GLOBAL PORTFOLIO STRATEGY

LPL Research

DECEMBER 2023

AFTER STRONG NOVEMBER, SEASONAL TAILWINDS PERSIST

LPL RESEARCH'S MONTHLY MARKET OUTLOOK

Key changes from November report:

- Upgraded growth style equities to positive from neutral, and downgraded value style to negative from neutral.
- Upgraded the communication services sector to positive from neutral.
- Downgraded the industrials sector to neutral from positive.

Stocks broke their three-month losing streak in style in November. The S&P 500 Index rallied 8.9% for the month, its second best November since 1980, to bring its year-to-date return to 20.8% including dividends. As December began, falling inflation and increasing confidence that the Federal Reserve (Fed)'s rate-hiking campaign was over pulled yields down, buoying investor sentiment.

Moreover, with the softer economic data, markets began to price in rate cuts in 2024, which added to the rally in Treasury securities. As such, the month of November was the best month for the Bloomberg Aggregate Bond Index sine May 1985.

LPL Research's Strategic and Tactical Asset Allocation Committee (STAAC) sees the risk-reward trade-off between equities and fixed income as roughly balanced.

INVESTMENT TAKEAWAYS:

- The STAAC maintains its recommended neutral equities allocation based on the Committee's assessment that the risk-reward trade-off between equities and fixed income is roughly balanced. Seasonality remains favorable and lower yields are supportive of valuations.
- The Committee favors large cap stocks over their smaller brethren ahead of a likely economic slowdown over the next several months.
- If the downward trajectory in inflation remains intact and interest rates stabilize or fall, growth style stocks may outperform.
- The STAAC favors U.S. equities over developed international due to the relatively stronger economic growth outlook and superior earnings power, though the Committee still finds Japanese equities attractive.
- The bond market is coming to grips with the Fed's higher-for-longer narrative so expected rate cuts continue to get priced out, which has put upward pressure on longer maturity Treasury yields. Moreover, Treasury supply is expected to increase in the coming quarters, which will likely also keep pressure on yields. As such, our updated year-end 2023 target for the 10-year Treasury yield is 4.25% to 4.75%.
- The selloff in the banking sector has provided an attractive opportunity in preferred securities; however, the risk-reward for core bond sectors (U.S. Treasury, Agency mortgage-backed securities (MBS), investment-grade corporates) is more attractive than plus sectors, in our view.

BROAD ASSET CLASS VIEWS

LPL Research’s Views on Stocks, Bonds, and Cash

	Negative	Neutral	Positive
Stocks		○	
Bonds			○
Cash	○		

OUR ASSET CLASS & SECTOR CHOICES

Equity Asset Classes	Equity Sectors	Fixed Income	Alternative Asset Classes
▪ U.S. Equities	▪ Communication Services ▪ Energy	▪ Mortgage-Backed Securities ▪ Short Maturity High Quality Corporates ▪ Preferred Securities	▪ Alt asset class choices — Global Macro, Short Term Managed Futures, and Multi-Strategy

2023 MARKET FORECASTS

Lower Yields Have Helped Propel Stocks Over Our Year-End Fair Value Target

	Previous	Current
10-Year U.S. Treasury Yield	4.25% to 4.75%	4.25% to 4.75%*
S&P 500 Index Earnings per Share	$213	$217
S&P 500 Index Fair Value	4,300 - 4,400	4,300 - 4,400**

Source: LPL Research, FactSet, Bloomberg

All indexes are unmanaged and cannot be invested into directly. The economic forecasts may not develop as predicted.

*Our year-end 2023 forecast for the U.S. 10-year Treasury yield has been updated and is now 4.25% to 4.75%. 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 2023 fair-value target range for the S&P 500 of 4,300-4,400 is based on a price-to-earnings ratio (PE) near 19 and our S&P 500 earnings per share (EPS) forecast of $230 in 2024.

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

2023 ECONOMIC FORECASTS

Downshift in Global Growth

GDP Growth (Y/Y%)	2023
United States	1.2%
Eurozone	0.6%
Advanced Economies	0.9%
Emerging Markets	3.8%
Global	2.3%

Source: LPL Research, Bloomberg

The economic forecasts may not develop as predicted.

All data, views, and forecasts herein are as of 12/06/23.

LPL RESEARCH STRATEGIC AND TACTICAL ASSET ALLOCATION COMMITTEE

LPL Research Tactical Asset Allocation as of 11/30/2023

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 Value	16.0%	16.0%	0.0%	13.5%	13.5%	0.0%	10.0%	10.0%	0.0%	6.5%	6.5%	0.0%	3.5%	3.5%	0.0%
Large Blend	18.0%	16.0%	2.0%	15.0%	13.5%	1.5%	11.0%	10.0%	1.0%	7.5%	7.0%	0.5%	3.5%	3.0%	0.5%
Large Growth	20.5%	16.0%	4.5%	17.0%	13.5%	3.5%	13.0%	10.0%	3.0%	8.5%	6.5%	2.0%	4.0%	3.5%	0.5%
Small/Mid Value	8.0%	9.5%	-1.5%	7.0%	8.0%	-1.0%	5.0%	6.0%	-1.0%	3.5%	4.0%	-0.5%	1.5%	2.0%	-0.5%
Small/Mid Blend	8.5%	9.0%	-0.5%	7.0%	7.5%	-0.5%	5.5%	6.0%	-0.5%	3.5%	4.0%	-0.5%	1.5%	2.0%	-0.5%
Small/Mid Growth	9.0%	9.5%	-0.5%	7.5%	8.0%	-0.5%	5.5%	6.0%	-0.5%	4.0%	4.0%	0.0%	2.0%	2.0%	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	3.0%	0.0%	3.0%	18.0%	15.0%	3.0%	38.0%	35.0%	3.0%	58.0%	53.0%	5.0%	78.0%	70.0%	8.0%
U.S. CORE	3.0%	0.0%	3.0%	17.0%	15.0%	2.0%	36.0%	35.0%	1.0%	55.0%	53.0%	2.0%	74.0%	70.0%	4.0%
Treasuries	1.5%	0.0%	1.5%	8.0%	7.0%	1.0%	17.5%	16.0%	1.5%	26.5%	24.0%	2.5%	35.5%	32.0%	3.5%
MBS	1.0%	0.0%	1.0%	5.5%	4.5%	1.0%	11.5%	10.0%	1.5%	18.0%	15.5%	2.5%	24.0%	20.5%	3.5%
IG Corporates	0.5%	0.0%	0.5%	3.5%	3.5%	0.0%	7.0%	9.0%	-2.0%	10.5%	13.5%	-3.0%	14.5%	17.5%	-3.0%
NON-CORE	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%	4.0%	0.0%	4.0%
TIPS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
International	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%	4.0%	0.0%	4.0%
High-Yield Corporates	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Bank Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Emerging Markets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
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

Upgrading the Growth Style as Inflation and Economic Activity Slow

The STAAC maintains its recommended neutral equities allocation based on the Committee's assessment that the risk-reward trade-off between equities and fixed income is roughly balanced. Seasonality remains favorable and lower yields are supportive of valuations, supporting a neutral equities view despite the S&P 500 trading above our year-end fair value target. If the downward trajectory in inflation remains intact and interest rate stabilize or fall, growth style stocks may outperform. STAAC favors U.S. equities over developed international due to the relatively stronger economic growth outlook and superior earnings power, though the Committee still finds Japanese equities attractive. Key risks to equities include rising interest rates, re-accelerating inflation, overtightening by the Fed, a broader conflict in the Middle East or Europe, and escalation in U.S-China tensions.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps	🟢	🟩	Large caps generally perform better during economic slowdowns with their generally stronger balance sheets, but prospects for a soft landing have improved, giving small caps some life recently. Mega-cap technology stocks still can benefit from lower interest rates. Large caps look better on a technical analysis basis but valuations are elevated.
	Mid Caps	🔴	🟥	A resilient economy and attractive valuations are supportive, but our technical analysis work continues to point toward large caps as a better place to be. Meanwhile, credit conditions will likely tighten further and merger and acquisition activity is tepid, limiting opportunities for capital appreciation down the market cap spectrum.
	Small Caps	🔴	🟥	A potential soft landing for the U.S. economy and attractive valuations, particularly for high-quality small cap companies, may provide support. The technical picture is improving, but the economic environment may get more challenging in early 2024, potentially creating a headwind for smaller cap companies which are generally more economically sensitive than large caps.
Style	Growth	◌▸ 🟢	🟩	Our STAAC Committee has upgraded the growth style amid better technicals and expected stabilization in interest rates as inflation likely continues its downtrend. The growth style, particularly technology-oriented companies, should benefit from an improved macroeconomic environment and superior earnings power, though valuations are elevated.
	Value	● ◂◌	■	Value stocks are relatively attractive vs. their historical averages and would benefit from a soft landing, particularly energy. However, the Committee maintains a slight preference for growth due to better technical analysis trends, falling inflation, and superior earnings growth.
Region	United States	🟢	🟩	The U.S. economy is expected to outgrow Europe for the rest of 2023 and in 2024, though that slowdown in Europe may facilitate rate cuts by the European Central Bank (ECB) before the Fed. The U.S. will likely generate faster earnings growth than Europe next year. Elevated valuations present a headwind, but our technical analysis work points to the U.S. over international.
	Developed International	●	■	The Committee downgraded its view of developed international stocks last month as economic conditions have deteriorated in Europe. European companies have experienced waning earnings momentum, and our technical analysis work points to the U.S., though the STAAC still likes Japan amid increasingly more shareholder-friendly management teams and low valuations.
	Emerging Markets	🔴	🟥	The Committee remains cautious toward emerging market equities due largely to disappointing earnings and elevated geopolitical risk in Asia, though valuations remain attractive. The Committee favors Latin America to take advantage of near-shoring trends and potential commodity price rebounds, while India is an interesting opportunity. Stimulus is key to China's near-term direction.

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

Upgrading Communication Services

The STAAC recommends a slight cyclical tilt over defensive sectors broadly. Among economically sensitive, or cyclical, sectors, the Committee recommends two overweights (communication services and energy) and no underweights. This month's communication services upgrade reflects a solid Q3 earnings season, reasonable valuations overall, and favorable technical analysis picture. The STAAC favors the energy sector due to potential upside to oil and natural gas prices on an improved supply/demand balance and war overseas as well as attractive valuations and improved financial discipline by producers. Real estate, which offers a mix of cyclical and defensive characteristics and faces heightened risk in the commercial real estate market, remains underweight along with consumer staples.

	Sector	Overall View	Relative Trend	S&P Wgt	Rationale
Cyclical	Materials	─●─	■	2.4	Slightly underperformed the S&P 500 in November as commodities overall were mixed despite a weaker dollar. Lackluster growth in China and Europe have offset resilience in the U.S. Reasonable valuations. Mixed technicals.
	Energy	──●	🟩	4.0	Lagged for the second straight month as oil prices fell despite the Israel-Hamas war amid skepticism surrounding OPEC+ supply cuts. Valuations are attractive. Better discipline from producers has buoyed cash flow. Watching deteriorating technicals closely.
	Industrials	─●◌	■	8.4	Capital investment has slowed but infrastructure and defense offer spending upside. Risk aversion from corporate management teams is a potential risk. Valuations are reasonable and technical analysis trends are still favorable despite recent softness.
	Communication Services	─◌●	🟩	8.5	Valuations, earnings growth, and technicals are all supportive, driving the upgrade. Signs of stabilizing streaming business are also encouraging. Regulatory risks remain but more headlines than revenue risk at this point.
	Consumer Discretionary	─●─	🟩	10.9	November outperformer as consumers continue to spend, buoyed by a healthy job market. Earnings growth has been solid but credit card delinquencies are up, student loan payments restarted, and valuations are high. Technicals remain favorable.
	Technology	─●─	🟩	28.9	Top sector performer in November on well-received third quarter earnings results and lower interest rates which increase the value of future earnings. Artificial intelligence enthusiasm helps, but valuations are elevated. Positive technicals.
	Financials	─●─	■	13.0	Rising credit card delinquencies, an inverted yield curve, and higher capital requirements for second tier banks are among the stiffest headwinds. Lower rates helping banks. Reasonable valuations. Mixed technicals.
Defensive	Utilities	─●─	🟥	2.4	Underperformer in November despite lower interest rates. We would wait until more signs of economic weakness emerge to get more positive on this defensive sector now that much of the move lower in rates may be behind us, at least for now.
	Healthcare	─●─	■	12.7	Healthcare underperformance continued in November. Slowing COVID-19-related sales, patent expirations, weight-loss drug effects, and drug pricing pressures remain challenges. Relatively low policy risk ahead of election. Attractive valuations. Weak technicals.
	Consumer Staples	●──	🟥	6.2	Defensive sectors were generally out of favor, driving underperformance during November. Lower inflation has helped ease margin pressures but pricing power diminishing. Fair valuations. Weak technicals. LPL Research prefers cyclicals.
	Real Estate	●──	🟥	2.5	Commercial real estate risk remains an issue, but rich yields, fair valuations, and falling interest rates suggest a possible short-term trading opportunity. Fixed income represents a more attractive risk-reward for income, in our view, though technicals have improved.

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.

FIXED INCOME

A November to Remember Finally Brought Some Relief to Fixed Income Investors

Longer-maturity Treasuries were lower in November as the narrative has shifted to eventual rate cuts instead of further rate hikes by the Fed. Yields on high quality fixed income sectors moved lower as well, which helped core bonds generate positive returns in November—the first positive month in the last six months. Importantly, despite the fall in yields in November, starting yields for many fixed income markets are still at levels last seen over a decade ago, so the return prospects for fixed income remain favorable, in our view. That said, aside from preferred securities, valuations for riskier fixed income sectors remain rich relative to core sectors.

We favor municipal bonds as a high-quality option for taxable accounts with tax-equivalent yields as attractive as they've been in over a decade. Additionally, for appropriate investors, we believe high-yield municipal bonds offer an attractive tax-equivalent yield; however, we would expect additional volatility as economic growth concerns increase. Fundamentals in both markets may have peaked but remain solid.

		Low	Medium	High	Rationale
Positioning	Credit Quality			●	We 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	Int.	Long	
	Duration		●		The compensation for adding duration to portfolios isn't sufficient given the still elevated (but falling) inflationary pressures. We remain neutral relative to our benchmark.
		Neg.	Neutral	Pos.	Rationale
Core Sectors	U.S. Treasuries		●		Treasury yields moved lower in November but are still high relative to the last decade. Last year's back-up in yields has likely increased the diversification benefits of owning U.S. Treasuries. All-in yields for Treasury Inflation- Protected Securities (TIPS) are attractive and could provide a good hedge to unexpected inflation surprises.
	MBS		●		We remain constructive on Agency MBS. With yields and spreads at multi-year highs, we think MBS remain an attractive investment opportunity particularly relative to lower-rated corporates. Favorable supply/demand dynamics in the next year may help support the market.
	Investment-Grade Corporates	●			We recommend a slight underweight to benchmarks, but we think there is currently an opportunity to invest in shorter maturity corporate securities without taking on elevated levels of interest rate or credit risk. Fundamentals remain solid.
Plus Sectors	Preferred Securities			●	The selloff in the banking sector provided an opportunity to invest in these senior securities. Higher credit quality among the riskier fixed income options. Bank fundamentals generally sound overall. Yields and spreads are the most attractive since the global financial crisis.
	High-Yield Corporates		●		Yields for high yield bonds are above historical averages, but tighter lending standards have correlated with higher downgrades and defaults. The uncertain economic environment could increase near term volatility. The asset class may be better suited for long-term investors
	Bank Loans		●		Given the variable rate debt, higher interest rates may make repayment more challenging for some issuers. Fewer investor protections and illiquidity of individual loans remain concerns. Downgrades and defaults have increased and could increase still if the economy slows/contracts.
	Foreign Bonds		●		Valuations have improved, but potential currency volatility still remains a challenge.
	EM Debt		●		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.

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.

All bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. 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. Investing in foreign and emerging market debt (EMD) securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors. Municipal bonds are subject to availability, price, and 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. Federally tax-free but other state and local taxes may apply. Mortgage-backed securities (MBS) are subject to credit, default, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extension risk, the opposite of prepayment risk, 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.

Treasury inflation-protected securities (TIPS) help eliminate inflation risk to your portfolio as the principal is adjusted semiannually for inflation based on the Consumer Price Index – while providing a real rate of return guaranteed by the U.S. Government.

COMMODITIES

Energy Weakness Remains an Overhang

The broad commodity sector declined for a fourth straight month as continued weakness in the energy complex offset tailwinds from falling interest rates and a sizable pullback in the dollar. The Bloomberg Commodity Index (BCOM) closed out the month with a loss of 2.7% after failing to hold above its 200-day moving average, leaving the May lows near 97 as the next key support level to watch.

Selling pressure across energy commodities remains an overhang for the commodity sector. Crude oil tumbled over 6% in November and officially entered a bear market. The risk premium in oil faded as the conflict in the Middle East remained contained to Israel and Gaza. While demand uncertainty remains elevated, especially in China, as the country struggles to gain any economic traction, supply fears are a bigger concern. U.S. production is expected to reach record levels this year, diminishing OPEC+'s effort to balance the market through voluntary production cuts among its members. Natural gas had even a tougher month than crude oil, falling over 20% due to rising inventories and a lack of early winter heating demand.

Precious metals remained a bright spot across the commodities spectrum. Falling real yields, continued central bank buying, and a weaker dollar pushed gold and silver higher. While silver led with over a 10% rally, gold captured most of the headlines as prices edged closer to record-high territory. Industrial metals ended near breakeven. Copper stood out with a 5% rally that pushed prices closer to reversing a key downtrend that has been in place since January. Tight supply—including the closure of a major Panamanian mine—and renewed import demand from China helped drive the rally.

	Neg. Neutral Pos.	Relative Trend	Rationale
Energy	○ ○ ●	■	WTI crude oil officially entered a bear market after tumbling over 20% from the September highs. Technical damage continues to mount as prices approach oversold levels and support from the summer lows near the $65-$67 range. Seasonals improve over the coming months and pressure is mounting on OPEC+ for an emergency meeting to help balance an oversupplied market. Natural gas is also struggling to find support and is oversold. A cold December will likely be needed for price stability. While technical damage is a concern, we are maintaining our positive view on the energy commodity sector and suspect a relief rally off oversold levels could be on the near-term horizon.
Precious Metals	○ ● ○	🟩	Precious metals rallied last month on the back of falling real yields and a weaker dollar. Gold made significant technical progress but failed to breakout above key resistance at $2,070. Momentum and the macro backdrop suggest the yellow metal could see another attempt to clear that level. For now, we recognize the technical progress but maintain our neutral view on the precious metals group.
Industrial Metals	○ ● ○	■	Industrial metals have stabilized and the potential end to global monetary policy tightening could help the group recover. Copper has managed to hold above support from the May lows at $354, but still remains in a downtrend. More technical evidence is required before considering a trend change is imminent. We maintain our neutral view on the industrial metals group.
Agriculture (Ag) & Livestock	○ ● ○	■	Momentum in soft commodities has materially slowed. After a parabolic rally this year, sugar has violated an uptrend/200-dma. Potential bottoms have formed in oversold grains such as wheat (soybeans and corn are finally showing a pulse). Live cattle have snapped an uptrend within the livestock space, while lean hogs remain volatile and searching for support.

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.

ALTERNATIVE INVESTMENTS

Liquid Alts Led the Performance, with Global Macro and Managed Futures Giving Back

The alternative investment strategies mostly posted positive results in November based on the preliminary data from Hedge Fund Research (HFR). Investors' optimism on the end of the Fed's rate hike cycle brought a strong equity market rally as well as lower yields and a weaker USD. Among liquid alts, directional strategies with higher exposure to the markets' directional moves benefitted the most, with strategies with defensive characteristics detracting.

Rich Bottom Up Stock Picking Environment Remains

Equity L/S strategies, which were down the most in October, gained the most, led by those that carried higher stock market beta and growth tilts. Equity market neutral strategies also performed well, despite November being known as one of the most difficult months for the long/short spread on average, due to the month being the biggest month of short covering historically. The stock dispersion remains high, lending improved trading environment for low-net/market neutral Equity L/S strategies focused on bottom up stock picking. Event Driven strategies posted gains, with Merger Arbitrage and Special Situations strategies getting support from the global equity market rally including the catalyst driven fundamental value stocks. Lastly, Relative Value strategies posted positive results as well, with Convertible Arbitrage strategies, the worst performer in the previous month, having a strong recovery.

Remain Constructive on Global Macro, Managed Futures and Multi-Strategy

On the negative side, Tactical Trading Strategies, namely Managed Futures and Global Macro, posted losses. Within the managed futures strategies, those focused on trend following were hurt the most due to their sizeable short rates positions. Net long USD biased currency positions as well as energy positions contributed to the losses in varying degrees as well. Some of the short-term managers, however, managed to post positive results for the month, as they captured the strong positive momentum in equities markets. Global Macro was another strategy that experienced losses due to the drop in rates and reversal in the key rates spread (2 year vs. 10 year). That said, we observed many of these funds now carry a net long bias on the short term rates, which helped them mitigate the losses. Given the continued uncertainties around the economy and fiscal and monetary policy, we expect volatility to transition higher and remain constructive on both Global Macro and Managed Futures strategies that tend to perform in such regimes and provide uncorrelated returns and portfolio diversification for investors.

Multi-strategy funds posted positive results for the month, reflecting the positive performance in Fundamental and Relative Value strategies. Multi-strategy remains a core focus of ours as we believe they can supply additional sources of uncorrelated returns and help dampen portfolio volatility in an environment where interest rates are expected to remain persistently elevated for the foreseeable future.

FAVORED ALTERNATIVE STRATEGIES

Alternative Investment Strategy
Global Macro, Short Term Managed Futures, Fundamental Equity Market Neutral, and Multi-Strategy

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

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.

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.

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.

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.

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.

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.

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.

For a list of descriptions of the indexes referenced in this publication, please visit our website at lplresearch.com/definitions.

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.

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