Rates Take Center Stage as Election Jitters Ease

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 Underweight
- Underweight
- Neutral
- Overweight
- Strong Overweight

Key changes from October report:

- No Changes

STAAC Asset Class Tactical Views as of 11/01/2024 (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 11/01/2024 (GWI)

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

Source: STAAC as of November 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.

Investment Takeaways

Stocks ended October modestly lower, snapping a five-month winning streak. Despite a surge in Treasury yields and rate cut repricing, U.S. equities held up well, supported by an improved economic growth outlook. Earnings season ramped up in the latter half of the month, highlighted by some mixed takeaways around the artificial intelligence (AI) secular growth theme from Magnificent Seven reports, although AI product demand remained strong. As November began, markets broadly entered waiting mode ahead of the much-anticipated Presidential election and November Federal Reserve (Fed) rate decision.

Within fixed income markets, Treasury yields were higher in October due to stronger economic data that priced out the need for aggressive rate cuts by the Fed. Additionally, Treasury yields were higher during the month due to the expectation that, regardless of who took the White House, debt and deficit spending would likely continue unabated. The near 0.60% increase in the 10-year Treasury yield caused negative returns for most fixed income sectors with the broad index (Bloomberg Aggregate Bond Index) lower by -2.5% in October. While still negative, credit sensitive sectors, high yield and emerging market debt, outperformed during the month.

LPL's STAAC maintains its tactical neutral stance on equities supported by reduced political risk post-election, seasonal tailwinds, a steadily growing economy and corporate profits while watching for signs of a potential stock market correction. Increased exposure to alternative investments offers diversification benefits, while a slightly reduced fixed income position reflects the Committee's expectation for range-bound interest rates.

- The Committee remains comfortable with a balanced approach to market cap. High-quality small cap stocks are attractively valued and may benefit from President-elect Donald Trump's America-first policies, but large cap companies enjoy superior earnings power and may outperform if the economy cools in 2025 as LPL Research expects.
- The AI-fueled earnings on the growth side help justify rich valuations, and our technical analysis work shows building evidence for a sustained uptrend, suggesting growth is reasserting leadership status after a bit of a summer slump. On the flip side, value stocks remain more attractively valued than normal and financials may benefit from Trump 2.0, so staying close to neutral seems prudent.
- 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. and continued elevated volatility in the Japanese yen. While potential Chinese stimulus-fueled strength in EM is notable, Trump tariff 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 mortgage-backed securities (MBS), investment-grade corporates) is more attractive than plus sectors. In our view, adding duration isn't attractive at current levels, and the STAAC remains neutral relative to our benchmarks.

2024 MARKET FORECASTS

Elevated Volatility May Continue in the Near-Term

	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	$240	$240
S&P 500 Index Fair Value	5,400 – 5,500	5,400 – 5,500**

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 5,400-5,500 is based on a price-to-earnings ratio (PE) of 21 and our S&P 500 earnings per share (EPS) forecast of $260 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 11/01/24.

2024 ECONOMIC FORECASTS

U.S. Economy Expected to Slow This Year

	2024 (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 11/01/2024

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	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

Getting Past the Election Reduces Political Risk But Pullback Still Overdue

LPL's STAAC maintains its tactical neutral stance on equities, supported by post-election political clarity, seasonal tailwinds, a steadily growing economy, and rising corporate profits. The Committee remains comfortable with a balanced approach to market cap as attractive valuations, de-regulation and tax cuts may be offset by increasing interest rate risk, a potential slowing economy, and the impressive earnings power and balance sheet strength of large caps.

The AI-fueled earnings on the growth side helps justify rich valuations, but the earnings gap between growth and value is poised to narrow in coming quarters and the financials-heavy value style is getting a boost from prospects for a Republican sweep. Staying close to neutral seems prudent. 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. A Trump-related boost to the U.S. dollar increases the attractiveness of U.S. equities relative to developed international. Heightened trade and tariff risk are concerns for emerging market equities.

Color Key:

Strong Underweight · Underweight · Neutral · Overweight · Strong Overweight

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization and Style	**Large Growth**	Overweight	Positive	Large caps are richly valued, and small caps are getting a boost from Trump's election victory. But large caps possess superior earnings power and balance sheet quality that would help in a potential slowdown. The STAAC's slight preference for growth over value is earnings driven. Watching technicals for reversal.
	Large Value	Neutral	No Trend	A resilient economy and Trump's likely agenda are positives for cyclical value stocks, but the resilient economy and rising interest rates have weighed on defensive sector performance. Still, attractive valuations support near-benchmark allocations. Technicals are good enough for a neutral view.
	Small/Mid Growth	Neutral	No Trend	Low valuations, healthy credit markets, and potentially lower taxes are supportive, but a slowing economy and rising interest rates present headwinds. Enthusiasm surrounding benefits of Fed rate cuts for small caps may be overdone, although regional banks surged on de-regulation prospects.
	Small/Mid Value	Neutral	No Trend	As with large value, small/midcap value stocks may benefit from a resilient U.S. economy, while valuations are attractive versus history. However, an economic slowdown may limit potential performance upside, and our technical analysis work reveals a mixed picture at best.
Region	**United States**	Overweight	Positive	The U.S. economy is expected to handily outgrow and outearn Europe in 2024, a position likely strengthened by Trump trade policy, tariffs, and potentially a strong U.S. dollar. AI innovation still suggests favoring the U.S. despite elevated valuations. Our technical analysis work is supportive of a U.S. preference.
	Developed International	Neutral	Negative	European economies have seemingly stabilized, valuations are attractive, and corporate reforms in Japan are still an intriguing long-term story. However, Trump's trade policies and related dollar strength will likely be drags on international markets and technical trends are negative so caution near-term seems warranted.
	Emerging Markets	Underweight	No Trend	The STAAC was cautious on EM equities on earnings weakness and elevated geopolitical risk in Asia and the Middle East eve before the election. Under Trump 2.0, EM risk rises as the pace of de-globalization picks up. Attractive valuations, prospects for more China stimulus, and forthcoming Fed rate cuts are offsets.

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

Cyclical Value Gets a Trump Bump

The STAAC continues to recommend balanced exposure across cyclical, defensive, and secular growth sectors. Industrials are favored as a beneficiary of infrastructure, defense, and the AI buildout, with an additional catalyst in Trump's America-first policy that should drive more production capacity to shift to the U.S. Strong growth and attractive valuations drive our communication services recommendation despite growing AI capex scrutiny. With deteriorating momentum and less favorable seasonal trends, we are skeptical of the sustainability of the energy's election-fueled rally. Quantitative and technical analysis work support a neutral stance if not better on the diverse consumer discretionary sector. Interest rate risk has increased for consumer staples, real estate, and utilities post-election.

Color Key:

Strong Underweight · Underweight · Neutral · Overweight · Strong Overweight

	Sector	Overall View	Relative Trend	S&P Wgt.	Rationale
Cyclical	Basic Materials	· · ● · · (Neutral)	Negative	2.1	Laggard over the past month on commodity price weakness, a strong dollar, and ongoing skepticism about the potential impact of China stimulus. Trump victory will likely extend the bullish U.S. dollar environment, muting benefit from Fed easing.
Cyclical	Consumer Cyclical	· · ● · · (Neutral)	Positive	10.4	Strong outperformer over the past month, bolstered by strength in Tesla (TSLA) and Amazon (AMZN) and lower energy prices. Pressure on consumers is building, but the strong job market and our quantitative/technical work is supportive. Positive bias.
Cyclical	Financial Services	· · ● · · (Neutral)	Positive	13.7	Top sector performer over the past month even without the 11/06/24 post-election surge. De-regulation, a steeper yield curve, favorable credit conditions, and positive technical analysis trends are all supportive. Positive bias.
Cyclical	Real Estate	· ● · · · (Underweight)	No Trend	2.2	Rising interest rates have weighed on performance over the past month. Economic conditions remain supportive, but commercial real estate remains a wildcard and rising interest rates are a drag. Reasonable valuations. Mixed technicals.
Sensitive	Communication Services	· · · ● · (Overweight)	Positive	9.0	In-line performer over the past month, with strong gains in traditional media offset by weakness in Meta (META) and traditional telecom. One of the strongest earnings outlooks. Attractive valuations. Positive technical trends.
Sensitive	Energy	· ● · · · (Underweight)	Negative	3.4	Underperformer over the past month as energy prices slid, particularly natural gas. Some parts of the sector may see a post-election de-regulation boost and valuations are attractive, but technical weakness keeps us on the sidelines.
Sensitive	Industrials	· · · ● · (Overweight)	Positive	8.7	Outperformer over the past month underpinned by continued resilience in the U.S. economy. Play on infrastructure, defense, onshoring, the AI data center build, and energy infrastructure. Reasonable valuations. Positive technical picture.
Sensitive	Technology	· · ● · · (Neutral)	No Trend	31.9	Modest outperformer over the past month on double-digit gains from NVIDIA (NVDA). Strong, AI-driven earnings outlook is supportive, offsetting a lackluster technical analysis picture. Elevated valuations.
Defensive	Consumer Defensive	· · ● · · (Neutral)	Negative	5.5	Underperformer over the past month as defensive and rate–sensitive sectors have fallen out of favor. Pressure on lower-income consumers has started to become evident. Fair valuations and negative technicals leave us cautious.
Defensive	Healthcare	· · ● · · (Neutral)	Negative	10.8	One of the biggest decliners among sectors over the past month on election-related policy risk and a double-digit decline in Eli Lilly shares (LLY). Accelerating earnings growth, seemingly manageable policy risk post-election, reasonable valuations and positive technicals support the Committee's neutral stance.
Defensive	Utilities	· · ● · · (Neutral)	No Trend	2.4	Worst-performing sector over the past month on surging rates and some waning enthusiasm around the AI power demand story. Vistra (VST) and Constellation (CEG) came back to earth after big September rallies. Rising rates have become a drag. Reasonable valuations. Mixed technicals.

Fixed Income

Treasury Rout Trifecta

Fixed income markets, as proxied by the Bloomberg Aggregate Bond Index, were lower in October with a 2.5% loss for the month. Treasury yields were higher in October due to 1) stronger than feared economic data, 2) concerns about deficit spending, regardless of the election outcome, and 3) the supply of Treasury securities coming to market over the next few years to fill budget deficits. So, what's next? History shows that without signs of recession, intermediate and longer-term yields tend to drift higher. Our base case remains no recession this year and our yearend target for the 10-year Treasury yield is 3.75% to 4.25% although until/unless economic data softens, the 10-year could trade above those levels.

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

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		✓		Despite yields rising meaningfully from recent lows, the compensation for extending duration in portfolios isn't sufficient yet given the still strong economy. We remain neutral relative to our benchmark.
		Neg.	**Neut.**	**Pos.**	**Rationale**
	Municipal Bond View		✓		End-of-cycle rewards (rate cuts and potentially lower yields) outweigh the risks of a slowing economy (weaker credit quality). Potentially higher tax rates increase the attractiveness of munis. Intermediate term allocations worth a look.

		Overall View	Overall Trend	Rationale
Core Sectors	**U.S. Treasuries**	Neutral	No Trend	Treasury yields were higher in October despite Fed rate cuts in September. Given current economic strength and risks of inflation reaccelerating due to fiscal support, Treasury yields may remain around current levels. From a fundamental perspective, we think Treasury yields are likely range bound at these higher levels. Technically, 10-year yields have reversed a 12-month downtrend and recaptured their rising 200-day moving average, shifting risk to the upside.
Core Sectors	**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. As interest rate volatility continues to fall, MBS should outperform most other high-quality bond sectors.
Core Sectors	**Investment-Grade Corporates**	Strong Underweight	No Trend	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.
Core Sectors	**TIPS**	Neutral	Positive	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.
Plus Sectors	**Preferred Securities**	Overweight	Positive	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 environment favors active management. Despite a recent pullback, the technical backdrop remains constructive, with most preferred indexes/funds trending higher.
Plus Sectors	**High-Yield Corporates**	Neutral	Positive	Yields for high-yield bonds are above historical averages, but 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.
Plus Sectors	**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.
Plus Sectors	**Foreign Bonds**	Neutral	Positive	Valuations have improved, but potential currency volatility remains a challenge.
Plus Sectors	**EM Debt**	Neutral	No Trend	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

Dollar Headwinds Return

Rising yields and renewed strength in the dollar weighed on the commodities complex last month. The Bloomberg Commodity Index (BCOM) sank 2.2% amid relatively widespread selling pressure. Better-than-expected economic growth, an uptick in inflation expectations, and brewing concerns over deficit spending and Treasury supply pushed yields higher. The U.S. Dollar Index followed suit with a 3.2% gain, enough to push the greenback above key resistance at 104.

Natural gas underperformed with a 20% drop largely attributable to above-average temperatures weighing on heating demand and hurricane-season demand distortions. The rest of the energy patch traded higher, with West Texas Intermediate (WTI) crude posting a 2.6% gain. Escalating tensions in the Middle East lifted the embedded risk premium in oil, offsetting elevated inventory levels.

Precious metals bucked the stronger dollar trend and outperformed. Gold added 4.2% and continued its streak of record highs, while silver added 4.8% and broke out of a consolidation range. While silver may be the "poor man's gold," the precious metal was up 37% at the end of October and outshining gold's 33% rally. Part of the delta can be explained by silver's superior industrial use application, especially as it relates to electrical conductivity — the highest among all metals.

Industrial metals were led lower by a 10.4% drop in nickel. Copper gave up 4.7% before finding support near its 200-day moving average (dma). China's top legislative body, the National People's Congress (NPC) Standing Committee, is expected to deliver a sizable fiscal package the week ending November 8. The size and scope of the stimulus announcement could be a make-or-break catalyst for the industrial metals space.

Color Key: ● Negative ● Neutral ● Positive

Sector	Overall View			Overall Trend	Rationale
	Negative	Neutral	Positive		
Energy	·	●	·	Negative	Escalating geopolitical tensions in the Middle East and delayed OPEC+ production increases next month have been enough to keep oil above support from the September lows. However, technical progress has been limited as WTI remains in a downtrend. Significant stimulus measures in China and the rising prospect for a no-landing economic scenario in the U.S. could provide a much-needed demand tailwind to oil. Natural gas has bounced off support from the 200-dma as the supply backdrop improves, supported by improving heating demand expectations, rig count declines, and growing interest from power producers addressing data center demand. **We maintain our neutral view on the energy commodity sector.**
Precious Metals	·	·	●	Positive	The latest rally in yields and the dollar finally triggered some selling pressure in gold. However, technical damage has been limited, with support setting up at the 50-dma and near $2,600. We view pullbacks above support as buying opportunities. Silver has recently pulled back to support near the 50-dma. Wait for support to be established and for momentum to turn bullish before considering to buy the dip. **We maintain our positive view on the precious metals group.**
Industrial Metals	·	·	●	Positive	Renewed hope for global growth — especially in China — helped spark a recovery in industrial metals earlier this fall. However, momentum has faded a bit as investors wait for more clarity on Chinese stimulus and policy initiatives in Washington. **We maintain our positive view on the industrial metals group.**
Agriculture (Ag) & Livestock	●	·	·	Negative	Ag and livestock traded lower last month on the back of widespread selling pressure. Coffee led losses after falling 20.5% due to the unwinding of overbought conditions and improving weather in Brazil. Grains were lower across the board, with corn showing technical potential for a developing bottom. Livestock outperformed last month with live cattle leading the way (+5%). **Based on the lack of broad technical progress, we maintain our negative view on the group.**
U.S. Dollar	·	●	·	Neutral	Trump's election victory sparked a rally in the greenback as growth and inflation expectations rerated higher. Technically, the dollar broke out from a bullish flag pattern on the news and cleared key resistance at 104, leaving the upper end of its longer-term range (106–107) as the next major hurdle to clear. Support for pullbacks sets up at 104 and the 200-dma at 103.85.

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

Dispersion Rising

Market Reversals. During October, alternative investment strategies struggled, with only the HFRX Equity Market Neutral Index (+0.2%) in positive territory, as the decline in equity and bond markets weighed on all other sub-strategies.

Market Neutral Funds Benefit From Sector Dispersion. While the S&P 500 declined 0.9% during the month, there was significant return dispersion at the sector level, as financials gained 2.7%, while healthcare lost 4.6%, a performance spread of 7.3%. This type of return distribution is often beneficial from a stock selection perspective and indicative of more idiosyncratic fundamentals driving stock prices, rather than all sectors or factors moving in the same direction. Unfortunately, as measured by the HFRX Equity Hedge Index, the more beta-sensitive long/short equity industry declined 0.6%, predominantly due to sector allocation weights. As compared to the more balanced and offsetting long and short exposure seen in the equity market neutral industry, long/short equity funds often over and underweight specific sectors, which may lead to returns being driven more from net market exposure and less from stock selection.

Macro-Strategies Lag. The HFRX Macro: Systematic Diversified CTA and HFRX Macro: Discretionary Index declined 3.4% and 1.7%, respectively. Much of the industry entered the month with long equity and bond exposure, leading to losses. Currency trading was also a detractor, as long positions in the British Pound and Australian Dollar declined. Long precious metals and agriculture (cocoa, coffee, soybeans) exposure remains the leading source of positive returns and have helped offset losses from the choppy equity and bond positioning.

Looking ahead. We expect dispersion to continue expanding and volatility to pick up. At a macro level, major central banks have become more vocal about how each region will take independent action from one another and have taken their initial steps towards their goals. They will continue to decide their own path, which will bring greater macro dispersion among them. This is not a story just for key developed market countries as Emerging market economies have also disintegrated themselves from one another, bringing the macro dispersion to a global phenomenon. At a micro level, continued drop in correlations among index components show that rates and momentum are taking a backseat, while idiosyncratic fundamentals are taking over the driver's seat.

Color Key: ● Negative ● Neutral ● Positive

	Sector	Overall View	Rationale
Fundamental	Long/Short Equity	· ● ·	The current equity market environment lends greater stock picking environment for low net equity long/short managers. With rich valuations and dwindling momentum, 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; however, regulatory and political risk will continue to overshadow the industry as we navigate the recent election outcome.
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	· · ●	Managed Futures strategies have seen a significant shift in underlying positioning. Bond positioning has moved to long exposure, while against most pairs, strategies are short the U.S. dollar, while long equity, precious metals, and agricultural exposure remained largely unchanged.
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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