Value-to-Free Cash Flow (EV/FCF) Ratio – Compares the total valuation of the company with its ability to generate cash flow.

Enterprise Value-to-Operating Cash Flow (EV/OCF) Ratio – Company's enterprise value divided by the company's operating cash Flow.

Enterprise Value-to-Operating Cash Flow Minus Depreciation and Amortization (EV/OCF (-D&A)) Ratio – Company's enterprise value divided by the company's operating cash flow less depreciation and amortization.

Federal Funds Rate – Target interest rate, set by the Federal Reserve at its Federal Open Market Committee (FOMC) meetings, at which commercial banks borrow and lend their excess reserves to each other overnight. The Fed sets a target federal funds rate eight times a year, based on prevailing economic conditions.

Federal Open Market Committee (FOMC) – Branch of the Federal Reserve System that determines the direction of monetary policy specifically by directing open market operations. The FOMC comprises the seven board governors and five (out of 12) Federal Reserve Bank presidents.

Free Cash Flow (FCF) – Cash a company produces through its operations after subtracting any outlays of cash for investment in fixed assets like property, plant and equipment. In other words, FCF is the cash left over after a company has paid its operating expenses and capital expenditures.

Global Industry Classification Standard (GICS) – Hierarchical industry classification system, created by Morgan Stanley Capital International and S&P Dow Jones Indices in 1999, comprising four tiers going from broadest to narrowest to classify companies by industry: sectors, industry groups, industries and subindustries. The 11 GICS sectors are: energy, materials, industrials, consumer discretionary, consumer staples, healthcare, financials, information technology, real estate, communication services and utilities.

Growth Stock – Any share in a company that is anticipated to grow at a rate significantly above the average growth for the market. These stocks generally do not pay dividends. This is because the issuers of growth stocks are usually companies that want to reinvest any earnings they accrue in order to accelerate growth in the short term. When investors invest in growth stocks, they anticipate that they will earn money through capital gains when they eventually sell their shares in the future.

Operating Cash Flow (OCF) – Measure of the amount of cash generated by a company's normal business operations. OCF indicates whether a company can generate sufficient positive cash flow to maintain and grow its operations, otherwise, it might require external financing for capital expansion.

Owners' Equivalent Rent (OER) – Amount of rent that would have to be paid in order to substitute a currently owned house as a rental property. This value is also referred to as "rental equivalent." In other words, OER figures the amount of monthly rent that would be equivalent to the monthly expenses of owning a property (e.g., mortgage, taxes, etc.).

Price/Earnings-to-Growth (PEG) Ratio – A stock's price-to-earnings (P/E) ratio divided by the growth rate of its earnings for a specified time period. The PEG ratio is used to determine a stock's value while also factoring in the company's expected earnings growth, and it is thought to provide a more complete picture than the more standard P/E ratio.

Price-to-Book (P/B) Ratio – Used by companies to compare a firm's market capitalization to its book value. It's calculated by dividing the company's stock price per share by its book value per share (BVPS). An asset's book value is equal to its carrying value on the balance sheet, and companies calculate it netting the asset against its accumulated depreciation.

Price-to-Earnings (P/E) Next 12 Months (NTM) Ratio – Forward price-to-earnings (forward P/E) is a version of the price-to-earnings (P/E) ratio that uses forecasted earnings for the P/E calculation.

Price-to-Earnings (P/E) Ratio – This ratio for valuing a company measures current share price relative to earnings per share (EPS). The P/E ratio is also sometimes known as the "price multiple" or the "earnings multiple." A high P/E ratio could mean that a company's stock is overvalued, or investors are expecting high growth rates in the future.

Price-to-Sales (P/S) Ratio – Valuation ratio that compares a company's stock price to its revenues. It is an indicator of the value that financial markets have placed on each dollar of a company's sales or revenues. The P/S ratio can be calculated either by dividing the company's market capitalization by its total sales over a designated period (usually 12 months) or on a per-share basis by dividing the stock price by sales per share. The P/S ratio is also known as a "sales multiple" or "revenue multiple."

Prime – Classification of borrowers, rates or holdings in the lending market that are considered to be of high quality. This classification often refers to loans made to high-quality "prime" borrowers that are offered "prime" or relatively low interest rates.

Quantitative Easing (QE) – An unconventional monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective. A central bank implements quantitative easing by buying specified amounts of financial assets from commercial banks and other private institutions, thus raising the prices of those financial assets and lowering their yield, while simultaneously increasing the monetary base.

Russell 1000 Growth (RLG) Index – This index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. Growth stocks are shares in a company that are anticipated to grow at a rate significantly above the average growth for the market.

Russell 1000 Index – This index typically comprises approximately 92% of the total market capitalization of all listed stocks in the U.S. equity market and is considered a bellwether index for large-cap investing.

Russell 1000 Value (RLV) Index – This index measures the performance of the large-cap value segment of the U.S. equity universe. It includes Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. Value stocks are shares of a company that appear to trade at a lower price relative to the company's fundamentals.

S&P 500 Index – This unmanaged capitalization-weighted index of the stocks of the 500 largest publicly traded U.S. companies is designed to measure performance of the broad domestic economy through changes in the aggregate market value of the 500 stocks, which represent all major industries.

Standard Deviation – Measure of the variation or dispersion of a set of data from its mean or expected/budgeted value. A low standard deviation indicates that the data points tend to be very close to the mean, whereas a high standard deviation indicates that the data is spread out over a large range of values. A measure of an investment's volatility.

Trailing Price-to-Earnings (P/E) Ratio – Relative valuation multiple that is based on the last 12 months of actual earnings. It is calculated by taking the current stock price and dividing it by the trailing earnings per share (EPS) for the past 12 months.

Treasury Inflation-Protected Securities (TIPS) – Type of Treasury security issued by the U.S. government that is indexed to inflation in order to protect investors from a decline in the purchasing power of their money. As inflation rises, TIPS adjust in price to maintain their real value.

Value Stock – Shares of a company that appear to trade at a lower price relative to its fundamentals, such as dividends, earnings or sales, making it appealing to value investors.

One cannot invest directly in an index.