GLOBAL PORTFOLIO STRATEGY

LPL Research

NOVEMBER 2023

STRONG START TO NOVEMBER FOR STOCKS AND BONDS

LPL RESEARCH'S MONTHLY MARKET OUTLOOK

Key changes from October report:

- Upgraded U.S. equities to positive from neutral, and downgraded developed international equities to neutral from positive.

Stocks fell for the third straight month in October as markets struggled with the combination of rising interest rates and war in the Middle East. The S&P 500 Index lost 2.2% for the month, lowering its year-to-date gain to 9.2% (or 10.7% with dividends). As November began, improving seasonality, growing confidence that the Federal Reserve (Fed)'s rate hiking campaign was over, and soft economic data put downward pressure on yields that helped buoy investor sentiment.

Despite inflationary pressures falling and the Fed maintaining its current interest rate policy, core bonds, as measured by the Bloomberg Aggregate Bond Index, were lower in October by nearly 1.6%. As the 10-year Treasury yield flirted with 5% during the month, buyers came back to the market and, as mentioned above, softer economic data to start November may mean yields have peaked for this cycle.

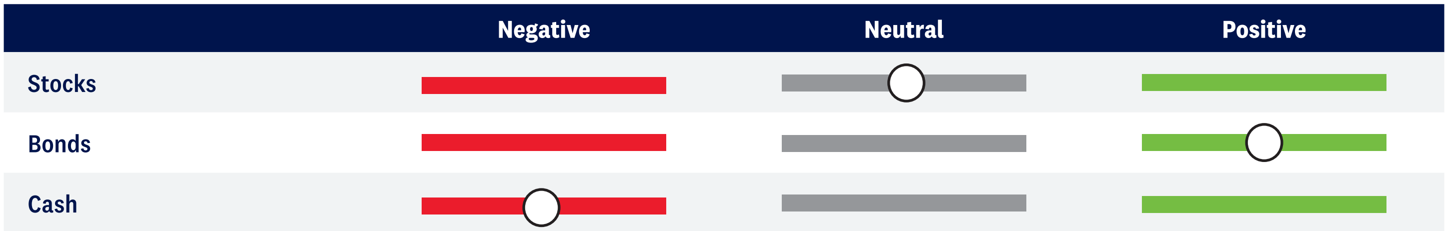
LPL Research's Strategic and Tactical Asset Allocation Committee (STAAC) sees the risk-reward trade-off between equities and fixed income as roughly balanced.

INVESTMENT TAKEAWAYS:

- The STAAC maintains its recommended neutral equities allocation based on the Committee's assessment that the risk-reward trade-off between equities and fixed income is roughly balanced. Favorable seasonality and lower yields could offer potential upside for stocks.
- The Committee favors large cap stocks over their smaller brethren ahead of a likely economic slowdown over the next several months, while style views remain neutral overall with a positive bias toward growth.
- STAAC downgraded developed international equities to neutral on deteriorating economic conditions in Europe, though the Committee still finds Japanese equities attractive. U.S. equities were upgraded, buoyed by a relatively stronger economic and corporate profit outlook.
- The bond market is coming to grips with the Fed's higher for longer narrative so expected rate cuts continue to get priced out, which has put upward pressure on longer maturity Treasury yields. Moreover, Treasury supply is expected to increase in the coming quarters, which will likely also keep pressure on yields. As such, our updated year-end 2023 target for the 10-year Treasury yield is 4.25% to 4.75%.
- The selloff in the banking sector has provided an attractive opportunity in preferred securities; however, the risk-reward to remain consistent for core bond sectors (U.S. Treasury, Agency mortgage-backed securities (MBS), investment-grade corporates) is more attractive than plus sectors, in our view.

BROAD ASSET CLASS VIEWS

LPL Research’s Views on Stocks, Bonds, and Cash



OUR ASSET CLASS & SECTOR CHOICES

Equity Asset Classes	Equity Sectors	Fixed Income	Alternative Asset Classes
▪ U.S. Equities	▪ Energy ▪ Industrials	▪ Mortgage-Backed Securities ▪ Short Maturity High Quality Corporates ▪ Preferred Securities	▪ Alt asset class choices — Global Macro, Short Term Managed Futures, and Multi-Strategy

2023 MARKET FORECASTS

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

	Previous	Current
10-Year U.S. Treasury Yield	4.25% to 4.75%	4.25% to 4.75%*
S&P 500 Index Earnings per Share	$213	$213
S&P 500 Index Fair Value	4,300 - 4,400	4,300 - 4,400**

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 2023 forecast for the U.S. 10-year Treasury yield has been updated and is now 4.25% to 4.75%. 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 2023 fair-value target range for the S&P 500 of 4,300-4,400 is based on a price-to-earnings ratio (PE) near 19 and our S&P 500 earnings per share (EPS) forecast of $230 in 2024.

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

2023 ECONOMIC FORECASTS

Downshift in Global Growth

GDP Growth (Y/Y%)	2023
United States	1.2%
Eurozone	0.6%
Advanced Economies	0.9%
Emerging Markets	3.8%
Global	2.3%

Source: LPL Research, Bloomberg

The economic forecasts may not develop as predicted.

All data, views, and forecasts herein are as of 11/06/23.

LPL RESEARCH STRATEGIC AND TACTICAL ASSET ALLOCATION COMMITTEE

LPL Research Tactical Asset Allocation as of 10/31/2023

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 Value	18.0%	16.0%	2.0%	15.0%	13.5%	1.5%	11.0%	10.0%	1.0%	7.5%	6.5%	1.0%	3.5%	3.5%	0.0%
Large Blend	18.0%	16.0%	2.0%	15.0%	13.5%	1.5%	12.0%	10.0%	2.0%	7.5%	7.0%	0.5%	4.0%	3.0%	1.0%
Large Growth	18.0%	16.0%	2.0%	15.0%	13.5%	1.5%	11.0%	10.0%	1.0%	7.5%	6.5%	1.0%	3.5%	3.5%	0.0%
Small/Mid Value	8.5%	9.5%	-1.0%	7.5%	8.0%	-0.5%	5.0%	6.0%	-1.0%	3.5%	4.0%	-0.5%	1.5%	2.0%	-0.5%
Small/Mid Blend	9.0%	9.0%	0.0%	7.0%	7.5%	-0.5%	6.0%	6.0%	0.0%	4.0%	4.0%	0.0%	2.0%	2.0%	0.0%
Small/Mid Growth	8.5%	9.5%	-1.0%	7.5%	8.0%	-0.5%	5.0%	6.0%	-1.0%	3.5%	4.0%	-0.5%	1.5%	2.0%	-0.5%
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%	26.5%	24.0%	2.5%	35.5%	32.0%	3.5%
MBS	1.0%	0.0%	1.0%	5.5%	4.5%	1.0%	11.5%	10.0%	1.5%	18.0%	15.5%	2.5%	24.0%	20.5%	3.5%
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%
TIPS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
International	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
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%
High-Yield Corporates	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Bank Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Emerging Markets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
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

Favor U.S. over Developed International, but Stay with Japan

The STAAC maintains its recommended neutral equities allocation based on the Committee's assessment that the risk-reward trade-off between equities and fixed income is roughly balanced. Favorable seasonality and lower yields could offer potential upside for stocks. The Committee favors large cap stocks over their smaller brethren ahead of a likely economic slowdown and possible further tightening of credit conditions over the next several months. STAAC downgraded developed international equities to neutral on deteriorating economic conditions and earnings momentum in Europe as well as lackluster market performance. The Committee still finds Japanese equities attractive, however, in part because companies are increasingly focused on shareholder value. U.S. equities were upgraded primarily due to a relatively stronger economic and corporate profit outlook. Key risks to equities include rising interest rates, re-accelerating inflation, overtightening by the Fed, a broader conflict in the Middle East or Europe, and escalation in U.S-China tensions.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			Large caps generally perform better during periods of economic uncertainty with stronger balance sheets. Mega-cap technology stocks may benefit from lower interest rates. Large caps look better on a technical analysis basis. However, they are more expensive than small caps.
	Mid Caps			A resilient economy and attractive valuations are supportive, but our technical analysis work continues to point toward large caps as a better place to be. Meanwhile, credit conditions will likely tighten further and merger and acquisition activity is tepid, limiting opportunities for capital appreciation down the market cap spectrum.
	Small Caps			A potential soft landing for the U.S. economy and attractive valuations, particularly for high-quality small cap companies, may provide support but small caps have lagged large caps for three straight months based on Russell indexes, muddying the technical picture, and the economy is likely to slow in the months ahead, adding to the risk that credit conditions deteriorate.
Style	Growth			Our STAAC Committee maintains a positive bias toward growth amid better technicals and expected stabilization in interest rates as inflation likely continues its downtrend. The growth style, particularly technology-oriented companies, should benefit from an improved macroeconomic environment and superior earnings power, though valuations are elevated.
	Value			Value stocks are relatively attractive vs. their historical averages and would benefit from a soft landing, particularly energy. However, the Committee maintains a bias toward growth due to better technical analysis trends, falling inflation, and better earnings growth.
Region	United States			The U.S. economy is expected to outgrow Europe for the rest of 2023 and in 2024. Further, the U.S. is farther along in its inflation fight and will likely generate faster earnings growth than Europe over the next year. Seasonality, an innovation advantage, and the impending end of Fed rate hikes are also supportive, though elevated valuations present a headwind. Our technical analysis work points to the U.S. over international.
	Developed International			The Committee has downgraded its view of developed international stocks to neutral and now favors the U.S. Economic conditions have deteriorated in Europe, European companies have experienced waning earnings momentum, and our technical analysis work points to the U.S. On the other hand, STAAC still likes Japan amid increasingly more shareholder friendly management teams and international equities are substantially cheaper than their U.S. counterparts.
	Emerging Markets			The Committee remains cautious toward emerging market equities due largely to disappointing earnings and elevated geopolitical risk, though valuations remain attractive and there are pockets of opportunities. The Committee favors Latin America to take advantage of near-shoring trends and firming commodity prices. India is an interesting opportunity. Stimulus is key to China's near-term direction. Geopolitical risks are rising with war raging in the Middle East.

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

Favor Energy and Industrials for Cyclical Value Tilt

The STAAC favors the energy sector due to potential upside to oil and natural gas prices, an improved supply/demand balance, attractive valuations bolstered by improved financial discipline from oil and gas producers, and upside risk to prices from war in Israel. The Committee now recommends a slight cyclical tilt over defensive sectors broadly. Among economically sensitive, or cyclical, sectors, the Committee recommends two overweights (energy and industrials) and no underweights. The Committee now favors energy over industrials, as capital investment activity has shown signs of slowing. Real estate, which offers a mix of cyclical and defensive characteristics and faces heightened risk in the commercial real estate market, remains underweight along with consumer staples.

	Sector	Overall View	Relative Trend	S&P Wgt	Rationale
Cyclical	Materials			2.4	Underperformed the S&P 500 in October as commodities overall were mixed. China's disappointing recovery and incremental weakness in Europe have offset a resilient U.S. economy. Reasonable valuations. Mixed technicals.
	Energy			4.4	Lagged in October for the first time in four months as energy prices surprisingly fell despite the Israel-Hamas war. OPEC+ supply cuts continue to provide support. U.S. demand is fine. Valuations are attractive. Favorable technicals. More disciplined producers.
	Industrials			8.3	Capital investment activity is slowing but infrastructure and defense offer spending upside. Risk aversion from corporate management teams is a potential risk but valuations are reasonable and technical analysis trends are favorable.
	Communication Services			8.7	Regulatory risks remain in the headlines with Google's (GOOGL) antitrust trial and the AI market is competitive. But valuations, earnings growth, and technicals are all supportive. Signs of stabilizing streaming business are encouraging. Positive bias.
	Consumer Discretionary			10.7	Consumers are still spending despite higher rates, buoyed by a healthy job market. Earnings growth has been solid. Technicals remain favorable. But credit card delinquencies are rising, student loan payments have restarted, and valuations aren't compelling.
	Technology			28.3	Second best sector performer in October on generally well-received third quarter earnings results and signs of interest rate stability. Artificial intelligence enthusiasm still helpful. Valuations remain on the high side. Positive technicals.
	Financials			12.8	Rising credit card delinquencies, an inverted yield curve, and higher capital requirements for second tier banks are among the stiffest headwinds. The biggest banks enjoy attractive valuations and are healthy, though technicals are mixed.
Defensive	Utilities			2.5	Top sector performer in October thanks to defensive characteristics. Drag from defensive characteristics transitioned to a relative boost. With rates potentially nearing a top, this is a sector to watch for a near-term rally. Risk is lasting cyclical leadership.
	Healthcare			12.9	Healthcare lagged during October amid slowing COVID-19 sales and patent expirations. Medicare drug negotiations are a challenge for drug makers. Earnings momentum is waning. Attractive valuations. Weak technicals.
	Consumer Staples			6.5	Sector's defensive characteristics and favorable pricing trends helped drive modest outperformance in October, though technicals remain unattractive, fundamental challenges remain, and LPL Research favors cyclical sectors. Lower inflation has helped ease margin pressures. Fair valuations.
	Real Estate			2.4	Weak technical analysis trends and commercial real estate risk are concerns. But solid yields, fair valuations, and signs of an interest rate peak point to a potential contrarian bounce. Still not an area we would focus on for yield given fixed income opportunities.

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.

FIXED INCOME

Favor Up-In-Quality Approach with a (Small) Allocation to Preferreds

Longer-maturity Treasuries were higher in October as the market continues to reprice expectations for the Fed's policy path, pricing out some of the anticipated rate cuts throughout 2024 while also shifting the expected "neutral" rate higher. Yields on high quality fixed income sectors moved higher as well, offering investors another opportunity to take advantage of attractive valuations. Importantly, starting yields are the best predictor of long-term returns and with starting yields at levels last seen over a decade ago, the return prospects for fixed income have improved as well. That said, aside from preferred securities, valuations for riskier fixed income sectors remain rich relative to core sectors, in our view.

We favor municipal bonds as a high-quality option for taxable accounts with tax-equivalent yields as attractive as they've been in over a decade. Additionally, for appropriate investors, we believe high-yield municipal bonds offer an attractive tax-equivalent yield; however, we would expect additional volatility as economic growth concerns increase. Fundamentals in both markets may have peaked but remain solid.

		Low	Medium	High	Rationale
Positioning	Credit Quality			●	We 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	Int.	Long	
	Duration		●		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.	Neutral	Pos.	Rationale
Core Sectors	U.S. Treasuries		●		Treasury yields moved higher in October offering an attractive entry point. Last year's back-up in yields has likely increased the diversification benefits of owning U.S. Treasuries. All-in yields for Treasury Inflation- Protected Securities (TIPS) are attractive and could provide a good hedge to unexpected inflation surprises.
	MBS		●		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. Favorable supply/demand dynamics in the next year may help support the market.
	Investment-Grade Corporates	●			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.
Plus Sectors	Preferred Securities			●	The selloff in the banking sector provided an opportunity to invest in these senior securities. Higher credit quality among the riskier fixed income options. Bank fundamentals generally sound overall. Yields and spreads are 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 downgrades and defaults. The uncertain economic environment could increase near term volatility. The asset class may be better suited for long-term investors
	Bank Loans		●		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.
	Foreign Bonds		●		Valuations have improved, but potential currency volatility still remains a challenge.
	EM Debt		●		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.

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.

All bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. 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. Investing in foreign and emerging market debt (EMD) securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors. Municipal bonds are subject to availability, price, and 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. Federally tax-free but other state and local taxes may apply. Mortgage-backed securities (MBS) are subject to credit, default, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extension risk, the opposite of prepayment risk, 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.

Treasury inflation-protected securities (TIPS) help eliminate inflation risk to your portfolio as the principal is adjusted semiannually for inflation based on the Consumer Price Index – while providing a real rate of return guaranteed by the U.S. Government.

COMMODITIES

Metals Shine on Safe Haven Demand

The broad commodity sector declined modestly last month after facing headwinds from a persistently strong dollar and a pullback in the energy complex. Expectations for higher-for-longer monetary policy and resilient economic data, especially relative to Europe, pushed the greenback up 0.5% in October, marking its third straight month of gains. The Bloomberg Commodity Index (BCOM) struggled against this backdrop and ticked down 0.2%, finishing the month just below support from the declining 200-day moving average.

Precious metals were a bright spot last month as safe haven demand stemming from the conflict in the Middle East pushed gold up 7.3%. The yellow metal reversed a key downtrend and recaptured its 200-day moving average (dma), leaving the 2020 and 2022 highs near $2,070 as the next major resistance hurdles to clear. Industrial metals underperformed as the outlook for global growth became more uncertain amid rising rates and escalating geopolitical tensions. Copper shed 4.5% before finding support off the May lows near $354. We maintain our neutral view on both the industrial and precious metals group.

Most energy sector commodities traded lower last month as the conflict in the Middle East remained mostly contained to Israel and Gaza. The lack of contagion to other oil-producing regions in the Middle East removed the risk premium in oil, sending West Texas Intermediate (WTI) down nearly 11%. Furthermore, the lack of economic traction in China following a plethora of stimulus weighed on the demand outlook. Natural gas bucked the weak energy trend last month and sizably outperformed with a 22% rally. Summer demand from a hot summer has pulled down inventories, while rig counts continue to decline, and power generation use increases—all going into winter heating demand. We maintain our positive view on the energy commodity sector.

Ag and livestock markets rose for the first time in three months. Soft commodities stood out as supply constraints across several constituents underpinned sizable rallies. Grains also advanced as oversold conditions underpinned relief rallies in commodities such as wheat and soybeans. Livestock lagged due primarily to sizable selling in lean hogs last month. A bearish inventory report from the USDA put downward pressure on cattle markets.

	Neg. Neutral Pos.	Relative Trend	Rationale
Energy			WTI crude has pulled back off overbought levels and is retesting support from a prior breakout level ($80 to $83 range). Signs of tightening supply remain evident on the futures curve, while U.S. stockpiles are near historically low levels. Natural gas remains in a rising price channel. A close above resistance at $3.53 should open the door to the next leg higher.
Precious Metals			Precious metals rallied last month despite rising real yields and a stronger dollar. Gold made significant technical progress, suggesting the lows were likely set last month. The big question now is if momentum can continue with potentially fading safe haven demand—a meaningful pullback in the dollar could help fill that void.
Industrial Metals			Industrial metals continue to struggle, although signs of an end to global monetary policy tightening could help the group find its footing. Copper has managed to hold above support from the May lows at $354, but still remains in a downtrend. More technical evidence is required before considering the recent lows an investable bottom.
Agriculture (Ag) & Livestock			We remain positive on soft commodities given the technical progress and building momentum within the space. Potential bottoms have also formed in oversold grains such as soybeans and wheat. We prefer live cattle within the livestock space as the group continues to trend higher. Lean hogs remain volatile and searching for support.

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

Liquid Alts Posted Mixed Performance with Global Macro Leading

The alternative investment strategies posted mixed results in October based on the preliminary data from Hedge Fund Research (HFR).

Improved Bottom Up Stock Picking Environment Continued

Equity Long/Short (L/S) strategies were mostly down in October, with an exception of Equity Market Neutral strategy which continued to post positive results. With the continued sell-off in equity markets, long biased Equity L/S strategies underperformed while low-net/market neutral Equity L/S were able to capture the excess return opportunities that is not exposed to the market's direction. The stock dispersion continued to rise, lending improved trading environment for low-net/market neutral Equity L/S strategies focused on bottom up stock picking. Event Driven strategies posted losses as Merger Arbitrage and Special Situations strategies, gainers in the previous month, declined due to their exposure to the catalyst driven stocks. Lastly, Relative Value strategies posted losses, with Convertible Arbitrage strategies detracting the most.

Remain Constructive on Global Macro, Managed Futures and Multi-Strategy

On the positive side, Tactical Trading Strategies, namely Global Macro, continued to generate gains, providing uncorrelated returns and portfolio diversification for investors. Global Macro strategy was able to capture the continued rates curve dis-inversion, not only in the U.S. but also in international markets. They also gained from other tactical themes in currencies, and equities as well. Looking forward, we expect Global Macro managers to continue to find ample trading opportunities, with heavier focus on inter-regional relative value opportunities that arise from the divergence in economic conditions and central bank policies. Managed Futures strategy posted mixed results. Short U.S. and European rates as well as long USDJPY contributed positively, but losses from commodities, especially in long WTI Crude Oil, more than offset the gains. Given the continued uncertainties around the economy and fiscal and monetary policy, we expect the volatility to transition higher and remain constructive on both Global Macro and Managed Futures strategies that tend to perform in such regime and provide uncorrelated returns and portfolio diversification for investors.

Multi-strategy funds posted negative results for the month, reflecting the negative performance in Fundamental and Relative Value strategies. Multi-strategy remains as a core focus of ours as we believe they can supply additional sources of uncorrelated returns and help dampen portfolio volatility in an environment where interest rates are expected to remain persistently elevated.

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

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.

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.

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.

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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.

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.

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.

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.

For a list of descriptions of the indexes referenced in this publication, please visit our website at lplresearch.com/definitions.

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.

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

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