LPL RESEARCH

Global Portfolio Strategy

January 2025

Ingredients in Place for Another Good Year for Stocks in 2025

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 December report:

- Established year end 2025 fair-value target range in the S&P 500 at 6,275 – 6,375
- Established year end 2025 10-year Treasury yield target range at 3.75 - 4.25%

STAAC Asset Class Tactical Views as of 01/01/2025 (GWI)

Asset Class					
Equity	·	·	●	·	·
U.S.	·	●	·	·	·
International Developed (EAFE)	·	·	●	·	·
Emerging Markets	·	·	·	●	·
Large Growth	·	●	·	·	·
Large Value	·	·	●	·	·
Small/Mid Growth	·	·	●	·	·
Small/Mid Value	·	·	●	·	·
Fixed Income	·	·	●	·	·
Treasuries	·	·	●	·	·
MBS	·	●	·	·	·
IG Corporates	·	·	·	·	●
TIPS	·	·	●	·	·
International Developed	·	·	●	·	·
Preferred	·	●	·	·	·
High-Yield	·	·	●	·	·
Bank Loans	·	·	●	·	·
Emerging Markets	·	·	●	·	·
Cash	·	·	·	●	·
Alternatives	·	●	·	·	·

STAAC Sector Tactical Views as of 01/01/2025 (GWI)

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

Source: STAAC as of January 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.

Investment Takeaways

Stocks ended mostly lower in December as historically strong seasonality failed to materialize. Focus centered around the Federal Reserve (Fed) rate decision, and key takeaways for the rate cutting path in the New Year. The Fed delivered its third consecutive rate cut, although commentary was more hawkish than expected while the updated dot plot penciled in only two rate cuts in 2025. Stocks sold off following the meeting and failed to hold on to a subsequent rebound in the final four days of the year. The more defensive tone was broadly credited to weak market breadth, stretched sentiment, and a volatile legislative landscape. Nonetheless, the S&P 500 logged a 25% annual gain, including dividends.

Within fixed income markets, Treasury yields were higher across the curve in December due to concerns about the possibility of stickier inflation and fewer Fed rate cuts than markets were expecting. Moreover, the yield curve continued to steepen as markets continue to price out the prospects of recession. The 0.50% increase in the 10-year Treasury yield caused negative returns for most fixed income sectors with the broad index (Bloomberg Aggregate Bond Index) lower by 1.6% in December. High quality fixed income sectors, agency mortgage-backed securities (MBS), and investment grade corporates specifically, underperformed during the month.

LPL's STAAC maintains its tactical neutral stance on equities, as a steadily growing economy and corporate profits are offset by breadth deterioration and stretched sentiment. Increased exposure to alternative investments offers diversification benefits, while a slightly reduced fixed income position reflects the Committee's expectation for range-bound interest rates.

- The Committee remains comfortable with a balanced approach to market cap. High-quality small cap stocks are attractively valued and may benefit from tax cuts and their more domestic focus, but large cap companies enjoy superior earnings power and may outperform if the economy cools in 2025, as LPL Research expects.
- The continuation of AI-fueled earnings in the third quarter helps justify rich valuations on the growth side, and our technical analysis work shows breadth for growth stocks remains bullish. On the flip side, value stocks remain more attractively valued than normal, the earnings gap is expected to narrow, and financials may benefit from Trump 2.0.
- The STAAC's regional preference remains U.S. over developed international and emerging markets (EM) due largely to superior earnings and economic growth in the U.S., heighted international political risk, and continued volatility in international currencies. While potential Chinese stimulus-fueled strength in EM is notable if Chinese macro data improves, tariff actions, trade sanctions, and potential U.S. dollar strength increase risk in EM equities.
- The STAAC continues to hold an overweight tilt in preferred securities as valuations remain attractive. However, the risk/reward for core bond sectors (U.S. Treasury, agency MBS, investment-grade corporates) is more attractive than plus sectors. In our view, despite the move higher in yields, adding duration isn't attractive at current levels, and the STAAC remains neutral relative to our benchmarks.

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	$260
S&P 500 Index Fair Value	6,275 – 6,375**

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 6,275-6,375 is based on a price-to-earnings ratio (PE) of 23 and our S&P 500 earnings per share (EPS) forecast of $275 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 01/01/25.

2025 ECONOMIC FORECASTS

U.S. Economy Expected to Slow This Year

	2025 (Y/Y, real GDP)
United States	1.9%
Eurozone	0.9%
Advanced Economics	1.6%
Emerging Markets	4.2%
Global	3.1%

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

Tactical Asset Allocation as of 01/01/2025

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	80.0%	76.0%	4.0%	67.0%	64.0%	3.0%	50.0%	48.0%	2.0%	33.5%	32.0%	1.5%	16.0%	16.0%	0.0%
Large Growth	27.0%	24.0%	3.0%	22.5%	20.5%	2.0%	16.5%	15.0%	1.5%	11.5%	10.0%	1.5%	5.0%	5.0%	0.0%
Large Value	25.0%	24.0%	1.0%	21.0%	20.0%	1.0%	15.5%	15.0%	0.5%	10.0%	10.0%	0.0%	5.0%	5.0%	0.0%
Small/Mid Growth	14.0%	14.0%	0.0%	11.5%	11.5%	0.0%	9.0%	9.0%	0.0%	6.0%	6.0%	0.0%	3.0%	3.0%	0.0%
Small/Mid Value	14.0%	14.0%	0.0%	12.0%	12.0%	0.0%	9.0%	9.0%	0.0%	6.0%	6.0%	0.0%	3.0%	3.0%	0.0%
International Equity	15.0%	19.0%	-4.0%	13.0%	16.0%	-3.0%	10.0%	12.0%	-2.0%	6.5%	8.0%	-1.5%	4.0%	4.0%	0.0%
Developed (EAFE)	12.0%	12.0%	0.0%	10.0%	10.0%	0.0%	8.0%	8.0%	0.0%	5.0%	5.0%	0.0%	4.0%	4.0%	0.0%
Emerging Markets	3.0%	7.0%	-4.0%	3.0%	6.0%	-3.0%	2.0%	4.0%	-2.0%	1.5%	3.0%	-1.5%	0.0%	0.0%	0.0%
Bonds	0.0%	0.0%	0.0%	15.0%	15.0%	0.0%	35.0%	35.0%	0.0%	55.0%	53.0%	2.0%	75.0%	70.0%	5.0%
U.S. Core	0.0%	0.0%	0.0%	14.5%	15.0%	-0.5%	33.5%	35.0%	-1.5%	53.0%	53.0%	0.0%	72.0%	70.0%	2.0%
Treasuries	0.0%	0.0%	0.0%	7.0%	7.0%	0.0%	16.0%	16.0%	0.0%	26.5%	24.5%	2.0%	36.0%	32.0%	4.0%
MBS	0.0%	0.0%	0.0%	5.0%	4.5%	0.5%	11.0%	10.0%	1.0%	16.0%	15.0%	1.0%	22.0%	20.5%	1.5%
IG Corporates	0.0%	0.0%	0.0%	2.5%	3.5%	-1.0%	6.5%	9.0%	-2.5%	10.5%	13.5%	-3.0%	14.0%	17.5%	-3.5%
Non-Core	0.0%	0.0%	0.0%	0.5%	0.0%	0.5%	1.5%	0.0%	1.5%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%
Preferred	0.0%	0.0%	0.0%	0.5%	0.0%	0.5%	1.5%	0.0%	1.5%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%
Alternatives	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%
Tactical: Global Macro	3.0%	0.0%	3.0%	2.0%	0.0%	2.0%	1.5%	0.0%	1.5%	1.0%	0.0%	1.0%	0.0%	0.0%	0.0%
Multi-Strategy	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	1.5%	0.0%	1.5%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%
Cash	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	7.0%	-5.0%	2.0%	10.0%	-8.0%

For investors who have their own benchmarks, we would recommend emphasizing underweights or overweights relative to the individual benchmark at the most similar overall risk level.

Equity benchmark style weights are equally distributed across growth, core, and value. Cap weights are based on the underlying holdings of the domestic benchmark indexes.

Bond benchmark sector allocations are based on a look-through analysis of the major sector components of the Bloomberg US Aggregate Bond Index.

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

Abbreviations: TAA - tactical asset allocation; MBS - mortgage-backed securities; IG corporates - investment-grade corporates; TIPS - Treasury inflation-protected securities.

Equity Asset Classes

Expect Modest Stock Market Gains in 2025 With More Volatility

LPL's STAAC maintains its tactical neutral stance on equities, supported by a stable economy, solid corporate profits, a supportive Fed, and some potential deregulation tailwinds But with stocks pricing in a lot of good news, positive surprises may be tougher to come by, so gains near 2024 levels are unlikely.

The Committee remains comfortable with a balanced approach to market cap, with small caps potentially gaining support from less direct tariff exposure and attractive valuations. Meanwhile, large cap tech's earnings power remains very impressive.

The AI-fueled earnings helps justify rich valuations for large cap growth stocks, but the earnings gap between growth and value is poised to narrow next year and the financials-heavy value style may benefit from deregulation.

The STAAC's regional preference remains U.S. over developed international due largely to superior domestic earnings and economic growth, reinforced by Trump 2.0 policies and a strong U.S. dollar. Trade and tariff risk remain concerns for emerging market equities.

Color Key:

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

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization and Style	**Large Growth**	· ● · · ·	Positive	Large caps are richly valued and face greater tariff risk than small caps but enjoy superior earnings power and balance sheet quality. Large caps also carry less interest rate risk than small caps. The STAAC's slight preference for growth over value is primarily earnings driven. Watching technicals for potential reversal.
	Large Value	· · ● · ·	Negative	Potential pro-growth policies and light-touch regulation from the incoming administration may benefit attractively valued cyclical value stocks, but the resilient economy, earnings growth gap, and interest rate volatility have weighed on defensive sector performance. Technicals support a neutral view.
	Small/Mid Growth	· · ● · ·	Positive	Low valuations, a more domestic focus, healthy credit markets, and potentially lower taxes are supportive of small caps, but rising interest rates and the possibility of a slowing economy in 2025 are potential headwinds. Enthusiasm surrounding benefits of Fed rate cuts for small caps may be overdone.
	Small/Mid Value	· · ● · ·	Negative	Small/midcap value stocks are benefiting from a resilient U.S. economy and their domestic focus. Valuations are attractive versus history and deregulation should help this bank-heavy asset class. A possible economic slowdown and rising rates are potential headwinds. Our technical analysis work reveals a mixed picture.
Region	**United States**	· ● · · ·	Positive	The U.S. economy is expected to handily outgrow and outearn Europe in 2025, a position likely strengthened by president-elect Trump's trade policy and potential strength in the U.S. dollar. AI innovation also points to a U.S. preference despite elevated valuations and our technical analysis work points firmly toward the U.S.
	Developed International	· · ● · ·	Negative	European economies have seemingly stabilized, valuations are attractive, and corporate reforms in Japan are supportive longer term. But potential further strength in the U.S. dollar from Trump's trade policies and European political uncertainty are headwinds. Technical trends for international equities are negative.
	Emerging Markets	· · · ● ·	No Trend	The STAAC remains cautious on emerging markets (EM) equities on lackluster growth in China, tariffs, and elevated geopolitical risk in Asia and the Middle East. On the flip side, attractive valuations, China stimulus prospects, and more Fed rate cuts are potential positive catalysts. Technical conditions are mixed-to-mildly supportive.

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 Industrials in 2025

The STAAC recommends more economically sensitive, or cyclical, sectors for 2025. Cyclical value stocks, particularly financials and industrials, may garner support in 2025 from steady economic growth and deregulation. Our favored sectors as 2025 begins are communication services and industrials, which offer growth at reasonable prices and exposure to AI and onshoring trends. The Committee maintains underweight recommendations toward the energy and real estate sectors. Interest-rate risk has increased for dividend-rich consumer staples, real estate, and utilities as rates have pushed higher recently. Our technical analysis work has consumer discretionary on watch for a potential upgrade.

Color Key:

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

	Sector	Overall View	Relative Trend	S&P Wgt.	Rationale
Cyclical	**Basic Materials**	· · ● · ·	Negative	1.9	Worst sector performer in December (-10.7%) on weakness in metals prices and lagging steel stocks. A strong dollar, continued skepticism about China stimulus, trade tensions, and rising interest rates likely also played a role in the weakness.
Cyclical	**Consumer Cyclical**	· · ● · ·	Positive	11.1	One of three sectors with a positive return in December (+2.4%) on strength in Tesla (TSLA) and Amazon (AMZN), solid earnings growth, and healthy consumer spending trends as income growth has outpaced inflation. Strong technicals. Positive bias.
Cyclical	**Financial Services**	· · ● · ·	Positive	13.5	Laggard in December (-5.5%) on weakness in regional banks despite prospects for bank and capital markets deregulation by the Trump administration, a steeper yield curve, and favorable credit conditions. A sector to watch for possible upgrade.
Cyclical	**Real Estate**	· · · ● ·	No Trend	2.1	Laggard in December (-8.6%) on the move higher in rates. Economic conditions are supportive, in general, and yields are still attractive. However, until rates settle down or technical analysis trends improve, this one looks like an underweight.
Sensitive	**Communication Services**	· ● · · ·	Positive	9.6	Top sector performer in December (+3.6%) on strength in Alphabet (GOOG/L) and Meta (META). Strong earnings growth, reasonable valuations and positive technical analysis trends support the STAAC's positive view, but regulatory risk cannot be dismissed with GOOG/L breakup risk and social media a frequent target of regulators.
Sensitive	**Energy**	· · · ● ·	Negative	3.2	Laggard in December (-9.5%) despite firming oil and natural gas prices. Valuations are attractive, industry capital allocation decisions have improved, and geopolitical disruptions could provide support, but technical trends remain sub-par.
Sensitive	**Industrials**	· ● · · ·	No Trend	8.1	Laggard in December (-8.0%) despite sharp recovery in Boeing (BA) shares (+13.9%). Election implications are mixed for infrastructure and defense. AI data center buildouts, near-shoring, and energy infrastructure investment may help. Above-average tariff risk. Reasonable valuations. Slight deterioration in technical trends.
Sensitive	**Technology**	· · ● · ·	No Trend	32.5	Outperformer in December (+1.2%) on surging Broadcom (AVGO) shares and solid gain in Apple (AAPL). AI-driven earnings outlook supports rich valuations, at least for now. Our technical analysis work reveals no trend. Still favor software over chip stocks.
Defensive	**Consumer Defensive**	· · ● · ·	Negative	5.4	Laggard in December (-5%) as rate-sensitive sectors struggled with rising long-term interest rates. Use of GLP-1s is affecting demand for snack foods. Low-income consumers are under increasing pressure. Fair valuations. Technicals are negative.
Defensive	**Healthcare**	· · ● · ·	Negative	10.2	Underperformed along with other defensives in December (-6.2%) as election-related policy risk and possible U.S. health secretary RFK Jr. continue to weigh. Policy risk post-election may be manageable for some segments, valuations are reasonable, and the sector is oversold, but STAAC continues to favor more cyclical sectors.
Defensive	**Utilities**	· · ● · ·	No Trend	2.3	Underperformer in December (-7.3%), weighed down by weakness in the AI-related names and rising interest rates. Reasonable valuations broadly. Mixed technicals.

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

A December to Forget

Fixed income markets, as proxied by the Bloomberg Aggregate Bond Index, were lower in December by 1.6% as Treasury yields climbed higher on the back of ongoing concerns about stubborn inflation and the potential for fewer rate cuts than originally expected. The 0.50% increase in the 10-year yield during December pushed the benchmark rate above yearend target and erased most of the year's gains. Ongoing concerns about budget deficits and increased Treasury supplies added to the weakness. And while we think Treasury yields will end 2025 within a 3.75% to 4.25% range, the near-term risks for interest rates is likely higher.

Aside from preferred securities, valuations for riskier fixed income sectors remain rich relative to core sectors, in our view. And while price appreciation may be limited, until inflationary pressures abate, income levels remain attractive.

Color Key:

● Strong 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		✓		Despite yields rising meaningfully from recent lows, the compensation for extending duration in portfolios isn't sufficient yet given the still strong economy and the potential for sticky inflation. We remain neutral relative to our benchmark.
		Neg.	**Neut.**	**Pos.**	**Rationale**
	Municipal Bond View		✓		January represents a historically strong seasonal period for munis due to lower supply challenges and strong demand for tax-exempt income. Potentially higher tax rates increase the attractiveness of munis. Intermediate term allocations worth a look.

		Overall View	Overall Trend	Rationale
Core Sectors	**U.S. Treasuries**	· · ● · ·	Negative	Treasury yields were higher in December despite Fed rate cuts. Given current economic strength and risks of inflation reaccelerating due to fiscal support, Treasury yields may remain around current levels. From a fundamental perspective, we think Treasury yields are likely range bound at these higher levels. Technically, 10-year yields are approaching key resistance off the April highs. A breakout above 4.74% could open the door for a retest of the 2023 highs near 5%.
	MBS	· ● · · ·	Negative	We remain constructive on agency MBS. Yields and spreads remain near multi-year highs, so we think MBS remain an attractive investment opportunity, particularly relative to lower-rated corporates. As interest rate volatility continues to fall, MBS should outperform most other high-quality bond sectors.
	Investment-Grade Corporates	· · · · ●	Negative	We recommend a strong underweight to benchmarks, but we think there is an opportunity to invest in shorter to intermediate maturity corporate securities without taking on elevated levels of interest rate or credit risk. Fundamentals remain solid.
	TIPS	· · ● · ·	Negative	The most recent selloff has pushed all-in yields for Treasury Inflation-Protected Securities (TIPS) to very attractive levels, particularly shorter maturity TIPS, and could provide a good hedge against unexpected inflation surprises.
Plus Sectors	**Preferred Securities**	· ● · · ·	Positive	Preferred securities have outperformed most other bond sectors over the past 12 months, but valuations remain relatively attractive. Higher credit quality among the riskier fixed income options. Recent Fed stress tests continue to show large, money-center bank fundamentals are generally sound, but environment favors active management. Technically, most preferred indexes/funds remain in uptrends despite recent selling pressure.
	High-Yield Corporates	· · ● · ·	Positive	Yields for high-yield bonds are only around historical averages, and spreads remain near all-time lows. The environment broadly remains supportive for credit risk. Economic growth is slowing but not collapsing, which is typically good for credit. But credit is not cheap.
	Bank Loans	· · ● · ·	No Trend	Given the variable rate debt, Fed rate cuts will eventually push yields lower, although likely still higher than longer-term averages. Downgrades and defaults have increased and could increase still if the economy slows/contracts. We would favor high-yield bonds over loans for those investors interested in leveraged credit.
	Foreign Bonds	· · ● · ·	Negative	Valuations have improved, but potential currency volatility remains a challenge.
	EM Debt	· · ● · ·	Negative	Central banks have largely ended rate hikes as inflationary pressures are starting to abate. A strong dollar could provide a headwind to prices. Valuations are relatively attractive, but idiosyncratic risks remain. Liquidity can be an added risk during periods of stress.

Commodities and Currencies

Commodities Receive an Energy Boost

A rally in the energy patch pushed the broader commodities complex modestly into the green last month. The Bloomberg Commodity Index (BCOM) rose 0.6% and finished just below resistance from the 200-day moving average (dma). Technically, a close above 100 would validate a breakout from a short-term bottom formation and pave the way for a likely retest of the October or May highs.

Energy did most of the heavy lifting last month. Natural gas rallied over 8% and outperformed within the space. Colder-than-expected weather across most of the U.S., slowing production, and rising liquefied natural gas demand supported the advance. West Texas Intermediate (WTI) crude rose 5.5% amid stimulus-induced optimism for a return in Chinese import demand, dwindling U.S. stockpiles, and an uptick in the pricing of Middle Eastern oil. Gasoline prices added 5.4% before hitting resistance at the 200-dma.

Outside of energy markets, widespread selling pressure swept across the metals market. Silver slid 5.6% and underperformed. Gold captured some safe-haven flows but missed the breakeven point by 0.7%. Precious metals were led lower by a 4.6% drop in Nickel. In ag, cocoa made headlines after surging over 15%, bringing its 2024 gain to 161%. The parabolic price action has been underpinned by severe supply shortages stemming from weak production in West Africa.

The Fed's hawkish rate cut last month helped lift the U.S. Dollar Index 2.6% and out of a multi-year range. Economic weakness in Europe and downside risks to growth exacerbated capital flows into the greenback.

Color Key: ● Positive ● Neutral ● Negative

Sector	Overall View	Overall Trend	Rationale
Energy	Neutral	Neutral	WTI has bounced off support near $65 and surpassed the November highs/June lows. Short-term momentum indicators have turned bullish, along with managed money futures positioning — typically hedge funds and/or speculators. The next resistance hurdles for oil to clear set up at the declining 200-dma at $75.55 and the October highs at $78.46. Natural gas briefly topped the 2023 highs at $3.63 before pulling back from overbought levels. While a jump in heating demand underpinned the rally, positioning data points to sizable short covering as well — long positioning has remained mostly flat. **We maintain our neutral view on the energy commodity sector.**
Precious Metals	Positive	Positive	Higher yields and dollar strength weighed on precious metals last month. Gold gave up nearly 1% but remained in a rising price channel and above the November highs. Outflow pressure from physical gold ETFs was another headwind. We continue to view pullbacks within the price channel as buying opportunities. Silver pulled back from multi-year highs and found support near the 2020 highs/rising 200-dma. **We maintain our positive view on the precious metals group.**
Industrial Metals	Positive	Neutral	While the domestic growth outlook remains constructive, uncertainty over global growth continues to build. Chinese export activity, manufacturing, and domestic consumption continue to underwhelm, despite an array of stimulus measures. Tailwinds from AI and EV demand have helped copper hold up relatively well, with buyers stepping in near the $400 support level last month. Other metals such as aluminum and zinc continue to climb out of multi-year bottoms. **We maintain our positive view on the industrial metals group.**
Agriculture (Ag) & Livestock	Negative	Neutral	Ag and livestock markets were mostly higher last month. Grains outperformed on the back of a rally in corn (+8.4%). A close above the May highs near $473 would confirm a breakout from its current bottom formation. Live cattle rallied 3% and surpassed key resistance at $190, while lean hogs dipped 1% and underperformed. **Given the limited technical progress, we maintain our negative view on the group.**
U.S. Dollar	Positive	Positive	U.S. exceptionalism, rising rates, tariffs and inflation risk, and reduced rate cut expectations from the Fed have fueled a rally in the dollar. The greenback recently broke out from a multi-year consolidation range after clearing resistance at 107. Based on the size of the prior range, a minimum technical-based price objective sets up near 114.

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

Alts End Year on High Note

Alternative investment strategies ended 2024 on a strong note, as all underlying sub-strategies outperformed the S&P 500 (down 2.4%) on a relative basis, with the HFRX Event Driven, HFRX Macro/CTA Trading, and HFRX Systematic Diversified CTA Index all in positive territory during the month.

Strategies in the HFRX Event Driven Index gained 0.5%, as announced deals were buoyed by expectations of a more favorable regulatory regime. The Trump administration is expected to prioritize deregulation across various sectors, including energy, finance, and technology. This could create new opportunities for alternative investments, especially in industries that have been heavily regulated. For instance, deregulation in the energy sector may lead to increased investments in fossil fuels, while financial deregulation may lead to an increase in bank lending and/or a surge in investment banking-related fees, assuming a pickup in corporate deal activity. Over the past month, there has been a continued surge in optimism surrounding the merger and acquisition environment follow the muted volume of the past several years. The initial public offering ("IPO") market, which was largely frozen during 2024, is expected to see an increase in announced deals.

The HFRX Macro/CTA Trading and HFRX Systematic Diversified CTA gained 0.30% and 1.60% respectively and were supported by gains from long U.S. dollar and short bond positioning as the market continues to price in fewer rate cuts and potentially stickier inflation over the medium-term. Detracting from monthly performance was equity positioning, as much of the industry maintains long exposure. However, for the year, equity exposure was beneficial and contributor to positive performance second to the strong gains seen in commodity trading.

For 2024, the HFRX Equity Hedge Index led category returns with a gain of 7.8%. With the S&P 500 up over 25.0%, long/short equity funds are expected to have strong performance given their higher beta to equity markets. While the strong equity market returns made it difficult to find attractive short opportunities, looking ahead we expect individual stock and sector dispersion to increase, leading to a more favorable stock picking environment.

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.
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	Weakness in the equity market negatively impacted long equity exposure, while the industry remains short across their bond positioning. We encourage investors to consider a combination of trend followers with alternative market coverage and balanced exposure and short-term multi-strategy managers.
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.

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