

**Lincoln Variable Insurance Products Trust
President's Letter**

Dear Fellow Investors,

2020 was a year of surprises and uncertainty as the spread of the global pandemic led to the sharpest – but shortest – US recession in modern history. In response, the size and speed of the comprehensive government stimulus was unprecedented as the Federal Reserve Board lowered interest rates to zero, expanded their bond buying, and for the first time ever, purchased corporate debt to calm markets. This monetary stimulus was matched by a historic amount of fiscal stimulus, which provided relief to individuals and small businesses negatively impacted by the pandemic. In turn, after experiencing the single most volatile period in history, equity markets rebounded with the strongest rally out of a bear market since 1932.



As we reflect more deeply on the underlying market drivers throughout the year, 2020 can be characterized by three distinct periods. January 1st through February 19th was a constructive period, as 2020 economic growth was expected to continue at the same solid pace as 2019. However, as markets began to anticipate the economic impact of the rapid onset of the COVID-19 pandemic and the ensuing recession, the S&P 500 declined 35% from February 19th through March 23rd, with the VIX rising from 15 to a high of nearly 83 as evidence of the volatility incurred during this period. From March 23rd through the end of the year, investors began to anticipate a post-pandemic economic rebound, which led to a domestic equity market recovery that eradicated the losses of the short-lived bear market and allowed the S&P 500 to finish the year at a record high.

Domestic fixed income also generated solid returns in 2020. After a relatively normal start to the year, the Federal Reserve preemptively cut the Fed Funds rate to near zero and instituted \$2.3 trillion in lending programs as it became clear that both monetary and fiscal stimulus would be required to offset the anticipated steep declines in economic activity that would result from safety measures taken to contain the COVID-19 pandemic. Consequently, return patterns were analogous to those seen in the equity markets. The year started normally, but there was significant movement in rates between February 19th and March 23rd, as the 10-year Treasury yield reached an intraday record low of 0.32% on March 9th, while investment grade corporate and high yield bonds incurred losses during this period. Ultimately, corporate bonds recovered to erase all losses and generated solid returns for the year. The 10-year Treasury yield settled at 0.92% at year end, down from 1.92% at the end of 2019.

Finally, there continued to be dispersion in performance across investment styles and geographies. Like 2017 – 2019, growth stocks continued to materially outperform value. Also, in recent years, large cap equities materially outperformed small caps and US equities outperformed non-US equities, but that began to change in 2020. Specifically, domestic small caps outperformed large caps while domestic large caps and emerging market equities recorded nearly identical returns. But non-US equities in developed markets continued to lag US equities. An emerging trend that bears watching as 2020 ended was that value had a strong fourth quarter relative to growth.

As we move into 2021, we believe that three key macro themes are front and center:

The virus - in the early part of 2021 market practitioners expect the pace of the economic recovery to slow before it gets better, as virus case counts are elevated in the winter months and fiscal support from the earlier stimulus subsidies. The good news is that the potential for broad-scale distribution of vaccinations is moving forward, and the economy is positioned to reaccelerate in the spring of 2021.

A new government administration - while there will likely be plusses and minuses for the market and the economy over the next few years, the market is anticipating some early positives in the form of fiscal stimulus. President Biden's fiscal stimulus plan calls for additional direct stimulus payments to individuals, extension of unemployment benefits, as well as state fiscal aid, and new funds for schools and public health funding. On the heels of the proposed plans, we've seen leading economists now forecasting 2021 GDP to be over 6.6% and for the unemployment rate to come back down to nearly 4.5%. We believe that this would be great news and very supportive for markets. On the flip side, longer term, the market is certainly keeping an eye on historically elevated equity valuations the potential for higher tax rates.

Monetary policy and the potential return of inflation - Monetary policy is anticipated to remain accommodative, as the Fed waits to see a more sustainable inflationary backdrop, rather than risk pre-emptive tightening and the potential for policy error in the early stages of recovery. And, while it's unlikely central banks will let bond yields rise too far, there is room for long rates to move higher, as confidence in a sustained recovery grows and pricing pressures create more uncertainty around inflation.

Considering this evolving economic backdrop, it is an important time to evaluate the risks in your portfolio with your financial advisor to ensure you are properly diversified based on your time horizon, financial goals and risk tolerance. We are continuing to enhance our LVIP funds in order to provide a more robust and cost-effective universe of equity, fixed income, passive, rules based and traditional actively managed investment options that can help you achieve your unique objectives.

We hope you find the materials included in this annual report helpful as you evaluate your investments with us. Thank you for your continued trust in Lincoln Financial Group, and we wish you a healthy and prosperous 2021.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jayson', with a stylized, flowing script.

Jayson R. Bronchetti, CFA, CAIA

President, Lincoln Variable Insurance Products Trust