LPL RESEARCH

Global Portfolio Strategy

February 2025

As Goes January, So Goes the Year?

The LPL Strategic & Tactical Asset Allocation Committee (STAAC) determines the firm's investment outlook and asset allocation that helps define LPL Research's investment models and overall strategic and tactical investment thinking and guidance. 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 closely monitor all global economic and capital markets conditions to ensure that all the latest information is being digested and incorporated into its investment thought.

Color Key:

- Strong Overweight View
- Overweight View
- Neutral View
- Underweight View
- Strong Underweight View

Key changes from January report:

- **Upgraded large growth to strong overweight, downgraded small value to underweight.**
- **Upgraded consumer discretion ary to overweight, downgraded materials to underweight.**

STAAC Asset Class Tactical Views as of 02/01/2025 (GWI)

Asset Class					
Equity			●		
U.S.		●			
International Developed (EAFE)			●		
Emerging Markets				●	
Large Growth	●	←			
Large Value			●		
Small/Mid Growth			●		
Small/Mid Value			→	●	
Fixed Income			●		
Treasuries			●		
MBS		●			
IG Corporates					●
TIPS			●		
International Developed			●		
Preferred		●			
High-Yield			●		
Bank Loans			●		
Emerging Markets			●		
Cash				●	
Alternatives		●			

STAAC Sector Tactical Views as of 02/01/2025 (GWI)

Sector					
Materials			→	●	
Consumer Staples			●		
Financials			●		
Real Estate				●	
Communications Services		●			
Energy				●	
Industrials		●			
Information Technology			●		
Consumer Discretionary		●	←		
Healthcare			●		
Utilities			●		

Source: STAAC as of February 1, 2025. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors. The STAAC views expressed are based on a Tactical Asset Allocation (TAA) for a portfolio that has a Growth With Income (GWI) investment objective.

Investment Takeaways

Equity markets gained ground in January, bouncing back from a mostly lower December and triggering the January barometer that bodes well for 2025 performance. Developments out of Washington dominated headlines as President Trump was sworn in for his second term, going straight to work with a deluge of executive orders. Markets benefitted from continued deregulation dynamics and animal spirits, although a cloudy backdrop around lingering tariff concerns remained in play. In markets, semiconductor names and the broader artificial intelligence (AI) theme took a hit near month's end after Chinese AI startup DeepSeek roiled global markets with its low-cost model. Elsewhere, earnings season takeaways were mostly positive, highlighted by banks broadly topping estimates and a mixed batch of initial big tech results.

Within fixed income markets, Treasury yields were modestly lower for the month, so fixed income investors mostly earned their coupon payments in January. The core bond index, the Bloomberg Aggregate Bond Index, was higher by 0.53% with all core bond sectors positively contributing to returns. It was a tale of two halves, with higher interest rates to start the year, which led the index lower through about midmonth, before a downside Consumer Price Index (CPI) surprise paused the selloff trend — with yields trending lower through month-end. Tariffs and the return of the debt ceiling debate also added volatility to markets during the month. We think most of the yield curve could remain range-bound until economic data softens enough to allow the Federal Reserve (Fed) to continue its easing campaign.

LPL's STAAC maintains its tactical neutral stance on equities, as a steadily growing economy and strong corporate profits are offset by headline risk, a slower and potentially shallower Fed easing cycle, and stretched sentiment. Alternative investment exposure offers diversification benefits, while a neutral fixed income position reflects the Committee's expectation for range-bound interest rates.

- The Committee is upgrading large growth, and downgrading small value, based primarily on LPL Research's quantitative and technical work. Large growth stocks, bolstered by superior earnings power and cash flow growth , AI-driven momentum, robust balance sheets, and lower sensitivity to interest rate changes, outweigh concerns about higher valuations and rotation risks. In contrast, small value equities are likely to face persistent challenges from rising interest rate volatility and a cooling economy in 2025 which supersedes the generally attractive valuations on a tactical basis.
- The STAAC's regional preference remains U.S. over developed international and emerging markets (EM), largely due to superior earnings and economic growth in the U.S. which is reinforced by policy stances of the new administration, and volatility in currency markets. Potential Chinese stimulus-fueled strength in EM is notable, but Chinese macro data continues to underwhelm, while tariff and trade actions, and potential U.S. dollar strength increase risk in EM equities.
- The STAAC continues to hold an overweight tilt in preferred securities as valuations remain attractive. However, the risk/reward for core bond sectors (U.S. Treasury, agency MBS, investment-grade corporates) is more attractive than plus sectors. In our view, despite the move higher in yields, adding duration isn't attractive at current levels, and the STAAC remains neutral relative to our benchmarks.

2025 MARKET FORECASTS

Elevated Volatility May Continue in the Near-Term

	Current
10-Year U.S. Treasury Yield	3.75% to 4.25%*
S&P 500 Index Earnings per Share	$260
S&P 500 Index Fair Value	6,275 – 6,375**

Source: LPL Research, FactSet, Bloomberg
All indexes are unmanaged and cannot be invested into directly.

*Our year-end 2025 forecast for the U.S. 10-year Treasury yield is 3.75% to 4.25%. The Fed's higher for longer narrative and the poor supply/demand technicals for Treasury securities will likely keep interest rates at these elevated levels until the economic data weakens and/or inflation falls back in line with the Fed's longer term 2% target.

**Our year-end 2025 fair-value target range for the S&P 500 of 6,275-6,375 is based on a price-to-earnings ratio (PE) of 23 and our S&P 500 earnings per share (EPS) forecast of $275 in 2026.

Any forward-looking statements including economic forecasts may not develop as predicted and are subject to change.

All data, views, and forecasts herein are as of 02/01/25.

2025 ECONOMIC FORECASTS

U.S. Economy Expected to Slow This Year

	2025 (Y/Y, real GDP)
United States	1.9%
Eurozone	0.9%
Advanced Economics	1.6%
Emerging Markets	4.2%
Global	3.1%

Source: LPL Research, Bloomberg.
The economic forecasts may not develop as predicted.

Tactical Asset Allocation as of 02/01/2025

Investment Objective

	Aggressive Growth			Growth			Growth with Income			Income with Moderate Growth			Income with Capital Preservation		
	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference
Stocks	95.0%	95.0%	0.0%	80.0%	80.0%	0.0%	60.0%	60.0%	0.0%	40.0%	40.0%	0.0%	20.0%	20.0%	0.0%
U.S. Equity	80.0%	76.0%	4.0%	67.0%	64.0%	3.0%	50.0%	48.0%	2.0%	33.5%	32.0%	1.5%	16.0%	16.0%	0.0%
Large Growth	31.5%	24.0%	7.5%	26.5%	20.5%	6.0%	19.5%	15.0%	4.5%	13.5%	10.0%	3.5%	6.0%	5.0%	1.0%
Large Value	25.0%	24.0%	1.0%	21.0%	20.0%	1.0%	15.5%	15.0%	0.5%	10.0%	10.0%	0.0%	5.0%	5.0%	0.0%
Small/Mid Growth	14.0%	14.0%	0.0%	11.5%	11.5%	0.0%	9.0%	9.0%	0.0%	6.0%	6.0%	0.0%	3.0%	3.0%	0.0%
Small/Mid Value	9.5%	14.0%	-4.5%	8.0%	12.0%	-4.0%	6.0%	9.0%	-3.0%	4.0%	6.0%	-2.0%	2.0%	3.0%	-1.0%
International Equity	15.0%	19.0%	-4.0%	13.0%	16.0%	-3.0%	10.0%	12.0%	-2.0%	6.5%	8.0%	-1.5%	4.0%	4.0%	0.0%
Developed (EAFE)	12.0%	12.0%	0.0%	10.0%	10.0%	0.0%	8.0%	8.0%	0.0%	5.0%	5.0%	0.0%	4.0%	4.0%	0.0%
Emerging Markets	3.0%	7.0%	-4.0%	3.0%	6.0%	-3.0%	2.0%	4.0%	-2.0%	1.5%	3.0%	-1.5%	0.0%	0.0%	0.0%
Bonds	0.0%	0.0%	0.0%	15.0%	15.0%	0.0%	35.0%	35.0%	0.0%	55.0%	53.0%	2.0%	75.0%	70.0%	5.0%
U.S. Core	0.0%	0.0%	0.0%	14.5%	15.0%	-0.5%	33.5%	35.0%	-1.5%	53.0%	53.0%	0.0%	72.0%	70.0%	2.0%
Treasuries	0.0%	0.0%	0.0%	7.0%	7.0%	0.0%	16.0%	16.0%	0.0%	26.5%	24.5%	2.0%	36.0%	32.0%	4.0%
MBS	0.0%	0.0%	0.0%	5.0%	4.5%	0.5%	11.0%	10.0%	1.0%	16.0%	15.0%	1.0%	22.0%	20.5%	1.5%
IG Corporates	0.0%	0.0%	0.0%	2.5%	3.5%	-1.0%	6.5%	9.0%	-2.5%	10.5%	13.5%	-3.0%	14.0%	17.5%	-3.5%
Non-Core	0.0%	0.0%	0.0%	0.5%	0.0%	0.5%	1.5%	0.0%	1.5%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%
Preferred	0.0%	0.0%	0.0%	0.5%	0.0%	0.5%	1.5%	0.0%	1.5%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%
Alternatives	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%
Tactical: Global Macro	3.0%	0.0%	3.0%	2.0%	0.0%	2.0%	1.5%	0.0%	1.5%	1.0%	0.0%	1.0%	0.0%	0.0%	0.0%
Multi-Strategy	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	1.5%	0.0%	1.5%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%
Cash	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	7.0%	-5.0%	2.0%	10.0%	-8.0%

For investors who have their own benchmarks, we would recommend emphasizing underweights or overweights relative to the individual benchmark at the most similar overall risk level.

Equity benchmark style weights are equally distributed across growth, core, and value. Cap weights are based on the underlying holdings of the domestic benchmark indexes.

Bond benchmark sector allocations are based on a look-through analysis of the major sector components of the Bloomberg US Aggregate Bond Index.

Treasuries include other government related debt. MBS includes other securitized debt.

Abbreviations: TAA - tactical asset allocation; MBS - mortgage-backed securities; IG corporates - investment-grade corporates; TIPS - Treasury inflation-protected securities.

Equity Asset Classes

Upgrading Large Growth on a Strong Earnings Outlook and Continued Technical Momentum

The STAAC maintains its tactical neutral stance on equities, based on steady economic growth, solid corporate profits, a supportive Fed, and potential deregulation tailwinds. Stretched valuations and sentiment present risk, so gains in 2025 will likely be modest.

LPL's STAAC is upgrading large growth, and downgrading small value, informed by LPL Research's quantitative and technical analysis work. Large growth continues to enjoy superior cash flow growth and earnings power. The lesser quality, more interest rate sensitive aspect of small cap value stocks outweighs attractive valuations for now.

The Committee has a slight preference for large cap stocks due to AI exposure, strong balance sheets, and technical analysis trends, although small caps may gain support from attractive valuations and their domestic focus. AI helps justify rich valuations for large cap growth stocks, but the earnings gap between growth and value is poised to narrow and financials should benefit from deregulation.

The STAAC's regional preference remains U.S. over developed international due largely to superior domestic earnings and economic growth, reinforced by Trump 2.0 policies and a strong U.S. dollar. Trade and tariff risk remain concerns for emerging market equities.

Color Key:

● Strong Overweight ● Overweight ● Neutral ● Underweight ● Strong Underweight

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization and Style	**Large Growth**	● ← · · ·	Positive	STAAC's large cap growth upgrade is informed by LPL Research's fundamental and technical quantitative analysis. Superior earnings power, AI tailwinds, strong balance sheets, and less interest rate sensitivity offset above-average valuations and potential rotation risk. Large caps also tend to do well as the economy slows.
	Large Value	· · ● · ·	Negative	Potential pro-growth policies and de-regulation from the Trump administration may benefit attractively valued cyclical value stocks, especially financials. Defensive sectors may continue to struggle amid a resilient economy and slower earnings growth while carrying greater interest rate risk.
	Small/Mid Growth	· · ● · ·	Positive	Low valuations, a more domestic focus, and healthy credit markets are supportive of small caps, but risk of rising interest rates and a slowing economy in 2025 are potential headwinds. Enthusiasm surrounding benefits of Fed rate cuts for small caps may be overdone. Technical analysis trends are supportive .
	Small/Mid Value	· · → ● ·	Negative	LPL Research's quantitative and technical analysis work indicates the small/midcap value stock outlook has deteriorated. Though small and midcap value stocks are attractively valued and benefit from their domestic focus in this tense trade environment, large caps possess better momentum, greater earnings power, and less interest rate sensitivity. Watch financials for signs of a turn.
Region	**United States**	· ● · · ·	Positive	The U.S. economy is expected to handily outgrow and outearn Europe in 2025, a position likely strengthened by President Trump's trade policies and potential further strength in the U.S. dollar. AI innovation and our technical analysis work also point to a U.S. preference despite elevated valuations.
	Developed International	· · ● · ·	Negative	Soft European economic growth outlook, a strong dollar due to President Trump's trade policies, and European political uncertainty offset attractive valuations, European Central Bank rate cuts, and corporate reforms in Japan. Negative technical analysis trends also point to the U.S. over developed international.
	Emerging Markets	· · · ● ·	No Trend	Despite low valuations, the STAAC remains cautious on emerging markets (EM) equities on lackluster growth in China, trade tensions, and elevated geopolitical risk in Asia and the Middle East. China stimulus prospects, more Fed rate cuts, and improving technical analysis trends are possible tailwinds.

Relative trend is an assessment of the intermediate term price trend and performance between various asset classes and sectors. For regions and styles, the relative trends are compared to each other.

Equity Sectors

Upgrading Consumer Cyclical Sector on Continued Consumer Resilience

The consumer cyclical upgrade (from neutral to modest positive), which is informed by our quantitative work, is attributable to reasonable valuations, solid fundamentals, favorable technical analysis trends, and resilient consumer spending. The upgrade is being paired with a materials downgrade, where technical momentum has deteriorated recently. Broadly, the STAAC recommends more economically sensitive, or cyclical, sectors for 2025. The STAAC continues to favor communication services and industrials, which offer growth at reasonable prices and exposure to AI, infrastructure spending, and near-shoring/onshoring trends. Cyclical value stocks may garner support in 2025 from steady economic growth and deregulation. The Committee maintains underweight recommendations toward the energy and real estate sectors.

Color Key:

Strong Overweight Overweight Neutral Underweight Strong Underweight

	Sector	Overall View	Relative Trend	S&P Wgt.	Rationale
Cyclical	**Basic Materials**		Negative	2.0	After a rough December, the sector outperformed (+5.6%) in January on strength in steel and gold mining stocks as metal prices rose, particularly precious metals. China growth worries were replaced by tariff concerns, which gave steel stocks a boost.A broader negative technical backdrop suggests the sector will be an underperformer.
	Consumer Cyclical		Positive	11.3	Outperformed in January (+4.4%), with strength in cruise ships and e-commerce. Solid earnings growth, healthy consumer spending trends, and our quantitative and technical analysis drove the upgraded view.
	Financial Services		Positive	14.1	Outperformed in January (+6.5%) on strength in banks amid prospects for bank and capital markets deregulation. Strong fourth quarter earnings season, steep yield curve, and favorable credit conditions are supportive. Positive bias.
	Real Estate		Negative	2.1	Slight laggard in January (+1.8%). Interest rates not much of a story recently. Supportive economic conditions and attractive yields helped. Real estate fundamentals are mostly okay. Technical analysis trends remain lackluster.
Sensitive	**Communication Services**		Positive	9.7	Top sector performer in January (+9.1%) on strength in Alphabet (GOOG/L), Meta (META), and Netflix (NFLX). Strong earnings growth, reasonable valuations and positive technical analysis trends. Watching regulatory risk.
	Energy		Negative	3.2	Slight underperformer in January (+2.1%) as soft natural gas prices offset higher oil. Valuations are attractive, industry capital allocation has improved, and Russian sanctions are supportive, but supply overhang may limit upside. Watching technical trends for signs of sustained strength.
	Industrials		No Trend	8.3	Outperformer in January (+5.0%) despite weakness in Fedex (FDX) and UPS. Strength in GE, 3M (MMM), and Deere (DE) provided support, helping offset tariff fears. Positives include infrastructure and defense spending, AI data center buildouts, and near-shoring. Reasonable valuations. Technical analysis picture is mixed.
	Technology		No Trend	30.9	Only sector in the red in January (-2.9%) on threat of China startup DeepSeek's progress in AI, which drove NVIDIA's double-digit decline. Apple (AAPL) also weighed on the sector due largely to soft demand in China. Mixed technicals. Potential buy-the-dip candidate. Favor software over semiconductors.
Defensive	**Consumer Defensive**		Negative	5.5	Slight laggard in January (+2.0%) as defensive sectors lagged. Sector faces headwinds from effects of GLP-1s on snack food demand. RFK Jr. presents risk for food and beverage producers. Low-income consumers are strained by inflation. Spirits have a cancer warning. Tariff risk is high. Fair valuations. Negative technicals.
	Healthcare		Negative	10.6	Outperformed in January (+6.8%) as election-related policy pressures eased. Health services companies rebounded as policy-driven pressures eased. Reasonable valuations and improving technical picture. LPL Research favors cyclical sectors.
	Utilities		No Trend	2.4	In line performer in January (+2.9%) as the AI demand helped offset the impact of California wildfires. Interest rate stability during the month helped as well. Reasonable valuations. Mixed technical analysis picture.

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.

Fixed Income

Starting the Year Off on a Positive Note

Fixed income markets, as proxied by the Bloomberg Aggregate Bond Index, were higher in January by 0.5% as Treasury yields were modestly lower during the month. Early in the second Trump administration, tariff threats have revived market volatility. Recent Treasury yield curve movements reflect this uncertainty, with markets reacting to both threatened and postponed tariffs against key trading partners. Short-term yields rose as markets pushed back expectations for Fed rate cuts, while long-term yields declined on economic slowdown concerns and potential trade tensions. These yield curve dynamics mirror patterns seen during the first Trump presidency. Credit markets have remained resilient throughout though. We expect volatility to remain elevated.

Aside from preferred securities, valuations for riskier fixed income sectors remain rich relative to core sectors, in our view. And while price appreciation may be limited, until inflationary pressures abate, income levels remain attractive.

Color Key:

Strong Overweight · Overweight · Neutral · Underweight · Strong Underweight

Current Stance		Low	Med	High	Rationale
	Credit Quality Preference			✓	Recommend an up-in-quality approach in allocating to fixed income sectors. While all-in yields for lower quality remain above longer-term averages, we think the risk/reward favors owning core bond sectors over the riskier sectors.
		Short	**Inter.**	**Long**	**Rationale**
	Duration Preference		✓		Yields have fallen from recent highs, but we expect interest rate volatility to remain elevated. Tariff pressures and an ongoing Treasury Department debt ceiling debate will likely keep rates directionless until/unless the economic data softens enough to allow the Fed to continue its rate cutting campaign. We remain neutral duration to benchmarks.
		Neg.	**Neut.**	**Pos.**	**Rationale**
	Municipal Bond View		✓		Performance was positive for the month but strong supply and negative investor reaction to the devastating Los Angeles wildfires hindered performance. Curve steepened in January so intermediate term allocations worth a look.

		Overall View	Overall Trend	Rationale
Core Sectors	**U.S. Treasuries**	Neutral	Negative	The 10-year was lower by three basis points in January as rate volatility returned to markets. The yield curve will likely be directionless until the Fed is able to resume its rate cutting campaign. Markets are pricing in one full cut in 2025 with a 73% chance of a second cut in December. Given current economic strength and risks of inflation reaccelerating due to fiscal support, Treasury yields may remain around current levels, but we expect yields to end the year lower. Technically, 10-year yields are retesting key support at 4.50%.
	MBS	Overweight	No trend	We remain constructive on agency MBS. Yields and spreads remain near multi-year highs, so we think MBS remain an attractive investment opportunity, particularly relative to lower-rated corporates. Elevated interest rate volatility is a headwind to MBS but recent demand from banks, traditionally the largest buyer of MBS, remains supportive.
	Investment-Grade Corporates	Strong Underweight	Negative	We recommend a strong underweight to benchmarks, but we think there is 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.
	TIPS	Neutral	No Trend	The most recent selloff has pushed all-in yields for Treasury Inflation-Protected Securities (TIPS) to very attractive levels, particularly shorter maturity TIPS, and could provide a good hedge against unexpected inflation surprises.

		Overall View	Overall Trend	Rationale
Plus Sectors	**Preferred Securities**	Overweight	No Trend	Preferred securities have outperformed most other bond sectors over the past 12 months, but valuations remain relatively attractive. Higher credit quality among the riskier fixed income options. Recent Fed stress tests continue to show large, money-center bank fundamentals are generally sound, but the environment favors active management.
	High-Yield Corporates	Neutral	No Trend	Yields for high-yield bonds are only around historical averages, and spreads remain near all-time lows. The environment broadly remains supportive for credit risk. Economic growth is slowing but not collapsing, which is typically good for credit. But credit is not cheap.
	Bank Loans	Neutral	No Trend	Given the variable rate debt, Fed rate cuts will eventually push yields lower, although likely still higher than longer-term averages. Downgrades and defaults have increased and could increase still if the economy slows/contracts. We would favor high-yield bonds over loans for those investors interested in leveraged credit.
	Foreign Bonds	Neutral	Negative	Valuations have improved, but potential currency volatility remains a challenge.
	EM Debt	Neutral	Negative	Central banks have largely ended rate hikes as inflationary pressures are starting to abate. A strong dollar could provide a headwind to prices. Valuations are relatively attractive, but idiosyncratic risks remain. Liquidity can be an added risk during periods of stress.

Commodities and Currencies

Commodity Rally Continues

The broader commodities complex climbed for a third straight month in January. Relatively broad-based buying pressure drove the Bloomberg Commodity Index (BCOM) up 3.6%, marking its best month since September. A reprieve from rising rates and a stronger dollar helped keep buyers engaged, along with optimism for another reflation trade from President Trump's pro-growth agenda. On the technical side, BCOM cleared resistance off the October highs, paving the way for a potential retest of the 2024 highs near 107.5. Momentum is building in price and capital flows. According to Bloomberg, speculator long positions represent around 9% of all open interest in futures tied to BCOM, marking the most bullish reading since the second quarter of 2023.

Precious metals were a bright spot last month as tariff uncertainty spurred safe-haven demand, and the dollar backed off its recent highs. Gold climbed nearly 7% and notched another record high. Silver outshined its precious metal cousin with a rally of 8.3%. Industrial metals were mostly higher despite limited signs of economic traction from China's various stimulus measures.

Outside of metals, natural gas lived up to its reputation as the "widow maker" market. Prices plunged over 16% and erased half of the November and December gains. Overbought conditions and above-average seasonal temperatures sparked the selling pressure. West Texas Intermediate (WTI) rose 1% but finished well below intramonth highs of around $80 a barrel. Concerns over weak China demand and reduced drilling regulations in the U.S. curtailed the rally.

Color Key: Positive Neutral Negative

Sector	Overall View	Overall Trend	Rationale
Energy		Neutral	WTI pulled back from a downtrend resistance line and violated support at the 200-day moving average (dma). Short-term momentum indicators have rolled over while speculators have pared back sizable long positions over the last month. Watch for further consolidation and downside support around $65. Natural gas receded relatively quickly after reaching overbought levels last month. Support off the 2023 highs was violated but futures still remain in an uptrend with constructive supply trends developing, despite some above-average temps last month. Watch for a potential bounce off support near $3.16. **We maintain our neutral view on the energy commodity sector.**
Precious Metals		Positive	Gold has cleared the October highs at $2,790. Based on the size of the prior range, a minimum technical-based price objective sets up near $3,040. Outside of elevated geopolitical risk, central bank demand remains robust, especially with the People's Bank of China (PBOC) adding to their gold reserves for three straight months in January. The technical setup for silver also remains bullish, with futures recently bouncing off support at the 200-dma/prior highs. **We maintain our positive view on the precious metals group.**
Industrial Metals		Neutral	While the domestic growth outlook remains constructive, concerns over global growth continue to build, especially amid what could be the early stages of a trade war. China faces a sputtering economy and new 10% tariffs imposed on all imports into the U.S. Industrial metals have held up well despite the headwinds, as the tariff news came in better than feared. Copper rose over 6% and reversed a downtrend off the May highs. **We maintain our positive view on the industrial metals group.**
Agriculture (Ag) & Livestock		Neutral	Ag and livestock markets traded higher last month. Softs outperformed on the back of a 14% rally in coffee. A severe drought in Brazil has weighed on supply. Grains were also higher with corn leading the way. Futures climbed 5% and topped the May highs, validating a breakout from its bottom formation. Live cattle rallied 5.5% and reached record highs, while lean hogs rose 3.5% and recaptured the 200-dma. **Given the mixed technical backdrop, we maintain our negative view on the group.**
U.S. Dollar		Positive	U.S. exceptionalism, rising rates, tariffs and inflation risk, and reduced rate cut expectations from the Fed pushed the dollar to multi-year highs last month. However, overbought conditions and a willingness from the White House to negotiate on tariffs has slowed the upside momentum. A break below support at 107 would put the dollar back into its prior range but until then, we suspect risk is still to the upside.

Any futures referenced are being presented as a proxy, not as a recommendation. The fast price swings in commodities will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.

Precious metal investing involves greater fluctuation and potential for losses.

Alternative Investments

Mixed Start to 2025

Alternative investment strategies began 2025 with mixed performance as the equity (S&P 500 +2.8%) and bond market (Bloomberg US Aggregate +1.1%) delivered strong gains to start the year. As is the case during periods when both the equity and bond market rally, alternative investment strategies tend to lag on a relative basis due to their limited beta profile and goal of providing diversification from traditional assets. The long/short equity industry gained 2.1% per the HFRX Equity Hedge Index and benefitted from an increase in sector dispersion and a move away from the market being driven purely by large cap growth related names. Large value outperformed their growth counterparts by 2.65%, while at the sector level, there was over a 12.0% difference between the top performing sector — communication services at 9.1% — and information technology, which declined 2.9%. With long/short equity capturing over 75% of the S&P 500's return with a significantly lower beta profile, indicates how these strategies can add value not only in market downturns as a hedge, however, also by providing strong stock selection on the long side of their portfolios.

Merger arbitrage strategies also outperformed on a risk-adjusted basis, with the HFRX Event Driven: Merger Arbitrage up 1.6% during January, while having a beta less than 0.1. As previously discussed, the Trump administration is expected to prioritize deregulation across various sectors, including energy, finance, and technology, while the growth of AI may spur a period of disruption and subsequent capital transactions. For previously announced deals, the discount to deal price has been tightening, indicating a higher likelihood of completion without regulatory intervention.

Macro trading and managed futures lagged from a sub-strategy perspective. Performance was significantly impacted by each managers underlying exposure to bonds. Entering January, most of the industry was positioned short across the term structure and across U.S., U.K., German, Australian, and Japanese bond markets. This led to steady losses during the month, that were only partially offset by long equity and long agriculture exposure in the commodity space. We continue to encourage investors to consider a combination of trend followers with alternative market coverage and balanced exposure and short-term multi-strategy managers.

Color Key: Positive Neutral Negative

	Sector	Overall View	Rationale
Fundamental	**Long/Short Equity**		The current equity market environment lends to a more attractive stock picking environment for low net equity long/short managers. With rich valuations these managers should be able to build solid short books that can increase their total alpha generation.
	Event Driven		Merger Arbitrage strategies remain attractive fixed income diversifiers and may see a more favorable backdrop in the event of deregulation and an extension of the Tax Cuts and Jobs Act.
Tactical	**Global Macro**		Favor multi-strategy global macro strategies with truly diversified asset class and regional exposure as the market moves on from directional structural themes to more balanced tactical themes across both developed and emerging markets. We continue to believe the strategy serves as a solid portfolio diversifier that deserves a steady allocation.
	Managed Futures		Most of the industry entered the year with short bond exposure, this exposure acted as main headwind during January. We encourage investors to consider a combination of trend followers with alternative market coverage and balanced exposure and short-term multi-strategy managers.
Multi-Strategy	**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		Among private market strategies, private credit and infrastructure strategies, which we were constructive on, continued to perform well and are expected to show their resilience as we navigate through the fog.

Please see https://www.hfr.com/indices for further information on the indices.
Definition: The HFRI 400 (US) Hedge Fund Indices are global, equal-weighted indices comprised of the largest hedge funds that report to the HFR Hedge Fund Research

Important Disclosures

This material has been prepared for informational purposes only, and is not intended as specific advice or recommendations for any individual. There is no assurance that the views or strategies discussed are suitable for all investors and they do not take into account the particular needs, investment objectives, tax and financial condition of any specific person. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing. Any economic forecasts set forth may not develop as predicted and are subject to change.

Stock investing involves risk including loss of principal. 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 and 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. Bonds are subject to market and interest rate risk if sold prior to maturity.

Asset Class Disclosures

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies. Relative trend is an assessment of the intermediate term price trend and performance between various asset classes and sectors. For sectors each sector's relative trend is versus the S&P 500.

Yield spread is the difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings, and risk. Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk. For the purposes of this publication, intermediate-term bonds have maturities between three and 10 years, and short-term bonds are those with maturities of less than three years.

Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Corporate bonds are considered higher risk than government bonds. Municipal bonds are subject to availability and change in price. 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. U.S. Treasuries may be considered "safe haven" investments but do carry some degree of risk including interest rate, credit, and market risk. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

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.

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.

Floating rate bank loans are loans issues by below investment grade companies for short term funding purposes with higher yield than short term debt and involve risk.

Credit Quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. 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. Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. It is expressed as a number of years.

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.

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. Alternative investments are include non-traditional asset classes. This may include hedge funds, private equity/debt/credit, etc. This may also include Business Development Companies (BCDs) and Opportunity Zone investments. These are not registered securities and there may be significant restrictions on purchase and suitability requirements. Please contact your advisor for any further information.

The HFRX Absolute Return Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.

The HFRX Equity Hedge Index measures the performance of the hedge fund market. Equity hedge strategies maintain positions both long and short in primarily equity and equity derivative securities.

The HFRI® Indices are broadly constructed indices designed to capture the breadth of hedge fund performance trends across all strategies and regions.

The HFRI Institutional Macro Index is a global, equal-weighted index of hedge funds with minimum assets under management of USD $500MM which report to the HFR Database and are open to new investments.

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. 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.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Any futures referenced are being presented as a proxy, not as a recommendation. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors. Precious metal investing involves greater fluctuation and potential for losses.

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Important Disclosures

Investing in foreign and emerging markets 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. All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy. Precious metal investing involves greater fluctuation and potential for losses.

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.

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.

All index data from FactSet.

The Strategic and Tactical Asset Allocation Committee (STAAC) is a division of LPL Research.

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