GLOBAL PORTFOLIO STRATEGY

LPL RESEARCH

MAY 2024

APRIL SETBACK AS RATES RISE

LPL Research Monthly Market Outlook

Color Key

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

Key Changes from April Report:

- More constructive on industrial metals

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 foster a close monitoring of all global economic and capital markets conditions to ensure that all the latest information is being digested and incorporated into its investment thought.

STAAC Asset Class Tactical Views as of 5/01/2024 (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 5/01/2024 (GWI)

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

Source: STAAC as of May 1, 2024. 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.

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INVESTMENT TAKEAWAYS

Stocks fell in April as the S&P 500's 4% decline ended the five-month winning streak for the index. As May began, equity markets were struggling with higher Treasury yields following stubborn inflation data that caused markets to price in only one Federal Reserve (Fed) rate cut in 2024. Thanks to the more than 10% first quarter gain, stocks are still up about 6% year to date.

Of the nearly 0.75% increase in the 10-year Treasury yield this year, close to 0.50% has come in April as rate cut expectations continue to get priced out. The repricing out of rate cuts put upward pressure on bond yields (downward pressure on prices) with the highest quality segments underperforming. Significantly higher yields than current levels will require either a much more substantial hiking cycle, or a larger repricing of term premia, neither of which we think is imminent.

The LPL Research STAAC sees the risk-reward trade-off between equities and fixed income as roughly balanced. Higher bond yields increase the relative attractiveness of fixed income relative to equities, but interest rates may be nearing a peak while the economic and profit growth backdrop generally remains favorable for equities.

- The STAAC maintains its recommended neutral equities allocation amid a favorable economic and profit backdrop, though stubborn inflation clouds the outlook in the short term.
- The Committee remains comfortable with a balanced approach to market cap. High-quality small cap stocks are attractively valued and have made technical progress, while the earnings power among large cap companies has been very impressive.
- The Committee also maintains a slight preference towards large cap growth after reducing that overweight in March as value stock performance began to improve. The macroeconomic environment is favorable for value stocks currently, but the earnings dominance from growth companies leaves us comfortable with a balanced approach.
- The STAAC's regional preference remains U.S. over developed international and emerging markets (EM) due largely to superior earnings and economic growth in the U.S. The Committee favors Japan over Europe though yen volatility in Japan, improving economic growth in Europe, and impending European Central Bank (ECB) rate cuts narrow this gap.
- The STAAC continues to hold a strong overweight tilt in preferred securities as valuations remain attractive. However, the risk/reward for core bond sectors (U.S. Treasury, Agency mortgage-backed securities (MBS), investment-grade corporates) is more attractive than plus sectors. In our view, adding duration isn't attractive due to persistent (but subsiding) inflationary pressures, and the STAAC remains neutral relative to our benchmarks.

2024 MARKET FORECASTS

Expect Yields to Pullback and Stocks to Be Choppy Through Year-End

	Previous	Current
10-Year U.S. Treasury Yield	3.75% to 4.25%	3.75% to 4.25%*
S&P 500 Index Earnings per Share	$235	$235
S&P 500 Index Fair Value	4,850 - 4,950	4,850 – 4,950**

Source: LPL Research, FactSet, Bloomberg
All indexes are unmanaged and cannot be invested into directly. The economic forecasts may not develop as predicted.

*Our year-end 2024 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 2024 fair-value target range for the S&P 500 of 4,850-4,950 is based on a price-to-earnings ratio (PE) of 19.5 and our S&P 500 earnings per share (EPS) forecast of $250 in 2025.

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 05/01/24.

2024 ECONOMIC FORECASTS

U.S. Economy Expected to Slow This Year

	2024
United States	1.4%
Eurozone	0.6%
Advanced Economics	1.2%
Emerging Markets	3.9%
Global	2.7%

Source: LPL Research, Bloomberg

The economic forecasts may not develop as predicted.

TACTICAL ASSET ALLOCATION AS OF 05/01/2024

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	27.0%	24.0%	3.0%	22.5%	20.5%	2.0%	16.5%	15.0%	1.5%	11.5%	10.0%	1.5%	5.0%	5.0%	0.0%
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	14.0%	14.0%	0.0%	12.0%	12.0%	0.0%	9.0%	9.0%	0.0%	6.0%	6.0%	0.0%	3.0%	3.0%	0.0%
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	3.0%	0.0%	3.0%	18.0%	15.0%	3.0%	38.0%	35.0%	3.0%	58.0%	53.0%	5.0%	78.0%	70.0%	8.0%
U.S. CORE	3.0%	0.0%	3.0%	17.0%	15.0%	2.0%	36.0%	35.0%	1.0%	55.0%	53.0%	2.0%	74.0%	70.0%	4.0%
Treasuries	1.5%	0.0%	1.5%	8.0%	7.0%	1.0%	17.5%	16.0%	1.5%	27.0%	24.5%	2.5%	36.0%	32.0%	4.0%
MBS	1.0%	0.0%	1.0%	5.5%	4.5%	1.0%	11.5%	10.0%	1.5%	17.5%	15.0%	2.5%	23.5%	20.5%	3.0%
IG Corporates	0.5%	0.0%	0.5%	3.5%	3.5%	0.0%	7.0%	9.0%	-2.0%	10.5%	13.5%	-3.0%	14.5%	17.5%	-3.0%
NON-CORE	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%	4.0%	0.0%	4.0%
Preferred	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%	4.0%	0.0%	4.0%
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

Still Favor U.S. After April Outperformance by International and Emerging Markets

The STAAC maintains its recommended neutral equities allocation despite stubborn inflation clouding the near-term outlook. Higher bond yields increase the relative attractiveness of fixed income relative to equities, but interest rates may be nearing a peak while the economic and profit growth backdrop generally remains favorable for equities.

The Committee maintains a slight preference towards large cap growth after reducing the overweight in March. The Committee favors U.S. equities over developed international and emerging markets (EM) due primarily to the relatively stronger domestic economic growth outlook and superior earnings power, though the Committee has taken note of improved recent performance by non-U.S. equities and continues to like Japan. Key risks to equities include further upward pressure on inflation and interest rates, a broader conflict in the Middle East or Europe, escalation in U.S.-China tensions, and currency volatility.

Color Key

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

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization and Style	**Large Growth**	· · · ● ·	Positive	Large caps are more expensive than small caps, the premium for strong balance sheets in a slowing economy is not in demand in a solid U.S. economy, and mega-cap technology leadership has started to wane. But superior earnings power and favorable technicals leave us with a slight preference for large growth.
	Large Value	· · ● · ·	No Trend	Beneficiary of potential soft landing. Better economic growth with sticky inflation and rising interest rates generally help cyclical value, though benefit may be short-lived if economy slows in second half. Attractive valuations and improving technicals.
	Small/Mid Growth	· · ● · ·	No Trend	Attractive valuations, an increasingly supportive capital markets environment for mergers and public offerings, and healthy credit markets are among the positives. Rising rates, tighter credit markets, and slower economic growth are key risks.
	Small/Mid Value	· · ● · ·	No Trend	As with large value, small/midcap value stocks tend to benefit from better economic growth, sticky inflation, and higher interest rates, all else equal. Valuations are attractive. Credit market deterioration in a possible second half slowdown is a key risk to cyclical value.
Region	**United States**	· · · ● ·	Positive	The U.S. economy is expected to handily outgrow Europe in 2024, though slower growth in Europe may facilitate rate cuts by the European Central Bank (ECB) before the Fed. Elevated valuations and waning technology momentum may present headwinds for the U.S., but our technical analysis work still favors the U.S.
	Developed International	· · ● · ·	No Trend	The European economies are gaining their footing, valuations are attractive, and the STAAC likes Japan — despite yen volatility — due to better corporate governance and still supportive monetary policy. The Committee has not seen enough technical evidence for an upgrade. Watching the euro. Relative trend no longer making new lows.
	Emerging Markets	· ● · · ·	No Trend	The STAAC remains cautious toward EM equities on earnings weakness, elevated geopolitical risk, and prolonged underperformance, despite low valuations. That said, the Committee likes China as a short-term trade based on extreme bearish sentiment and oversold technical conditions and Latin America and India are intriguing stories. Relative strength is starting to improve.

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

Continue to Favor Communication Services and Energy

The STAAC continues to recommend a slight cyclical tilt over defensive sectors broadly. Among economically sensitive, or cyclical, sectors, the Committee recommends two overweights: Communication services and energy. The STAAC favors the energy sector due to attractive valuations, improved returns on capital, improving supply/demand balances, war overseas, and favorable seasonality. The sector outperformed in April after leading in March. The positive communication services view reflects strong earnings trends, reasonable valuations overall, and a favorable technical analysis picture. Alphabet (GOOG/L) earnings revisions post-earnings more than offset Meta's (META) slight reduction in consensus estimates.

Color Key

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

	Sector	Overall View	Relative Trend	S&P Wgt.	Rationale
Cyclical	**Materials**	· · ● · ·	No Trend	2.4	Underperformed in April despite rising copper prices. China stimulus and U.S. infrastructure spending are supportive, while valuations are reasonable, but a firm dollar is a headwind and technicals aren't compelling.
Cyclical	**Consumer Discretionary**	· · ● · ·	Negative	10.3	In-line performer in April as gains in Tesla (TSLA) and outperformance by Amazon (AMZN) were offset by weakness in housing and casino and gaming-related stocks. Jobs are plentiful and oil prices have quieted. Fair valuations. Negative technicals.
Cyclical	**Financials**	· · ● · ·	Positive	13.2	In-line performer in April despite excellent Q1 earnings and rising estimates. The yield curve, credit card delinquencies, higher bank capital requirements, and office vacancies remain challenges. Reasonable valuations. Improved technicals.
Cyclical	**Real Estate**	· ● · · ·	Negative	2.2	Biggest sector laggard in April and only sector down year to date. Commercial real estate and rising interest rates remain headwinds. While yields are attractive, bonds are competitive as an income choice. Reasonable valuation. Sub-par technicals.
Sensitive	**Communication Services**	· · · ● ·	Positive	9.3	Outperformed in April on mostly well-received earnings results, particularly for Alphabet (GOOG/L) which was a big April winner. Earnings growth, revisions, and valuations are all supportive. Beneficiary of the artificial intelligence (AI) boom. Regulatory risks remain elevated.
Sensitive	**Energy**	· · · ● ·	Positive	4.0	Outperformed in April despite little movement in oil prices. Seasonality has turned favorable. Capital allocation is shareholder friendly amid record production. Valuations are attractive. Watching the events in the Mideast closely.
Sensitive	**Industrials**	· · ● · ·	Positive	8.8	Modest outperformer in April. Beneficiary of infrastructure spending and defense offers upside. Near-shoring and management confidence in the economy are key. Reasonable valuations. Technicals moving toward a buy signal.
Sensitive	**Technology**	· · ● · ·	No Trend	29.0	Underperformed for second straight month amid some signs of market rotation despite solid Q1 earnings results. Still one of STAAC's favorite neutral sectors, but macro environment needs to improve. Elevated valuations. Weakening technicals.
Defensive	**Consumer Staples**	· ● · · ·	No Trend	6.2	Outperformed in April as defensive sectors began to catch a bid because markets wobbled as inflation ticked higher. The STAAC favors cyclicals still and interest rate risk remains for dividend-oriented sectors.
Defensive	**Healthcare**	· · ● · ·	Negative	12.3	Underperformed in April despite defensiveness amid slowing COVID-19-related sales, patent expirations, and various cost pressures. Negative bias due to weak technicals and election-related policy risk despite low valuations.
Defensive	**Utilities**	· · ● · ·	No Trend	2.4	Top sector performer in April after strong March performance despite rising interest rates. Power demand from AI boom is bolstering sentiment, while demand for defensive equities has increased. Interest rate risk lingers.

FIXED INCOME

Seeing Red

U.S. Treasury yields were sharply higher in April as sticky inflation data continues to push out the prospects of rate cuts in 2024. And while Fed Chairman Jerome Powell seemingly took rate hikes off the table at the recent Fed meeting, until inflationary pressures fall, we're unlikely going to see rate cuts in the interim. As such, U.S. fixed income markets were generally lower during the month with the highest quality segments underperforming.

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 Underweight ● Underweight ● Neutral ● Overweight ● Strong Overweight

		Low	Med	High	Rationale
Current Stance	**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**
Current Stance	**Duration Preference**		✓		The compensation for adding duration to portfolios isn't sufficient given the still elevated (but falling) inflationary pressures. We remain neutral relative to our benchmark.
		Neg.	**Neut.**	**Pos.**	**Rationale**
Current Stance	**Municipal Bond View**		✓		While we're likely past peak fundamentals, as the economy slows and tax revenues fall, still robust cash balances collected throughout the pandemic recovery period should support muni credit over the medium term.

		Overall View					Trend	Rationale
Core Sectors	**U.S. Treasuries**	·	·	●	·	·	Negative	Treasury yields were higher in April with the 10-year higher by nearly 0.50% for the month. As long as inflation data remains sticky, Treasury yields are likely range bound at these higher levels. Technically, 10-year yields surpassed 4.35%–4.40% last month, an important resistance level dating back to the 2022 highs. The breakout adds to the evidence of building upside momentum risk in yields.
Core Sectors	**MBS**	·	·	·	●	·	Negative	We remain constructive on Agency 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 higher mortgage rates, the lack of new mortgage supply should help buoy prices.
Core Sectors	**Investment-Grade Corporates**	●	·	·	·	·	No Trend	We recommend a slight underweight to benchmarks, but we think there is currently an opportunity to invest in shorter maturity corporate securities without taking on elevated levels of interest rate or credit risk. Fundamentals remain solid.
Core Sectors	**TIPS**	·	·	●	·	·	No Trend	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**	·	·	·	·	●	Positive	The selloff in the banking sector provided an opportunity to invest in these senior securities. Higher credit quality among the riskier fixed income options. Large, money-center bank fundamentals generally sound overall. But environment favors active management. Recent technical damage has been minimal, with most preferred indexes/funds pulling back to support near their 200-day moving averages.
Plus Sectors	**High-Yield Corporates**	·	·	●	·	·	Positive	Yields for high yield bonds are above historical averages and with economic conditions improving, yields and spreads could remain well contained. The environment broadly remains supportive for credit risk. Economic growth should slow but not collapse, which is typically good for credit. But credit is not cheap.
Plus Sectors	**Bank Loans**	·	·	●	·	·	Positive	Given the variable rate debt, higher interest rates may make repayment more challenging for some issuers. Fewer investor protections and illiquidity of individual loans remain concerns. 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.
Plus Sectors	**Foreign Bonds**	·	·	●	·	·	No Trend	Valuations have improved, but potential currency volatility still remains a challenge.
Plus Sectors	**EM Debt**	·	·	●	·	·	Positive	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

Commodities Rally Despite Stronger Dollar

The broader commodities complex continued to climb in April. The Bloomberg Commodity Index (BCOM) rose 2.2% and posted its first back-to-back monthly gain since last summer. Buying pressure was widespread and reignited reflation trade headlines as global economic data continued to surprise to the upside, including in commodity-import-reliant China. Technically, evidence for a bottom is building in BCOM but remains insufficient to confirm a new uptrend is underway.

Even a stronger dollar failed to stop the momentum. The U.S. Dollar Index advanced 1.7% and touched fresh year-to-date highs before paring gains into month-end. Higher yields predicated on reduced rate cut expectations drove the dollar higher, creating a headache for the Bank of Japan. The dollar/yen briefly breached 160 at month-end before policymakers intervened with yen buying.

Industrial metals notably outperformed, with most components rallying double digits. Copper rose 14% and surpassed resistance off the 2023 highs, leaving the $485–$500 range as the next major area of overhead resistance to clear. Improving factory activity in China coupled with reduced production quotas of refined copper among smelters helped underpin the breakout. Speculators continued to add to long positions, but levels have not reached extremes, suggesting there is scope for additional bullish sentiment to carry the current rally. Precious metals also traded higher last month. Gold rose 2.5% and posted its third straight monthly gain. Rising inflation, geopolitical volatility, central bank buying, and the prospect of an eventual Fed rate cut kept buyers engaged.

Energy markets were mixed as West Texas Intermediate (WTI) crude oil declined 1.5%, snapping its three-month winning streak. Overbought conditions and the lack of any further escalation between Iran and Israel weighed on prices. The WTI futures curve remained in backwardation, pointing to tight supply/demand conditions. Natural gas outperformed as a relief rally developed off COVID-19-era lows. Futures rose 13% and recaptured overhead resistance near $2.00. Oversold conditions and speculation for increased cooling demand from a forecasted hot summer underpinned the rally.

Volatility continued within the ag space. Sugar dropped 13%, cotton was down 15%, and coffee jumped 22%. Closely watched cocoa futures rose 3.0%, bringing their year-to-date gain to 141% as of April 30. A shortage in West Africa has created supply concerns, further exacerbated by increased speculative positioning in the market.

Color Key

Negative Neutral Positive

Sector	Overall View			Trend	Rationale
Energy			●	No Trend	WTI crude oil is oversold and retesting the lower end of a rising price channel. Ongoing production cuts from OPEC+, the prospect for interest rate cuts, and signs of improving global demand continue to support oil. A tighter oil market is also apparent on the futures curve, which remains in backwardation. Natural gas remains volatile and technical evidence suggests the lows were likely set last month. **We maintain our positive view on the energy commodity sector.**
Precious Metals			●	Positive	Gold has pulled back from overbought levels/record highs. Watch for support near $2,277 and $2,260. Rate cuts on the horizon should limit interest rate and dollar upside risk, while robust central bank demand and the potential for a rebound in physical gold ETF holdings should continue to support the rally. Silver has pulled back to support near the $25–$26 range (prior resistance), setting up a potential buying opportunity if/when momentum turns bullish. **We maintain our positive view on the precious metals group.**
Industrial Metals			●	Positive	Industrial metals advanced last month, with copper climbing above several key resistance levels. Improving global manufacturing activity and expectations for curbed production from Chinese smelters have supported the rebound. Aluminum also broke out from a bottom formation. **Based on the improving technical setup, we are upgrading our view on the industrial metals group to positive from neutral.**
Agriculture (Ag) & Livestock		●		No Trend	Ag and livestock markets underperformed last month. Lean hogs are breaking down from a double-top formation, while live cattle recently gapped below their 200-day moving average. Ag remains volatile, with select grains showing signs of bottoming. **Mixed technicals across the space support our neutral view on the group.**
U.S. Dollar		●		Positive	The dollar has recently pulled back to support near the February highs (105), an uptrend tracing back to the December lows. While relative U.S. economic strength supports a stronger dollar, the potential for Fed rate cuts this year should limit upside in the greenback.

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.

ALTERNATIVE INVESTMENTS

Downside Protection

Mixed Alternative Investment Performance. However, from a relative return perspective, the industry outperformed traditional markets (S&P 500 and Bloomberg Aggregate declined 4.1% and 2.5%, respectively) and acted as a source of diversification and downside protection for portfolios.

Remain Constructive on Global Macro, Managed Futures, and Multi-Strategy. Our preferred methods of implementation continued to benefit from their diversified and dynamic positioning. Within the Managed Futures space, the decline in equity markets detracted from performance given their existing long equity exposure. However, those losses were offset by gains in long U.S. dollar, long precious metals, and short fixed income exposure. The decline in equity markets has led to most strategies reducing what was previously a high level of long equity holdings. Global Macro performance was flat during the month; however, managers were active adjusting portfolios based on central bank policy announcements. Short yen positioning was actively traded with the Bank of Japan intervening to support the decline in their currency. Going forward, we expect these types of macro events and an increased risk of policy errors to provide ongoing opportunities for skilled managers in this space. With interest rates staying higher for longer, these strategies will also continue to benefit from their investments in short-term debt as collateral for their futures exposure.

Fundamental Strategies Declined. Long/Short Equity and Event Driven funds, both of which are more sensitive to directional market moves, posted negative returns during the month, albeit outperformed the weakness in traditional markets. The value factor continues to narrow the year-to-date return gap with growth, leading to a larger opportunity set and reduced crowding across the industry. Alpha shorts were also in focus during the month as there was significant dispersion between sectors. This type of environment is a constructive backdrop for strategies to add value through strong stock selection on the long and short side.

Color Key

● Negative ● Neutral ● Positive

	Sector	Overall View			Rationale
Fundamental	**Long/Short Equity**		●		Long/Short Equity strategies have benefitted from a growing opportunity set with increasing sector dispersion and a more constructive shorting environment. Weakness in the equity market will improve alpha opportunities on the short side, while managers will also be able to adjust net levels of market exposure.
	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 pick-up in deal flow.
Tactical	**Global Macro**			●	Global Macro strategies have capitalized on diverging global central bank policy, specifically with long U.S. dollar positioning and active trading around changes in expected Fed rate cuts.
	Managed Futures			●	Managed Futures continue to capitalize on sustained trends in the equity, currency, and commodity markets while providing a source of uncorrelated returns. Trends in niche futures markets have also supported gains.
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		●		Maintain conviction for suitable clients who are able to tolerate the limited liquidity these strategies exhibit.

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.

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.

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