LPL Research presents:

2024 MIDYEAR

OUTLOOK

Still Waiting for the Turn

LPL Financial

Expanding on our initial *2024 Outlook, "A Turning Point,"* this midyear update offers fresh insights into the economic and market landscape, along with their potential impact on investment portfolios.

THE ECONOMY: A TALE OF PROLONGED RESILIENCE, BUT A DELAYED LANDING ON THE HORIZON

Economic growth has continued to surprise on the upside, and a definitive slowdown has proven elusive despite the late-cycle characteristics. This economic resilience can largely be attributed to the following:

- **Surprising Spending Strength:** Consumers, particularly wealthier ones, surprised us with their continued spending power despite high prices.
- **Varying Degrees of Interest Rate Sensitivity Across the Economy:** The refinancing boom experienced during the COVID-19 pandemic has boosted disposable income and further amplified the economy's resilience.

Despite initial buoyancy, economic data has begun to show signs of deterioration, leading us to anticipate an economic downshift starting in the latter half of 2024. Investors should be prepared for:

- **Slower Consumer Spending:** Consumers are shifting away from big-ticket purchases, likely leading to broader spending slowdowns.
- **Softer Labor Market:** Recent data indicates labor demand is weakening. The unemployment rate, though historically low, is expected to rise in the last two quarters of the year.
- **A Measured Slowdown:** As consumer spending and labor demand slow, a moderate economic slowdown should follow.
- **Contained Inflation:** Core services inflation is expected to cool as labor costs decelerate, but the overall impact on consumer prices will take time.
- **Shifting Federal Reserve Policy:** A higher unemployment rate, weaker growth, and contained inflation will eventually provide the Federal Reserve (Fed) with a path to cut rates before the end of the year.

THE BOND MARKET: FIXED INCOME'S NEW REALITY

Sharp shifts in interest rate expectations have been a hallmark of the bond market over the last few years, but with volatility comes opportunity, and investors should consider:

- **Current Bond Yield Levels Offer Opportunity:** Treasury yields are near their highest levels in decades, making fixed income an attractive asset class again. Investors can build diversified portfolios with high-quality bonds offering attractive returns.
- **Focus on Income:** With rate cuts likely, a focus on income generation becomes more important for fixed income investors than price appreciation. Consider fixed income over cash.
- **Don't Expect Big Moves in Longer-Term Yields:** An inverted yield curve suggests limited potential for significant declines in longer-term bond yields.

THE STOCK MARKET: EARNINGS, VALUATIONS, AND VOLATILITY IN FOCUS

The stock market enjoyed a strong first half, fueled by the anticipation of looser Fed policy and strong corporate earnings growth. Looking ahead:

- **Earnings Growth Will Be Key:** The extent of stock market gains in the second half could be influenced by corporate profits continuing to exceed expectations.
- **Valuations Are a Potential Headwind:** Elevated valuations suggest most good news is already priced in and gains could be modest.
- **Volatility Expected:** The move higher in stocks has been very steady. However, market corrections and pullbacks are a normal part of the cycle and should be anticipated, particularly as we get closer to the U.S. presidential election.
- **Be Patient:** Consider a wait-and-see approach to add to equity exposure, potentially buying during market dips.

THE BOTTOM LINE

- **Economy at a Crossroads:** The global economy is in a late-cycle transition, characterized by slowing growth and potential for increased volatility. This creates a complex environment for investors, requiring a more nuanced approach.
- **Volatility on the Horizon:** Expect increased market fluctuations across assets in the latter half of 2024. This could be driven by factors like central bank policy changes, geopolitical tensions, and election uncertainty.
- **On Bonds and Cash:** The increase in yields has made fixed income an attractive option again. Focus on income generation. Investors can best navigate the late-cycle economic environment by adding high-quality bonds, offering attractive risk-adjusted returns, and lower overall portfolio volatility. Consider moving away from cash, with the Fed likely to cut rates in the second half.
- **On Stocks:** Maintain a disciplined and more patient approach towards equities. Prioritize risk management and look to capitalize on buying opportunities during potential market corrections.
- **Overall:** Stay informed and actively monitor market developments. Be prepared to adjust tactical portfolio allocations based on changing economic and market conditions.

Please see back cover for important disclosures.

A Letter from the CIO

As we reach the halfway point of 2024, a sense of persistence defines the economic and market landscape. Trends from late 2023 have continued, with surprisingly resilient economic growth mixed with stubborn but decelerating inflation. Equity markets thrived in this better-than-expected environment, having regained all the lost ground from 2022, while the bond market continues to grapple with policy uncertainty and remains largely range-bound.

While it's tempting to forecast a continuation of these trends, our analysis suggests an impending shift. The economy looks poised to cool down in the second half, while volatility is likely to rise off of multi-year lows. Each outcome will have an impact on both policy and markets.

As we wade through multiple market variables, we leverage the expertise of our Strategic & Tactical Asset Allocation Committee (STAAC). Our seasoned team, armed with our proprietary quantitative modeling, meets weekly to analyze and discuss global markets, and is tasked with identifying potential risks and opportunities for our investors.

In this environment, we are suggesting investors prioritize fixed income and remain disciplined with their equity allocations. Simply, we believe the second half of 2024 could lead to a bumpier ride for investors. In our view, steps should be taken to bolster portfolios against a market that may be a bit less friendly in the latter months of the year. By prioritizing income generation and remaining patient and disciplined with equities, we are confident investors can successfully navigate around a potential turning point for markets later this year.

Through good markets and bad, LPL Research remains committed to our collaborative partnership with our advisors. We value our longstanding relationships and strive to provide the best possible guidance. It's a privilege to be our advisors' trusted partner, and we truly appreciate investors' confidence in our comprehensive investment approach.

Sincerely,

Marc Zabicki, CFA

Chief Investment Officer, LPL Financial

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ECONOMY:
Recalibrating for the Road Ahead

by: Jeffrey Roach, PhD, Chief Economist

KEY EXPECTATIONS

- A measured slowdown will begin in the latter half of 2024
- Expect consumer spending to start to slow and unemployment to drift higher
- The Fed is likely to begin cutting rates before the end of the year

A BRIEF LOOK BACK

The **Midyear Outlook** is an opportunity to revisit the forecasts we set forth in December 2023. In many ways, the views are the same, but with a bit more nuance. As we said last year, rate cuts "may not come until the latter half of 2024, and the magnitude may not be anywhere near as aggressive as markets think." Indeed, this is still the case. As last year came to a close, the market's expectations of numerous Fed rate cuts were overdone in our view because inflation was sticky, and consumers still had money to spend. As of now, the markets perhaps have swung to the other extreme, with some even chattering about potential rate hikes. Again, we believe this is misguided.

Further, we made the case that investors should have adequate equity exposure to protect against inflation. Domestic markets would outperform other markets, and we believed "the stock market [would] look past the negatives of a recession." So far this year, equities have returned a handsome profit for those taking calculated risk.

But the previous statement reminds us of a potential miss in our expectations. As of the writing of our annual outlook late last year, we thought "the U.S. could experience…an economic contraction…but still outperform other markets." One sizable miscalculation was the extent to which consumers, particularly wealthier ones, could drive the economic growth engine, despite high prices.

WE HAVE A DELAYED LANDING…BUT STILL A LANDING

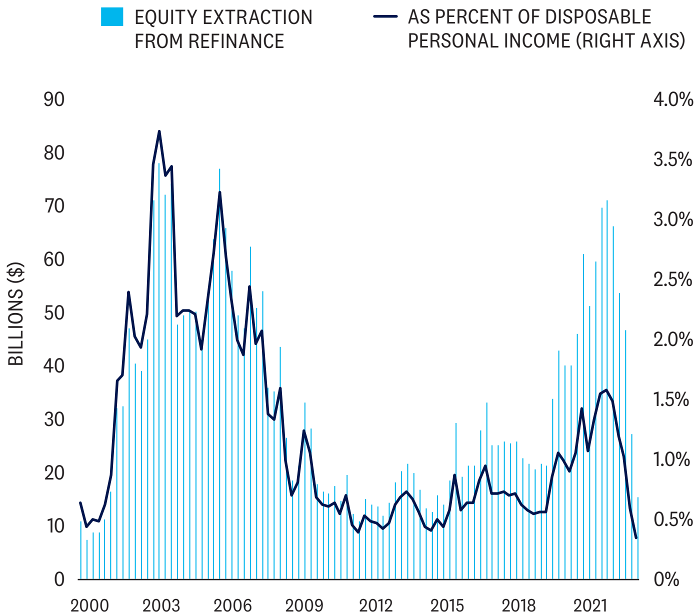
Recent data on refinancing activity provides a clue on why the economy has experienced a delayed landing. The housing market often explains a lot of what is happening in other sectors of the economy, and this time is no different. Roughly one-third of mortgages were refinanced in the quarters following the pandemic recession of 2020.[1]

And because of 2020's extremely low mortgage rates, these homeowners lowered their monthly payments, thereby increasing their disposable income. Other homeowners took advantage of healthy home equity and took cash out to support more spending. The incredible impact of such historic refinancing activity caught many, including us, by surprise. In addition to the oft-mentioned excess savings from stimulus and temporarily curtailed spending, improved household financial conditions from low mortgage rates kept the economy out of the doldrums.

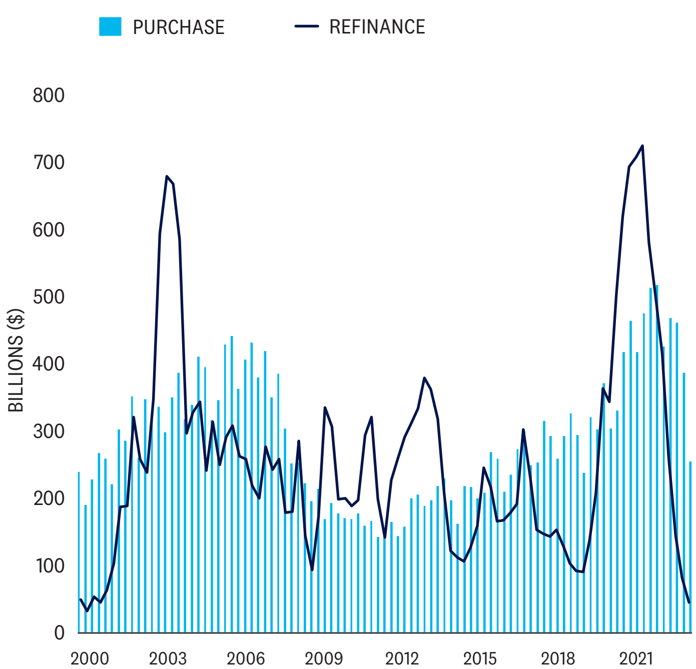
As we look ahead, however, the domestic economy looks to be late cycle, and recent data suggests the consumer has started to slow down. We indeed expect the consumer will slow spending later this year as data from both the Conference Board and the University of Michigan revealed that most consumers have pivoted away from big-ticket buying plans. These changes in buying plans could have knock-on effects in other categories of spending. Investors should anticipate a forthcoming downshift in consumer activity [Fig 1].

[1] https://libertystreeteconomics.newyorkfed.org/2023/05/the-great-pandemic-mortgage-refinance-boom/

1 Billions in Tapped Home Equity Spurred Spending



Refinancing Activity Reached a Record High in 2021



Source: LPL Research, New York Fed Consumer Credit Panel, Equifax 06/24/24

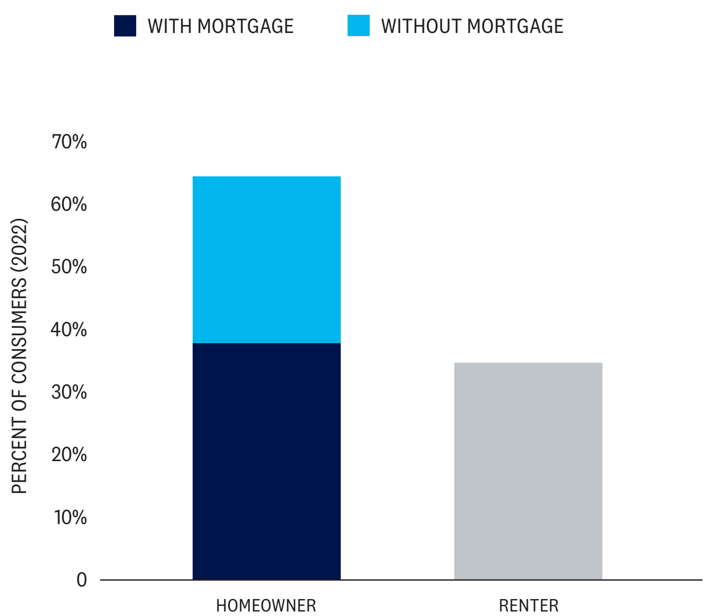
A LESS RATE-SENSITIVE ECONOMY CAUSING SOME OF THE DELAYS

One of the Fed's monetary tools involves setting the federal funds rate, an interest rate that influences other market rates such as bank loans, CD rates, and mortgage rates. Typically, higher rates will slow the economy and release some of the pressure on consumer prices. But that hasn't happened, at least not uniformly across the economy nor at the same magnitude as previous years.

One of the important things investors learned from the first quarter GDP report was the economy is less sensitive to interest rates in this cycle. Despite high interest rates and residential investment, a traditionally rate-sensitive sector contributed a respectable amount to growth in the first quarter. Of course, the dearth of housing supply drove construction activity in the first quarter, which more than offset the headwinds from higher interest rates.

Meanwhile, the Fed is backed a little bit into a corner as some sectors of the economy appear more immune to higher interest rates than others. At this rate, we expect the Fed to stay on hold longer than they would in a normal cycle, which increases the odds of either stagflation or a bumpy landing. Some consequences of unusually low mortgage rates are a short supply of homes on the market and homebuilders needing to play catchup in an economy that overall is less rate-sensitive than ever before [Fig 2].

2 More Consumers Without Mortgages Make the Economy Less Interest Rate Sensitive



Source: LPL Research, Bureau of Labor Statistics 06/24/24

In a less rate-sensitive environment, tighter Fed monetary policy (higher interest rates) has a weaker effect on the economy because of the increasing share of homeowners who have no mortgage or a low fixed-rate mortgage. Notably, the Federal Housing Finance Agency revealed that roughly half of all mortgages have an interest rate below 4%.

As millions of Americans took advantage of low rates, homeowners have historically low debt service payments as a percentage of their disposable income [Fig 3]. The New York Fed estimates that mortgagees gained an average of roughly $220 per month from refinancing.[2] This extra cash was added to the post-COVID-19 consumer spending splurge and has delayed the inevitable weakening of economic conditions.

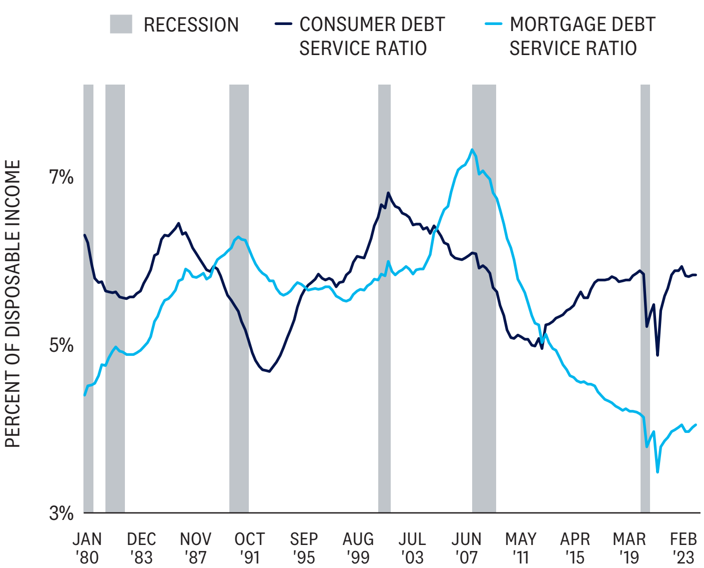
OPTIMISTIC ON INFLATION'S TRAJECTORY, BUT HEADLINE DATA MAY LAG

We can say unequivocally that services inflation is past its peak. After an unusual spike in January, the monthly pace of services inflation slowed down to its lowest since November of last year. This trend will continue, although probably not enough for inflation to reach the Fed's long-run target of 2% by year's end.

Core services inflation is important to watch because it reflects underlying price pressures that are less volatile than food and energy and can give a clearer picture of longer-term inflation trends. Investors should expect core services inflation to cool as labor costs decelerate. The real problem for the Fed is that it could take some time for changes in labor costs to impact broader consumer pricing, and markets are getting increasingly frustrated with the Fed's decision-making process. In recent years, governments have increased wages faster than the private sector to attract workers and fill open positions, but we should focus on the private sector since that is what drives business activity [Fig 4]. The Fed will not likely begin cutting rates until they have more confirmation that consumer prices are easing, but as far as we are concerned, that is a matter of "when," not "if" [Fig 5].

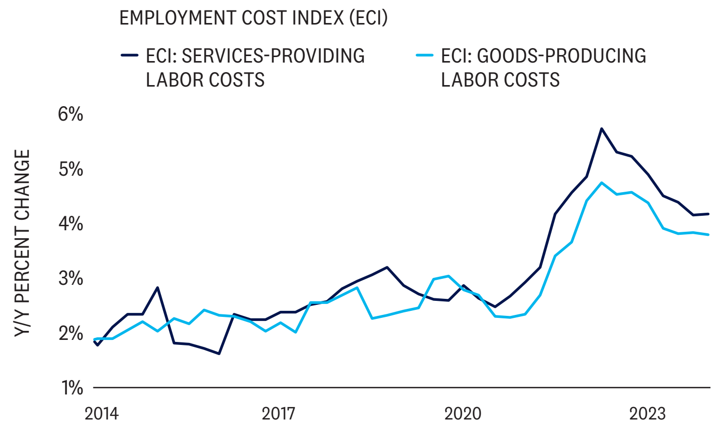
3 Refinancing Provided a Huge Lift for Homeowners

Consumers benefited from lower mortgage payments



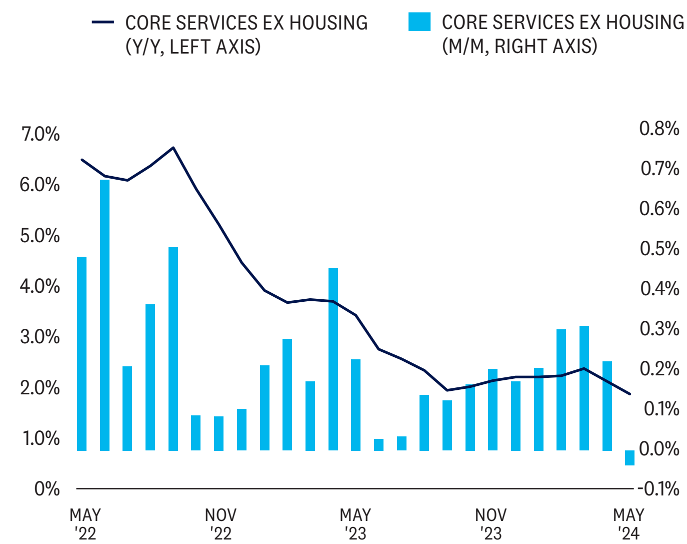
Source: LPL Research, Federal Reserve Board 06/24/24

4 Easing Labor Costs Will Dampen Services Inflation



Source: LPL Research, Bureau of Labor Statistics 06/24/24

5 Sticky Services Inflation Turned a Corner



Source: LPL Research, Bureau of Economic Analysis 06/24/24

[2] https://libertystreeteconomics.newyorkfed.org/2023/05/the-great-pandemic-mortgage-refinance-boom/

LABOR DEMAND IS KEY TO FORECASTS

The economy will likely downshift in the latter half of 2024, as consumer spending slows from the breakneck speed of 2023. Some weakening in the labor market is expected to contribute to the economic downshift as well. The quits rate (the percentage of employees voluntarily leaving their jobs) fell as workers have become less inclined to switch jobs and the average workweek for private payrolls has declined, suggesting weaker labor demand. The unemployment rate will stay historically low but should inch up in the second half of the year. The slowing demand for labor will eventually ease inflation pressures, giving the Fed some leeway to cut rates later this year. The evidence of slower payroll growth and fewer hours worked we have witnessed imply the economy will slow at a measured pace, barring any exogenous shock [Fig 6].

THE BOTTOM LINE:

The surprisingly strong economy, fueled by high-income consumer spending and uneven interest rate sensitivity, is finally showing signs of stalling out. Expect slower spending, a softening labor market, and the beginnings of a measured economic slowdown in the latter half of 2024. While inflation may take some time to fully ease, the Fed will likely have room to cut rates before the end of the year as the weakening economic picture becomes more apparent.

6 2024 Annual Forecasts

Key Variables	Quarterly							Annual			
	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24*	Q3-24*	Q4-24*	2021	2022	2023	2024*
Real GDP (Q/Q annualized)	2.1%	4.9%	3.4%	1.3%	2.2%	1.4%	1.0%	5.8%	1.9%	2.5%	1.8%
Unemployment Rate^	3.6%	3.7%	3.7%	3.8%	4.0%	4.1%	4.2%	5.4%	3.6%	3.6%	4.0%
CPI (YoY)	4.0%	3.5%	3.2%	3.2%	3.1%	3.0%	2.9%	4.7%	8.0%	4.1%	2.9%
PCE (YoY)	3.9%	3.3%	2.8%	2.5%	2.5%	2.6%	2.6%	3.6%	5.2%	4.1%	2.6%
Core PCE (YoY)	4.6%	3.8%	3.2%	2.8%	2.8%	2.8%	2.7%	4.1%	4.9%	4.4%	2.8%
Fed Funds (Upper Bound)^	5.25%	5.50%	5.50%	5.50%	5.50%	5.25%	5.00%	0.25%	4.50%	5.50%	5.00%
Prime Rate^	8.25%	8.50%	8.50%	8.50%	8.50%	8.25%	8.00%	3.25%	7.50%	8.50%	8.00%

Source: LPL Research. The economic forecasts in this material may not develop as predicted.
*Forecast as of June, 2024
^End of period

KEY EXPECTATIONS

- High valuations could be a headwind for second-half gains
- Future gains will rely heavily on earnings growth continuing to positively surprise
- Be prepared for potential setbacks as volatility begins to rise

STOCKS:

Second Half Gains Have Been Pulled Forward

by: Jeffrey Buchbinder, CFA, Chief Equity Strategist

HALFTIME

Outlook 2024: A Turning Point featured our perspective on how stocks might respond to turning points in inflation and monetary policy. That response was quite positive, as easing inflation, anticipation of Fed rate cuts, and increasing chances of a soft landing for the U.S. economy combined to send stocks up double-digits over the first six months of 2024. Looking ahead to the second half, with valuations elevated, volatility likely to be higher, and monetary policy potentially offering less opportunity for upside, stocks will likely be reliant on earnings to hang onto first-half gains.

ECONOMIC GROWTH SURPRISED IN THE FIRST HALF

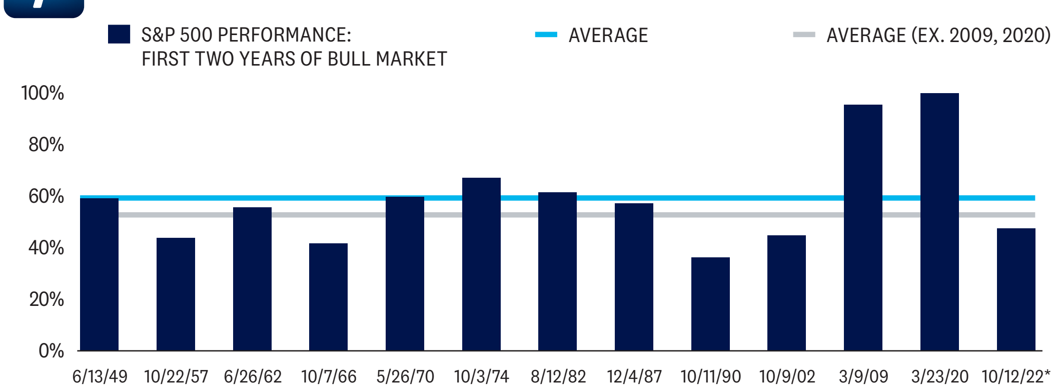
Much of the strong first half for stocks can be explained by the economy's resilience. As 2023 ended, recession risk was elevated and the economy appeared to have little cushion if conditions deteriorated. Now, with the benefit of hindsight, we know the economy enjoyed plenty of cushion — cushion that it hasn't needed. Stocks were not pricing in enough economic or profit growth. Now that the bar has been raised, what will stocks do for an encore?

GAUGING UPSIDE USING HISTORICAL MARKET PATTERNS

Markets tend to move in cycles, as we discussed in *Outlook 2024: A Turning Point*, so we can use historical patterns to help form an opinion about where stocks might go in the second half of the year. We regularly say history doesn't always repeat, but it often rhymes.

Let's start with basic market cycles. The S&P 500 has gained 52.8% during the current bull market that began on October 12, 2022. That may sound like a lot, but it is actually short of the historical average gain for a two-year-old bull market at 60%. It's right in line with the average if we exclude sharp rallies from the 2009 and 2020 lows (53%). Based solely on this analysis, stocks may not be able to deliver much additional upside in the second half of the year, although rising corporate profits and the growing trend in stock buybacks could enhance the backdrop for stocks [Fig 7].

7 **Current Bull Market Approaching Its Second Anniversary**



Source: LPL Research, FactSet 06/24/24

*The current bull market that began on 10/12/22 has not yet reached its two-year anniversary as of 6/21/24.

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

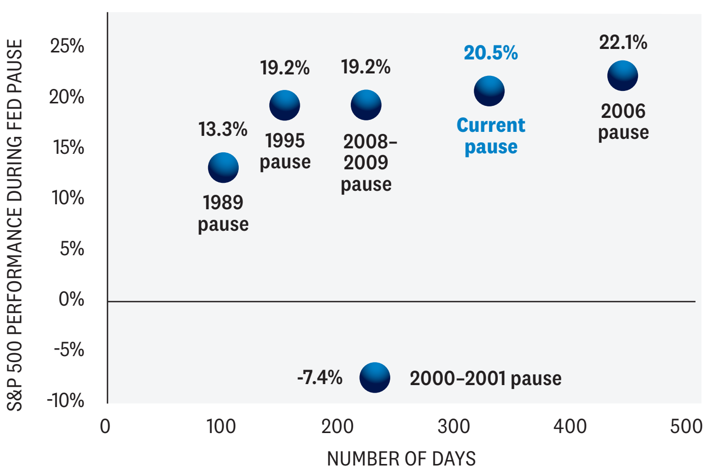
The modern design of the S&P 500 Index was first launched in 1957.

Performance before then incorporates the performance of its predecessor index, the S&P 90.

For additional perspective on where stocks may be headed, we can use the monetary policy cycle. The Fed is currently in a pause, defined by the time period between the last rate hike of a cycle and the first rate cut of the next cycle. The current Fed pause, at 331 days, is the second-longest in modern market history, trailing only 2006–07 (446 days), while the average of the six pauses since 1989 — has spanned 248 days.

The S&P 500 has risen during five of these six pauses, with an average gain of 14.5%. The 2000–01 pause was the only one where stocks fell — the S&P 500 lost 7% during that pause, which was marred by recession and accounting scandals. Since the current pause began, after the Fed last raised rates on July 26, 2023, the S&P 500 has gained 20.5%. Contrary to the above scenario, if this monetary cycle is comparable to those in the past – and we generally think it is — then stocks may struggle to add much, if any, to first-half gains over the next several months [Fig 8].

8 Stocks Tend to Perform Well During Fed Pauses



Source: LPL Research, Strategas, Bloomberg 06/24/24. All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

VOLATILITY IS NORMAL

Volatility is another familiar market pattern. Just because you may think this bull market keeps running doesn't mean the move higher will be steady. On average, in a given year, the S&P 500 Index experiences three pullbacks (5-10%) and one 10-20% correction. The average maximum drawdown in a positive year, which 2024 will likely be, is 11%. So far in 2024, the maximum drawdown for the index has been just 5.5%, suggesting more volatility may be coming. During a presidential election year, increased volatility in September and October is common. A geopolitical shock or an unexpected reacceleration in inflation that puts rate hikes from the Fed back on the table also carries the potential to bring volatility.

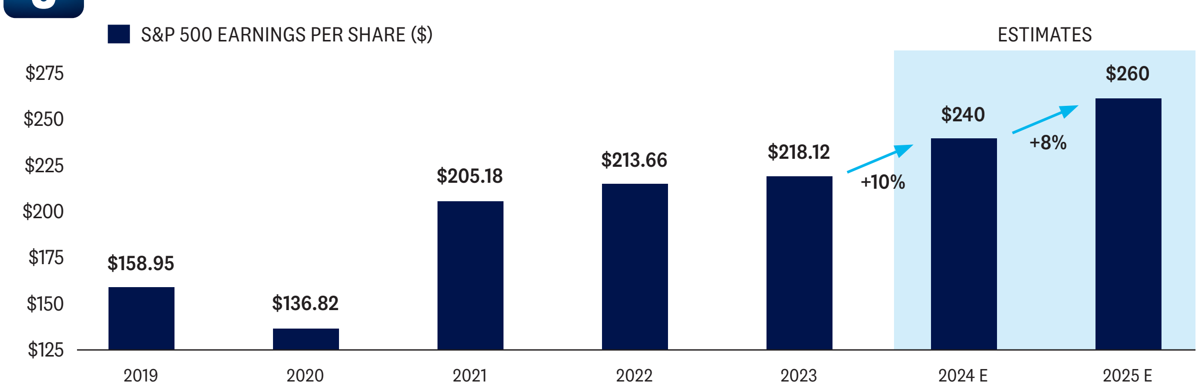
So far in 2024, the maximum drawdown for the S&P 500 Index has been just 5.5%

EARNINGS DOING THEIR PART

Last December, corporate America had just emerged from an earnings recession. Now six months later, despite sizable drags from healthcare and natural resources, earnings growth is accelerating and approaching double-digits. With valuations elevated, earnings must hold up, and they have been doing their part. Solid economic growth, supply chain normalization, effective cost control, and investment in artificial intelligence (AI) have helped fuel the strong rebound in earnings this year.

In response to improved corporate profit trends, LPL Research is raising its S&P 500 earnings per share (EPS) forecasts for 2024 and 2025 to $240 and $260, from $235 and $250, representing growth of 10% and 8%. That may seem optimistic, but it's near long-term averages. Some reversal of recent declines in healthcare and natural resource sector profits will help support earnings in the second half, along with additional investment in AI, and continued effective cost controls. The impressive and unusual resilience of analysts' earnings estimates this year is also encouraging [Fig 9].

9 Earnings Growth Acceleration Holds the Key to Further Gains for Stocks



Source: LPL Research, FactSet 06/21/24

Past performance is no guarantee of future results.

Estimates may not materialize as predicted and are subject to change.

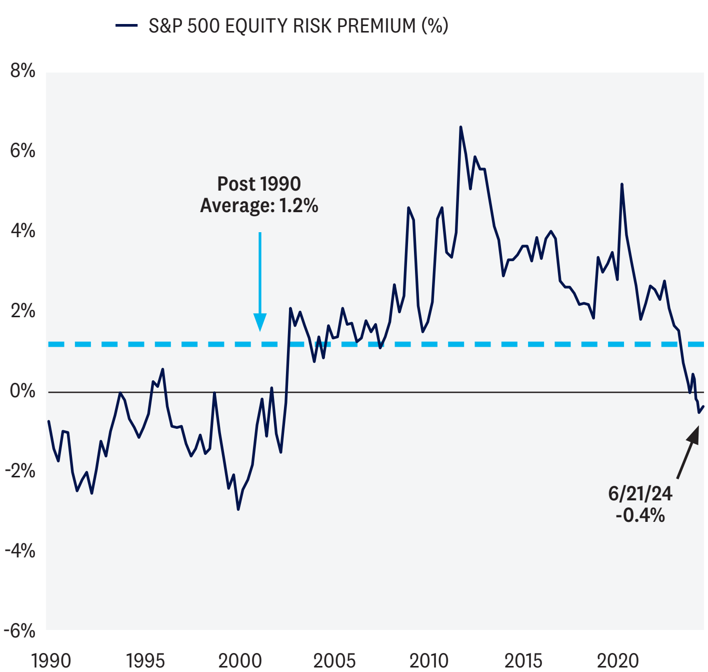
VALUATIONS MAY LIMIT SECOND HALF GAINS

In attempting the difficult job of predicting where the stock market might go, assessing how much good news has already been reflected in stock prices is important. At a price-to-earnings ratio (P/E) of around 21 based on the consensus earnings per share (EPS) estimate for the S&P 500 over the next 12 months, stocks seem expensive, and a lot of good news is already priced in.

Factoring interest rates into the valuation picture, the story is not much different. Comparing yields from fixed income to earnings from stocks, investors are being minimally compensated for taking on equity risk relative to Treasury yields (though we expect Treasury yields to fall further as inflation comes down). In other words, forecasting anything better than modest upside in equities requires relaxing any valuation discipline, a practice in which we do not engage [Fig 10]. One caveat to consider is valuations statistically have very little predictive power over short time periods of a year or less. That means as long as earnings come through, as they did in late April and May, stock market pullbacks are likely to be bought despite rich valuations.

10 Stock Valuations Are Elevated Relative to Bonds

Equity risk premium offers investors no compensation for assuming risk in equities



Source: LPL Research, FactSet, Refinitiv, Bloomberg 06/24/24
S&P 500 equity risk premium is the S&P 500 earnings yield (earnings divided by price) minus the US 10-year Treasury yield.
All indexes are unmanaged and cannot be invested into directly.
Past performance is no guarantee of future results.

YEAR-END S&P 500 TARGET RANGE

An expected, further easing in inflation, stable if not lower interest rates, and a steady earnings trajectory support an above-average target on paper. Based on the current price-to-earnings (P/E) ratio of 21 times, and our projected 2025 S&P 500 earnings per share (EPS) of $260, an estimated fair-value range for the S&P 500 at the end of 2024 would be between 5,400 and 5,500, near late-June levels. However, this doesn't take into account volatility. Given the heightened geopolitical situation, the upcoming U.S. presidential election, and other idiosyncratic structural factors, we expect market volatility to rise in the second half of the year, and potentially sharply at times. Factoring this into our view, a higher forecast is not justified at this time and our year-end target range for the S&P 500 remains 4,850 to 4,950. As such, waiting for a dip to buy looks to be an appropriate strategy for those looking to add equity exposure.

We expect market volatility to rise in the second half of the year

If AI proves to be a stronger and timelier productivity enhancer than anticipated, volatility fails to materialize, and inflation and interest rates cooperate, there could be an upside to both our earnings forecast and target assumptions.

THE BOTTOM LINE:

Stocks soared in the first half of 2024, thanks to a surprisingly resilient economy and the anticipation of looser policy from the Fed. Meanwhile, the AI-fueled technology rally certainly gave the major indexes a boost. However, a lot of the good news may already be priced in. Valuations are high, and future equity market gains will rely heavily on earnings growth continuing to positively surprise against a backdrop of much loftier expectations. While incremental gains are certainly possible in the second half, volatility is likely to pick up. Investors should be prepared for potential setbacks, especially considering the upcoming presidential election and the heightened geopolitical situation. As such, our year-end target range for the S&P 500 remains 4,850 to 4,950. For those looking to add to equity exposure, chasing should be avoided and a buy-on-dips approach is favored.

Sector Recommendations

LPL Research favors investments exposed to business investment rather than consumer spending. Industrials are a top idea for the second half as beneficiaries of infrastructure spending, reshoring activity, and the AI buildout. Strong earnings growth, attractive valuations, and digital media opportunities for election ad spending and AI are supportive of communication services. Expect energy to benefit from record oil production, heightened geopolitical risk, improved capital allocation decisions among producers, and attractive valuations. Elevated valuations offset strong earnings growth and AI benefits for the technology sector.

Increasingly price-conscious consumers with dwindling excess savings underpin the consumer discretionary underweight. Slowing COVID-19-related sales, drug pricing pressure, and negative performance trends drive our healthcare underweight. Office vacancies and commercial refinancing risks suggest caution is prudent in real estate.

Overweight

- Communication services
- Energy
- Industrials

Neutral

- Consumer staples
- Financials
- Materials
- Technology
- Utilities

Underweight

- Consumer discretionary
- Healthcare
- Real estate

U.S. ELECTION:
Distinguishing Fact from Opinion

by: Adam Turnquist, CMT, Chief Technical Strategist

KEY EXPECTATIONS

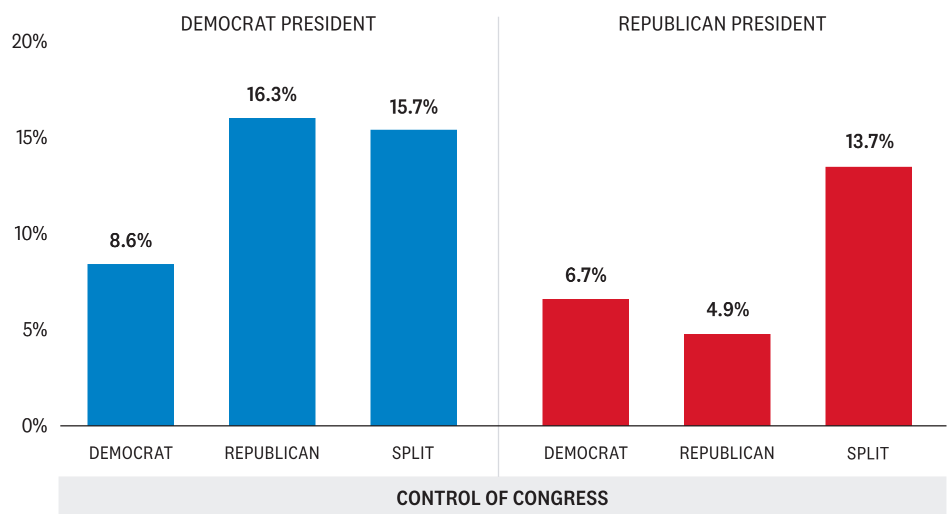
- **Uncertainty will contribute to market volatility particularly in the months prior to the election**
- **Staying invested regardless of the winner has historically led to better long-term performance**

The 2024 U.S. presidential election will take center stage over the coming months as Americans prepare to cast their ballots. Polls currently point to a tight race, with forecasters increasingly focused on six key swing states (Arizona, Georgia, Michigan, Nevada, Pennsylvania, and Wisconsin) that could determine the winner. However, each candidate's position on key policies such as federal debt and government spending, foreign policy and trade, healthcare, immigration, and taxes will ultimately drive the vote — all major issues both sides remain divided on.

While politics remain divided, one thing we can all agree on is that markets dislike uncertainty. And given the backdrop of political uncertainty in Washington, investors should expect increased volatility in the back half of the year. For example, during election years between July and November since 1950, the S&P 500 has exhibited an average annualized volatility of nearly 25%. Volatility, in this context, refers to the dispersion of returns over a given period. This compares to historical annualized volatility of around 20% during non-election years. In addition, since 1950, the average maximum drawdown for the S&P 500 during election years is -21.2%, compared to only -13% during non-election years. Bottom line, buckle up for a potentially bumpier ride into November.

11 Stock Performance Based on Congressional Composition

Average S&P 500 Annual Price Return (1950 - 2023)



Source: LPL Research, Bloomberg 06/24/24
All indexes are unmanaged and cannot be invested into 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 predecessor index, the S&P 90.

Of course, the big question on Americans' minds is who will win. Polls, betting odds, and forecasts can provide valuable insights into potential results, but the data can be noisy. One of the more surprising and unbiased election forecasters has been the stock market. Since 1928, whenever the S&P 500 was positive during the three months leading up to an election, the incumbent party remained in control of the White House 80% of the time (12 of 15 elections). In contrast, when the market was lower during the three months before an election, the incumbent party lost the election eight of the last nine times. When combined, market performance has "predicted" 20 of the last 24 elections.

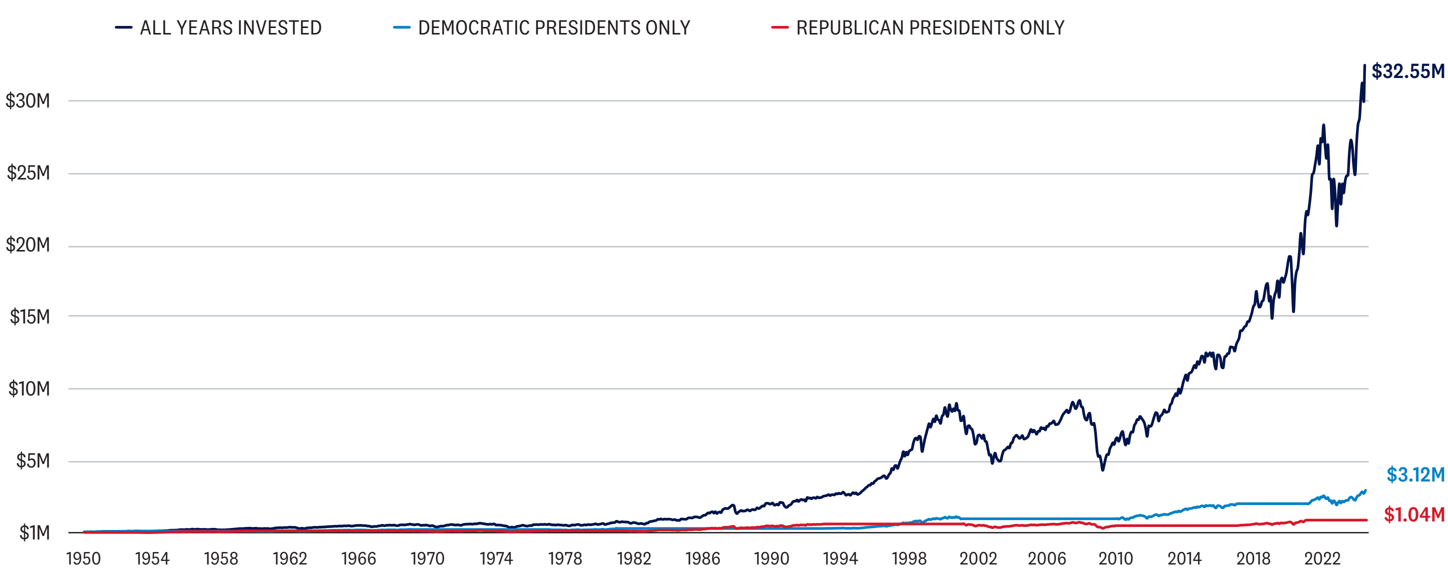
The keys to 1600 Pennsylvania Avenue are also not the only things up for grabs this November, as 34 seats in the Senate are up for election, along with all 435 seats in the House. This raises another popular question during election years: How do stocks perform under various leadership compositions in Washington? Like most elections, several scenarios could play out regarding future political configurations between the White House and Capitol Hill. And while we won't know what Congress will look like until at least November, we do know that the S&P 500 has generated its best annual returns with a Democratic president and a Republican-controlled Congress. However, the market has also posted strong annual returns with either a Democratic or Republican president when Congress is divided [Fig 11].

What happens in Washington can play an important role in our daily lives and help shape the economy, but politics alone do not drive markets or the economy. There are other more powerful macro forces catalyzing economic expansions and contractions, such as the health of corporate America and the consumer, not to mention monetary policy. For the long-term investor, political opinions are best expressed at the polls and not in portfolios. As highlighted below, if you invested $100,000 in the S&P 500 back in 1950, but only remained invested during years when a Democrat was president, you would have around $3.1 million today (excluding dividends), compared to $1.0 million if you only invested when a Republican was president [Fig 12]. While this gap appears wide, it lacks in comparison to the $32.6 million you would have made if you bought and held the S&P 500 over the entire time frame, giving credence to the adage of time in the market beats timing the market.

THE BOTTOM LINE:

The 2024 election is shaping up to be extremely close, with polls showing a virtual tie and key swing states likely to determine the outcome on election night. As the candidates have starkly different positions on many major issues, it is likely to be another divisive and contentious affair. Given the historical patterns and the fact that markets usually dislike extreme uncertainty, investors should be prepared for higher levels of market volatility in the back half of the year.

12 S&P 500 vs. Political Party Portfolios (1950-YTD)



Source: LPL Research, Bloomberg 06/24/24
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.

KEY EXPECTATIONS

- Elevated bond yields are likely to persist
- Income generation will become a more important focus for bonds again
- Higher quality bonds will offer the ability to lock in attractive rates for longer and fortify portfolios

FIXED INCOME:
"Boring" Bonds Deserve Another Look

by: Lawrence Gillum, CFA, Chief Fixed Income Strategist

WHY FIXED INCOME INVESTORS SHOULDN'T ROOT FOR LOWER YIELDS

Market pricing for Fed rate cuts has been volatile this year, which has meant bond prices have been volatile as well. As mentioned in the economic section, we expect the Fed to cut rates this year once or possibly twice, with more rate cuts likely coming in 2025. But while markets continue to wait for rate cuts, a lingering question remains: How low will the Fed be able to take the fed funds rate absent a financial crisis? The answer to that question has major ramifications on the overarching shape of the U.S. Treasury yield curve and, by extension, the ability for longer-maturity Treasury yields to fall meaningfully from current levels during this Fed rate-cutting cycle.

The U.S. Treasury yield curve has been inverted since 2022 — currently the longest yield curve inversion in history. When the yield curve is inverted, shorter maturity Treasury yields are higher than longer-maturity Treasury yields. This is not the normal shape of the yield curve. In normal times, the yield curve is upward-sloping, meaning longer-maturity Treasury yields are higher than shorter-maturity Treasury yields, which makes sense since longer-maturity Treasury securities carry more risk as interest rates can fluctuate more over time and investors want to get paid more to take on that additional risk.

Given the inverted yield curve, in order to get back to normal, one of two things could happen: short rates could fall more than long rates (bull steepening) or long rates could climb more than short rates (bear steepening). Historically, once the Fed starts to cut rates, the yield curve normalizes by bull steepening, which is a good thing for fixed income investors. In this current environment though, where the economy has been able to mostly shrug off higher interest rates, the Fed may not need to take the fed funds rate back down to very low levels, which means longer-maturity Treasury yields may not fall much from current levels.

Current market pricing suggests the Fed will only take the fed funds rate back to around 4% or so before stopping its rate-cutting campaign. Absent an economy that slows more than we expect, the 4% fed funds rate will keep longer-maturity yields from falling meaningfully from current levels. Historically, the Fed has followed market pricing for the determination of the neutral rate. Since 2011, markets have generally assumed the neutral rate would drift lower over time, but that seemingly changed after the COVID-19 pandemic. Since bottoming close to zero, markets have repriced the neutral rate higher over the last few years. The question remains: Will the Fed follow suit and raise its estimation of neutral? If so, that likely means interest rates across all maturities are set to be higher than they were over the past decade [Fig 13].

Now, as we've seen this year, market pricing for the Fed's reaction function has been volatile. That said, we still expect the 10-year Treasury yield to end the year in the 3.75% to 4.25% range, as a moderately slowing economy and sticky inflation likely lead to only a gradual reduction in interest rates over the next two years.

[3] The Aggregate Bond Index has been maintained by Bloomberg L.P. since August 24, 2016. Prior to then it was known as the Barclays Capital Aggregate Bond Index and was maintained by Barclays. From June 1976 to November 2008, it was known as the Lehman Aggregate Bond Index.

DON'T FORGET ABOUT INCOME

The first half of the year was a challenging environment for a lot of fixed income markets, especially higher-quality markets. With the Fed seemingly unlikely to lower interest rates until after the summer months (at the earliest), the "higher for longer" narrative has kept a lid on any sort of bond market rally. And while falling interest rates help provide price appreciation in this higher-for-longer environment, fixed income investors are likely better served by focusing on income opportunities, which has been the traditional goal of fixed income investors.

Fixed income instruments are fundamentally different than other financial instruments. Bonds are financial obligations that are contractually obligated to pay periodic coupons and return principal at or near par at the maturity of the bond. That is, absent of defaults, there is a certainty with bonds that you don't get from many other financial instruments. And because starting yields take into consideration the underlying price of the bond as well as the required coupon payments, starting yields are the best predictor of future returns.

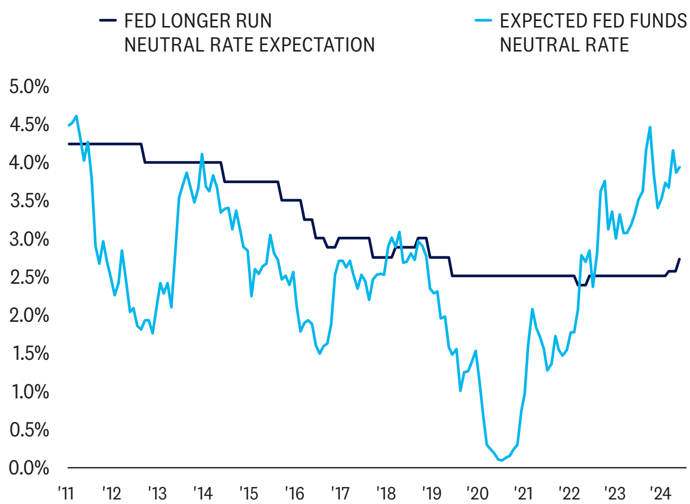
For many financial markets, the primary driver of total returns is price appreciation. You buy a stock, for example, and total returns are largely predicated on the price of that stock going higher (though dividends play a role). For bonds, it's different. Most of the time, bonds are bought at or near par, and the return is driven by the income component. In fact, since the inception of the Bloomberg Aggregate Bond Index, over 90% of total returns have come from the income component with the remainder coming from price appreciation.[3] Moreover, using just the near 40-year period of falling interest rates (1981 to 2017), research has shown that only about 25% of the annualized returns came from price appreciation, with the overwhelming majority of returns coming from interest income. So despite what has been called the great bond bull market due to falling interest rates, it was the high starting coupon rates that were the primary driver of returns [Fig 14].

In today's fixed income environment and after the backup in bond yields that we've seen over the last few years, we're back to, historically, more normal interest rate levels. As such, it is unlikely we're going to see a large decline in bond yields (absent a financial crisis or other "black swan" type event), so total returns for fixed income investors are likely going to be dominated by interest income. While the optionality of price appreciation remains, fixed income returns have historically been predicated on income and have correlated highly with starting yields. And with starting yields still among the highest levels in decades, the income component within fixed income is as attractive as it's been in a long time.

Right now, investors can build a high-quality fixed income portfolio of U.S. Treasury securities, AAA-rated Agency mortgage-backed securities (MBS), and short-maturity investment grade corporates that can generate attractive income. Investors don't have to "reach for yield" anymore by taking on a lot of risk to meet their income needs. And for those investors concerned about still higher yields, consider laddered portfolios and individual bonds held to maturity to take advantage of these higher yields. We think the current environment is ripe with income opportunities that, when combined with equities, can help reduce overall levels of portfolio volatility and position investors better for longer-term success.

13 Markets Are Pricing in a Higher Neutral Rate

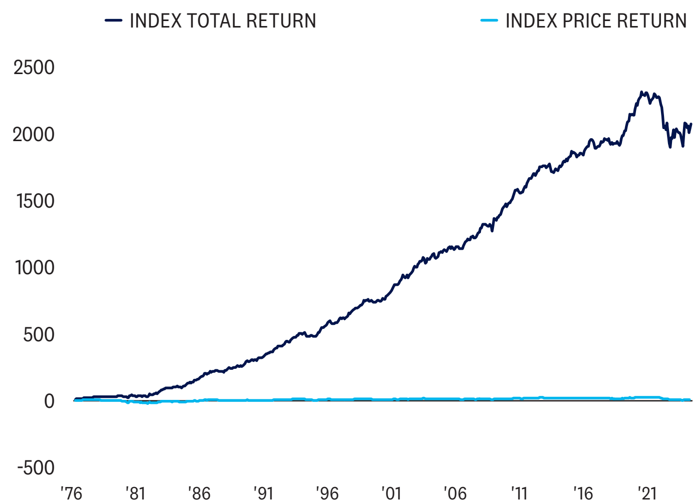
If markets are right, yields may not fall much from current levels



Source: LPL Research, Bloomberg, 06/24/24. All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

14 Income Has Been the Largest Contributor to Total Returns Over Time

Bloomberg Aggregate Bond Index returns since inception



Source: LPL Research, Bloomberg 06/24/24. All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

FIXED INCOME: LIKE CASH BUT BETTER

After a decade of cash yields that were close to zero, the Fed's aggressive rate-hiking campaign has pushed cash rates up, and investors have taken advantage by parking nearly $6 trillion in cash accounts. And while cash yields are attractive, another attractive attribute for cash is the low risks associated with cash. Cash has done a great job in recent years helping investors preserve their portfolios from market turbulence. That was especially true in 2022, when both stocks and bonds experienced large drawdowns. But with Fed interest rate hikes likely behind us, cash may not be as important of an asset class to portfolios as it was recently.

And we know those cash rates aren't going to last forever. Just as the aggressive rate-hiking cycle took Treasury yields higher, interest-rate cuts will take all cash rates lower. However, with bond yields still elevated and likely to stay around current levels, investors can extend the maturity of their excess cash holdings by locking in current bond yields (not too far out on the curve, though). Locking into high-quality, intermediate-term fixed income can provide consistent cash flow and desirable income levels for years to come, regardless of what lies around the corner.

Moreover, there is an optionality that you get from bonds that you don't get from cash. While current yields for bonds and cash are similar, bonds offer portfolio preservation and potential price appreciation if an unexpected event negatively impacts the economy that you don't get from cash. Additionally, over the past 40 years (ending April 2024), bonds have averaged a 6.1% annual return versus about 3.5% for cash. And bonds have been consistent outperformers. From January 1986 to April 2024, bonds had a better 5-year return in 95% of the rolling 5-year returns. In those few instances where cash did better, it only outperformed by 0.38% on average. So, with cash rates likely to fall as the Fed cuts rates, bonds have done a better job than cash at helping investors grow their assets over the long term [Fig 15].

While we certainly think cash is a legitimate asset class again, unless investors have short-term income needs, they may be better served by reducing some of their excess cash holdings and by extending the maturity profile of their fixed income portfolio to lock in these higher yields for longer. Bond funds and ETFs that track the Bloomberg Aggregate Index, along with separately managed accounts and laddered portfolios, all represent attractive options that will allow investors to take advantage of these higher rates before they disappear.

FIXED INCOME MATTERS AGAIN

The move higher in Treasury yields over the past few years has been unrelenting, with intermediate and longer-term Treasury yields bearing the brunt of the more recent moves. The Fed is expected to start to reduce interest rates later this year, which should provide relief to fixed income investors. However, with the Treasury yield curve still inverted, it's possible that we don't get the kind of reaction from longer-maturity securities that we've seen in the past.

The Treasury Department is still expected to issue a record amount of Treasury securities to fund budget deficits, and with the Bank of Japan (BOJ) slowly ending its aggressively loose monetary policies in 2024, we could continue to see upward pressure on yields. However, while supply/demand dynamics can influence prices in the near term, the long-term direction of yields is based on expected Fed policy. That doesn't mean rates are going to fall dramatically from current levels though, and that is fine for the longer-term prospects for fixed income investors since coupon, and not price appreciation, has historically been the largest component of total returns.

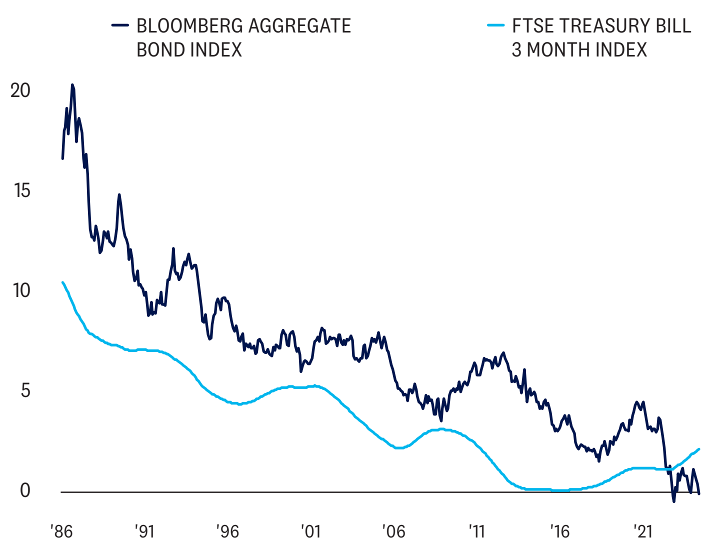
With yields back to levels last seen over a decade ago, we think bonds are an attractive asset class again. There are three primary reasons to own fixed income: diversification, liquidity, and income. And with the recent increase in yields, fixed income is providing income again.

THE BOTTOM LINE:

The focus for fixed income investors should shift back to the traditional benefit of bonds: income generation. Current high starting yields offer attractive risk-adjusted returns, even without significant price appreciation. Additionally, bonds can help reduce overall portfolio volatility compared to stocks. With the Fed likely to begin cutting rates in the second half of 2024, investors should consider using bonds to replace some cash holdings. By moving into high-quality fixed income, investors can lock in these attractive yields for longer and fortify their overall portfolios.

15 Bonds Tend to Outperform Cash Over Time

Trailing 5-year annualized total returns



Source: LPL Research, Bloomberg 06/24/24. All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

KEY EXPECTATIONS

- Market and economic divergences should persist
- Volatility will begin to rise more meaningfully

ALTERNATIVE INVESTMENTS:

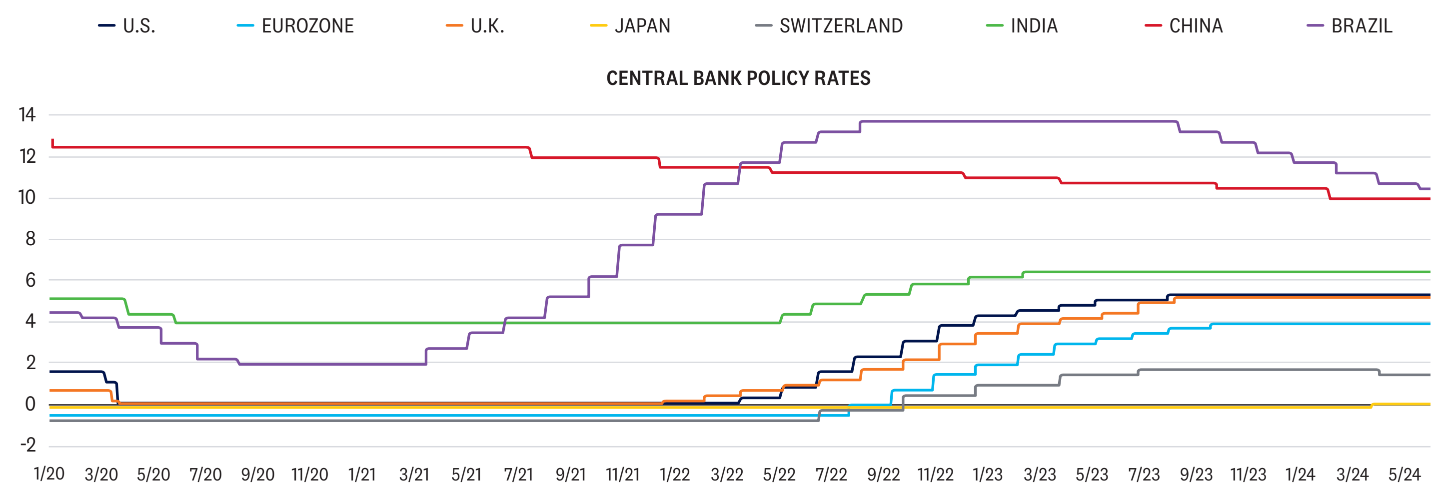
Turn Dispersion and Volatility into Opportunities

by: Jina Yoon, CFA, Chief Alternative Investment Strategist

We came into 2024 with two key considerations in mind — greater micro and macro dispersion and asset volatility. We witnessed the unfolding of the micro and macro dispersion (an increasing gap between best- and worst-performing economies and assets) during the first half of the year, which translated into a healthy trading environment for many liquid alternatives (Alts) and hedge fund strategies. Global macro was a standout as it monetized the accelerating de-coupling of the global economy and policy actions, as well as equity market-neutral managers (small overall net exposure to the stock market) which delivered positive outperformance from both long and short positions [Fig 16].

Looking ahead, we expect market divergences to continue and volatility to pick up. At the macro level, major central banks have become more vocal about how each region will take independent action from one another and have taken their initial steps towards their goals. They will continue to decide their own path, which should bring about greater macro divergences. This is not just a story about developed-market countries either. Emerging market economies have also begun to unlink themselves from one another, making dispersion a global phenomenon. At the micro level, the decline in correlations among index components shows that rates and momentum are taking the backseat as fundamentals take over as the primary driver. Asset volatility has drifted lower during the first half of the year, but with uncertain paths of inflation and economic health globally, potential weakening momentum in the equity market, a busy global elections calendar, and many other geopolitical risks that are yet to be resolved, we anticipate volatility will begin to move higher.

16 Furthering Policy Dispersion Lends Opportunities for Global Macro



Source: Bloomberg, LPL Research as of 6/24/2024

For this reason, we maintain our focus on those alternative strategies that are nimble, can generate outperformance from both top-down macro as well as bottom-up fundamental factors, have limited market sensitivity, and can benefit from a rise in volatility. Given the uncertainties mentioned, we believe this is also the time to be more focused on balancing return generation goals with downside risk management.

Among liquid Alts and hedge fund strategies, we remain constructive on global macro strategies that have demonstrated their ability to capitalize on market and policy divergences. Within global macro, we encourage investors to look into multi-strategy approaches with truly diversified asset classes and regional exposures, as the markets move away from directional structural themes, such as interest rate curve steepeners, to more shorter-term tactical trading across both developed and emerging markets.

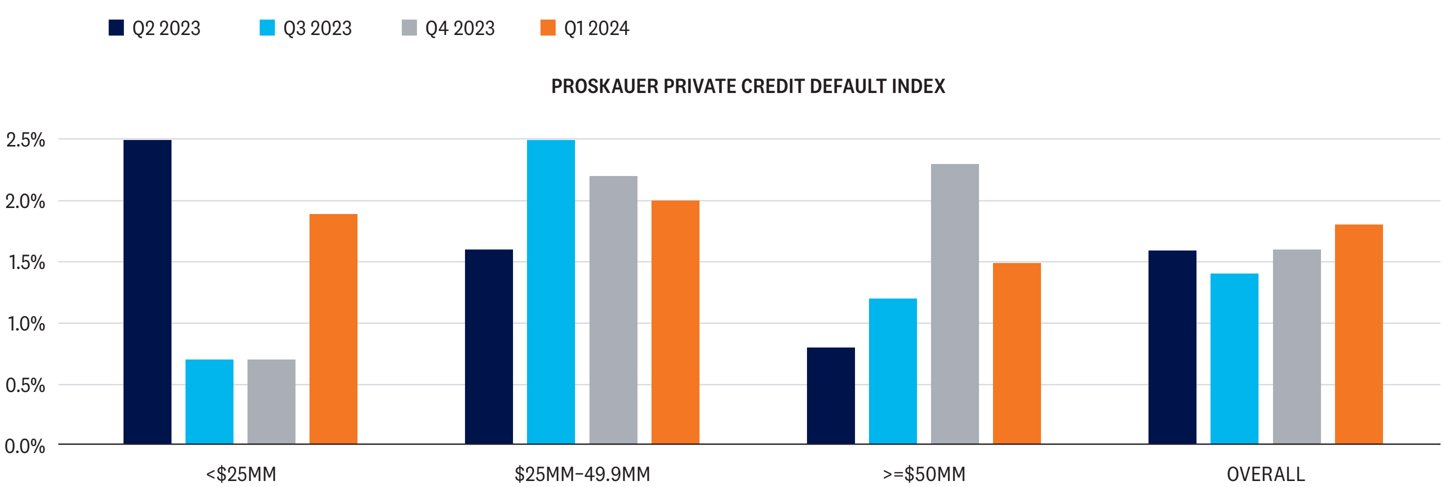
Managed futures were another leading performer in the first half of the year. We continue to believe the strategy serves as a solid portfolio diversifier that deserves a steady allocation. While trend followers have led the pack in recent months, we expect shorter-term focused multi-strategy managed futures to show their resilience as they adapt quicker in the evolving macro landscape. Lastly, we believe the current equity market environment offers a greater stock-picking environment for market-neutral managers. With rich valuations and potentially diminishing momentum, these managers should be able to build solid portfolios of short positions to offset their longs and increase their potential to outperform.

Among private market strategies, private credit and infrastructure strategies, which we were constructive on, continued to perform well and are expected to continue to show their resilience. Private credit continues to offer attractive yields, although spreads have tightened slightly with an increase in competition and low default rates. That said, with the uncertain timing and size of the Fed's cuts, we are mindful of the potential stress that high borrowing costs could place on businesses and the overall sector [Fig 17]. Given sufficient yields on high-quality loans, focusing on portfolios with senior secured loans with low leverage should help mitigate the potential risks such stress can bring on. Within the private credit market, we also favor portfolios with flexible and broader mandates that can diversify their positions beyond direct lending and participate in unique opportunities, such as asset-based lending and distressed/special situations. Infrastructure's tendency to hold its value across the cycle and their rate and inflation-linked yield should be appreciated in times of higher global turbulence. The secular tailwinds of digitalization, decarbonization, and related government support remain strong as well, which should aid the infrastructure segment.

THE BOTTOM LINE:

As expected, 2024 has seen a rise in market dispersion, creating opportunities for skilled active managers in the alternatives space. Moving forward, we anticipate this trend to continue and volatility to begin to rise more meaningfully as well. This environment will favor certain strategies that can capitalize on both broad economic trends and micro fundamentals. Over the intermediate and long-term, by incorporating strategies like global macro, multi-strat, and managed futures, we believe investors may benefit over those who strictly maintain a traditional stock/bond allocation.

17 Small Pickup in Private Credit Defaults, Although Still Below Historical Average



Source: Proskauer, LPL Financial as of 06/24/24
Indexes are unmanaged statistical composites and cannot be invested into directly. Past performance is no guarantee of future results. The Proskauer Private Credit Default Index includes 576 active loans in the United States, representing USD95 billion in original principal amount. The Index includes companies across all major industry groups with EBITDA (earnings) from USD0 to more than USD1 billion.

Liquid Alternatives

STRATEGIES	OUR VIEWS	POSITIVE	NEUTRAL	NEGATIVE
Long/Short Equity	Long/short equity strategies have benefited from a growing opportunity set with increasing sector dispersion and a more constructive shorting environment. With rich equity valuations and increased potential for reversals, we expect low-net stock pickers to find increased alpha generation opportunities. We remain neutral on long-biased long/short equity managers.		✓	
Event Driven	Merger arbitrage strategies remain attractive fixed income diversifiers; however, regulatory and political risk will continue to overshadow the industry as we move closer to the November elections. Further political clarity may be needed to see a significant pickup in deal flow.		✓	
Global Macro	Global macro strategies have capitalized on diverging global central bank policy in the first half of 2024. We expect dispersion to continue driving the market and global macro managers to find ample trading opportunities both in developed and emerging markets.	✓		
Managed Futures	Managed futures continued to capitalize on strong momentum across the sectors, including niche markets, earlier in the year. We are closely monitoring their exposure levels, given the uncertainties ahead. We remain constructive on shorter-term-focused multi-strategy managed futures.	✓		
Multi-PM Single Funds	Multi-strategy funds continue to benefit from the ability to dynamically invest across the alternative investment strategy landscape, while providing a diversifying risk-return profile. These funds should be able to tactically take advantage of any short-term market disruptions.	✓		
Specialty Strategies	We maintain conviction for suitable clients who are able to tolerate the limited liquidity these strategies exhibit.		✓	

KEY EXPECTATIONS

- **Heightened market uncertainty will persist amid continuing global conflict**
- **Markets should become more reactive if conflicts escalate**

GEOPOLITICS: A More Complex Geopolitical Landscape

by: Quincy Krosby, PhD, Chief Global Strategist

Regional military conflicts have broadened significantly, and consolidated blocs of the so-called "Great Powers" have forged alliances to help underpin and affect outcomes that reflect their respective long-term political, economic, and social perspectives.

The U.S. has forged deeper relationships within the NATO coalition, Japan, the Philippines, and Saudi Arabia, while Russia has built a more enduring strategic relationship with China and North Korea.

Still, there has been a concerted effort to keep regional skirmishes, conflicts, and wars contained so that a wider clash doesn't ignite more significant armed warfare.

With the ongoing Ukraine/Russia war, now joined by Hamas/Israeli combat and potentially a Hezbollah/Israeli military conflict, it has been clarifying to witness the formation of alliances as they provide weapons, trade, and supportive headlines.

So far, intense international diplomatic lobbying efforts have kept the Middle East crisis from exploding into a larger crisis instigated by Iran and its network of militia surrogates. The U.S. and Saudi Arabia have been crafting a military defense pact that has the potential to introduce a more viable framework in the region that would involve the path toward statehood for Palestine, and the opportunity for Israel to have a diplomatic relationship with Saudi Arabia, and the region at large.

In terms of the ongoing Ukraine/Russia war, hopes for a negotiated settlement continue to be thwarted by both sides, who are determined to maintain control over territories deemed Russian or Ukrainian. Still, NATO and China seek to bring both nations to the bargaining table for peace talks.

MARKETS NAVIGATE GLOBAL CONFLICT

The intense diplomatic efforts in both theaters of combat have kept hostilities relatively confined — not factoring in fatalities — allowing markets to focus on concerns distinctive to their relevant economies. Corporate earnings, interest rates, trade, currencies, and domestic politics are all playing more fundamental roles in the direction of equity markets, which notably saw many global indexes reach new highs throughout the last two years of increased global discord.

THE U.S./CHINA EQUATION

The relationship between the U.S. and China, the world's first- and second-largest economies, has transitioned towards a highlighted "de-risking" on the part of the U.S., rather than the more extreme "de-coupling" favored by many who view China's push towards military dominance as threatening the increasingly delicate balance between the two superpowers.

The Biden administration has introduced a series of tariffs on many of China's strategic sectors, with expectations that electric vehicles (EV) will be hit with a 100% tariff rate, and additional tariffs on solar equipment and batteries. China's steel and aluminum exports will also see higher tariffs, and numerous press reports suggest that China's dominant shipbuilding industry will be investigated.

Officials within the Biden administration have complained about the flood of inexpensive Chinese goods coming into the U.S. that jeopardize American jobs and hurt American businesses. A weak Chinese economy has prompted Beijing to encourage a broad-scale surge in manufacturing and exports. China has found resistance to the onslaught of their relatively inexpensive exports from Europe and Japan, in addition to the U.S., while countries in Latin America are poised to add levies to China's exports of steel products.

TECHNOLOGY THE PRIMARY CONCERN

But the area of major concern for both sides of the political aisle is the technology sector and its implications for China's continued intensive buildup of its military. The Secretary of Commerce has warned that Washington could ramp up tightening export controls on highly sophisticated technology associated with semiconductors, noting, "So yes, we will do whatever it takes to protect our people including expanding our controls."

U.S. officials have been actively lobbying European allies to similarly curb their exports that have military applications.

TAIWAN FRONT AND CENTER

A key area of ongoing contention between Washington and Beijing is Taiwan, and China's insistence that Taiwan is an integral part of its "one China" policy. President Xi Jinping has stated explicitly that Taiwan will be taken by force if necessary. The U.S. has abandoned its long-standing policy of "Strategic Ambiguity" in terms of its representation to Taiwan, as both parties began to suggest they would defend Taiwan in the event of a military takeover.

Military analysts view Xi Jinping's purges and reorganization of China's military, along with Beijing's more aggressive maneuvers in the South China Sea, as related to plans for annexation of Taiwan, in addition to claiming regional hegemony.

Restricting China's overtly militaristic overtures has become a fundamental component of U.S. economic, political, and military policies and is at the core of the U.S./China equation.

THE BOTTOM LINE:

The rise of competing power blocs and escalating regional conflicts raises significant concerns for global stability. While diplomatic efforts have prevented a wider conflict thus far, these tensions create an environment of heightened uncertainty for investors. Markets have been less reactive to current conflicts, but this could change rapidly if hostilities were to escalate. The increasingly uncertain geopolitical environment is one reason we believe investors should keep their market exposures tightly managed in the second half of the year.

COMMODITIES:
Climbing Higher

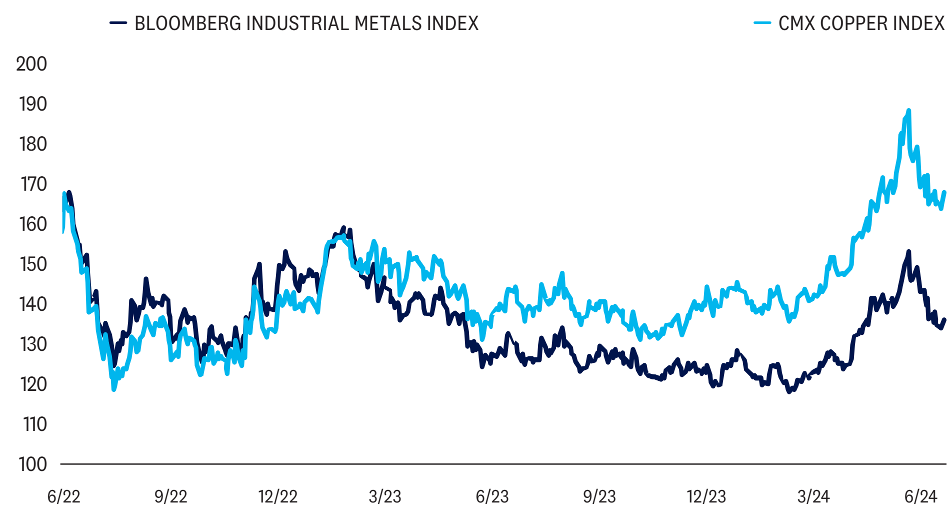
by: Quincy Krosby, PhD, Chief Global Strategist

KEY EXPECTATIONS

- **There is an Increasing need for commodities associated with EV production and those used for AI infrastructure buildout**
- **Demand for precious metals should persist amid geopolitical uncertainty**

Industrial commodities, especially copper, have been on an upward trajectory as manufacturing in both China and the U.S. has begun to gain momentum [Fig 18].

18 Industrial Metals Continue Their Recovery, Copper Pulls Away



Source: LPL Research, Bloomberg 06/24/24 (Data series indexed to 100 on 06/24/19)
Indexes are unmanaged and cannot be invested in directly. Past Performance is no guarantee of future results.

Expectations that demand for industrial commodities would come into focus following the lifting of China's COVID-19-related restrictions were hindered by a weaker-than-expected Chinese economy, exacerbated initially by a muted policy response from Beijing. At the same time, manufacturing in the U.S. was slow to recover as consumers, for the most part, favored services rather than durable goods purchases.

As manufacturing has recovered, however, demand has risen, particularly with commodities associated with electric vehicles (EV) as Beijing focuses on EV exports with heavy subsidies for manufacturers. Copper, a key component of the EV manufacturing process, is essential for nearly every aspect in the building of EVs. By some estimates, EV production will account for nearly 50% of copper demand, while copper supply remains low in large part due to mines that have been closed and little in the way of upgrading existing mines.

Similarly, as increasingly larger data centers for generative AI require more powerful energy sources, commodities, particularly copper, have been underpinned by what is characterized as a revolution in energy demand and the need for a buildout in more powerful electrical energy grids.

Natural gas prices have been rising, as well as platinum and palladium. Oil prices have been supported by jet fuel demand, in addition to global vehicle demand still powered by combustion engines.

Gold, the leader within the precious metals space, has been supported by strong global central bank purchases, led by the People's Bank of China (PBOC), as China continues to gradually transition away from the dollar. Recent data suggests China continues to sell its holdings of Treasury notes, which at one point reached $1.3 trillion, and now stands at approximately $700 billion. The rationale for the apparent adjustment of holdings is increasingly focused on Beijing's concerns that the U.S. can issue sanctions on China's dollar denominated financial assets. Central banks, in general, have been diversifying some reserves into gold as the geopolitical landscape has become more challenging. Retail buying of gold bullion has also been strong, particularly outside of the U.S..

By some estimates, EV production will account for nearly 50% of copper demand

Silver, which has both precious and industrial metal characteristics, has also been edging higher as manufacturing activity recovers more broadly. Expect commodities to remain higher in the second half of 2024 as manufacturing — coupled with the broader requirements essential to the AI infrastructure cycle — continues on pace.

THE BOTTOM LINE:

Industrial commodities are surging due to resurgent manufacturing in China and the U.S., particularly in the EV sector. Strong demand for EV production and the AI infrastructure buildout are driving prices higher. This trend is expected to continue in the second half of 2024, but likely at a more moderate pace if the economy begins to slow. Meanwhile, the geopolitical and political uncertainty we have discussed could maintain demand for precious metals.

CURRENCIES:

The Strong Dollar Prevails as "Higher for Longer" Persists

by: Quincy Krosby, PhD, Chief Global Strategist

KEY EXPECTATIONS

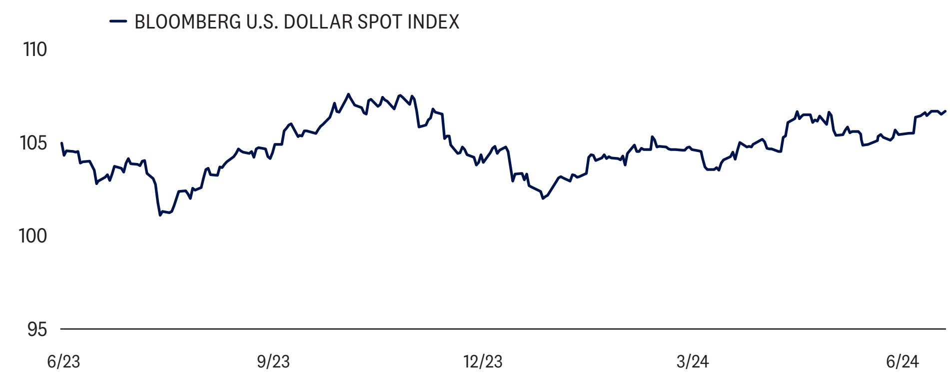
- **The stronger U.S. dollar has been supported by higher interest rates**
- **It will be difficult for other currencies to meaningfully outperform the dollar**

Global currency markets have been reacting to the strength of the dollar, which has been bolstered by the Fed's resolve to keep rates elevated as it seeks to quell inflationary pressures.

In the parlance of currency traders and economists, the hawkish tone of the Fed creates an interest-rate differential with other world currencies, especially for more dovish central banks that have or are poised to lower rates. This would include the ECB and the Bank of England (BOE), and Bank of Canada (BOC).

But the stronger dollar can also exert excessive pressure on other currencies, especially those in EM. Recently, Vietnam and Indonesia found it necessary to intervene in their currency markets to strengthen their respective currencies [Fig 19].

19 The U.S. Dollar Rises Slightly as Fed Signals Higher for Longer



Source: LPL Research, Bloomberg 06/24/24. Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results. The Bloomberg Dollar Spot Index (BBDYX) tracks the performance of a basket of leading global currencies versus the U.S. dollar.

Meanwhile, the Japanese yen has come under immense pressure against the dollar as the Japanese central bank continues to strike a dovish tone on future monetary policy. The downward slope of the yen required two interventions amounting to billions of dollars.

The possibility of the Fed initiating an easing cycle for rates requires confirmation that the trajectory of inflation is edging lower at a faster pace. This in turn will soften the dollar as currency markets begin to factor in lower rates and a more dovish Fed.

Although expectations are focused on September for the first cut, if inflation-related data cools sooner, the dollar's strength should moderate and offer support for currencies globally.

THE BOTTOM LINE:

The Fed's to-date hawkish stance keeps the dollar supported and creates headwinds for other currencies, especially in emerging markets. While rate cuts could weaken the dollar down the road, near-term strength is likely to persist until inflation shows more definitive signs of moving towards target.

Putting It All Together: A Summary of STAAC's Midyear 2024 Tactical Views

Strong Overweight | Overweight | Neutral | Underweight | Strong Underweight

ASSET CLASS

Stocks	The second half hinges a lot on earnings growth, with high valuations potentially leaving limited room for gains unless companies can continue to exceed expectations. Expect market volatility, especially closer to the election. A patient approach geared more around buying on dips looks prudent.
Bonds	Fixed income offers renewed appeal with yields near some of the best levels in decades and the Fed anticipated to start cutting rates. Investors should prioritize income generation over price appreciation, given the limited scope for significant declines in yields.
Cash	Cash and cash equivalents continue to offer relatively attractive yields, but with the Fed anticipated to begin cutting rates in the second half, cash shouldn't be as important to portfolios as it has been.

Strong Overweight | Overweight | Neutral | Underweight | Strong Underweight

EQUITIES

Geography

U.S.	Superior earnings and economic growth favor U.S. equities, though a lot of the good news is already priced in, and the risk of reaccelerating inflation and higher interest rates cannot be dismissed.
Developed International	Further rate cuts by the ECB and attractive European valuations are not enough to offset the lackluster economic and profit growth, leaving us neutral despite a still-favorable outlook on Japan.
Emerging Markets	Elevated geopolitical risk, including U.S.-China tensions, supports our EM underweight, but depressed sentiment makes Chinese equities an interesting short-term trading idea.

Style and Market Capitalization

Large Growth	As the economy potentially slows in the second half, the strong balance sheets and superior earnings power of growth-oriented large caps may be favored by markets. However, large caps carry rich valuations, particularly on the growth side, and there is a risk that too much optimism is being priced in.
Large Value	Cyclical value stocks have benefited some from the potential for a soft landing, and the technical picture has subsequently improved. If the economy slows in the second half as we suspect, it will be difficult for large value to meaningfully outperform.
SMID Growth	The resilient U.S. economy, healthy capital markets, and attractive valuations have not been enough for small and midcap growth stocks to keep up with large caps, and a slower economy may create headwinds in the second half.
SMID Value	Small/midcap value stocks tend to benefit from better economic growth, sticky inflation, and higher interest rates, as the benchmarks are heavy on regional banks. Valuations remain attractive, but credit market deterioration in a possible second half slowdown is a key risk.

(*continued on next page*)

Strong Overweight | Overweight | Neutral | Underweight | Strong Underweight

BONDS

Core Sectors

U.S. Treasuries	The U.S. Treasury yield curve remains inverted, so the risk of a meaningful fall in longer-maturity yields is limited, in our view. Absent a sharp unexpected fall in economic growth, we think the 10-year yield is likely to remain range-bound and will end the year between 3.75% and 4.25%. A large amount of Treasury issuance is a potential headwind.
MBS	With yields and spreads at multi-year highs, we think MBS remain an attractive investment opportunity, 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's reaction function becomes clearer and interest rate volatility falls, MBS should outperform other high-quality fixed income sectors.
Investment Grade Corporates	We recommend a strong underweight position to benchmarks, 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	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 Treasury Inflation-Protected Securities (TIPS) are attractive and could provide a good hedge against unexpected inflation surprises.

Plus Sectors

Preferred Securities	The selloff in the banking sector in March 2023 provided an opportunity to invest in these senior securities. Preferreds offer higher credit quality among the riskier fixed income options, while bank fundamentals are generally sound overall. Yields and spreads remain among the most attractive since the Global Financial Crisis.
High Yield Corporates	Yields for high yield bonds are above historical averages, but tighter lending standards have correlated with higher ratings downgrades and defaults. The uncertain economic environment could increase near-term volatility and valuations are on the expensive side. The asset class may be better suited for longer-term minded investors with tolerance for higher volatility.
Bank Loans	Given the variable-rate debt, higher interest rates may make repayment more challenging for some issuers. Fewer investor protections and the illiquidity of individual loans remain concerns as well. Yields for the asset class remain above historical averages, but given the risks of the two leveraged credit asset classes, we have a slight preference for high yield bonds over loans.
Foreign Developed Market Bonds	Non-U.S. developed bonds provide potential diversification benefits to a U.S. economy that may have stickier inflation than their European counterparts. We're neutral on foreign bonds, but given the potential for additional ECB rate cuts, foreign bonds ex Japanese government bonds may outperform. Currency volatility remains a concern though, so investors may be better served by using a currency-hedged option.
EM Debt	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 strong dollar could provide a headwind to prices. 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 12-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 analysis, 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 our investment thought.

Marc Zabicki, CFA
Chief Investment Officer

Garrett Fish, CFA
Head of Model Portfolio Management

Jeffrey Buchbinder, CFA
Chief Equity Strategist

Quincy Krosby, PhD
Chief Global Strategist

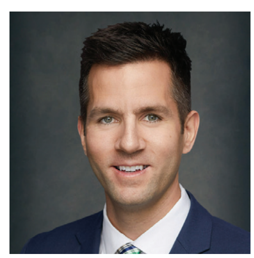
Scott Froidl
Investment Analyst

Jeffrey Roach, PhD
Chief Economist

Lawrence Gillum, CFA
Chief Fixed Income Strategist

George Smith, CFA, CAIA, CIMA
Portfolio Strategist

Jason Hoody, CFA
Head of Investment Manager Analysis



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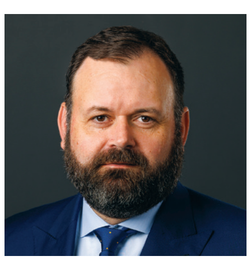
Chief Technical Strategist



Kristian Kerr
Head of Macro Strategy

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.

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.

Precious metal investing involves greater fluctuation and potential for losses.

Any company names noted herein are for educational purposes only and 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.

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.

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 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.

EQUITY RISK

Investing in stock includes numerous specific risks including the fluctuation of dividend, 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 price is 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 is 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 change 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.

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.

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.

Alternative Investments may not be suitable for all investors and involve special risks such as leveraging the investment, potential adverse market forces, regulatory changes and potentially illiquidity. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses."

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