

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

Dear Fellow Investors,

For the third consecutive year, domestic equity market returns were strong in 2021, with a positive bias throughout the year. The markets performed well due to continued optimism related to the economic recovery that resulted from a positive COVID outlook as vaccine distribution began in early 2021, along with the year-long catalysts of robust corporate earnings growth, accommodative monetary policy and an improving labor market. Notably, market volatility increased a bit in the second half of the year as investors began to contemplate that higher inflation would persist longer than initially expected, which could eventually impact interest rates and equity valuations.



Fixed-income returns were largely negative. The 10-year U.S. Treasury yield finished the year 0.59% higher than 2020, ending 2021 at 1.52%, which clearly impacted returns negatively. Given the strong economic fundamentals and higher inflation recorded throughout the year, higher yields were not surprising. Persistent inflation pressure resulted in Treasury Inflation-Protected Securities being the top-performing sector in fixed income.

Dispersed performance across investment styles and geographies continued in 2021. While the magnitude of equity performance was similar to 2019 and 2020, the dynamic was a bit different. In 2019 and 2020, growth stocks materially outperformed value across all market capitalizations. However, in 2021, large cap growth stocks outperformed large cap value, while value stocks materially outperformed in lower-market capitalizations, specifically mid cap and small cap. Additionally, non-U.S. equities in developed markets and emerging markets continued to lag U.S. equities.

As we move into 2022, we believe that three key macro themes are front and center:

Moderating Economic Growth – Unprecedented fiscal and monetary support in response to the COVID-related economic downturn has driven economic activity to exceed historical trends. This was evidenced by an annualized increase in U.S. Gross Domestic Product of 6.9% in 2021. Corporate earnings are in a positive trajectory and consumers are well-employed with near-record levels of capital in their bank accounts. That said, as we look to the year ahead, the sustainability and pace of this rate of growth are expected to decline to more normalized, albeit above trend, levels.

Inflation and the Beginning of the Fed's Rate-Hiking Cycle – In light of the robust economic growth and reemergence of inflation during 2021, the Federal Reserve Bank ("Fed") and central bankers around the globe have begun to normalize their balance sheets and are expected to remove accommodation by means of raising short-term interest rates in 2022. The beginning of a rate-hiking cycle is historically a time of increased volatility as the training wheels that have been provided by the Fed to the economic bike are removed and markets are left to interpret the relative stability of the economic ride. As markets have begun to interpret this reality, we have experienced an increase in the U.S. Treasury yield curve and a sharp decline in equity markets. As of Jan. 27, 2022, the yield on the 10-year U.S. Treasury has risen nearly 30 basis points and the S&P 500 has declined over 9% since Dec. 31, 2021.

As the saying goes, “History doesn’t necessarily repeat itself, but it does often rhyme.” As such, we believe that it is relevant to ground ourselves in the economic reality of past rate-hiking cycles. In looking at the prior seven rate hiking cycles, over the past 40 years, equity markets have achieved positive returns more often than negative returns over the 12-month period following the date of the first Fed rate hike. That said, the Fed has not been in the position to raise rates to battle such an acute level of inflation in over 30 years. This is further complicated by the sheer size of central bank balance sheets relative to the global capital markets.

Potential Tail Risks – Alongside any base case economic forecast, there are always risks in the tail-end of the distribution. In addition to the risks related to the removal of monetary stimulus, at least two key risks remain at large with the potential to further impact the markets. First is the potential for the reemergence of variant strains of COVID and the associated health, supply chain, and economic disruptions that could be realized. Second, during times of economic transition, geopolitics tend to become more nuanced and susceptible to change. We have already begun to experience evidence of geopolitical disruption in early 2022 as tensions surrounding potential military confrontation on the Ukraine border continue to escalate.

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 2022.

Sincerely,

A handwritten signature in black ink, appearing to read "Jayson R. Bronchetti".

Jayson R. Bronchetti, CFA, CAIA

President, Lincoln Variable Insurance Products Trust