Staying the Course as S&P 500 Threatens New Highs

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 06/01/2025 (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 06/01/2025 (GWI)

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

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

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Investment Takeaways

U.S. stocks settled sharply higher last month with the S&P 500 and Nasdaq delivering their best month since November 2023. A rapid trade de-escalation between Washington and Beijing was the major upside catalyst after the world's largest economies agreed to slash tariff duties for 90 days. The U.K. also stuck a deal with the U.S. in early May, but volatile trade headlines remained an overhang for markets with threats of 50% tariffs on the European Union (EU), a U.S. legal tariff block, and "stalled" negotiations with China near month end. Corporate results remained robust despite tariff-related pressures, with the S&P 500 posting 12.9% earnings growth last quarter, and artificial intelligence (AI) tailwinds from strong NVIDIA (NVDA) results.

Treasury yields ended May higher, led by a notable rise in longer-dated yields. Core bonds, measured by the Bloomberg U.S. Aggregate Bond Index, declined 0.7% to log their first monthly decline of 2025. Upward pressure on yields stemmed from debt and fiscal deficit concerns as policy makers negotiated President Trump's signature reconciliation and tax bill, the Moody's downgrade of U.S. debt, and elevated inflation expectations. Exacerbating the duration sell-off was middling auctions, namely in the U.S. and Japan, briefly sending the U.S. 10-year yield above 4.5% and the 30-year yield above 5.15%. Domestic corporate credit ended May little changed.

Looking forward, investors may be well served by bracing for heightened volatility until trade uncertainties are resolved. LPL Research advises against increasing portfolio risk beyond benchmark targets at this time, as the market seems to be factoring in a lot of positive news. The fixed income market remains volatile, with longer-term yields nearing critical levels for risk appetite in stocks. While the U.S. economy is holding up well, LPL Research believes the S&P 500 is fairly valued and that any further gains would necessitate an earnings surprise and carefully balanced lower Treasury yields (too low could signal rising recession risks). The trajectory of tariffs and the tax bill will be crucial.

The STAAC's recommended tactical asset allocation includes:

- A neutral stance toward U.S. equities as elevated valuations amid limited corporate visibility and a cooling economy (that likely skirts recession) offset the opportunity for upside in our view, even with lowered tariffs.
- The Committee favors growth over value for exposure to the AI theme and compelling earnings growth, at a premium, as the economy slows.
- The Committee favors large caps over small caps for their balance sheet quality and better position to manage tariffs.
- 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.
- 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.

2025 MARKET FORECASTS

Elevated Volatility May Continue in the Near-Term

	Current
10-Year U.S. Treasury Yield	3.75% to 4.25%*
S&P 500 Index Earnings per Share	$250 to $255
S&P 500 Index Fair Value	5,650 – 5,800

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

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

**Our year-end 2025 fair-value target range for the S&P 500 of 5,650–5,800 is based on a price-to-earnings ratio (PE) of 21 and our recently lowered S&P 500 earnings per share (EPS) forecast of $270 in 2026.

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

All data, views, and forecasts herein are as of 06/01/25.

2025 ECONOMIC FORECASTS

U.S. Economy Expected to Slow This Year

	2025 (Y/Y, real GDP)
United States	1.3%
Eurozone	0.9%
Advanced Economics	1.5%
Emerging Markets	4.2%
Global	3.0%

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

Tactical Asset Allocation as of 06/01/2025

Investment Objective

	Aggressive Growth			Growth			Growth with Income			Income with Moderate Growth			Income with Capital Preservation		
	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference
STOCKS	95.0%	95.0%	0.0%	80.0%	80.0%	0.0%	60.0%	60.0%	0.0%	40.0%	40.0%	0.0%	20.0%	20.0%	0.0%
U.S. Equity	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%	16.0%	16.0%	0.0%	26.5%	24.5%	2.0%	36.5%	32.5%	4.0%
MBS	0.0%	0.0%	0.0%	4.5%	4.0%	0.5%	11.0%	10.0%	1.0%	16.0%	15.0%	1.0%	21.5%	20.0%	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.

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

To better align with other STAAC publications, 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: 75% Large Cap 25% Mid Cap.

Equity Asset Classes

Diversification over Risk-Taking with Valuations Elevated and Lingering Trade Policy Uncertainty

In this environment of trade policy uncertainty, when conviction levels are not high, LPL Research's Strategic and Tactical Asset Allocation Committee (STAAC) believes it is prudent to keep tactical asset allocations near benchmarks. In that spirit, the Committee is neutral equities while waiting for a potential pullback and more policy clarity. The Committee continues to favor large caps slightly over small caps for what is expected to remain a volatile environment over the summer. And small caps may have a tougher time with tariffs due to relatively less balance sheet strength. The Committee maintains its preference for growth over value on AI exposure, compelling earnings power, and tendency to perform well as growth becomes scarcer in a slowing economy. Finally, from a region perspective, the STAAC recommends benchmark level exposures to U.S., developed international, and emerging markets, with U.S. upside potential from AI investment and deployment, and non-U.S. upside potential from a weaker dollar, should it materialize.

Color Key:

Strong Overweight · Overweight · Neutral · Underweight · Strong Underweight

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization and Style	**Large/Mid Growth**		Positive	LPL's STAAC continues to favor a modest tilt toward the growth style as slowing economic growth and superior, technology-driven earnings power support growth. Large caps are better positioned to manage tariffs and market volatility with stronger balance sheets.
	Large/Mid Value		No Trend	Defensive value stocks may be poised for another stint of outperformance if stocks pull back after the recent rebound. Cyclical value faces high tariff risks, but valuations are relatively more attractive for the value style and lowered tariffs have reduced recession the chances of recession.
	Small Growth		Positive	Low valuations are not enough to favor small caps in an uncertain policy environment. Smaller companies may have a harder time mitigating tariffs with relatively weaker balance sheets. Even as the S&P 500 approaches new highs, risk-taking among small cap growth investors seems to have moderated.
	Small Value		No Trend	Small cap fundamentals have deteriorated in the uncertain policy environment. Valuations are attractive but we prefer balance sheet strength in a potentially more difficult economy with lasting tariffs. Slowing economic growth is a headwind for banks, though the yield curve environment has improved.
Region	**United States**		No Trend	Trade policy uncertainty and full valuations amid limited earnings visibility and a slowing economy may limit opportunities for valuation expansion. AI investment, innovation, and adoption still likely to drive superior U.S. earnings growth, though a potentially weaker U.S. dollar offers upside for non-U.S. equities.
	Developed International		Positive	The STAAC remains neutral developed international as valuations, while still reasonable, have risen. U.S. economic and earnings growth is still likely to outpace the developed world, though ramped up deficit/defense spending in Europe are supportive. Renewed strength in U.S. technology makes it tough for the Europe-heavy MSCI EAFE Index to keep up.
	Emerging Markets		No Trend	Fundamental and technical improvement in EM and the STAAC's preference to stay close to benchmarks during periods of uncertainty drove the May 2025 upgrade to neutral. EM valuations remain attractive, a weaker U.S. dollar offers upside potential, and trade tensions with China have eased. Beneficiaries of trade shifts away from China and less perceived upside in the U.S. also factored in.

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 Communication Services and Financials for Uncertain Trade Policy

The sectors most impacted by tariffs, including consumer discretionary, industrials, and technology, along with communication services, led the May rally, while defensive sectors struggled, most notably healthcare, which was hurt by policy uncertainty and dragged down by losses in UnitedHealth.

The Committee's favored sectors are communication (comm) services and financials, while materials and utilities are the only underweights. Comm services and financials are relatively well positioned to manage through the difficult trade environment, in our view, but should also benefit from tariff reductions in a potential bullish outcome. Both sectors provide a solid earnings growth outlook and reasonable valuations.

Color Key:

Strong Overweight · Overweight · Neutral · Underweight · Strong Underweight

	Sector	Overall View	Relative Trend	S&P Wgt.	Rationale
Cyclical	**Basic Materials**	Underweight	Negative	2.0	Underperformer in May (+3.0%) despite easing U.S.-China tensions. Still, slower global growth and lingering trade uncertainty offset potential benefits of tariffs on metal prices, limiting the sector's outperformance potential.
	Consumer Cyclical	Neutral	No Trend	10.6	May outperformer (+9.4%) on tariff pause. Sector also benefited from strength in Tesla (TSLA) shares. High tariff risk in retail, autos, and homebuilders still keep us cautious as consumer spending is poised to slow.
	Financial Services	Overweight	Positive	14.0	Slight laggard in May (+4.4%) despite solid Q1 earnings season. Capital markets businesses are doing relatively well, but the bank lending environment is challenging. Credit conditions remain healthy. Resilient in face of tariffs. Favorable technicals.
	Real Estate	Neutral	Negative	2.1	Underperformer in May (+1.0%) as defensive characteristics were out of favor and long-term rates stayed elevated. Neutral view reflects attractive yields, reasonable valuations, and exposure to data centers and mobile broadband.
Sensitive	**Communication Services**	Overweight	Positive	9.8	Outperformed in May (+9.6%) on strength in streaming and digital media companies. AI investment is a key driver. Strong earnings outlook reaffirmed during first quarter earnings season. Reasonable valuations. Solid technicals.
	Energy	Neutral	Negative	3.1	Underperformer in May (+1.0%). Slowing global growth and falling natural gas prices offset higher oil. Global growth trajectory continues to limit the attractiveness of energy stocks, while oil prices aren't high enough to support services stock gains. Watching Iran negotiations closely as potential upside catalyst.
	Industrials	Neutral	No Trend	8.6	May outperformer (+8.8%), boosted by the tariff pause, which helped alleviate concerns around dampened capital investment. Supported by infrastructure spending, AI data center buildouts, and near-shoring. Fair valuations. Positive bias.
	Technology	Neutral	Positive	32.1	Top performing sector for second straight month in May (+10.9%) on the tariff pause, led by semiconductor stocks on AI optimism. The AI spending outlook remains healthy, and technical have improved (broad participation, near relative highs), but valuations reflect a lot of good news and tariff risk hasn't gone away.
Defensive	**Consumer Defensive**	Neutral	No Trend	5.7	Underperformer in May (+1.8%) but posted gains as consumer spending trends remained healthy and companies are generally managing cost pressures from tariffs with little disruption. Will likely perform well in the next selloff, lag in the meantime.
	Healthcare	Neutral	Negative	9.6	Underperformer and only decliner in May (-5.6%) on policy risk from Health Secretary RFK Jr., spending cuts in the GOP tax bill, and sharp drop in shares of UnitedHealth (UNH). Earnings growth is inflated by easy comparisons in 2024. Cheap sector but likely value trap. Negative technicals.
	Utilities	Underweight	Positive	2.4	Up 3.8% in May as enthusiasm for AI power demand came back. Market's preference for riskier sectors and upward pressure on interest rates may limit opportunity for outperformance going forward. Like staples, likely outperformer in the next selloff.

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

Where Have All the (Duration) Buyers Gone?

Fixed income markets, as proxied by the Bloomberg Aggregate Bond Index, were lower in May as U.S. fiscal debt and deficit concerns (along with a rating downgrade) all weighed on the Treasury market. Moreover, longer maturity government bond securities, globally, have been shunned as of late with lingering concerns over still too high inflation and fiscal profligacy. With economic conditions still positive enough to keep the Fed on hold, the trend of higher rates could continue in the near term. With volatility expected to stay elevated, we remain duration neutral to benchmarks.

Valuations for riskier fixed income sectors remain rich relative to core sectors, in our view. Credit spreads have largely reversed the widening that took place in April and are back down to unattractive levels. Valuations for MBS remain attractive through.

Color Key:

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

Current Stance		Low	Med	High	Rationale
	Credit Quality Preference			✓	Recommend an up-in-quality approach in allocating to fixed income sectors. While all-in yields for lower quality remain above longer-term averages, we think the risk-reward favors owning core bond sectors over the riskier sectors.
		Short	**Inter.**	**Long**	**Rationale**
	Duration Preference		✓		Yields remain under pressure from conflicting narratives: slowing growth (lower yields) but stickier inflation (higher yields), tariff pressures, and an ongoing Treasury Department debt ceiling debate will likely keep rates directionless (but volatile) until/unless the economic data softens enough to allow the Fed to continue its rate cutting campaign. We remain neutral duration.
		Neg.	**Neut.**	**Pos.**	**Rationale**
	Municipal Bond View		✓		Performance was positive on the month, but munis have lagged broader taxable markets this year primarily due to supply/demand imbalances. YTD, the municipal market has recorded $243 billion of new issuance, representing a 27% increase year-over-year (YoY). However, year-to-date inflows to funds and ETFs has been a paltry $8 billion so far. Curve steepness still suggests intermediate term allocations are worth a look. Valuations remain attractive.

		Overall View	Overall Trend	Rationale
Core Sectors	**U.S. Treasuries**	· · ● · ·	No Trend	The 10-year was roughly 0.20% higher in May on the back of fiscal debt and deficit concerns. Markets are pricing in only two full cuts in 2025 due to stronger economic data that is keeping the Fed on hold. To get Treasury yields much lower though, economic data will need to show further deterioration. Technically, 10-year yields continue to consolidate below resistance near the 4.50–4.60% range and above support from the rising 200-day moving average (dma).
	MBS	· ● · · ·	No Trend	We remain constructive on agency mortgage-backed securities(MBS). Yields and spreads remain near multi-year highs, so we think MBS remain an attractive investment opportunity, particularly relative to lower-rated corporates. Elevated interest rate volatility is a headwind to MBS but recent demand from banks, traditionally the largest buyer of MBS, remains supportive.
	Investment-Grade Corporates	· · · ● ·	No Trend	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	· · ● · ·	No Trend	Treasury Inflation-Protected Securities (TIPS) outperformed nominals in May as real yields increased less than traditional Treasury securities during the month. 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**	· · ● · ·	Negative	Valuations/spreads are back to historical averages, so no longer as attractive for tactical models 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	· · ● · ·	Positive	Spreads have largely reversed the widening that took place in April and are back near secular tights. Yields for high-yield bonds are above historical averages, but we think spreads are at risk for further widening due to tariff/trade war uncertainty. 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. Given the current economic uncertainty, high-risk credit sectors could underperform safer "core" sectors.
	Foreign Bonds	· · ● · ·	No Trend	Yields have moved higher recently but are still generally lower than U.S. markets. Currency volatility is a risk.
	EM Debt	· · ● · ·	No Trend	Valuations are relatively attractive, but idiosyncratic risks remain, and ongoing trade wars could negatively impact smaller emerging countries.

Commodities and Currencies

Commodities Fall for a Second Straight Month

The Bloomberg Commodity Index (BCOM) sank 1% in May, marking its first back-to-back monthly loss since last August. However, the decline comes with an asterisk as negative roll for select futures contracts within the index weighed on aggregate performance. The Bloomberg Enhanced Roll Yield Index (BERY), an index developed to address the issue of negative roll yields, rose 0.3% during the month. Most commodities participated in May's broader risk-on rally as the White House inked its first post-reciprocal tariff trade deal and temporarily paused certain tariffs with China. A weaker dollar provided an additional tailwind for the space. Technically, BCOM remained stuck in a short-term consolidation range bound by resistance near 103.5 and support at 100.

Metals continued to shine last month, with gold sharing some of the spotlight with silver and platinum. A tightening platinum market underpinned by dwindling supply, renewed Chinese jewelry demand, and inflows into platinum-related ETFs pushed prices up 9%. Momentum in silver also picked up as the metal rose over 1%, closing near multi-year highs. Gold finished just above the flatline as overbought conditions spurred some profit-taking pressure in the yellow metal. Industrial metals were led higher by a 2.6% gain in copper. Both gold/silver and gold/copper ratio charts started to recede last month from multi-year high levels.

Most of the energy complex climbed higher in May. Oversold conditions and a pullback in recession probabilities brought buyers back into oil. West Texas Intermediate (WTI) found support near $55 and formed a short-term double bottom. Escalating tensions in the Middle East and with Russia-Ukraine supported a higher geopolitical risk premium in oil. Supply remained an overhang as OPEC+ continued to shift toward protecting market share over price. Natural gas rose 3.6% amid a volatile month.

Color Key: Positive Neutral Negative

Sector	Overall View	Overall Trend	Rationale
Energy		Neutral	Oil has struggled as concerns about tariff-related demand weigh on risk appetite. Oil imports into China also remain weak, while OPEC+'s shift toward increasing supply further complicates the outlook. Technically, WTI has broken out from a double-bottom after surpassing resistance at $65. A close above the April highs near $72.25 would reverse its current downtrend. Natural gas has struggled to maintain momentum since March but remains above its key moving averages, giving upside risk the benefit of the doubt for now. **We maintain our neutral view on the energy commodity sector.**
Precious Metals		Positive	Gold remains supported by tailwinds from a weaker dollar, limited upside to real yields, trade uncertainty, central bank demand, and steady inflows into physical-gold related ETFs. Heightened geopolitical tensions further support the yellow metal. Use pullbacks as buying opportunities. Recent breakouts in silver and platinum round out a strong technical setup for the group, and **we maintain our positive view on precious metals.**
Industrial Metals		Neutral	Industrial metals advanced as recession fears abated. However, tariffs, along with weak export and manufacturing activity, have weighed on sentiment. Copper has made some technical progress, but key resistance off the 2024–2025 hangs overhead near $520. Aluminum continues to trend higher since April, while steel prices have faded as front-running tariff momentum seemingly wore off. **We maintain our neutral view on the industrial metals group.**
Agriculture (Ag) & Livestock		Neutral	Livestock markets advanced last month after lean hogs jumped over 10% as wholesale prices tightened. Speculators have notably added to long positions as prices cleared the 2024 highs. Live cattle consolidated throughout the month after a sizable April rally. Ag was mixed, with corn pulling back 5% and wheat rallying 4.1%. Coffee led softs lower as bean prices tumbled over 15%. An improving harvest outlook in Brazil contributed to the selling pressure. **We maintain our neutral view on the ag & livestock space.**
U.S. Dollar		Negative	The dollar failed to follow interest rates higher last month and closed near support off the April lows. Momentum in the euro continued to weigh on the U.S. Dollar Index. While the greenback is oversold and sentiment is depressed, a break below the April lows would imply the consolidation phase is over and that a more significant downtrend is underway.

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

Mixed Performance

Alternative investment performance was once again mixed, as the second straight month of strong equity market gains was a headwind for strategies specializing in diversification and capital protection. For the month, equity markets were led by growth-related stocks, however, large value firms were also positive - albeit underperformed their growth peers by over 5.0% in a revisit to the growth led market of prior years. Overall, the HFRX Equity Hedge Index led monthly alternative sub-strategy returns with a gain of 2.6%, which represents ~41.0% of the market's upside and in-line with the category's beta profile. There remained a fair amount of sector dispersion during the month, as the information technology sector outperformed the healthcare space by over 16.0%; however, this dispersion was driven more so by sector preferences and not underlying stock selection.

The HFRX Macro Systematic Diversified and HFRX Macro/CTA Indices were once again the main sub-category laggards, with declines of 1.4% and 0.2%, respectively. Losses were concentrated in commodity trading, as most strategies entered the month with long cocoa and gold exposure, only to see a sell-off in those markets. For the year, the HFRX Systematic Diversified Index has now declined over 7.0%, as the swift reversal in equity markets starting in April has weighed on returns. While the merger and acquisition environment continues to be weak, the HFRX Event Driven: Merger Arbitrage Index gained 1.4%, as previously announced deals moved closer towards their target price on the back of a strong equity market. Overall, higher levels of tariff uncertainty and interest rates staying at higher levels for potentially longer are expected to act as headwinds for the foreseeable future. Cross-border deals are also expected to be held up and used in a countries tariff negotiation process.

Broadly speaking, we still believe hedge fund strategies have a favorable environment, however, we continue to be selective in their strategy allocations. Agility will be crucial, and we favor strategies that can benefit from the macro and fundamental dispersions, higher volatility as well as medium to high interest rates, while staying nimble. As such, we favor Global Macro, Managed Futures and Multi-Strategies for that reason. In general, excess return generation is higher when there is a reasonable level of volatility, which is what we expect.

Color Key: Positive Neutral Negative

	Sector	Overall View	Rationale
Fundamental	**Long/Short Equity**	Neutral	The current equity market environment lends to a more attractive stock picking environment for low net equity long/short managers. With rich valuations these managers should be able to build solid short books that can increase their total alpha generation.
Fundamental	**Event Driven**	Neutral	Merger Arbitrage strategies remain attractive fixed income diversifiers and may see a more favorable backdrop in the event of deregulation and an extension of the Tax Cuts and Jobs Act. However, uncertainty surrounding tariffs and rates staying higher for longer may hinder the expected pick up in deal flow.
Tactical	**Global Macro**	Positive	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.
Tactical	**Managed Futures**	Positive	We encourage investors to consider a combination of trend followers with alternative market coverage and balanced exposure and short-term multi-strategy managers. Recent performance has been whipsawed as the markets have seen significant daily moves due to tariff uncertainty.
Multi-Strategy	**Multi-PM Single Funds**	Positive	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	Neutral	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.

This research material has been prepared by LPL Financial, LLC.