LPL RESEARCH

Global Portfolio Strategy

January 2026

Policy Influences Will Be Key for Markets in 2026

The LPL Strategic & Tactical Asset Allocation Committee (STAAC) determines the firm's investment outlook and asset allocation that helps define LPL Research's investment models and overall strategic and tactical investment thinking and guidance. The committee is chaired by the chief investment officer and includes investment specialists from multiple investment disciplines and areas of focus. The STAAC meets weekly to closely monitor all global economic and capital markets conditions to ensure that all the latest information is being digested and incorporated into its investment thought.

Color Key:

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

Key changes from STAAC:

- No changes

STAAC Asset Class Tactical Views as of 01/01/2026 (GWI)

Asset Class					
Equity	·	·	●	·	·
U.S.	·	·	●	·	·
International Developed (EAFE)	·	·	●	·	·
Emerging Markets	·	·	●	·	·
Large/Mid Growth	·	●	·	·	·
Large/Mid Value	·	·	●	·	·
Small Growth	·	·	●	·	·
Small 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 01/01/2026

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

Source: STAAC as of January 1, 2026. 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 ended a third straight year of double-digit gains on a tepid note with the S&P 500 snapping a seven-month winning streak with a fractional loss in December. Choppy trading seen throughout the fourth quarter persisted in the final month of the year as equity investors grappled with a less hawkish than expected Federal Reserve (Fed) rate cut and intensified artificial intelligence (AI) scrutiny. Market chatter also highlighted a cyclical rotation gaining traction, which led big tech names mostly lower and contributed to some index level pressure, but was broadly viewed as a positive forward signal. Earnings headlines were light last month, although a few high-profile names drew attention, highlighted by disappointing free cash flow and high spending guidance from Oracle (ORCL) and a beat and raise from Broadcom (AVGO) failing to excite investors' lofty expectations.

Core bonds also capped an above-average 7.3% annual advance on a relatively subdued note, ending December with a 0.25% gain as measured by the Bloomberg U.S. Aggregate Index. While the Fed fulfilled hopes of another 0.25% rate reduction on December 10, downward pressure on yields was offset by a rise in global bond yields as markets from Australia to Europe priced in fewer local rate cuts in 2026. Sovereign yields in Germany and France reached their highest levels in a decade, while Japanese government bond yields hit levels unseen since 1999.

Looking forward, investors may be well served by bracing for additional bouts of volatility amid a slowing economy and likely increasing AI investment scrutiny. While our analysis shows positioning remains relatively neutral, valuations remain elevated. Pullbacks may be shallow given technology-powered earnings strength, likely additional Fed rate cuts, and the fiscal stimulus boost this year.

LPL Research expects mid-to-high single digit returns for equities in 2026, as policy tailwinds offset headwinds and AI investment continues to surge, as discussed in Outlook 2026: The Policy Engine.

The fixed income market remains rangebound, although downside pressure on yields could emerge as the Fed continues its rate-cutting cycle.

The STAAC's recommended tactical asset allocation includes:

- A neutral stance toward U.S. equities. A lot of good news is priced in, potentially limiting the opportunity for near-term upside
- The Committee favors growth over value for exposure to the AI theme and compelling earnings growth as the economy slows.
- The Committee favors large caps over small caps, partly due to superior balance sheet quality, ongoing AI investment, and potentially tighter credit markets in 2026.
- The Committee recommends well diversified regional exposures, with benchmark-level allocations to the U.S., developed international, and emerging markets. Non-U.S. equities offer upside from a potentially weaker U.S. dollar. EM looks better on a technical analysis basis.
- Within fixed income, the STAAC holds a neutral weight in core bonds, with a slight preference for mortgage-backed securities (MBS) over investment-grade corporates. The Committee believes the risk-reward for core bond sectors (U.S. Treasury, agency MBS, investment-grade corporates) is more attractive than plus sectors.

2026 MARKET FORECASTS

S&P 500 Tracking Above Bull Case Scenario

		Current
10-Year U.S. Treasury Yield		3.75% to 4.25%*
S&P 500 Index Earnings per Share		$290
S&P 500 Index Fair Value		7,350**

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

*Our 2026 year-end target for the 10-year Treasury yield is based on further Fed rate cuts but also a steepening yield curve due to ongoing concerns about sticky inflation and Federal debt/deficits.

**Our year-end 2026 fair-value target range for the S&P 500 is 7,300–7,400, based on a price-to-earnings ratio (PE) of 23 and our S&P 500 earnings per share (EPS) forecast of $320 in 2027.

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 01/01/26.

2026 ECONOMIC FORECASTS

U.S. Economy Expected to Slow This Year

	2026 (Y/Y, real GDP)
United States	2.1%
Eurozone	1.2%
Advanced Economics	1.7%
Emerging Markets	4.2%
Global	3.0%

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

Tactical Asset Allocation as of 01/01/2026

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	76.0%	76.0%	0.0%	64.0%	64.0%	0.0%	48.0%	48.0%	0.0%	32.0%	32.0%	0.0%	16.0%	16.0%	0.0%
Large/Mid Growth	32.0%	28.5%	3.5%	27.0%	24.0%	3.0%	20.5%	18.0%	2.5%	14.0%	12.0%	2.0%	7.0%	6.0%	1.0%
Large/Mid Value	29.5%	28.5%	1.0%	25.0%	24.0%	1.0%	18.5%	18.0%	0.5%	12.0%	12.0%	0.0%	6.0%	6.0%	0.0%
Small Growth	9.5%	9.5%	0.0%	8.0%	8.0%	0.0%	6.0%	6.0%	0.0%	4.0%	4.0%	0.0%	2.0%	2.0%	0.0%
Small Value	5.0%	9.5%	-4.5%	4.0%	8.0%	-4.0%	3.0%	6.0%	-3.0%	2.0%	4.0%	-2.0%	1.0%	2.0%	-1.0%
International Equity	19.0%	19.0%	0.0%	16.0%	16.0%	0.0%	12.0%	12.0%	0.0%	8.0%	8.0%	0.0%	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	7.0%	7.0%	0.0%	6.0%	6.0%	0.0%	4.0%	4.0%	0.0%	3.0%	3.0%	0.0%	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%	15.0%	15.0%	0.0%	35.0%	35.0%	0.0%	55.0%	53.0%	2.0%	75.0%	70.0%	5.0%
Treasuries	0.0%	0.0%	0.0%	7.0%	7.0%	0.0%	16.5%	16.5%	0.0%	27.0%	25.0%	2.0%	37.5%	33.5%	4.0%
MBS	0.0%	0.0%	0.0%	4.5%	4.0%	0.5%	10.5%	9.5%	1.0%	15.5%	14.5%	1.0%	20.5%	19.0%	1.5%
IG Corporates	0.0%	0.0%	0.0%	3.5%	4.0%	-0.5%	8.0%	9.0%	-1.0%	12.5%	13.5%	-1.0%	17.0%	17.5%	-0.5%
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 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. The exact percentage mix may fluctuate moderately throughout the year based on the relative market cap weights of each component within the Bloomberg US Aggregate Bond Index. The bond sector allocations in the TAA and benchmark will be updated twice per year, or as necessary, in January and July where the absolute values are subject to change, but the difference between the TAA and benchmark will remain constant (absent any Tactical Asset Allocation changes from the STAAC).

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

To better align with STAAC's asset allocation framework, mid caps have been combined with large caps in the TAA. Accounts with distinct mid cap allocations may disaggregate mid caps from the "Large & Mid" exposure shown in the table roughly in-line with relative market cap values: 80% Large Cap 20% Mid Cap. For a more detailed breakdown and explanation, please refer to the Supplemental Mid Cap Reference Guide on page 9.

Equity Asset Classes

Policy and AI Tailwinds to Fuel Continuation of the Bull Market in 2026

LPL Research expects mid-to-high single digit returns for equities in 2026, as policy tailwinds offset headwinds and AI investment continues to surge, as discussed in *Outlook 2026: The Policy Engine*. Investors may be well served by bracing for additional bouts of volatility, however, amid a slowing economy early in the year and a likely increase in AI investment scrutiny as the year progresses. Pullbacks may be shallow given technology-powered earnings strength, likely additional Fed rate cuts, and upcoming fiscal stimulus.

The Strategic and Tactical Asset Allocation Committee (STAAC) continues to favor large caps slightly over small caps and growth slightly over value. From a geographic perspective, the STAAC recommends benchmark level exposures to U.S., developed international, and emerging markets (EM), with U.S. upside potential from AI and non-U.S. upside potential if the U.S. dollar weakens.

Color Key:
● Strong Overweight ● Overweight ● Neutral ● Underweight ● Strong Underweight

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization and Style	**Large/Mid Growth**	· ● · · ·	Positive	The technology-driven earnings of the growth style help justify rich valuations. Large cap companies continue to offer a compelling earnings outlook. Performance may be helped by slowing economic growth early in 2026, but AI scrutiny will only increase. A value rotation is possible in 2026. Watch technicals.
	Large/Mid Value	· · ● · ·	Neutral	More market volatility or weakness in the AI theme may be needed for value stocks to outperform in 2026, although stimulus and commodities strength are supportive of cyclical value stocks. Valuations are relatively attractive. Waiting for more evidence of a sustained rotation to value and broader market participation.
	Small Growth	· · ● · ·	Positive	Attractive valuations and impending Fed rate cuts are supportive, but a slowing economy, potentially tighter credit markets in 2026, and ongoing AI investment that favors large caps could present headwinds, especially if volatility picks up. The positive technical trend is enough to favor small growth over small value.
	Small Value	· · · ● ·	No Trend	Attractive valuations, financial deregulation, a likely pickup in capital investment, and Fed rate cuts are supportive. While some policy uncertainty has cleared and the outlook for banks has improved, balance sheet strength still matters.
Region	**United States**	· · ● · ·	No Trend	AI investment, Fed rate cuts, and fiscal stimulus are keys to potential U.S. outperformance in 2026. Rich valuations may limit upside as a lot of good news is priced in. Superior earnings growth in 2026 and the U.S. innovation advantage make it difficult to underweight U.S. equities here, even at high valuations.
	Developed International	· · ● · ·	No Trend	International economies have become more competitive, with significant deficit/defense spending in Europe, and valuations are attractive, but strength in U.S. growth stocks on AI demand is a big hurdle for international to clear with limited technology exposure. A dollar breakdown is a potential bullish catalyst.
	Emerging Markets	· · ● · ·	No Trend	If EM can deliver on earnings growth expectations, bolstered by China's AI efforts and commodities gains, upside potential at low valuations becomes attractive. Recent Venezuela news may help Latin American markets over time. The possibility that U.S-China tensions flare up remains a risk. A weaker dollar could be a positive catalyst. Positive bias on improving technical analysis picture.

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

Got Our Shopping List Ready as 2026 Begins

The STAAC continues to recommend communication services as 2026 begins for solid growth at a reasonable valuation. The Committee has healthcare, industrials, and technology on its shopping list as opportunities for potential upgrades. Healthcare is attractively valued and may benefit from greater policy clarity. Industrials is poised to benefit from fiscal stimulus, AI investment, and increasing defense spending. And technology is experiencing very strong earnings growth that probably justifies rich valuations, but after such big gains, waiting for a pullback seems prudent.

Color Key:

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

	Sector	Overall View	Relative Trend	S&P Wgt.	Rationale
Cyclical	**Basic Materials**	· · ● · ·	Negative	1.9	Outperformed for the second straight month in December (+2.0%) on rising metal prices. Mining strength helped offset weakness in chemicals. Fiscal stimulus and the data center buildout may provide support, but China remains a wildcard.
	Consumer Cyclical	· · ● · ·	No Trend	10.6	Outperformed in December (+0.7%) on strength in cruise lines and some specialty retailers. Overall good holiday season, continued wealth effects, and anticipated 2026 tax cuts help. Reasonable valuations but job market is slowing.
	Financial Services	· · ● · ·	Positive	13.6	Outperformed for second straight month in December (+2.9%) on renewed confidence in credit markets and a healthy overall capital markets environment. Reasonable valuations, a steep yield curve, and de-regulation are supportive.
	Real Estate	· · · ● ·	Negative	1.8	Lagged in December (-2.9%) on rising interest rates and weakness in certain segments such as medical leasing. Reasonable valuations but dividend investing remains out of favor. November 2025 downgrade driven mostly by technicals.
Sensitive	**Communication Services**	· ● · · ·	Positive	10.6	Best performing sector in 2025 (+33.6%) but lagged in December (-1.1%) on weakness in Netflix (NFLX), Alphabet (GOOG/L), and legacy telecom players. Sector still offers favorable growth outlook at a reasonable price despite strong multi-year run.
	Energy	· · ● · ·	Negative	2.9	Flat, in line performance in December despite sharp declines in oil and natural gas. Improved Russia-Ukraine peace prospects, abundant global supply, and lackluster growth in China are headwinds. Reasonable valuations. Sub-par technicals.
	Industrials	· · ● · ·	Positive	8.3	Modest outperformer in December (+1.1%) on gains in airlines, aerospace and defense, which helped offset weakness in some AI data center players. Beneficiary of business tax incentives in 2026. Rich valuations. Positive technicals. Positive bias.
	Technology	· · ● · ·	Positive	33.7	Lagged for second straight month in December (-0.3%) amid mixed performance from AI-focused companies, e.g., Super Micro Computer (SMCI) and Broadcom (AVGO), were each down double-digit percentages. High valuations are justifiable given the growth prospects. Buy the dip candidate as momentum is still strong.
Defensive	**Consumer Defensive**	· · ● · ·	Negative	4.7	Lagged in December (-2.0%) as packaged food and big consumer product companies lagged, offsetting continued strength in value-oriented retailers. Reasonable valuations. Weak technical trend. Defensive, income sectors remain out of favor.
	Healthcare	· · ● · ·	Positive	9.7	After leading in November, healthcare slowed down last month with a 1.5% December dip amid weakness in medical equipment, including Medtronic (MDT) and some companies in diagnostics/testing. Policy headwinds have cleared, valuations remain attractive, and technicals have improved. Positive bias for early 2026.
	Utilities	· · ● · ·	Negative	2.2	After outperforming in November, utilities were the worst performing sector in December (-5.3%). Higher interest rates reduced the appeal of dividend stocks and the AI power theme cooled off. Reasonable valuations. Defensives still out of favor.

Any company names noted herein are for educational purposes only and not an indication of trading intent or a solicitation of their products or services.

Fixed Income

An Above Average Year

Last year was a good year for most fixed income markets with the Bloomberg Aggregate Bond Index up 7.3%. Each year, fixed income investors should reasonably expect coupon-type returns plus or minus price appreciation based upon changing interest rates. Importantly, as we noted in our *2025 Outlook: Pragmatic Optimism*, most of the returns came from income as Treasury yields have largely been rangebound this year, something we think is set to repeat in 2026. We continue to think high-quality sectors within the fixed income universe (Treasuries, MBS and shorter-maturity corporates) offer attractive risk-return opportunities. Spreads for most bond sectors, particularly plus sectors, remain at or near secular tights.

Color Key:

Strong Overweight · Overweight · Neutral · Underweight · Strong Underweight

Current Stance

	Low	Med	High	Rationale
Credit Quality Preference			✓	Recommend an up-in-quality approach in allocating to fixed income sectors. While all-in yields for lower quality remain near longer-term averages, we think the risk-reward favors owning core bond sectors over the riskier sectors.

	Short	Inter.	Long	Rationale
Duration Preference		✓		Yields remain under pressure from conflicting narratives: slowing growth (lower yields) but stickier inflation and large budget deficits (higher yields), which will likely keep rates directionless (but volatile) until/unless the economic data softens enough to price in a deeper rate cutting campaign by the Fed. We think the yield curve can continue to steepen, led by a fall in shorter maturity yields. We remain neutral duration.

	Neg.	Neut.	Pos.	Rationale
Municipal Bond View		✓		Over the past few months, the muni market has mostly overcome record levels of supply and has outperformed many taxable alternatives. Tax-equivalent yields remain attractive, particularly relative to taxable corporate bonds. Curve steepness suggests intermediate term allocations still offer the best risk/return but longer-term allocations worth a look as well.

		Overall View				Overall Trend	Rationale
Core Sectors							
U.S. Treasuries	·	·	●	·	·	Positive	Treasury yields were generally higher in December but ended the year roughly 0.40% lower than where they were to start the year. We think the 10-year will trade between 3.75%–4.25% in 2026. To get Treasury yields much lower though, economic data will need to show further deterioration. Technically, 10-year yields remain in a downtrend, but more recently, have been stuck in a consolidation range between support at 4.00% and resistance at 4.20%..
Mortgage-Backed Securities	·	●	·	·	·	Positive	MBS had its best year in decades in 2025, but spreads are below longer-term averages. While near-term momentum of falling interest rate volatility and constrained net supply will likely continue into the first half of the year, already tight spreads and eventually lower mortgage rates, which will increase prepayment risks, potentially cap returns for 2026. We remain constructive on MBS though.
Investment-Grade Corporates	·	·	·	●	·	Positive	We recommend an 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, but valuations are stretched.
TIPS	·	·	●	·	·	Positive	Inflation expectations have come down recently making the "hurdle" to invest in TIPs (versus nominals) lower. All-in yields for TIPS remain attractive, particularly shorter maturity TIPS, and could provide a good hedge against unexpected inflation surprises.
Plus Sectors							
Preferred Securities	·	·	●	·	·	No Trend	Valuations/spreads are back to historical averages, but all-in yields remain attractive for income-oriented investors. Recent Fed stress tests continue to show large, money-center bank fundamentals are generally sound, but the environment favors active management.
High-Yield Corporates	·	·	●	·	·	No Trend	High-yield markets have priced out most risks with spread volatility collapsing and spreads near secular tights across quality buckets. Yields for high-yield bonds are below historical averages, and we think the risk/reward is unattractive for most investors. The quality of the market has improved recently though. The asset class is better suited for income-oriented investors.
Bank Loans	·	·	●	·	·	No Trend	Downgrades and defaults have increased and could increase still if the economy slows/contracts. With Fed rate cuts expected to continue in 2026, yields will continue to fall. While we hold a neutral view, if pressed, we would prefer high yield bonds versus bank loans.
Foreign Bonds	·	·	●	·	·	No Trend	Yields have moved higher recently but are still generally lower than U.S. markets, despite ongoing political dysfunction in France and monetary policy normalization in Japan. Currency volatility is a risk. The asset class is more attractive for U.S. dollar hedged investors.
EM Debt	·	·	●	·	·	Positive	Valuations are relatively attractive, but idiosyncratic risks remain, and ongoing trade wars could negatively impact smaller emerging countries.

Commodities and Currencies

Metals Melt-Up Underpins a Fifth Straight Gain for Commodity Markets

The winning streak for commodity markets continued in December as the Bloomberg Roll Select Commodity Total Return Index (BCOMRST) — an index developed to address the issue of negative roll yields — rose for a fifth straight month. Precious metals maintained their pace of outperformance, while energy lagged. Another rate cut from the Fed and a weaker dollar supported buying pressure. Technically, BCOMRST bounced off support from its rising 50-day moving average (dma) and continued its ascent from a multi-year bottom. A retest of the 2022 highs near 780 appears likely from here, representing around 7% of potential upside from current levels (~727).

Precious metals continued to shine last month, with silver leading the advance. The "poor man's gold" rallied 27% despite suffering sizable profit-taking pressure into year-end. The addition of silver to the U.S. critical minerals list in November and newly implemented Chinese export restrictions have created fear over global supply shortages, while the demand side remains supported by accelerating AI capital expenditures, infrastructure spending, and building electrification trends. Platinum and palladium also notched double-digit gains, while gold ended the month up nearly 2% and briefly surpassed the October highs before pulling back at month-end.

Industrial metals traded higher in November, excluding zinc. Lithium carbonate outperformed with a 17% gain. Copper rallied 10% and is back in record-high territory. The potential for new tariffs on imports of refined copper, combined with production disruptions, and surging demand by power grids, data centers, and electric vehicles have helped pushed prices higher. Copper trading on the London Metal Exchange (LME), which could face an even tighter supply backdrop if new U.S. tariffs are added, has already broken out to record highs.

Energy lagged against the broader commodities complex, weighed down by weaker natural gas and gasoline prices. West Texas Intermediate (WTI) fell 2% and extended its losing streak to five consecutive months of losses. Despite escalating geopolitical tensions as the U.S. intensified its oil blockade in Venezuela last month, prices remained plagued by oversupply fears. According to the U.S. Energy Information Administration (EIA), global oil supply is outpacing demand by nearly four million barrels per day. The supply narrative could get some support from OPEC+, which is expected to maintain a pause in supply increases during the first quarter.

The U.S. Dollar Index dipped 1.1% after struggling with resistance from the August highs. Renewed Fed rate cut expectations weighed on the greenback, along with more hawkish outlooks from the European Central Bank (ECB) and Bank of Japan (BOJ).

Color Key: Positive Neutral Negative

Sector	Overall View	Overall Trend	Rationale
Energy		Neutral	While the global supply bear case for oil continues to weigh on price action, WTI has managed to hold above support at $55. Sentiment and positioning data reflect contrarian levels, while put skew reveals limited downside protection demand vs. April and May. A close above $62.85 would reverse a short-term downtrend/recapture the 200-dma and raise the probability of a potential low being set. Natural gas remains weather-dependent and volatile, with futures recently pulling back to support near $3.50. **We maintain our neutral view on the energy commodity sector.**
Precious Metals		Positive	Precious metals continue to outperform. We view the recent volatility in the space as profit-taking pressures from overbought levels and not a reflection of a technical or fundamental trend change. **We continue to view pullbacks as buying opportunities and maintain our positive view on precious metals.**
Industrial Metals		Positive	Industrial metals continued to make technical progress last month, with the Bloomberg Industrial Metals Subindex breaking out above the 2025 highs. Demand in the space remains supported by surging AI capex, rising global infrastructure spending, and building electrification trends, while supply is being impacted by global trade policy. **Given the improving technical backdrop, we are upgrading our view on the industrial metals group to positive from neutral this month.**
Agriculture (Ag) & Livestock		Neutral	Livestock outperformed ag last month, with notable outperformance in cattle futures, which rebounded after a sizable drop in November. Ag was led lower by nearly a 16% decline in coffee. Soybeans fell 9.4% as concerns about sustainable China buying and South American production pulled prices back into correction territory. **We maintain our neutral view on the ag & livestock space.**
U.S. Dollar		Neutral	The U.S. Dollar Index slid 1.1% last month after failing at key overhead resistance. A close above 100.40 would validate a breakout from the current bottoming process, while a break below 96 would trigger the break of a secular uptrend.

The Bloomberg Commodity Index (BCOM) is made up of 24 exchange-traded futures on physical commodities, representing 22 commodities which are weighted to account for economic significance and market liquidity

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

Precious metal investing involves greater fluctuation and potential for losses.

Alternative Investments

Strong End to 2025

Alternative investment strategies ended the year on a positive note, with all major sub-strategies outperforming the S&P 500 during December. The HFRX Macro: Systematic Diversified CTA Index led monthly performance with a gain of 2.5%, bringing year-to-date performance to 5.8%. Long developed international equity, long gold, and long silver exposure were the leading contributors to overall returns. Following the trend-following strategies, the HFRX Equity Hedge Index returned 0.9% during the month and lead all sub-strategies with a 2025 return of 10.1%.

2025 underscored the value and complexity of alternative investments in a rapidly evolving market environment. Against a backdrop of policy uncertainty, tariff shocks, and a late-year pivot toward monetary easing, performance across strategies was highly differentiated. Long/short equity emerged as a relative winner, benefiting from sector dispersion and the resurgence of growth themes. Global macro, particularly discretionary approaches, also delivered competitive returns by capitalizing on rate differentials and currency trends, while systematic macro strategies struggled with abrupt reversals. Market neutral fulfilled its role as a stabilizer, offering low correlation and volatility dampening, though a consistent return profile. However, managed futures faced one of its most challenging periods in recent history, as broken trends and whipsaw conditions eroded performance early in the year, despite performance stabilizing at the end of the year.

Overall, with economic and policy uncertainty likely to continue into 2026, we remain positive on alternative investment strategies, as we believe they can help strengthen portfolio stability during periods of volatility. Our preferred approaches include equity market-neutral, nimble discretionary global macro, and a range of managed futures strategies. In private markets, infrastructure, secondary private equity investments, and private credit remain our preferred strategies. Secondary private equity investments have seen strong momentum in deal volumes and a pickup in the number of participants. With more limited partners, including pensions and endowments, looking to monetize some of their holdings and rebalance their portfolios, as well as general partners looking to create continuation funds, the space has become more liquid and efficient, making it a more viable standalone strategy.

Color Key: Positive Neutral Negative

	Sector	Overall View	Rationale
Fundamental	**Long/Short Equity**	Positive	Elevated volatility and ongoing stock dispersion continue to create a favorable environment for low-net, stock-picking strategies. For long-biased long/short equity managers, expanding beyond U.S. markets into regions with supportive policy frameworks may offer more compelling opportunities.
Fundamental	**Event Driven**	Positive	Mergers and acquisitions (M&A) and initial public offerings (IPO) have improved relative to the low levels of prior years. Distressed debt opportunities remain limited as credit spreads continue to tighten. The M&A and IPO markets have begun to show signs of recovery, expanding the investable universe for merger arbitrage managers which they should benefit from.
Tactical	**Global Macro**	Positive	Agile discretionary macro managers should continue to capitalize on economic and policy shifts, along with intermittent spikes in market volatility. Tactical discretionary macro strategies are well-positioned to capitalize on opportunities emerging from shifting economic conditions, evolving policy landscapes, and elevated market volatility.
Tactical	**Managed Futures**	Neutral	We continue to favor holding a diversified mix of sub-strategies, including but not limited to, short-term momentum, volatility breakout, pattern recognition, and trend following. Diversification within trend following in terms of markets and time frame is encouraged as well. We remain mindful of the significant long exposure to risk assets — particularly equities — among trend-following strategies. In this environment, a broadly diversified allocation across sub-strategies is preferred.
Multi-Strategy	**Multi-PM Single Funds**	Positive	Multi-strategy funds should continue to benefit from the ability to dynamically invest across alternative investment strategies.
	Specialty Strategies	Neutral	Volatility arbitrage and cross-asset tail risk strategies with minimal carrying cost may be good additional diversifiers in portfolios. Volatility arbitrage and tail risk with reduced/no negative carry can potentially add value to portfolios.

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

Supplemental Mid Cap Reference Guide

Rationale for Large and Mid Cap Aggregation

The STAAC's decision to aggregate mid cap equities with large caps is driven by a desire to construct asset allocation models using distinct and efficient building blocks that either a) materially enhance expected returns, or b) materially reduce expected risk relative to our benchmark. We believe that a four-box framework, segmented by size and style, provides the most impactful differentiation for our investment decision making. Additionally, this is most aligned with our investment universe, given most active large cap managers benchmark to the Russell 1000 (which has significant overlap with the Russell Midcap Index, 800 stocks representing approximately 20% of market cap).

We also believe that reducing the number of style boxes improves capital efficiency and lowers trading costs and turnover. By streamlining these classifications, we can avoid such inefficiencies.

Disaggregated U.S. Mid Cap and Large Cap Tactical Asset Allocation as of 01/01/2026

The 80% Large Cap / 20% Mid Cap decomposition provided below is intended as a general reference for advisors who prefer to maintain a distinct mid cap allocation. The exact percentage mix may fluctuate moderately throughout the year based on the relative market cap weights of each component within the Russell 1000. The STAAC's official position is to treat large and mid caps as a combined category within the TAA as shown on page 3. The Supplemental Mid Cap Reference Guide will be updated twice per year, or as necessary, in January and July.

Investment Objective

	Aggressive Growth			Growth			Growth with Income			Income with Moderate Growth			Income with Capital Preservation		
Asset Class	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference
Large Growth	25.540%	22.745%	2.795%	21.550%	19.155%	2.395%	16.360%	14.365%	1.995%	11.175%	9.575%	1.600%	5.585%	4.790%	0.795%
Mid Growth	6.460%	5.755%	0.705%	5.450%	4.845%	0.605%	4.140%	3.635%	0.505%	2.825%	2.425%	0.400%	1.415%	1.210%	0.205%
Large Value	23.545%	22.745%	0.800%	19.950%	19.155%	0.795%	14.765%	14.365%	0.400%	9.575%	9.575%	0.000%	4.790%	4.790%	0.000%
Mid Value	5.955%	5.755%	0.200%	5.050%	4.845%	0.205%	3.735%	3.635%	0.100%	2.425%	2.425%	0.000%	1.210%	1.210%	0.000%

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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