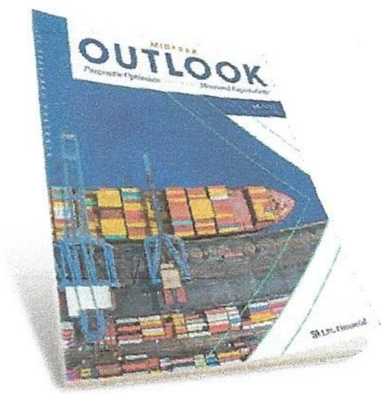
MIDYEAR

OUTLOOK

ed.2025



Pragmatic Optimism, Measured Expectations

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>
> *– Marc Zabicki*
> *Chief Investment Officer,*
> *LPL Research*

Overview

Volatility, as defined by Merriam-Webster, is "a tendency to change quickly and unpredictably" – a fitting description of the 2025 environment. The volatility has stemmed from assuming President Trump's second term policies would mirror his first, as well as the subsequent impact of those new policy directions.

As more hard data becomes available, we will all need to carefully evaluate the true economic impact of these policy shifts – plus consider the possibility the administration may pivot towards a more pro-market policy as the 2026 mid-term election nears. Given the array of potential outcomes, investors should prepare for ongoing uncertainty and the market volatility that may accompany it.

To make sense of such a fluid market environment, we turn to our Strategic & Tactical Asset Allocation Committee (STAAC). This experienced team of investment professionals, utilizing our data-driven framework, meets weekly to assess global market trends, identify emerging risks, and uncover potential investment opportunities for our investors.

With uncertainty expected to persist, the STAAC believes tactical portfolios should seek to carefully balance risk mitigation with proactive positioning for new opportunities. We continue to emphasize the importance of diversification across asset classes and geographic regions – plus favor integrating stability-enhancing holdings that do not move in lockstep with traditional assets (e.g., alternative investments). We also advocate staying attentive to periods of volatility to take advantage of attractive levels in equities.

Regardless of what the markets may bring, it is truly a privilege to stand alongside you as a partner, and we sincerely appreciate the confidence you place in LPL Research.

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Executive Summary

Economy

In the second half of the year, the delayed effects of trade policy will begin to take a more noticeable toll on the economy, resulting in slower growth, weakening labor demand, and a modest uptick in inflation. These emerging challenges will create a more complex landscape for the Federal Reserve, requiring them to maintain a cautious stance on monetary policy and further delay rate cuts. Tariff headlines will continue to drive market sentiment, adding complexity to both growth and inflation forecasts.

Stocks

The stock market's performance will center around trade negotiations, AI, interest rate volatility, and the tax bill, among other things. Stock valuations reflect a lot of good news amid so much policy uncertainty. Given the limited room for multiple expansion, we expect only modest gains by year-end. Episodic periods of volatility are likely amid a challenging macroenvironment, but market pullbacks should be viewed as opportunities to selectively increase equity exposure. LPL Research's year-end 2025 fair value target range on the S&P 500 is 6,000 to 6,100.

Bonds

Treasury yields face multiple headwinds, including policy uncertainty, fiscal concerns, de-dollarization, and rest-of-the-world yield trends. Despite obstacles to a sustained rate rally, yields largely depend on growth and inflation expectations. If economic data – especially labor market figures – shows more material weakness, yields should come under pressure, but volatility in the bond market is expected to persist. High-quality bonds remain valuable for portfolio risk mitigation and potential gains in times of broader uncertainty and economic stress. We believe investors seeking income can find attractive opportunities in bonds with maturities of up to five years.

Alternative Investments

As economic and policy uncertainty is expected to persist, we continue to stress the importance of diversification and the integration of stability-enhancing strategies in portfolios. Our preferred approaches include equity market-neutral, nimble discretionary global macro, and a range of managed futures strategies. Additionally, select niche strategies – such as volatility arbitrage and cross-asset focused tail risk – can also offer value. In private markets, infrastructure, secondary private equity market investments, and private credit remain top choices, though with tempered total return expectations in the current environment.

Commodities

Longer-term growth drivers for the broader commodities complex remain intact. However, how trade policy unfolds in the second half will ultimately dictate the global growth outlook and how commodity markets perform. China's economic recovery remains a wild card, and until a trade deal is inked, the probabilities for a broader commodities rebound remain subdued. Gold remains a bright spot, with an array of catalysts supporting the rally, leaving us positive on the precious metals group.

Currencies

Significant fiscal support has revitalized growth prospects abroad while U.S. trade policy remains fragile. The administration's goal of reducing the U.S. trade deficit could have a meaningful impact on global trade and ultimately reduce demand for the dollar. Threats to U.S. leadership in technological innovation have further weighed on the American exceptionalism narrative. Sanctions on foreign assets after Russia's invasion of Ukraine have also underpinned a shift away from dollar reserves among global central banks. Collectively, these factors have reduced the dollar's valuation, but its status as the world's reserve currency will remain unrivaled.

GENERAL DISCLOSURES

The opinions, statements, and forecasts presented herein are general information only and are not intended to provide specific investment advice or recommendations for any individual. It does not take into account the specific investment objectives, tax and financial condition, or particular needs of any specific person. There is no assurance that the strategies or techniques discussed are suitable for all investors or will be successful. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing.

Any forward-looking statements, including the economic forecasts herein may not develop as predicted and are subject to change based on future market and other conditions. All performance referenced is historical and is no guarantee of future results.

References to markets, asset classes, and sectors are generally regarding the corresponding market index. Indexes are unmanaged statistical composites and cannot be invested into directly. Index performance is not indicative of the performance of any investment and does not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

Precious metal investing involves greater fluctuation and the potential for losses.

Any company names noted herein are for educational purposes only and are not an indication of trading intent or a solicitation of their products or services. LPL Financial doesn't provide research on individual equities.

All index data from FactSet or Bloomberg as of July 8, 2025.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy

GENERAL RISK DISCLOSURES

Investing involves risks, including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Investing in foreign and emerging markets debt or 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.

Investing in stock includes numerous specific risks, including the fluctuation of dividends, loss of principal, and potential illiquidity of the investment in a falling market. 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. They can remain undervalued by the market for long periods of time. The prices of small and mid-cap stocks are generally more volatile than large cap stocks.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and changes in price. Bond yields are subject to change. Certain call or special redemption features may exist, which could impact yield. Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors. The fast price swings in commodities will result in significant volatility in an investor's holdings.

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.

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