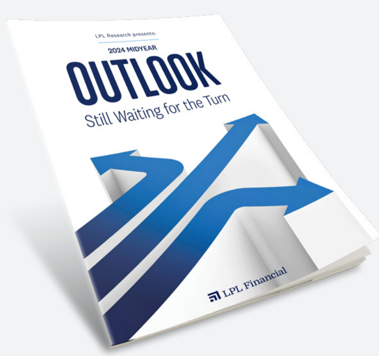
LPL RESEARCH PRESENTS: **2024**

MIDYEAR OUTLOOK

Still Waiting for the Turn

“The economy looks poised to cool down, which will impact both policy and markets.”

- Marc Zabicki, Chief Investment Officer



OVERVIEW

As we reach the halfway point of 2024, a sense of persistence defines the economic and market landscape. Trends from late 2023 have continued, with surprisingly resilient economic growth mixed with stubborn but decelerating inflation. Equity markets have thrived and regained all the lost ground from 2022. On the other hand, the bond market still grapples with policy uncertainty and remains range bound for the most part.

While it’s tempting to forecast a continuation of these trends, our analysis suggests an impending shift. The economy looks poised to cool down in the second half, which will have an impact on both policy and markets.

To navigate this evolving landscape, we leverage the expertise of our Strategic & Tactical Asset Allocation Committee (STAAC), which identifies potential risks and opportunities. In today’s higher-rate environment, the STAAC believes investors have more options. By prioritizing income generation and remaining patient and disciplined with equities, investors can navigate the upcoming potential uncertainty with continued success.

No matter what the markets and economy throw our way, LPL Research remains committed to providing the best possible guidance. It’s a privilege to be in this role, and we truly appreciate the trust and confidence you continue to place in us.

ECONOMY

Economic growth has continued to surprise on the upside, and a slowdown has proven elusive. This economic resilience can largely be attributed to strong consumer spending and varying degrees of interest-rate insensitivity throughout parts of the economy. That said, a delayed landing is on the horizon. Hard and soft economic data has begun to deteriorate, and we still anticipate an economic slowdown beginning in the latter half of 2024. Investors should be prepared for slower consumer spending, a softer labor market, and contained inflation – all core ingredients needed to give the Federal Reserve (Fed) an onramp to cut rates before the end of the year.

STOCKS

Stocks soared in the first half of 2024, fueled by the anticipation of looser Fed policy and a resilient economy. Looking ahead, earnings growth will be key, and the stock market will likely rely heavily on corporate profits continuing to exceed expectations. Elevated valuations are a potential headwind, suggesting that most of the good news is priced in and that gains could be modest. While incremental gains are possible, volatility is likely to pick up. Investors should be prepared for potential setbacks, especially considering the election in November and the uncertain geopolitical situation. It's all the more reason to consider a wait-and-see approach in adding to equity exposure, potentially buying during market dips. Our year-end target range for the S&P 500 remains 4,850 – 4,950.

BONDS

The focus for fixed income investors should shift back to the traditional benefit of bonds: income generation. Current high starting yields offer attractive risk-adjusted returns, even without significant price appreciation. Additionally, bonds can help reduce overall portfolio volatility compared to stocks. With the Fed likely to begin cutting rates in the second half of 2024, investors should consider using bonds to replace some cash holdings. By moving into high-quality fixed income, investors can lock in these attractive yields for longer and fortify their overall portfolios.

U.S. ELECTION

The 2024 election between Biden and Trump is shaping up to be extremely close, with polls showing a virtual tie and key swing states likely to determine the outcome on election night. As the candidates have starkly different positions on many major issues, it is likely to be another divisive and contentious affair. Given the historical patterns and the fact that markets usually dislike extreme uncertainty, investors should be prepared for higher levels of market volatility in the back half of the year.

GEOPOLITICS

The rise of competing power blocs and escalating regional conflicts raises significant concerns for global stability. While diplomatic efforts have prevented a wider conflict so far, these tensions have created an environment of heightened uncertainty for investors. Markets have been less reactive to current conflicts, but this could change rapidly if hostilities escalate. The increasingly uncertain geopolitical environment is one reason we believe investors should keep their market exposures tightly managed in the second half of the year.

COMMODITIES

Industrial commodities have strengthened due to resurgent manufacturing in China and the U.S., particularly in the electrical vehicle (EV) sector. Strong demand for EV production and AI infrastructure buildout are driving prices higher. This trend is expected to continue in the second half of 2024, but likely at a more moderate pace if the economy begins to slow. Meanwhile, the geopolitical and political uncertainty could maintain demand for precious metals.

CURRENCIES

The Fed's to-date hawkish stance has kept the dollar supported and creates headwinds for other currencies, especially in emerging markets. While rate cuts could weaken the dollar down the road, near-term strength is likely to persist until inflation shows more definitive signs of moving towards target.

ALTERNATIVE INVESTMENTS

As expected, 2024 has seen a rise in market dispersion, creating opportunities for skilled active managers in the alternatives space. Moving forward, we anticipate this trend to continue and for volatility to begin to rise more meaningfully. This environment will favor certain strategies that can capitalize on both broad economic trends and micro fundamentals. Over the intermediate and long-term, we believe incorporating alternative strategies like Global Macro, Multi-Strat, and Managed Futures could benefit investors vs. maintaining solely a traditional stock/bond allocation.

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.

GENERAL RISK DISCLOSURES

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.

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.

Investing in stock includes numerous specific risks including the fluctuation of dividend, 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 change 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 U.S. 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. 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. 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. The majority of preferred stocks outstanding are concentrated in the financial sector.

International debt securities involve special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. These risks are often heightened for investments in emerging markets.

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.

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.

The fast price swings of 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 is subject to substantial fluctuation and potential for loss.

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

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. LPL Financial doesn't provide research on individual equities.

All index data from FactSet. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

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

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..

GENERAL DEFINITIONS

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.

PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

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.

Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Bloomberg U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

Market capitalization is the market value of a company's outstanding shares. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share. Classifications such as large-cap, mid-cap and small-cap are only approximations and may change over time.

Equity Definitions

Cyclical stocks typically relate to equity securities of companies whose price is affected by ups and downs in the overall economy and that sell discretionary items that consumers may buy more of during an economic expansion but cut back on during a recession. Counter-cyclical stocks tend to move in the opposite direction from the overall economy and with consumer staples which people continue to demand even during a downturn.

Growth stock is a share in a company that is anticipated to grow at a rate significantly above the average for the market due to capital appreciation.

Value stock is anticipated to grow above the average for the market due to trading at a lower price relative to its fundamentals, such as dividends, earnings, or sales.

Large cap stocks are issued by corporations with a market capitalization of $10 billion or more, and small cap stocks are issued by corporations with a market capitalization between $250 million and $2 billion.

Fixed Income definitions

Credit Quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default. 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. The credit spread is the yield the corporate bonds less the yield on comparable maturity Treasury debt. This is a market-based estimate of the amount of fear in the bond market. Base-rated bonds are the lowest quality bonds that are considered investment-grade, rather than high-yield. They best reflect the stresses across the quality spectrum.

The Bloomberg Aggregate U.S. Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

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.

Alternative Investments may not be suitable for all investors and involve special risks such as leveraging the investment, potential adverse market forces, regulatory changes and potentially illiquidity. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.