LPL RESEARCH PRESENTS

# OUTLOOK

• THE POLICY ENGINE •

ed.2026

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LPL Financial

# Contents

# From the CIO

**THE YEAR 2025** was a good example of the prevailing regime. In fact, capital market conditions in the post-COVID-19 market era, and more broadly, since the Great Financial Crisis, have all been very similar. That is, we are witnessing markets that are being driven less by fundamentals and traditional business cycle dynamics and more by fiscal and monetary policy influence. While policy has obviously long influenced markets, its role has grown more prominent in an era increasingly shaped by factor-based strategies, momentum, and the proliferation of passive investing. As fundamentals have taken the back seat, policy decisions have clearly emerged as one of the most impactful forces driving market direction.

What does that mean as we peer into 2026 — and moreover, what does that mean for investors at large? Well, we believe that in a tactical investment environment where policy shifts and market momentum increasingly outweigh fundamentals and valuations, investors should remain patient and avoid overreacting to short-term sentiment swings. The reason: Policy and momentum-driven markets historically cause severe fluctuations in price, and these severe fluctuations can challenge behavioral biases, to which we are all susceptible. We have seen as much in 2025, as equity prices swung wildly from policy-induced lows to momentum-driven highs, and we expect this pattern of generally higher volatility to only persist in 2026, and beyond.

The good news is that we expect policy to be a net tailwind for markets in 2026. We believe monetary decision-makers should continue to engage in easing policy as economic conditions downshift and inflation remains contained. Corporate earnings may also help, although relatively high valuations and diminishing free cash flows in the momentum high-flyers will give the broader market little room for error. Core bonds are quietly offering some value, and they should be aided by a more dovish Federal Reserve. Also, in a policy and momentum-driven market, where correlations can quickly go to one, investors should take an increasingly harder look at non-correlated alternative investments, both public and private.

Finally, as you set forth in exploring this edition of our 2026 Outlook, please keep in mind that your LPL Research team is constantly accounting for the market regime shifts we just mentioned. We use a multitude of investment tools that allow us to analyze momentum, policy inputs, sentiment, supply/demand, fundamentals, and more in order to plot a course under any conditions. Given that the market has become definitively more complex over the past decade, we invite you to increasingly lean on us for necessary guidance, and we sincerely appreciate the trust and confidence you place in our team. We take our investment stewardship seriously.

Sincerely,

Marc Zabicki, CFA
Chief Investment Officer, LPL Financial

**AS WE MOVE INTO 2026,** investors should anticipate a continuation of many of the key themes that defined 2025. The broader environment is likely to remain characterized by an equity market showing underlying resilience but also prone to occasional bouts of volatility, a fragmented economic backdrop that keeps the bond market from trending meaningfully in either direction, and a policy landscape in Washington that continues to exert a dominant influence on both sentiment and market direction. Though the calendar is changing, these same core forces, we believe, will continue to broadly shape things.

The post-pandemic economic cycle remains distorted, with traditional indicators now offering only limited guidance. More specifically, the economy is being impacted by the lingering effects of years of wartime-level fiscal spending, a powerful capital investment boom driven by artificial intelligence (AI), and the still-unfolding impacts of a generational shift toward higher tariffs. The result is a macroeconomic environment that defies conventional patterns: growth is steady but uneven; consumer spending proves resilient but only among higher-income households; inflation remains persistently above target yet contained; and labor markets are tight though gradually softening. We expect these dynamics to mostly persist in 2026. While certain areas of the economy stand to gain from the wealth effect and the ongoing AI infrastructure buildout, others may face real challenges as capital continues to get redirected away. Monetary policy adds another layer of complexity. As the Federal Reserve (Fed) moves further toward normalization, the effects of lower interest rates may prove uneven — much as they did when rates were rising. While continued easing should bring much needed relief to debt-burdened lower-income households, the implications for higher-income consumers, who drive much of total spending, are less clear. There is also the potential for a change in the makeup of the Federal Open Market Committee (FOMC), which could alter the future path of interest rates.

Investors also need to remain prepared for periodic episodes of market volatility. The market's sensitivity to headline risk is no doubt being amplified by a policy-driven environment in which government actions play an increasingly pivotal role. While supportive government measures can bolster stability and complement private-sector momentum and trends, they also introduce a duality where even minor policy shifts can quickly become headwinds. Compounding this is the growing concentration within the major equity indexes themselves. The strong performance and innovation of a small group of mega cap technology companies have played a vital role in driving returns over the last three years. However, their rapid growth and their now outsized weight in the indexes also brings with it an increased sensitivity to company-specific risks at the broad market level. While this change in underlying market structure has clearly contributed to impressive gains, it also raises the potential for higher degrees of market volatility moving forward.

Given the rapidly changing investment landscape, we advocate for a disciplined, diversified strategy — especially when diversification feels out of favor, as that's historically when it proves most valuable. This means spreading your portfolio across a broad range of asset classes, market segments, and global regions to manage risk and find new sources of return. We also continue to believe in enhancing portfolio resilience with stabilizers like alternative investments. Moreover, investors should remain agile and attentive; transitional market phases often create the most favorable entry points into equities. Given the strong potential for continued equity performance into 2026, treat these moments as clear opportunities for long-term positioning.

# The Bottom Line

## ECONOMY

The U.S. economy is expected to experience a modest slowdown in early 2026 before rebounding later in the year. Underlying resilience from AI-driven investment and fiscal spending should help offset weaker household activity and steer the economy clear of a recession. A cooling labor market and softer consumer demand will help ease inflation, though price pressures are expected to linger. We anticipate the Fed will proceed with rate cuts gradually in 2026, balancing inflation concerns with a softening labor market.

## STOCKS

The bull market appears poised to extend its run in 2026, fueled by ongoing enthusiasm around AI and further easing of monetary policy from the Fed. However, with valuations running high and midterm election years often bringing more volatility, gains may be more tempered in 2026. Maintain current allocations and stay patient for pullbacks to selectively increase equity exposures.

## BONDS & CASH

Bonds continue to offer compelling income opportunities, with starting yields still elevated relative to historical norms. With 10-year Treasury yields anticipated to remain between 3.75–4.25% in 2026, investors should focus on income generation rather than price appreciation. As the Fed lowers short-term interest rates, returns on cash will continue to decline, making high-quality bonds with intermediate-term maturities more attractive for long-term investors.

## PORTFOLIOS

Given an overall investment environment that is subject to rapid change, we continue to favor balance and diversification across asset classes and regions, including allocations to alternatives that can help enhance portfolio resilience and stability. Stay alert during any periods of market turbulence in order to take advantage of corrections in equities.

Please see page 26 for important disclosures.

# The More Things Change, the More They Stay the Same

**KEY EXPECTATIONS**

- Fed will cut rates by 75–100 basis points.
- The U.S. economy will likely grow below 1% annualized in Q1 but rebound in subsequent quarters.
- Core PCE inflation will slowly decelerate to 2.5% by the end of the year.
- The labor market will be key to the outlook. Softer income growth will impact discretionary spending.
- AI-related investment will become a greater piece of the economy.

**By Jeffrey Roach, PhD, Chief Economist**

That phrase captures the paradox facing the U.S. economy as we head into 2026. While the labor market is expected to cool — job openings are declining, wage growth is moderating, and employers are signaling caution — the structural divide that has defined the past several years will remain intact. This slowdown will not be evenly felt. High-income households, buoyed by strong balance sheets, investment portfolios, and appreciating real estate, will continue to navigate the environment with relative ease. Meanwhile, lower-income workers, particularly in service sectors, will bear the brunt of reduced hiring and tighter financial conditions.

The November Consumer Sentiment Survey from the University of Michigan illustrates this divided world. In contrast to a broad decline in sentiment, those with the largest percentage of stock holdings posted a notable 11% rise in sentiment.

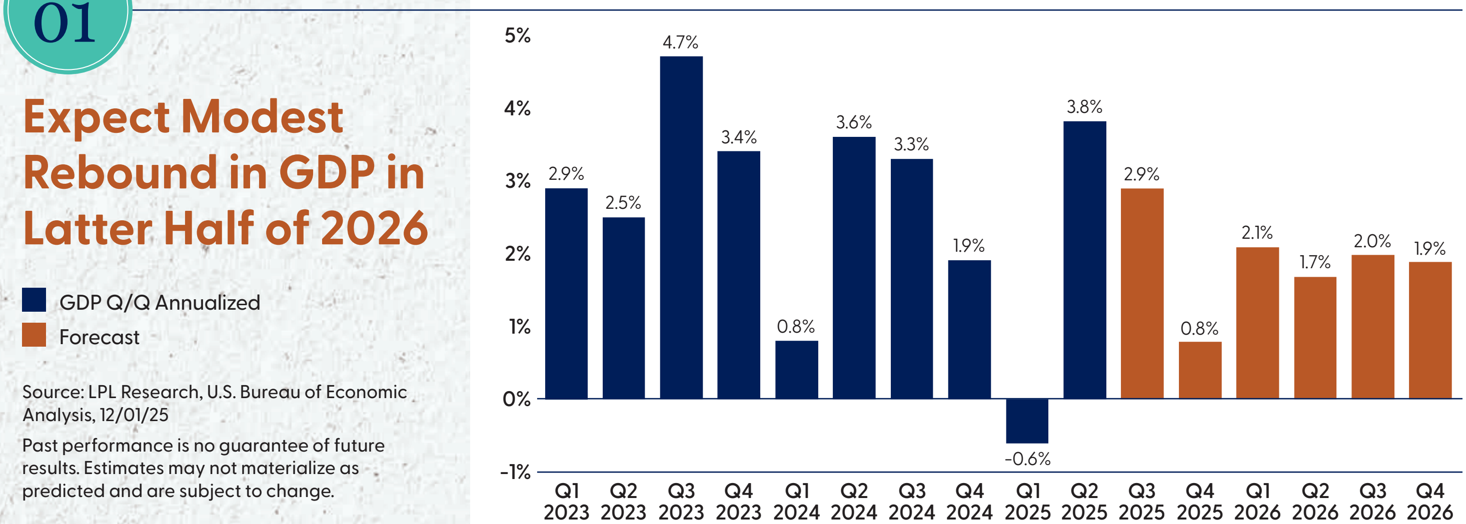
This reinforces the persistence of the K-shaped economy: one arm rising, the other falling. Households in the upper tier will likely maintain discretionary spending and investment activity, though they may seek strategies to hedge against volatility and preserve gains. Conversely, those in a lower tier — or with exposure to industries vulnerable to labor market weakness — may face liquidity challenges, increased debt burdens, and heightened sensitivity to interest rates. Even as headline numbers shift, the bifurcated economy will likely remain a defining feature of 2026.

### From Headwinds to Tailwinds

The decline in job growth will show up most notably in weak Q1 growth, but we should expect the latter half of the year to be stronger. While the U.S. economy should be sluggish in the first half of 2026, it is also expected to avoid a full-blown recession due to the tailwinds of easing monetary policy and business-friendly dynamics within the One Big Beautiful Bill Act (OBBBA). However, these benefits

*fig.* 01

## Expect Modest Rebound in GDP in Latter Half of 2026




Source: LPL Research, U.S. Bureau of Economic Analysis, 12/01/25

Past performance is no guarantee of future results. Estimates may not materialize as predicted and are subject to change.

may take some time to materialize. In the near term, the lagged effects from a slowing job market, softer wage growth, and nagging inflation will dampen growth in the first quarter of 2026. Additionally, there are seasonal patterns that should suppress growth at the beginning of the year. However, we also anticipate that the hosting of the World Cup and the U.S.'s 250th anniversary celebrations will provide a modest boost to economic growth in the second half of the year.

The labor market is a critical input for developing the economic outlook because employment trends directly influence consumer spending, income growth, and overall economic momentum. A strong labor market typically signals rising wages and job security, which support household consumption — the largest component of gross domestic product (GDP). Conversely, a weakening labor market can dampen confidence, reduce disposable income, and slow demand across sectors.

Recent data indicate businesses have less demand for workers amid an uptick in layoff announcements, a notable change from the blistering pace of job growth in preceding years. This easing in the labor market will effectively curb aggregate demand, leading to a more sustainable pace of expansion. The first half of 2026 will likely be the weakest, with Q1 economic growth slowing to 0.8% with risks to the downside. But as businesses and households regain their footing from uncertainties during 2025, we expect 2026 to grow close to 2.1%, higher than 2025 but not as fast as 2024. **[Fig.01]**

Furthermore, cooling income growth is expected to weigh on consumer spending, historically the primary engine of U.S. growth, thus contributing to the general economic deceleration in the first quarter.

Despite these headwinds, fiscal spending and strong business investment in AI infrastructure is expected to provide crucial support for the economy. The insatiable demand for cutting-edge technologies like data centers, advanced semiconductors, and AI-driven software is fueling significant capital expenditure by tech giants and businesses across various sectors. The demand for intellectual property (I.P.) will be a pillar of growth, and we expect I.P. will capture an increasing slice of the economy. **[Fig.02]**

This investment wave not only creates jobs in construction, manufacturing, and technology services but also boosts productivity and efficiency, offering a counter-cyclical force to the general slowdown. The U.S. is at the forefront of this technological revolution, even as traditional consumer-driven growth moderates. We believe the economy will benefit from this targeted, high-value investment that lays the groundwork for future long-term expansion.

### Navigating Mixed Signals

Inflation will not likely decelerate as fast as policymakers would hope, yet we still expect the Fed will continue its rate-cutting campaign in 2026 as it balances inflation concerns with risks to the labor market and overall economic growth. Ongoing factors, such as new tariffs, could push general inflation slightly higher, creating a difficult tightrope walk for the central bank. We expect the Fed will prioritize supporting a weakening labor market by cutting rates modestly throughout 2026 to avoid a significant downturn, even if inflation remains stubbornly high.

Reduced consumer demand, stemming from a softer job market, should contribute to moderating inflation. As wages stagnate and hiring rates slow, households will not have an insatiable appetite

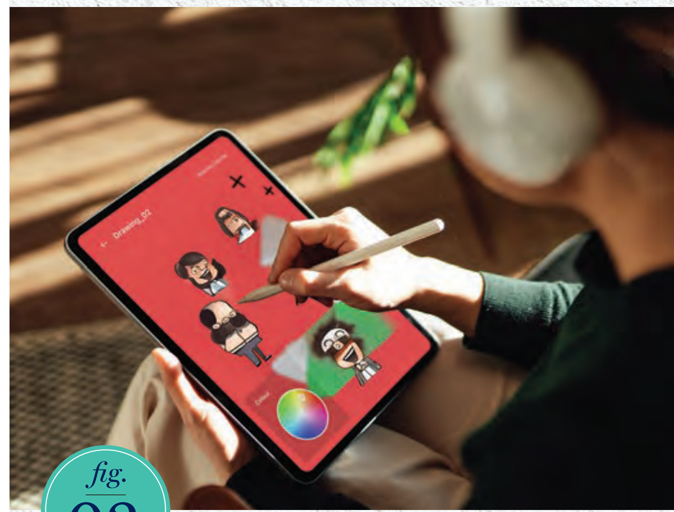
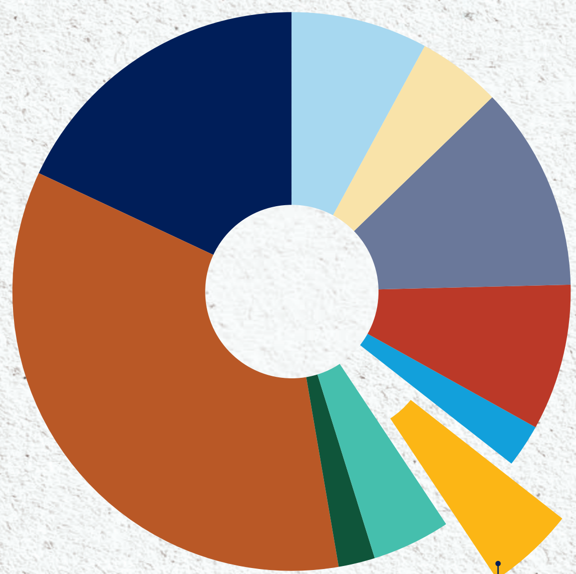


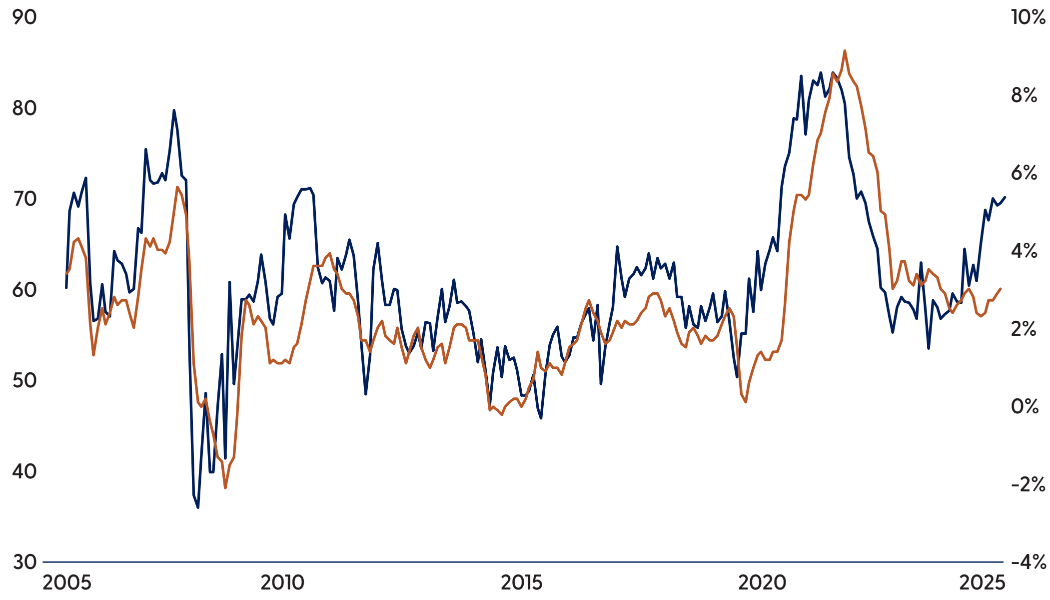
*fig.* 02

## Intellectual Property Will Be Increasingly Important to Growth




Source: LPL Research, U.S. Bureau of Economic Analysis, 12/01/25 fig. 03

## Near-Term Pain but Inflation May Improve in the New Year




ISM: Services: Prices Index (50+=Increasing) (Left Axis)
CPI (Y/Y%) (Right Axis)

Source: LPL Research, ISM, Bureau of Labor Statistics 12/01/25

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

for restaurant spending, travel, and other forms of discretionary spending. Softer household demand will cause inflation pressures to recede in 2026. By the second half of the year, core inflation should be 2.5% after reaching a near term high of 3% in the final quarter of 2025. But in the near term, investors will have to bear the burden of hotter inflation. Recent figures from the Institute of Supply Management (ISM) surveys imply inflation will temporarily run hotter. Headline inflation may be 3% in the first quarter but slowly ease down to 2.7% by the end of the year. Core inflation, which strips out food and energy, may look a little better at 2.5%. **[Fig.03]**

During periods of flux, investors can find unique insights from business leaders not yet picked up by official data. The Fed's Beige Book should get more attention, especially in the coming year. Unlike other Fed reports that rely primarily on quantitative data, the Beige Book gathers "on the ground" anecdotal information.

Managing the rising cost of employee benefits will become a bigger topic for businesses throughout 2026. Labor cost pressures are set to intensify, less by base wages and more by outsized increases in non-wage expenses such as employer-sponsored health insurance premiums and other benefits. While some industries like construction and hospitality will likely have labor shortages in the near term, primarily attributed to recent changes in immigration policies, the trajectory is a cooling, but not collapsing, job market. This mixed signal of stable employment levels with reduced demand and persistent non-wage cost pressure complicates the Fed's policy decisions as it tries to balance its mandates of maximum employment and price stability.

### More About Congress, Less About Fed

The housing market is worth highlighting as we work our way through a new year. Mortgage rates have been stubbornly high but have fallen in recent times. Looking ahead, we expect mortgage rates will continue to come down, but it's important to set expectations. A cut in the fed funds rate does not necessarily mean mortgage rates will fall. The relationship between these two rates is complex. Mortgage rates are primarily influenced by long-term interest rate dynamics, which are shaped by the fiscal outlook, and the 10-year U.S. Treasury yield rather than just the Fed's short-term policy rate. Mortgage rates are also influenced by the inflation outlook and growth projections. That said, we expect mortgage rates to decline at a measured pace as Treasury yields fall. Inflation, while still elevated, is trending downward, giving the Fed room for further policy easing. At the same time, slower economic growth and rising unemployment are expected to push investors toward safer assets like U.S. Treasuries, reducing long-term yields — the primary benchmark for mortgage pricing. We would expect the national average 30-year fixed mortgage rate to fall to the upper-5's by year-end 2026 as bond spreads normalize. **[Fig.04]**

That is why it is more about Congress and less about the Fed. The 10-year Treasury acts as the benchmark for mortgage-backed securities (MBS), and lenders price mortgages partially based on the yields investors demand for holding long-term debt. When fiscal policy results in large deficits and heavy Treasury issuance, investors often require higher yields to compensate for increased supply and inflation risk, pushing mortgage rates higher. For example, in 2024, even as the Fed began cutting the federal funds rate, mortgage rates remained elevated because Treasury yields stayed high amid concerns about persistent deficits and strong issuance. This illustrates that while the Fed can influence short-term borrowing costs, mortgage rates are anchored to long-term expectations about inflation, growth, and government borrowing needs.

Despite the mixed domestic outlook, many international economies have more pronounced headwinds. Geopolitical and trade uncertainty will stunt the Eurozone's economic growth. The Eurozone's open and trade-oriented economy makes it highly vulnerable to global trade tensions and ongoing trade conflicts. This uncertainty disrupts supply chains, squeezes profit margins for export-oriented industries (like automotive manufacturers), and weighs heavily on international trade and investment decisions.

Further, energy costs remain structurally high compared to other global competitors like the U.S. This, coupled with broader structural weaknesses in productivity and technological capacity, limits the Eurozone's international competitiveness and risks constraining growth below U.S. levels. As the EU returns to its fiscal rules, many member states are implementing fiscal tightening measures, which act as a drag on growth. Major economies like France and Italy face significant challenges with high public debt and rising budget deficits, limiting their flexibility for necessary public investments and increasing the potential for future financial instability.

Moving to Asia, Japan's goal of the "virtuous cycle" of sustainable inflation driven by robust wage growth looks more likely in 2027 than in 2026. After years of ultra-low or negative interest rates, the Bank of Japan (BOJ) started to normalize policy by raising rates and reducing government bond purchases. The nagging questions for investors are the pace of future rate hikes and the timing of the "terminal rate," which is complicated by ongoing global economic uncertainty and the government's desire to support growth. **[Fig.05]**

fig. 05

## Tailwinds to Growth for the U.S.

| GDP Growth Forecasts, Y/Y | 2026 | 2027 |
|---|---|---|
| United States | 2.0% | 2.2% |
| Eurozone | 1.2% | 0.9% |
| Japan | 1.3% | 0.6% |
| Asia Excluding Japan | 4.6% | 4.3% |
| Advanced Economies | 1.7% | 1.6% |
| Emerging Markets | 4.0% | 4.1% |
| Global | 3.0% | 2.9% |

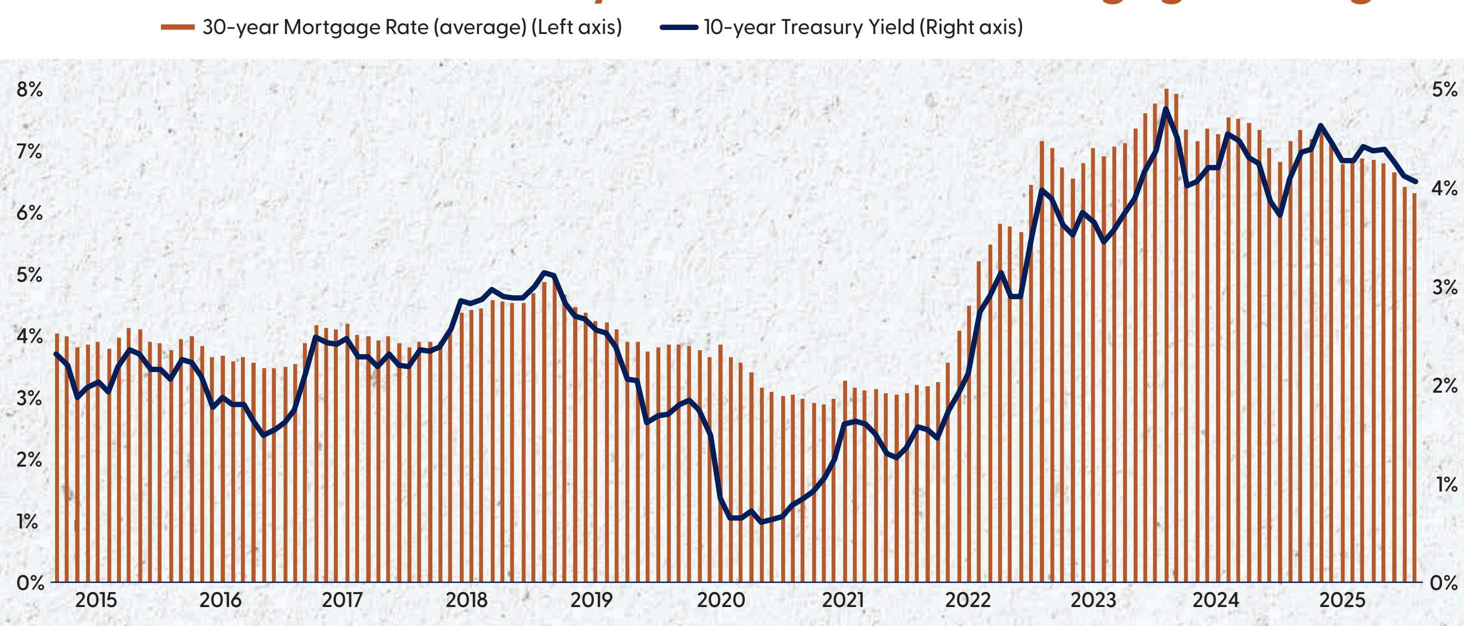
Source: LPL Research, European Central Bank, Bank of Japan, IMF 12/01/25
Past performance is no guarantee of future results.

### THE BOTTOM LINE

In our view, the domestic economy will most likely avoid recession and be supported by upper income consumers. As the Fed remains committed to cutting rates, retail rates will eventually follow suit. Housing costs, especially rents, will improve and consumer prices will slowly decelerate but remain a pressure point for most consumers. Business's fixed investment in AI-related projects will be a driver of growth.

fig. 04

## The 10-Year Treasury Is the Anchor for Mortgage Pricing




Source: LPL Research, Bloomberg, Federal Reserve Board 11/05/25
Past performance is no guarantee of future results.

# Policy Tailwinds & AI To Power Equities in 2026

## KEY EXPECTATIONS

- Historically, the fourth year of bull markets has delivered solid gains for investors.
- Hyperscaler capex is projected to rise 30% to $520 billion in 2026, fueling potential double-digit S&P 500 earnings growth.
- Fed rate-cutting cycle is aimed at normalization — not to stave off recession — and should provide a tailwind for stock performance.
- Narrow market breadth, AI investment scrutiny, higher long-term rates, and midterm election uncertainty present risks to the rally. Watch for pullbacks to consider adding equities exposure.

**By Jeffrey Buchbinder, CFA, Chief Equity Strategist**

A strong 2025 does not mean this advance in the stock market won't deliver more gains for investors in 2026. Several powerful cycles should help push stocks higher in 2026, most notably the AI investment cycle that has powered technology stocks in 2025. A maturing advance during a Fed rate-cutting cycle with stocks near all-time highs also bodes well for a rewarding 2026, especially given the economy will get a fiscal policy boost as stimulus from the OBBBA kicks in and boosts corporate profits and cash flows.

Potential AI disappointments, possible upward pressure on long-term interest rates, renewed global trade tensions, and geopolitical instability will remain key risks for stock investors to monitor. If this outlook seems familiar, that's because it resembles 2025.

### Four Years Into the Rally

On October 12, the current bull market celebrated its third anniversary, marking an impressive run since its inception in inflation-plagued 2022. The S&P 500 surged more than 80% over the first three years of this move higher (excluding dividends), far outpacing historical averages. Stocks have since added to those gains, getting year four off to a good start (+3.3% through November 3) on the continued strength of mega cap tech stocks riding the AI wave.

What might the rest of the fourth year of this upswing have in store? If history is a guide, then the stock market should have more room to run. As shown in the "History Points to a Strong Fourth Year for This Bull Market" chart, the S&P 500 has averaged a 12.8% gain historically during the fourth year of bull markets since 1950, with six positive years out of seven. Further, the average advance lasts over five years, while advances that go at least three years have produced a median gain of 126% and averaged 199% (please note past performance does not guarantee future results). **[Fig.06]**

fig. 06

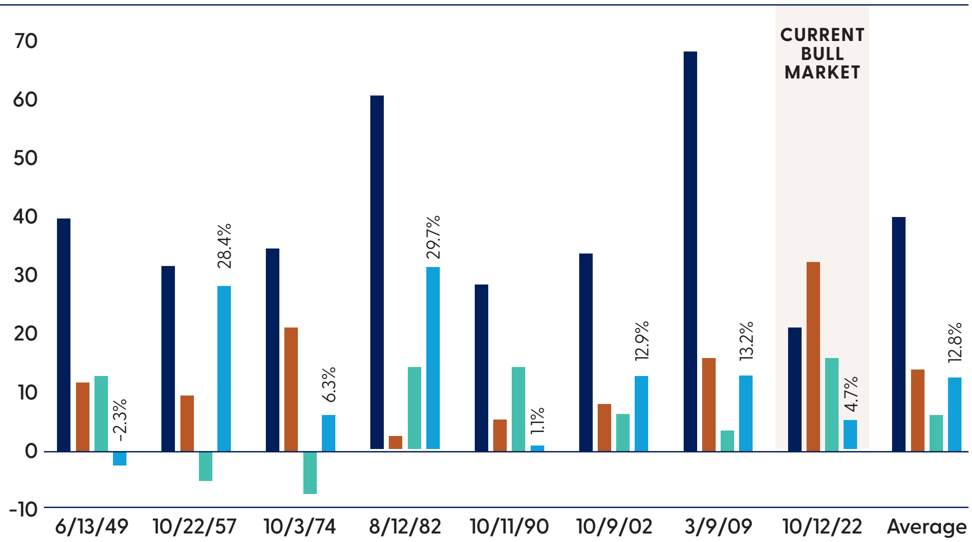
## History Points to a Strong Fourth Year for This Bull Market

S&P 500 Bull Market Performance By Year

Year 1 | Year 2 | Year 3 | Year 4

Source: LPL Research, Bloomberg 12/01/25

Only S&P 500 bull markets that made it through a fourth year are shown, in addition to the current bull market. All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results. The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of the predecessor index, the S&P 90.



### Supportive Monetary Policy Cycle

The Fed rate cycle should provide another tailwind for stocks in 2026, as it did in 2025. If the economy holds up, rate-cutting cycles tend to be followed by stock market gains. Stocks prefer rate cuts that are luxuries rather than emergencies — and we would categorize upcoming cuts as the former. The Fed is normalizing rates, not staving off an impending recession.

This rate-cutting cycle is unique because stocks are near all-time highs. In previous instances when the Fed cut rates, stocks were at or near record highs (we found 28 cases) and the S&P 500 was 13% higher on average 12 months later, with 93% of those 28 periods producing gains. Filtering that further, when the U.S. economy was not in recession around a rate cut, the average 12-month return for the S&P 500 increased to 18%, with gains in all 21 periods. Near recessions, the S&P 500 lost 2.7% on average in the 12 months after the Fed reduced rates, with only 25% of periods generating a gain. **[Fig.07]**

### Massive AI Capex Cycle Still Gaining Steam

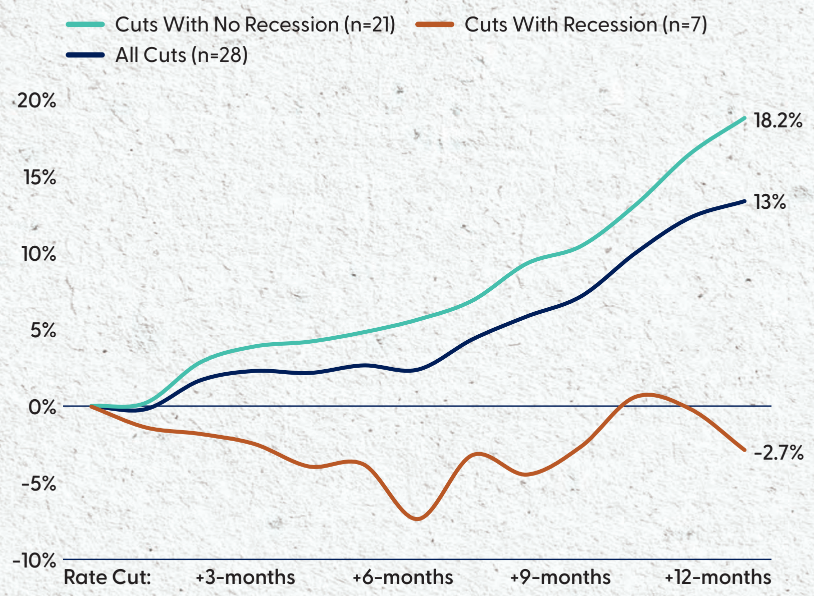
Perhaps the most powerful investment cycle affecting stocks is the wave of AI capital investment. Consensus estimates for 2025 capital expenditures (capex) from the five hyperscalers — Alphabet (GOOG/L), Amazon (AMZN), Meta (META), Microsoft (MSFT), and Oracle (ORCL) — in 2025 are expected to come in at around $400 billion. In 2026, the number is now expected to approach $520 billion, a roughly 30% increase over this year's estimate and an estimated 1.6% of the U.S. economy, measured by nominal GDP. In terms of dollars that can help drive the economy and corporate profits, nothing is bigger than AI right now and that is very unlikely to change anytime soon. **[Fig.08]**

### Earnings Are Riding the AI Wave

The AI frenzy is being reflected in analysts' expectations for double-digit earnings growth for S&P 500 companies overall both this year and next. The Magnificent Seven has been responsible for more than half of S&P 500 earnings growth the past few quarters and will likely continue to play a significant role in growing earnings in 2026. While the wide gap between the Magnificent Seven's earnings growth and the rest of the market will likely persist well into 2026, supporting large cap

*fig.* 07

## S&P 500 Performance After the Fed Cuts Rates At/Near Record Highs

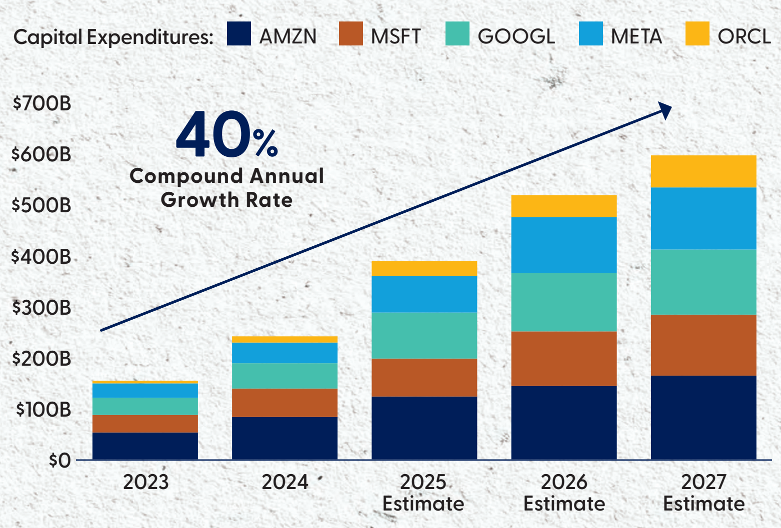



Source: LPL Research, Bloomberg 11/06/25 n=count

At/Near record highs defined as periods when the S&P 500 was within 3% of an all-time high. Data based on dates from 1984-YTD. Cuts with recession are defined as Federal Reserve interest rates occurring within six months of a recession. All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

*fig.* 08

## AI Investment by the Hyperscalers is Massive and Still Increasing at a Solid Clip




Source: LPL Research, Bloomberg, Company Reports, 11/05/25

Hyperscalers include Alphabet (GOOG/L), Amazon (AMZN), Meta (META), Microsoft (MSFT), and Oracle (ORCL). Past performance is no guarantee of future results. Estimates may not materialize as predicted and are subject to change.

growth stocks, expect this gap to narrow as the year progresses. This is something to watch closely when the calendar turns, as it could spark a market rotation into value stocks. **[Fig.09]**

### International Equities Offer Value, but "Less" May Not Mean "More"

Developed international equities have been attractively valued for a long time and remain so. But a repeat of the strong, currency-driven performance in 2025 seems unlikely next year for two primary reasons. First, international equities, particularly in Europe, lack the dynamic, tech-fueled growth of the U.S. economy. That shows up in earnings growth expectations where we expect the U.S. to generate 50% more earnings growth in 2026 than developed international. Second, a repeat of this year's big move down in the U.S. dollar is unlikely, putting international and U.S. equities on more even footing. Bottom line, international equities may keep up with the U.S. because of the still-wide valuation gap near 30%, but the U.S. economy and corporate America deserve a sizable premium.

Our view of emerging market (EM) equities is similar. The currency tailwind may not be there in 2026, and the sizable valuation discount to the U.S. is probably warranted. EMs offer exposure to technology innovation in China and the AI supply chain in Taiwan and South Korea, providing a more attractive earnings outlook. At the same time, EM's track record of delivering on lofty earnings expectations is sub-par and trade tensions with China could easily flare up again. As such, aligning developed international and EM equity allocations with benchmarks as 2026 begins seems prudent.

### Fair Value S&P 500 Target Range

The formula for higher stock prices in 2026 may look a lot like it did in 2025. At the micro level, AI investment will power earnings growth. On the macro side, we expect continued progress toward the Fed's 2% inflation target as the economy slows gradually, enabling additional Fed rate cuts without triggering a recession. One key difference between 2025 and 2026 will be a shift in policy focus away from trade and tariffs and toward fiscal stimulus and the midterm elections.

This is a favorable backdrop for stocks to at least hold their valuations. But even if corporate profits grow double digits this year and next, it's difficult to make a case for a higher price-to-earnings ratio (P/E) than the current 22 times.

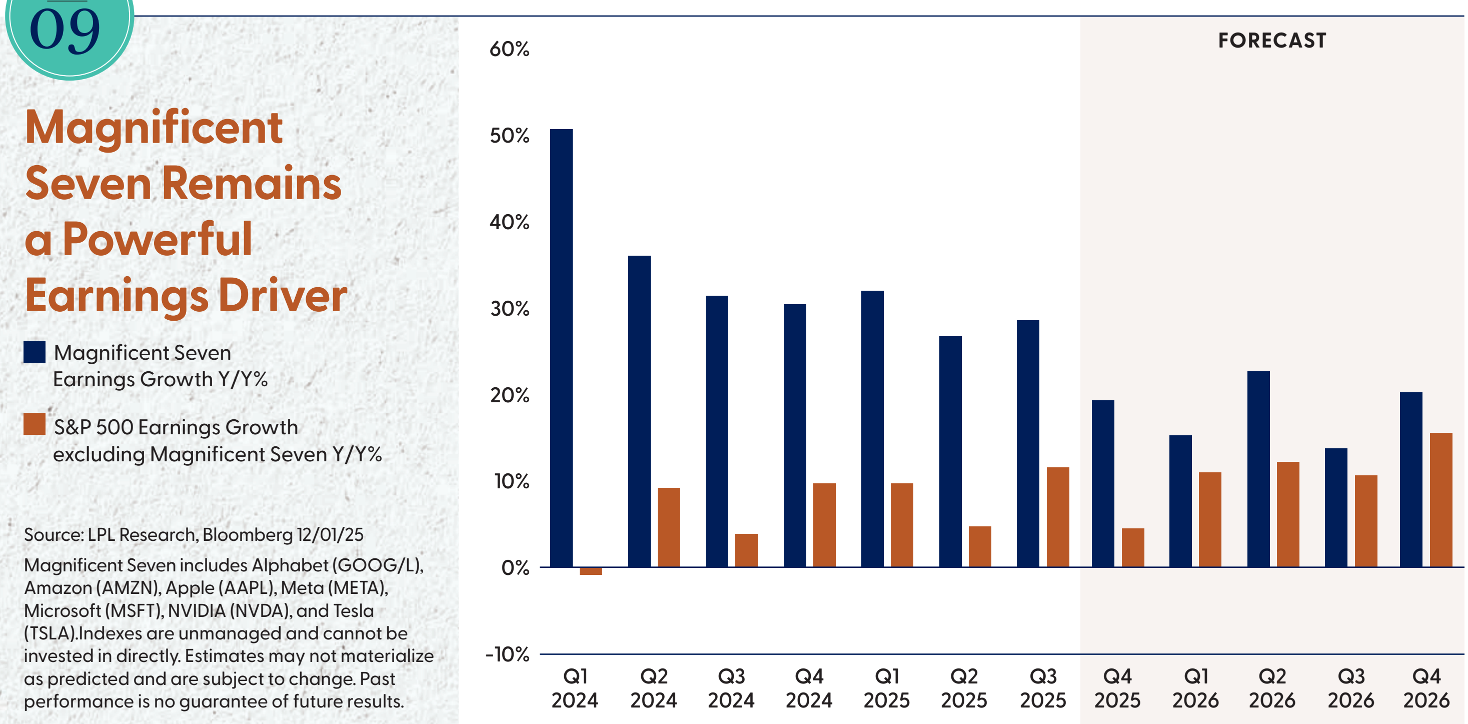
A growing economy will drive similar mid-single-digit revenue growth as in 2025, while margins are expected to inch higher as tariffs are fully absorbed and benefits from AI increasingly permeate, enabling the potential for double-digit earnings growth.

That means earnings growth rather than P/E multiple expansion will probably have to drive stock prices higher. LPL Research's year-end 2026 fair value target range on the S&P 500 is 7,300 to 7,400, based on 23 times $320 in S&P 500 earnings per share (EPS) in 2027, a 10% increase from our upwardly revised 2026 estimate of $290. We place the odds of this scenario at around 60%.

We could envision a path to 7,800 by year-end 2026, based on 24 times $325 in S&P 500 EPS, in the event of more significant productivity gains from AI investment. We place the odds of this scenario at about 25%. A downside scenario, with perhaps a 15% probability if AI

fig. 09

## Magnificent Seven Remains a Powerful Earnings Driver




Source: LPL Research, Bloomberg 12/01/25

Magnificent Seven includes Alphabet (GOOG/L), Amazon (AMZN), Apple (AAPL), Meta (META), Microsoft (MSFT), NVIDIA (NVDA), and Tesla (TSLA).Indexes are unmanaged and cannot be invested in directly. Estimates may not materialize as predicted and are subject to change. Past performance is no guarantee of future results.

disappoints and recession fears intensify, could introduce 5–7% downside to the 6,200 to 6,300 range. The risk that these massive AI spending commitments in the tens and hundreds of billions don't come through should not be dismissed, particularly given some of it is being financed with debt, and privately held OpenAI (creator of ChatGPT) does not yet have the business model to support its planned investments.

### Market Divergence and Other Risks

Among our concerns as 2026 approaches, we would point out that market breadth has weakened, with gains increasingly concentrated in a handful of large cap growth stocks, while most others underperform. This narrowing participation raises concerns about the durability of the rally, as historically broad-based strength has signaled healthier market conditions.

Other risks warranting a mention include a possible "bubble" in some AI stocks with excessively bullish sentiment as free cash flows begin to deteriorate, a potential sharp rise in interest rates, and geopolitical threats. It is also worth noting that midterm election years tend to be more volatile than average, as discussed on page 13.

### THE BOTTOM LINE

The stock market in 2026 could look a lot like 2025, as some cyclical drivers from the past year continue in the coming year. We believe this bull market should keep running, as most do at this stage, with support from the AI and rate-cutting cycles. But given rich valuations and the propensity for higher volatility in mid-term years, a lot must go right for stocks to enjoy another strong year like 2025. Still, our best advice is to stay invested in equities at target weights and wait for corrections before considering raising equities exposure to overweight. That opportunity could come soon, so keep an eye out.

# Sector Recommendations

## Favor Communication Services To Start 2026 but Watch Industrials and Healthcare

- The Strategic and Tactical Asset Allocation Committee (STAAC) recommends leaning into the AI trade to start 2026. The Committee favors the communication services sector for its cloud computing exposure while watching for opportunities in the technology sector to potentially add on weakness.
- Industrials are an attractive opportunity to consider as 2026 progresses, as they are beneficiaries of fiscal stimulus and the AI buildout. The Committee would like to see relative strength improve before considering an upgrade.
- Healthcare remains firmly on our radar for a potential upgrade in early 2026, as it stands to benefit if the market rally broadens. Policy headwinds around drug pricing, the Affordable Care Act, and tariffs have largely cleared, while valuations remain compelling.
- The Committee recommends limited exposure to real estate to begin 2026, given the sector's challenges with work-from-home trends while defensive, income-oriented sectors remain out of favor.
- Tax cuts for consumers in 2026 should help support consumer discretionary performance, even in the face of high tariffs and slowing consumer spending.
- Deregulation and healthy capital markets trends are supportive of financials, but the benefits of a normalized yield curve may have played out and a slowing economy in the first half of the year may pressure credit.

**OVERWEIGHT** +

- Communication Services

**UNDERWEIGHT** –

- Real Estate

**NEUTRAL** =

- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- **Healthcare** (Upgrade Watch)
- **Industrials** (Upgrade Watch)
- Materials
- **Technology** (Upgrade Watch)
- Utilities

# Regarding Midterm Years

**MIDTERM ELECTIONS** introduce a fresh layer of uncertainty around the future political makeup of Congress. In 2026, all 435 seats in the House of Representatives and one-third of the Senate's 100 seats will be contested. The outcome of these elections could have far-reaching implications for federal regulations, fiscal policy, taxation, and broader economic initiatives. They will also serve as a key referendum on President Trump's political agenda.

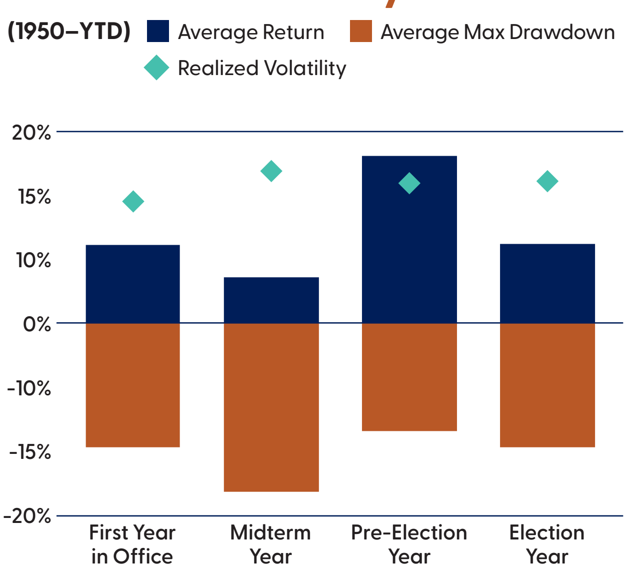
Since taking office, President Trump has secured a number of legislative victories under a Republican-controlled Congress. These include the OBBBA, the Genius Act, the Halt Fentanyl Act, the Rescissions Act, and nearly 200 executive orders spanning a wide range of policy areas. However, the Republican majority in the House is razor-thin, as they hold just 219 seats – one more than the 218 needed for control. This represents the slimmest margin since 1931 and significantly increases the risk of a shift in power next fall. Historical trends reinforce this vulnerability. In 20 of the last 23 midterm elections, the president's party has lost seats in the House, with an average decline of 27 seats.

In the Senate, Republicans hold a three-seat majority, with Vice President JD Vance providing a tie-breaking vote. For Democrats to reclaim the Senate, they would need to flip a minimum of four seats – a difficult task that would require a combination of defeating three Republican incumbents in states Trump won in 2024 and capturing seats in Michigan or Georgia, which also swung Republican in the last presidential election.

For markets, political uncertainty in Washington often translates into volatility and can weigh on investor sentiment. Historically, midterm years have been challenging for equities. Since 1950, the S&P 500 has averaged a modest 4.6% gain during midterm years, with an average maximum drawdown of 17.5%, making it the most volatile and weakest-performing year in the four-year Presidential cycle. Investors typically adopt a wait-and-see approach leading into November, with most of the year's gains historically occurring after Election Day. Once political uncertainty subsides, markets tend to rebound. In fact, the S&P 500 has posted an average gain of 14.5% in the 12 months following midterm elections and has finished higher every time over the last 75 years, although past performance does not guarantee future results. **[Fig.10]**

*fig.* 10

## S&P 500 Performance During the Presidential Cycle





Source: LPL Research, Bloomberg 11/05/25

Past performance is no guarantee of future results. All indexes are unmanaged and can't be invested in directly. The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of the predecessor index, the S&P 90.

# Navigating Neutral

**KEY EXPECTATIONS**

- The direction and level of interest rates depend on how low the Fed will take the fed funds rate in 2026. Markets expect the Fed to cut short-term interest rates to 3.0%, which, if true, means the 10-year will likely trade between 3.75% and 4.25% throughout the year.
- Corporate credit markets are showing signs of rising idiosyncratic risks. However, corporate credit market spreads are still largely priced to perfection. While idiosyncratic risks will continue to increase, we do not expect systemic credit risks to rise.
- Returns will be income-driven as Treasury yields stay rangebound and credit spreads remain tight; agency MBS and investment-grade corporates should outperform Treasuries, while riskier sectors face limited upside and higher default risk.

By Lawrence Gillum, CFA, Chief Fixed Income Strategist

Going into 2026, understanding the Fed's reaction function is critically important to our Treasury rate outlook for 2026 and beyond. Moreover, understanding market expectations for both the near-term path of short-term interest rates and the destination fed funds rate provides insight to what's "priced in" and thus already expected. Importantly, particularly for the expected level for the 10-year Treasury, the fed funds destination rate serves as both a signal and anchor for longer-term yields. As such, our forecast for the 10-year Treasury must incorporate not only the expected path of policy rates but also the broader macroeconomic environment, inflation expectations, and term premium dynamics.

### Fed Policy, r-Star, and the Outlook for Long-Term Rates

If the Fed maintains a "slightly restrictive" stance, as it has suggested, the 10-year yield may remain elevated relative to historical neutral levels. However, any shift in the Fed's tone — whether toward easing or a more neutral posture — could prompt a recalibration in market pricing, particularly if inflation continues to moderate and growth slows. Ultimately, our rate outlook reflects a balance between what the Fed is likely to do and what markets have already priced in, with the neutral rate serving as a key reference point in that assessment.

The neutral rate of interest, often referred to as r-star (r*), represents the theoretical interest rate at which monetary policy neither stimulates nor restricts economic growth when the economy operates at full employment with stable inflation. This equilibrium concept, while unobservable, plays a crucial role in guiding Fed policy decisions and profoundly influences Treasury market dynamics.

Estimates of r-star have declined significantly over recent decades, falling from around 4–5% in the pre-global financial crisis era to current estimates ranging between 2.5–3.5% in nominal terms, though considerable uncertainty surrounds these figures. With inflationary pressures falling from peak levels but still meaningfully above the central bank's 2% target, the Fed has signaled its intention to gradually reduce rates toward a "slightly restrictive" stance rather than immediately returning to neutral.

Given the uncertainty about what the neutral rate is, though, there are several differing views within the committee, ranging from zero to four expected cuts in 2026. Importantly, market pricing suggests that the Fed's rate-cutting campaign could end by the second half of 2026 with a trough rate of around 3%. If market pricing is right (and given the historical 1.0% average non-recessionary spread between the 10-year and the fed funds rate, as we noted in last year's 2025 Outlook), it's likely the 10-year Treasury yield will remain around 4.0%. To get a lower 10-year Treasury yield, market pricing would need to show an accommodative monetary policy stance with the fed funds rate meaningfully below 3%. And while we expect the economy to slow into the first part of 2026 before rebounding later in the year, with inflationary pressures still above the 2% target, it's unlikely the Fed will cut rates to levels that would take the 10-year Treasury much lower. Thus, we think a 3.75% to 4.25% 10-year Treasury yield range for 2026 is appropriate, at least for now. Additionally, with upcoming changes to the FOMC — expected to adopt a more dovish stance following Chairman Powell's departure in May and the Trump Administration's appointment of his successor — market expectations will likely shift toward deeper rate cuts than currently priced in. This dynamic should help prevent the 10-year yield from drifting meaningfully higher (absent a reacceleration of inflationary pressures, which isn't our base case). As fig. 11

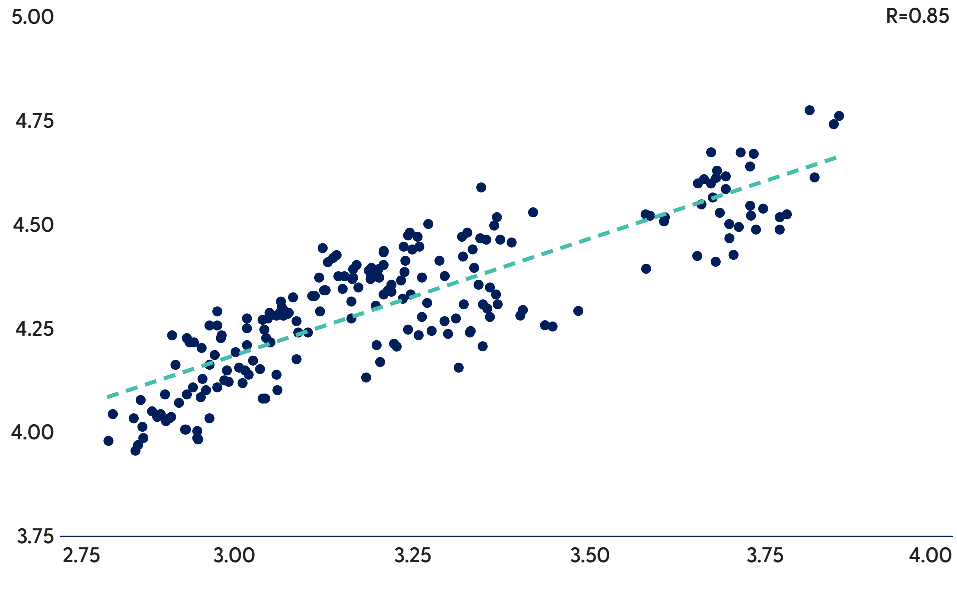
## 10-Year Treasury Is Highly Correlated to the Expected Fed Funds Trough Rate

10-Year Treasury Yield (Left axis) x

December 2026 Implied Fed Funds Rate (Bottom axis)

Source: LPL Research, Bloomberg, 10/31/25

Past performance is no guarantee of future results.




such, we don't think right now is a good time to overweight or underweight duration (interest rate sensitivity) in fixed income portfolios. A neutral duration relative to benchmarks is, in our view, still appropriate. And, for those investors who want to own bonds for income, the belly of the curve (out to 5-years) remains attractive. **[Fig.11]**

### Credit View: Cockroaches, Canaries, and Zombies?

In corporate credit markets, early indicators of stress often emerge subtly — not through dramatic dislocations, but through subtle shifts in borrower behavior, isolated defaults, and nuanced changes in market dynamics. Much like the canaries once used in coal mines to detect invisible threats, corporate credit markets often serve as early warning signals for broader economic vulnerabilities.

While investment-grade bonds continue to benefit from strong technicals and steady demand, the picture is less reassuring for lower-rated issuers. Recent defaults and a rise in payment-in-kind activity suggest that the leveraged credit space is under pressure. J.P. Morgan CEO Jamie Dimon's recent analogy comparing credit events to cockroaches — where one sighting implies many more — feels particularly apt. The public collapses late in 2025 of companies like Saks, New Fortress Energy, and Tricolor Holdings have inflicted steep losses on investors, raising concerns that these aren't isolated incidents.

Data from Cornerstone Research underscores the trend: the first half of 2025 saw a record number of "mega" bankruptcies, with large-company filings up 81% over the long-term average. The refinancing wall looming in 2026–2027 poses additional risks, especially for companies that issued debt during the ultra-low-rate era and now face significantly higher rollover costs.

Moreover, the growing tally of "zombie companies" — mostly smaller cap companies with higher interest rate costs than income — adds to the potential for additional idiosyncratic risks within corporate credit markets. With limited relief in sight from tariffs or interest rates, these firms may face restructuring or default unless they can repair their balance sheets.

Despite these challenges, the broader credit market is not in crisis, nor do we think we are on the cusp of systemic credit issues. Our issue is with market valuations. Credit spreads, or the additional compensation for owning risky debt, remain historically tight given these rising idiosyncratic risks. Both high-grade and high-yield companies currently enjoy spreads at or near the lowest levels over the past 20 years. Only CCC-rated companies, which are the ones most prone to default, have spreads above recent secular tights. But even these spreads are only in the 29th percentile versus history, meaning spreads for these companies have been higher 71% of the time over the past 20 years. **[Fig.12]**

Our main point here is that corporate credit investors should remain vigilant. While yields may appear attractive, spreads remain below longer-term averages and are arguably not providing sufficient compensation to take on these emerging credit risks. Active portfolio management and strategies that are unwedded to corporate bond indexes may be able to help navigate these issues.

To be fair, spreads can stay tight for long periods of time, with the 1990s a prime example of expensive credit markets that lasted for years between spread-widening events. Nonetheless, investors should remain vigilant, balancing the appeal of attractive yields with a clear-eyed view of the underlying risks. As always, diversification, discipline, and a long-term perspective will be key to weathering any turbulence that may lie ahead. Corporate credit markets are still generally well-priced in our view, so we don't think investors are being appropriately compensated given current (and growing) risks. Securitized markets — residential MBS, asset-backed securities, and select commercial mortgage-backed securities — remain attractive, in our view.

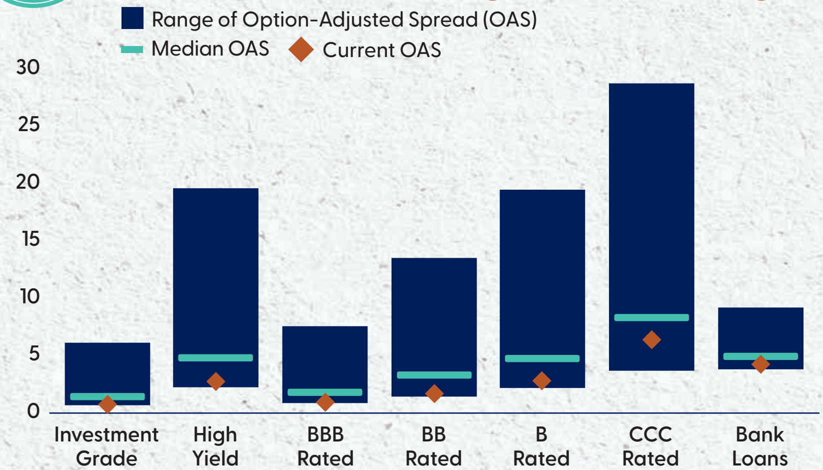
### What to Expect in 2026

With Treasury yields largely expected to stay rangebound with the 10-year Treasury yield between 3.75% and 4.25% in 2026 and with credit spreads unlikely to tighten much from current levels, returns will likely be primarily driven by income. Agency mortgage-backed securities (MBS) and investment-grade corporates should outperform Treasury securities given the higher starting yields for both asset classes, but given our view on rising idiosyncratic risks within the corporate credit markets, we still have a (marginal) preference for MBS over corporates. Importantly, as the Fed continues to cut short-term interest rates, cash yields will come down as well, which should allow high-quality fixed income markets to outperform cash holdings once again.

While riskier segments within the fixed income market have higher starting yields, the potential for spread widening and increased default activity leaves hypothetical returns below core bond sectors in most expected environments. A stable or slightly higher interest rate environment and even tighter spreads are needed for high yield and leveraged loan sectors to outperform core sectors. We remain neutral (although biased negative for tactical models) on both asset classes but would lean towards high yield over leveraged loans, if pressed, given the potential for price appreciation if interest rates fall. **[Fig.13]**

fig. 12

## Spreads for Most Credit Markets Remain Below Long-Term Averages




Source: LPL Research, Bloomberg, 10/31/25

All indexes are unmanaged and cannot be invested into directly.
Past performance is no guarantee of future results.

### THE BOTTOM LINE

In a rangebound yield environment with limited spread compression, fixed income returns in 2026 will be driven primarily by income. We favor securitized markets generally and agency MBS specifically over investment-grade corporates due to rising idiosyncratic risks and expect high-quality bonds to outperform cash as Fed rate cuts lower short-term yields. Riskier credit segments may underperform core sectors unless rates fall or spreads tighten meaningfully, with a slight tactical bias toward high yield over loans.

fig. 13

## Hypothetical Returns: Interest Rate Scenario Analysis

| | Bull Case | | Base Case | Bear Case | | Breakeven Rate Change |
|---|---|---|---|---|---|---|
| ***Change in interest rates*** | -1.0% | -0.5% | No Change | +0.5% | +1.0% | |
| Bloomberg US Aggregate Bond Index | 9.9% | 7.1% | 4.3% | 1.6% | -1.2% | 0.72% |
| Bloomberg MBS Index | 9.8% | 7.2% | 4.7% | 2.1% | -0.5% | 0.82% |
| Bloomberg US Treasury Index | 9.3% | 6.6% | 3.9% | 1.2% | -1.5% | 0.66% |
| Bloomberg US Corporate Index | 11.2% | 8.0% | 4.8% | 1.6% | -1.6% | 0.70% |
| Bloomberg Intermediate Corp Index | 8.1% | 6.3% | 4.5% | 2.7% | 0.9% | 1.09% |
| Bloomberg Muni Index | 7.6% | 5.7% | 3.6% | 1.4% | -0.9% | 0.54% |
| Bloomberg US High Yield Corporate Index* | 7.6% | 6.4% | 5.2% | 4.1% | 2.9% | 2.38% |
| Bloomberg BB/B High Yield Index ** | 7.0% | 6.1% | 5.1% | 4.2% | 3.1% | 2.12% |
| Bloomberg Leveraged Loan Index ^ | 5.2% | 5.5% | 5.7% | 6.0% | 6.2% | N/A |
| Bloomberg EMD Index | 11.4% | 8.6% | 5.8% | 3.0% | 0.2% | 0.95% |

*Assumes 3% default rate and 40% recovery rate ** Assumes 2% default rate and 50% recovery rate ^ Assumes 5% default rate and 40% recovery rate

Source: LPL Research, Bloomberg 10/31/25

Past performance is no guarantee of future results. All indexes are unmanaged and can't be invested in directly.
This is a hypothetical example and is not representative of any specific investment. Your results may vary.

# Seeking Resilience Through Alts

**KEY EXPECTATIONS**

- **Continue to utilize equity market-neutral and tactical discretionary global macro strategies as portfolio diversifiers, particularly in an environment of elevated volatility and ongoing uncertainty.**
- **Merger arbitrage and private equity should benefit from renewed momentum in corporate dealmaking, in our view.**

**By Jina Yoon, CFA, Chief Alternative Investment Strategist**

2025 was a year defined by the economy and markets carefully navigating the line between resilience and vulnerability. Inflation moderated but remained above target, while signs of labor market cooling prompted the Fed to resume rate cuts. A pro-growth tax relief bill was passed, offering short-term support but raising concerns about long-term fiscal sustainability. U.S. equities reached record highs — alongside gold, an unusual pairing that signals a shifting market backdrop where alternative strategies are poised to play an increasingly important role. Elevated valuations and above-average volatility continued to draw investor attention. Merger and acquisition (M&A) activity rebounded, though the recovery has been heavily concentrated in the tech sector. At the same time, isolated bankruptcies and loan write-offs began to surface. In response to this evolving backdrop, we are refining our alternative investment strategy as we head into 2026.

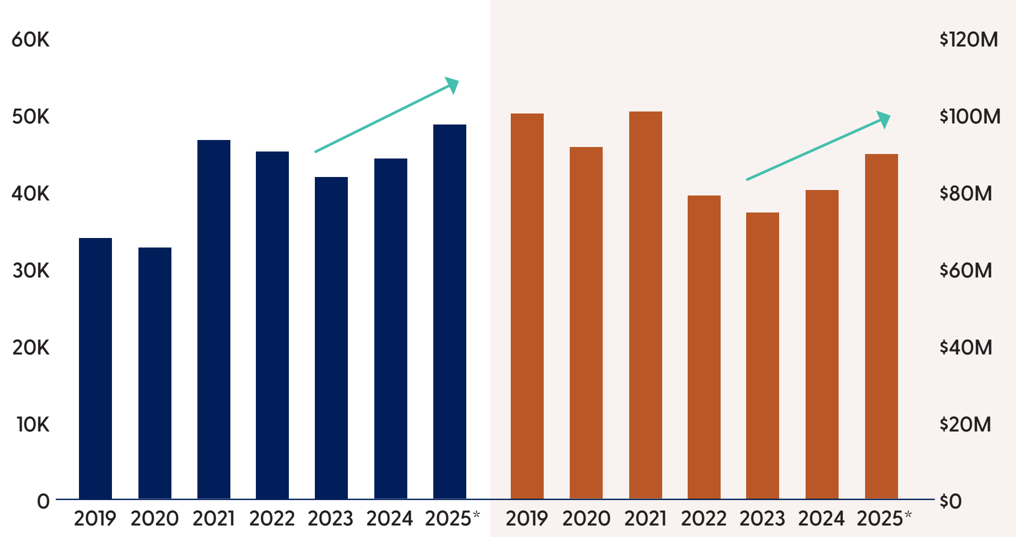
## Target Diversifiers with Minimal Broad-Market Dependence

First, as we anticipate continued market volatility and persistent dispersion across regions and sectors, we continue to favor strategies that offer diversification, downside risk mitigation, and the potential for excess returns that are less reliant on just pure directional market exposure. These include equity market-neutral and tactical discretionary global macro strategies, which seek returns independent of broader equity market performance.

Second, we are tactically dialing back our positive view on trend-following strategies due to their current extended long positioning in risk assets, particularly equities. Trend followers came into the second half of the year carrying lighter and more balanced exposures, making them an attractive strategy for investors seeking enhanced portfolio diversification. While we continue to believe strongly in the long-term portfolio diversification benefits that trend followers bring to allocations, their current positioning likely limits their tactical contribution potential.

fig. 14

## M&A Activity Is Building Momentum As Larger Deals Are Being Executed




Global M&A Deal Count (Left axis)

Average Value per Deal (Right axis)

*Estimate

Source: LPL Research, Pitchbook 09/30/25

Past performance is no guarantee of future results.

### Opportunities in the Resurgence of Corporate Dealmaking

Third, we are becoming more constructive on merger arbitrage and private equity, as both stand to benefit from the uptick in corporate dealmaking we're beginning to observe. M&A activity has been trending higher, both in deal volume and value, supported by the trend towards deregulation, rate cuts, and the growing demand for AI-related transactions. This rebound in M&A activity, coupled with attractive spreads, will broaden the investible universe for merger arbitrage and may create more favorable conditions that they can benefit from. Private equity also stands to benefit. After a prolonged period of limited exits and constrained deployment opportunities, sponsors are once again finding both buyers and sellers in the market. That momentum has enabled General Partners (GPs) to recycle capital and begin delivering long-awaited distributions to Limited Partners (LPs), even as some key performance metrics remain below historical norms. While it might be too early to call this a full-fledged recovery, we believe it does seem to be moving in the right direction. **[Fig.14]**

### Be More Selective in Private Credit

Lastly, we are further moderating our view on private credit. We came into the year with a softer positive outlook on the space, noting the increased competition for high-quality deals and the impact of lower rates. The overall space remains fundamentally healthy and continues to offer historically attractive yields. That said, the recent uptick in episodic bankruptcies, loan write-offs, elevated payment-in-kind (PIK) issuance, and multi-year lows in interest coverage ratios call for a more cautious and selective approach. Overall, for private markets, we remain positive on infrastructure and secondaries and are turning moderately positive on private equity given the recovery in M&A.

### THE BOTTOM LINE

Given the evolving market dynamics, we are refining our alternative investment strategy as we head into 2026. We continue to favor strategies that offer enhanced diversification, downside risk mitigation, and the potential for excess returns less reliant on broad market direction — specifically equity market-neutral and nimble discretionary macro approaches. We are also more positive on merger arbitrage and private equity, which could benefit from the recent pickup in corporate dealmaking. Within private markets, we remain constructive on infrastructure and secondaries, both of which have demonstrated resilience and steady growth throughout the year. At the same time, we are moderating our tactical view on trend-following strategies, given their current heavy long exposure to risk assets. We also believe a more selective approach is warranted in private credit, given signs of deterioration in select segments of the market.

| Strategies | Our Views | Positive | Neutral | Negative |
|---|---|---|---|---|
| **Long/Short Equity** | Elevated volatility and ongoing stock dispersion continue to create a favorable environment for low-net, stock-picking strategies. For long-biased long/short equity managers, expanding beyond U.S. markets into regions with supportive policy frameworks may offer more compelling opportunities. | ✓ | | |
| **Event Driven** | The M&A and IPO markets have begun to show signs of recovery, expanding the investable universe for merger arbitrage managers which they should benefit from. | ✓ | | |
| **Global Macro** | Tactical discretionary macro strategies are well-positioned to capitalize on opportunities emerging from shifting economic conditions, evolving policy landscapes, and elevated market volatility. | ✓ | | |
| **Managed Futures** | We remain mindful of the significant long exposure to risk assets — particularly equities — among trend-following strategies. In this environment, a broadly diversified allocation across sub-strategies is preferred. | | ✓ | |
| **Multi-PM Single Funds** | Multi-strategy funds should continue to benefit from the ability to dynamically invest across alternative investment strategies. | ✓ | | |
| **Specialty Strategies** | Volatility arbitrage and tail risk with reduced/no negative carry can potentially add value to portfolios. | | ✓ | |

# The U.S. Dollar—From Dominance to Disruption

## KEY EXPECTATIONS

- The dollar underperformed in 2025, primarily due to tariff policy shocks and de-dollarization trends.
- Increased hedging activity among foreign investors holding U.S. assets has also contributed to the weakness.
- Despite the decline, the greenback remains in a secular uptrend, with growing evidence of a bottom developing.
- Fears of the dollar losing its reserve status are overstated, in our view, as data shows there is no viable alternative.

By Adam Turnquist, CMT, Chief Technical Strategist

The U.S. dollar has underperformed in 2025, falling more than 10% in the first half, marking its worst start to a year since 1973. The decline was triggered by a series of policy shocks, beginning with the Trump administration's invocation of the International Emergency Economic Powers Act (IEEPA) in February. The move, aimed at regulating international trade under a declared national emergency, rattled markets and undermined confidence in the dollar.

Additional pressure came from Germany's major fiscal stimulus package, which boosted the euro, and the release of DeepSeek R1 – a reportedly more cost-efficient AI model from China – that raised questions about U.S. tech dominance and American exceptionalism. On April 2, dubbed "Liberation Day," sweeping global tariffs were introduced, sparking a near bear-market drop in equities. Surprisingly, traditional safe havens, like U.S. Treasuries and the dollar, failed to cushion the sell-off, breaking their historical role as hedges against equity risk.

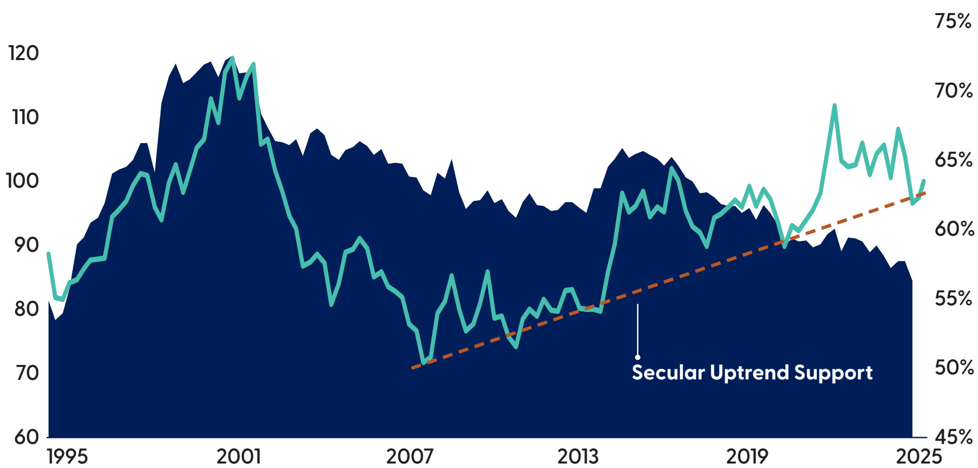
### A Perfect Pair to a Perfect Storm

For years, foreign investors have benefited from rising U.S. equities and a strong dollar. But in April, this "perfect pair" turned into a "perfect storm." Foreign investors with overweight U.S. equity positions and limited currency hedges suffered steep losses. For example, unhedged euro-based investors in the S&P 500 witnessed a 27.3% decline from the February high to the April low, about 8% worse than the index itself.

The breakdown in the correlation between stocks and the dollar stoked increased hedging demand. Investors began increasing their hedging ratios by selling dollars in the forward market, intensifying downward pressure. In the aftermath, demand for dollar-hedged positions in the U.S. has become increasingly evident. According to Deutsche Bank, "Starting around mid-year, and for the first time this decade, flows into dollar-hedged exchange-traded funds (ETFs) that buy U.S. assets have outpaced those into unhedged funds."

fig. 15

## The Dollar Is Down, but Not Out




Source: LPL Research, Bloomberg 11/05/25

Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

## Crypto's Maturity Test


In 2025, the cryptocurrency market benefited from broad-based Trump administration support and further acceptance from the investment community that the industry is here to stay. We expect this trend to continue in 2026, as crypto continues to grow and integrate itself more with traditional markets. Product development is also expected to see significant growth next year, as investors become more familiar with how the largest cryptocurrencies differ and in their long-term use cases.

Volatility remains a consistent feature of the market — the price of Bitcoin declined from $125,000 to just above $80,000 during October/mid-November; additional regulatory frameworks and prudent oversight will be key in driving further adoption. Ideally, regulation will help establish greater legitimacy in the crypto space by distinguishing assets with credible investment use cases from those with more questionable characteristics

Overall, we continue to view the industry as untested, speculative, and currently in the process of fully defining itself. Risks aside, the ongoing evolution of digital assets could begin to have meaningful implications for traditional markets, underscoring why they should not be ignored or completely dismissed.

### Reserve Currency Status Under Scrutiny

The dollar's sharp drop reignited debate over its role as the world's reserve currency. Protectionist trade policies, fiscal deficit concerns, questions around Fed independence, and growing central bank demand for gold contributed to the skepticism. Yet, the dollar still dominates: It accounts for 89% of foreign exchange transactions, 54% of export invoicing, and 56% of global reserves. And while dollar reserves are down from their 2000 peak, this decline mirrors the U.S.'s shrinking share of global GDP and exports, not necessarily a collapse in confidence. Reserve levels are also not at unprecedented levels, as they fell to around 45% in 1992.

Gold may pose the biggest threat to the dollar, as it now accounts for about 20% of global reserves, recently surpassing the euro at 16%. However, diversification away from the dollar hasn't led to significant reallocation into other currencies. Most importantly, there is no viable alternative to the dollar. The dollar's global dominance stems from its foundation in the 1944 Bretton Woods Agreement and is reinforced by the unmatched scale, liquidity, and transparency of U.S. financial markets, as well as the central role the U.S. economy and dollar play in global trade and finance.

### Technical and Tactical Outlook

Despite recent volatility, the dollar's long-term uptrend remains intact. The 2025 drawdown found support from a secular trend dating back to 2011. A sustained move above 100.35 could confirm a short-term bottom, targeting the 104–105 range. Speculator positioning and sentiment are improving, suggesting potential upside from short covering.

A stronger dollar could pressure commodities and international equities, particularly gold and emerging markets. Domestically, U.S. companies with high foreign revenue exposure — especially those in tech, materials, and energy — may face earnings headwinds due to currency translation effects.

To break the long-term uptrend, the dollar would need to fall below the September lows near 96. That would likely signal a new bear market cycle, shifting from consolidation to a resumed downtrend. Key downside risks for 2026 include escalating trade tensions, a weakening U.S. economy, and capital rotation into outperforming international markets. A more dovish Fed relative to the European Central Bank (ECB) or a more hawkish stance from the BOJ could also weigh on the dollar. **[Fig.15]**

### THE BOTTOM LINE

We remain respectful of the dollar's long-term uptrend and maintain an innocent-until-proven-guilty outlook. The rebound in big tech leadership, pro-growth stimulus coming from the OBBBA, growing carry trade appeal in the dollar, and potential upside to economic and earnings expectations could keep the uptrend intact. However, the likelihood of additional monetary policy easing amid a slowing labor market, lingering trade policy uncertainty, and ongoing concerns over the sustainability of the deficit could limit upside to the upper end of the dollar's consolidation range (107.50–110 area) in 2026.

# Geopolitics, AI, & the Path to a Supercycle

## KEY EXPECTATIONS

- The broader commodity market remains rangebound, though asset-level volatility is elevated.
- Supply-demand dynamics and global growth remain key drivers of performance, but geopolitical tensions and trade policy have become increasingly impactful.
- We expect precious metals to continue outperforming. Recent selling pressure in the space does not change its constructive macro backdrop.
- Oil markets remain weak due to well-telegraphed supply concerns. Better-than-feared economic activity, easing trade tensions, and reduced OPEC+ production could help drive a rebound.

By Adam Turnquist, CMT, Chief Technical Strategist

The broader commodities market remained relatively stable at the index level in 2025, with the Bloomberg Commodity Index trading in a tight range between 96 and 108. However, this calm exterior masks significant volatility across the individual commodities that comprise the index. While traditional supply-demand dynamics and global growth remain key drivers, geopolitical tensions and trade policy have become increasingly influential.

Looking ahead to 2026, several macro catalysts could support commodity prices. Potential rate cuts and lower Treasury yields — especially under new Fed leadership — may weaken the dollar, providing a tailwind for commodities. Stimulus from the OBBBA and a possible recovery in China, the world's largest commodity importer, could further boost demand. Trade policy remains a wild card, but recent progress, including a truce with China, suggests a more constructive tone. Additionally, the green energy transition and surging investment in AI infrastructure are expected to drive sustained demand for several commodities.

While these factors could collectively push commodities into a supercycle — a period of broad, synchronized strength — headwinds remain. A bear market in oil and the inability of the Bloomberg Commodity Index to break above key resistance near 109 suggest upside may be capped in the near term. **[Fig.16]**

### Metals Could Benefit from Several Different Catalysts

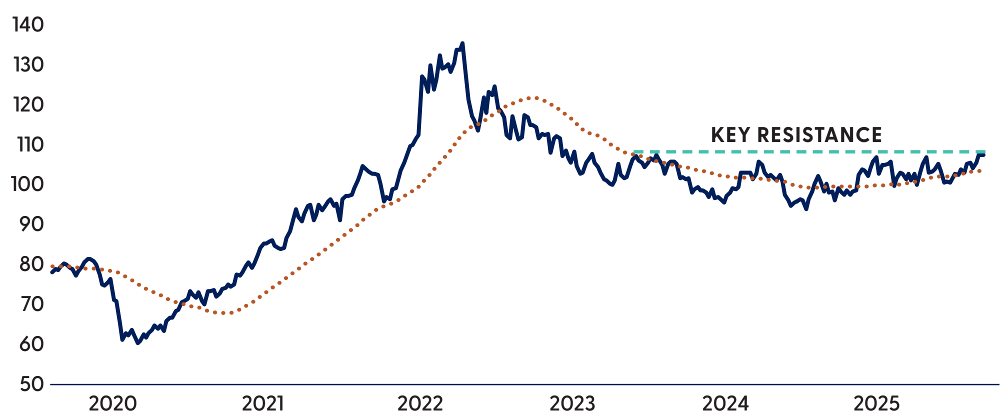
Precious metals surged in 2025, led by platinum, which broke out of a multi-year base due to supply disruptions in South Africa and strong Chinese demand. Silver also rallied to its highest levels since 2011, supported by supply deficits, industrial demand, ETF inflows, and geopolitical uncertainty. Russia's move to include silver in its strategic reserves signals growing central bank interest beyond gold.

Gold remains a consistent outperformer across commodities and has even exceeded the S&P 500's return since its bear-market low in 2022. A weaker dollar, falling real yields, tariff-related inflation angst, and, more recently, the resumption of the Fed's rate-cutting cycle and fear-of-missing-out inflows into ETFs have all been supporting the rally.

Geopolitics and trade policy have also been important factors. Russia's invasion of

*fig.* 16

## Commodities Are on the Verge of a Breakout




Bloomberg Commodity Index (BCOM)
40-Week Moving Average

Source: LPL Research, Bloomberg 11/05/25

Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

Ukraine in early 2022 and the seizure of over $300 billion of Russian dollar reserves prompted a swift central bank pivot to sanction-immune assets. Gold has been a major beneficiary as central banks have continued to ramp up purchases, with no signs of slowing down. According to the World Gold Council, 95% of central bankers surveyed expect gold reserves to increase over the next 12 months, while nearly three-quarters expect dollar reserves to decline over the next five years. Gold prices have been further supported by safe-haven demand stemming from conflicts in the Middle East, trade policy uncertainty, and even the passage of the OBBBA, which renewed fiscal deficit concerns. The growing U.S. Critical Minerals List introduces potential federal funding for domestic mining projects, providing another catalyst for the broader metals market.

Overall, we maintain our positive view on the precious metals space. We view the recent pullbacks in gold and silver as profit-taking pressure from extremely overbought levels. Most importantly, both remain above their longer-term uptrends, and we believe many of the catalysts that supported the rallies in 2025 will continue in 2026. We recommend using pullbacks above support as buying opportunities within this space rather than chasing rallies at near-term overbought levels. **[Fig.17]**

Industrial metals have been led by a volatile copper market. In early July, the White House announced a 50% tariff on copper imports, a larger-than-exempted levy that sparked a major front-running rally in U.S.-based copper. However, right before the tariffs went into effect in August, the administration clarified that refined copper was exempt from the tariff, sending prices down 20% in a single day. These events serve as an important reminder of how quickly trade policy can change and how significant its impact can be on prices.

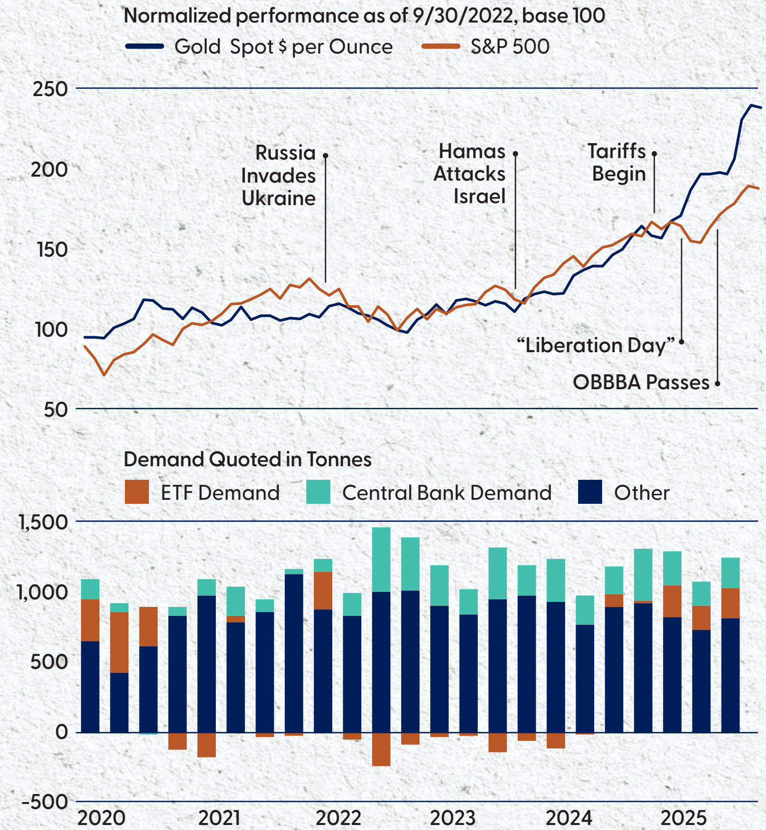
As we look ahead to 2026, prices have started to recover after plunging last summer. Copper's importance to the electrification and grid modernization transition, the continued AI buildout, and increased infrastructure spending should remain supportive of price and counterbalance building inventories due to rising production and signs of reduced demand from China.

### Oil Prices Poised for Stabilization in 2026?

Energy markets underperformed in 2025, with West Texas Intermediate (WTI) crude oil stuck in a bear market. Oversupply and weak demand have offset temporary geopolitical risk premiums. However, OPEC+ plans to pause production increases in Q1 2026, potentially stabilizing prices. Key support near $55 may define the lower bound for oil next year, especially if global growth can surprise to the upside.

*fig.* 17

## Geopolitics and Trade Have Been Important Factors Behind Gold's Outperformance




Source: LPL Research, World Gold Council, Bloomberg 11/05/25

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Past performance is no guarantee of future results.

### THE BOTTOM LINE

We maintain a constructive view on commodities heading into 2026, while recognizing heightened uncertainty around global trade dynamics, monetary policy shifts, economic growth trajectories, and the durability of AI-driven infrastructure investment. Slowing momentum in China, despite ongoing stimulus measures, remains a notable concern.

Within the broader commodities landscape, we continue to favor precious metals, supported by our view that many of the same catalysts that drove outperformance in 2025 will continue next year. The administration's policy shift to securing supply chains among a growing list of critical minerals should also be supportive of the broader metals market, especially for domestic producers. Oil remains under pressure and entrenched in a bear market, although further OPEC+ production cuts could help mitigate supply-side risks.

Should key macro factors — such as interest rate cuts, U.S. dollar weakness, OBBBA stimulus, and synchronized global growth — align favorably, commodities could be poised for a potential supercycle.

# Putting It All Together

## A Summary of the STAAC's 2026 Tactical Views

Strong Overweight | Overweight | Neutral | Underweight | Strong Underweight

| | | | |
|---|---|---|---|
| ASSET CLASS | Stocks | | Several cycles will likely power stock market gains in 2026, including AI investment and Fed rate cuts. Bull markets have historically performed well during their fourth year, especially in the absence of recession. Favor staying fully invested in equities with a patient approach geared toward buying dips as a pullback is probably overdue. |
| | Bonds | | Fixed income provides attractive income opportunities with starting yields still elevated (relative to history). With Treasury yields expected to stay around current levels, investors should prioritize coupon clipping as opposed to expected price appreciation. However, bonds offer portfolio preservation and potential price appreciation if an unexpected event occurs that causes the Fed to cut rates more aggressively than what is currently priced in. |
| | Cash | | With the Fed cutting short-term interest rates, cash rates will continue to fall. And while cash rates are likely going to stay above levels experienced pre-COVID-19, long-term investors are likely better served by extending the maturity of cash holdings (not too far out on the Treasury curve) and taking advantage of still high bond yields. |
| | Alternative Investments | | With economic and policy uncertainty likely to continue into the new year, we remain positive on alternative investment strategies, as we believe they can help bolster portfolio stability during periods of volatility. Our preferred approaches include equity market-neutral and discretionary global macro. We are also turning moderately positive on merger arbitrage which could benefit from the thawing M&A market. |

| | | | |
|---|---|---|---|
| EQUITIES | | **Geography** | |
| | U.S. | | AI development, Fed rate cuts, fiscal stimulus, and a resilient U.S. dollar are among keys to potential U.S. outperformance in 2026. Rich valuations may limit upside, but these powerful cycles and the U.S. innovation advantage make it very difficult to underweight U.S. equities here. |
| | Developed International | | The STAAC remains neutral on developed international. International economies have become more competitive, with significant deficit/defense spending in Europe, and valuations are attractive, but the U.S. dollar rebound and U.S. tech strength are headwinds for international outperformance. Watch for a dollar reversal lower as a potential catalyst. |
| | Emerging Markets (EM) | | Fundamentals have improved some in EM, but not enough to recommend the asset class over the U.S., despite attractive valuations. China's economic outlook has improved as trade tensions with the U.S. have eased. Watching for technical analysis picture to improve and for a potential bearish move in the dollar. |
| | | **Style and Market Capitalization** | |
| | Large/Mid Growth | | The technology-driven earnings on the growth side help justify rich valuations. Large cap companies continue to offer compelling earnings power. Outperformance is more likely as economic growth moderates, but AI scrutiny will only increase. The rotation to value many called for a year ago could arrive in 2026. |
| | Large/Mid Value | | An increase in market volatility, along with some AI disappointments, may be needed for value stocks to outperform in 2026. Valuations are relatively attractive and the OBBBA will drive helpful capital investment. Waiting for more evidence of a rotation to value that might have staying power. |
| | Small Growth | | Attractive valuations and impending Fed rate cuts are supportive, but a slowing economy, potentially tighter credit markets in 2026, and ongoing AI investment that favors large caps could present headwinds, especially if stocks pull back in the near term as we expect. |
| | Small Value | | Attractive valuations, financial deregulation, a likely pickup in capital investment, and Fed rate cuts are supportive. While some policy uncertainty has cleared, STAAC favors balance sheet strength in a slowing economy. Earnings estimates have been softening. |

■ Strong Overweight ■ Overweight ■ Neutral ■ Underweight ■ Strong Underweight

## FIXED INCOME

### Core Sectors

| | | |
|---|---|---|
| U.S. Treasuries | Neutral | The U.S. Treasury yield curve should steepen, led by a fall in short-term rates, as the Fed continues to cut rates. Absent a sharp, unexpected fall in economic growth, we think the 10-year yield is likely to remain rangebound and could end the year between 3.75% and 4.25%. A large amount of Treasury issuance, sticky inflation, and higher non-U.S. developed government bond yields should keep longer maturity Treasury yields elevated. |
| Mortgage-Backed Securities (MBS) | Overweight | Yields and spreads have fallen recently but remain (marginally) attractive, particularly relative to lower-rated corporates. Due to still-high mortgage rates and a lack of prepayments, favorable supply/demand dynamics may help support the market. Additionally, as the Fed continues to cut rates and interest rate volatility falls, MBS should outperform other high-quality fixed income sectors. |
| Investment Grade Corporates | Underweight | We recommend an underweight position to benchmarks given rich valuations, but we think there is currently an opportunity to invest in shorter to intermediate maturity corporate securities without taking on elevated levels of interest rate or credit risk. Fundamentals remain solid and a slowing (not collapsing) economy should remain supportive for credit. |
| Treasury Inflation-Protected Securities (TIPS) | Neutral | While inflationary pressures have fallen from peak levels, we think inflation volatility could remain higher than pre-COVID-19 levels. And all-in yields for TIPS are attractive and could provide a good hedge against unexpected inflation surprises. We prefer shorter maturity TIPS for most TIPS exposures. |

### Plus Sectors

| | | |
|---|---|---|
| Preferred Securities | Neutral | We're neutral on Preferreds but starting yields are still elevated versus history and provide attractive income opportunities. Preferreds offer higher credit quality among the riskier fixed income options, while bank fundamentals are generally sound overall. Given the ongoing risks to regional banks, we prefer active management in this space. |
| High-Yield Corporates | Neutral | Both yields and spreads are below historical averages, so coupon clipping will likely be the primary driver of returns. A still strong economy should support spreads, but further price appreciation potential is limited, in our view. The asset class may be better suited for longer-term minded investors with a tolerance for higher volatility. |
| Bank Loans | Neutral | Downgrades and defaults have increased and interest rates are still high for many borrowers. Downgrades and defaults are likely going to continue to increase. Fewer investor protections and the illiquidity of individual loans remain concerns as well. Yields for the asset class remain above historical averages, but spreads are tight, leaving little room for further price appreciation. |
| Foreign Developed Market Bonds | Neutral | Non-U.S. developed bonds provide potential diversification benefits to a U.S. economy that may have stickier inflation than its European counterparts. Political uncertainty in France, monetary normalization in Japan, and increased government spending in Germany may keep longer maturity non-U.S. government bond yields elevated. Currency volatility remains a concern though, so investors may be better served by using a currency-hedged option. |
| EM Debt | Neutral | EM central banks are slightly more accommodative than the Fed, but with over 70 emerging markets, it's hard to find commonality in the asset class. Valuations are relatively attractive, but idiosyncratic risks remain. A weakening dollar is likely needed for a repeat of 2025 performance. Liquidity is also an added risk during periods of market stress. |

# Our Investment Committee is Your Investment Committee

The Strategic and Tactical Asset Allocation Committee (STAAC) is the investment committee broadly charged with overseeing the investment decisions for LPL's discretionary asset allocation platform. The 11-member committee is comprised of the senior members within LPL's Research department and is responsible for the firm's capital market views that ultimately form the firm's asset allocation decisions. The STAAC determines the firm's investment outlook and asset allocation that helps define LPL Research's investment models and overall strategic and tactical investment guidance. That guidance is delivered via recommended allocation weightings and a suite of strategy reports, articles, chart analyses, videos, and podcasts. The committee is chaired by the chief investment officer and includes investment specialists from multiple investment disciplines and areas of focus. The STAAC meets weekly to foster the close monitoring of all global economic and capital market conditions, and to ensure the latest information is analyzed and incorporated into its investment thought.

**Marc Zabicki, CFA**
Chief Investment Officer

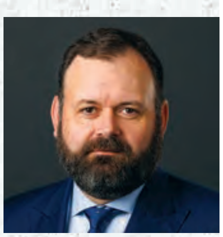
**Jeffrey Buchbinder, CFA**
Chief Equity Strategist

**Garrett Fish, CFA**
Head of Model Portfolio Management

**Scott Froidl**
Manager Research

**Lawrence Gillum, CFA**
Chief Fixed Income Strategist

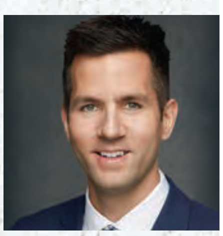
**Jason Hoody, CFA**
Head of Investment Consulting



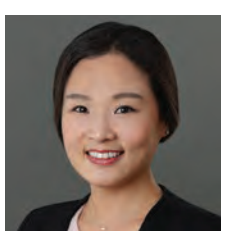
**Kristian Kerr**
Head of Macro Strategy

**Jeffrey Roach, PhD**
Chief Economist

**George Smith, CFA, CAIA, CIPM**
Portfolio Strategist



**Adam Turnquist, CMT**
Chief Technical Strategist



**Jina Yoon, CFA**
Chief Alternative Investment Strategist

The opinions, statements, and forecasts presented herein are general information only and are not intended to provide specific investment advice or recommendations for any individual. It does not take into account the specific investment objectives, tax and financial condition, or particular needs of any specific person. There is no assurance that the strategies or techniques discussed are suitable for all investors or will be successful. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing.

Any forward-looking statements, including the economic forecasts herein may not develop as predicted and are subject to change based on future market and other conditions. All performance referenced is historical and is no guarantee of future results.

References to markets, asset classes, and sectors are generally regarding the corresponding market index. Indexes are unmanaged statistical composites and cannot be invested into directly. Index performance is not indicative of the performance of any investment and does not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

Precious metal investing involves greater fluctuation and the potential for losses.

Any company names noted herein are for educational purposes only and are not an indication of trading intent or a solicitation of their products or services. LPL Financial doesn't provide research on individual equities.

All index data from FactSet or Bloomberg as of July 8, 2025. All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

**GENERAL RISK DISCLOSURES**

Investing involves risks, including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Investing in foreign and emerging markets debt or securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Investors can get exposure to crypto assets through exchange-traded products (ETPs) and publicly traded companies that are involved in crypto asset-related activities. Crypto assets can be exceptionally risky and are often extremely volatile. They may lack the robust regulatory protections and market oversight that traditional investments have and lack the key information that investors need to make informed decisions. Information provided might not be accurate. Crypto assets are less liquid than more traditional financial instruments, like stocks and bonds, which can exacerbate price volatility and make it more difficult to sell. In addition, fraud and scams involving crypto assets are common. The risk of losing all of an investment is significant.

**GENERAL DEFINITIONS**

**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.

**The PE ratio (price-to-earnings ratio)** is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with a lower PE ratio.

**Earnings per share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

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

**The Bloomberg U.S. Aggregate Bond Index** is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

**The Bloomberg Commodity Index** is made up of 24 exchange-traded futures on physical commodities, representing 22 commodities which are weighted to account for economic significance and market liquidity.

**The NASDAQ Composite Index** measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

**A company's market capitalization** is the market value of its outstanding shares. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share. Classifications such as large cap, mid cap, and small cap are only approximations and may change over time.

**EQUITY RISK**

Investing in stock includes numerous specific risks, including the fluctuation of dividends, loss of principal, and potential illiquidity of the investment in a falling market. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies. Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time. The prices of small and mid-cap stocks are generally more volatile than large cap stocks.

**EQUITY DEFINITIONS**

**Cyclical stocks** typically relate to equity securities of companies whose prices are affected by ups and downs in the overall economy and that sell discretionary items that consumers may buy more of during an economic expansion but cut back on during a recession. Counter-cyclical stocks tend to move in the opposite direction from the overall economy and with consumer staples, which people continue to demand even during a downturn.

**Growth stocks** are shares in a company that are anticipated to grow at a rate significantly above the average for the market due to capital appreciation. A value stock is anticipated to grow above the average for the market due to trading at a lower price relative to its fundamentals, such as dividends, earnings, or sales.

**Value stocks** are anticipated to grow above the average for the market due to trading at a lower price relative to its fundamentals, such as dividends, earnings, or sales.

**Large cap stocks** are issued by corporations with a market capitalization of $10 billion or more, and small cap stocks are issued by corporations with a market capitalization between $250 million and $2 billion.

**FIXED INCOME RISKS**

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and changes in price. Bond yields are subject to change. Certain call or special redemption features may exist, which could impact yield. Government bonds and Treasury bills are guaranteed by the US 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. 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. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

**FIXED INCOME DEFINITIONS**

**Credit quality** is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default. Credit ratings are published rankings based on detailed financial analyses by a credit bureau, specifically as it relates to the bond issue's ability to meet debt obligations. The highest rating is AAA, and the lowest is D. Securities with credit ratings of BBB and above are considered investment grade.

**The credit spread** is the yield the corporate bonds less the yield on comparable maturity Treasury debt. This is a market-based estimate of the amount of fear in the bond market.

**Base-rated bonds** are the lowest-quality bonds that are considered investment-grade, rather than high-yield. They best reflect the stresses across the quality spectrum.

**Bloomberg U.S. Aggregate Bond Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**FIXED INCOME ASSET CLASSES**

**Mortgage-backed Securities (MBS)** are secured by a collection of mortgages, referred to as a pool. The mortgages are "securitized", or packaged, together and can be sold to investors. In this structure, interest and principal payments from the borrower pass through to the MBS securities holder. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

**High yield/junk bonds** (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

**Preferred stock** dividends are paid at the discretion of the issuing company. Preferred stocks are subject to interest rate and credit risk. As interest rates rise, the price of the preferred falls (and vice versa). They may be subject to a call feature with changing interest rates or credit ratings.

**Municipal bonds** are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free, but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

**Commodities** include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors. The fast price swings in commodities will result in significant volatility in an investor's holdings.

**CRYPTOCURRENCY RISKS**

Investors can get exposure to crypto assets through exchange-traded products (ETPs) and publicly traded companies that are involved in crypto asset-related activities. Crypto assets can be exceptionally risky and are often extremely volatile. They may lack the robust regulatory protections and market oversight that traditional investments have and lack the key information that investors need to make informed decisions. Information provided might not be accurate. Crypto assets are less liquid than more traditional financial instruments, like stocks and bonds, which can exacerbate price volatility and make it more difficult to sell. In addition, fraud and scams involving crypto assets are common. The risk of losing all of an investment is significant.

**ALTERNATIVE INVESTMENT RISKS AND ASSET CLASSES**

Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

**Hedge funds** are private investment partnerships that pool funds. Hedge funds use varied and complex proprietary strategies and invest or trade in complex products, including listed and unlisted derivatives.

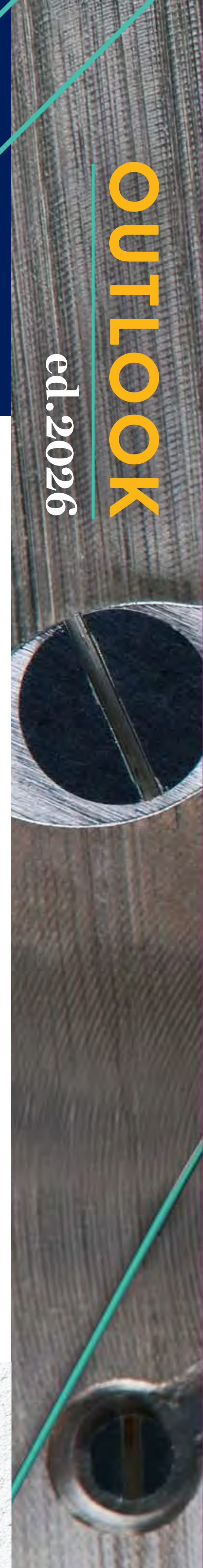
**Managed futures** are speculative, use significant leverage, may carry substantial charges, and should only be considered suitable for the risk capital portion of an investor's portfolio.

**Private credit** is non-publicly traded debt instruments created by non-bank entities, such as private credit funds or business development companies (BDCs), to fund private businesses.

**Event-driven strategies**, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position.

LPL Financial

This research material has been prepared by LPL Financial LLC.

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| Not Insured by FDIC/NCUA or Any Other Government Agency | Not Bank/Credit Union Guaranteed | Not Bank/Credit Union Deposits or Obligations | May Lose Value |