

# Staying Overweight Equities After Modest Defensive Shift

The LPL Strategic & Tactical Asset Allocation Committee (STAAC) determines the firm’s investment outlook and asset allocation that helps define LPL Research’s investment models and overall strategic and tactical investment thinking and guidance. The committee is chaired by the chief investment officer and includes investment specialists from multiple investment disciplines and areas of focus. The STAAC meets weekly to closely monitor all global economic and capital markets conditions to ensure that all the latest information is being digested and incorporated into its investment thought.

### Color Key:

- Strong Overweight View
- Overweight View
- Neutral View
- Underweight View
- Strong Underweight View

### Key changes from STAAC in April:

- Downgraded large/mid growth to neutral
- Initiated thematic exposure to U.S. equity minimum volatility
- Downgraded technology to neutral
- Upgraded energy to overweight
- Downgraded consumer discretionary to strong underweight
- Upgraded real estate to neutral

### STAAC Asset Class Tactical Views as of 06/01/26 (GWI)

Asset Class	1	2	3	4	5
<b>Equity</b>	.	.	.	<span style="color: teal;">●</span>	.
U.S.	.	.	.	<span style="color: teal;">●</span>	.
International Developed (EAFE)	.	.	<span style="color: yellow;">●</span>	.	.
Emerging Markets	.	.	<span style="color: yellow;">●</span>	.	.
Large/Mid Growth	.	.	<span style="color: yellow;">●</span>	<span style="color: blue;">←</span>	.
Large/Mid Value	.	.	<span style="color: yellow;">●</span>	.	.
Small Growth	.	.	<span style="color: yellow;">●</span>	.	.
Small Value	.	.	<span style="color: yellow;">●</span>	.	.
<b>Fixed Income</b>	.	<span style="color: orange;">●</span>	.	.	.
Treasuries	.	.	<span style="color: yellow;">●</span>	.	.
MBS	.	<span style="color: orange;">●</span>	.	.	.
IG Corporates	.	<span style="color: orange;">●</span>	.	.	.
TIPS	.	.	<span style="color: yellow;">●</span>	.	.
International Developed	.	.	<span style="color: yellow;">●</span>	.	.
Preferred	.	.	<span style="color: yellow;">●</span>	.	.
High-Yield	.	.	<span style="color: yellow;">●</span>	.	.
Bank Loans	.	.	<span style="color: yellow;">●</span>	.	.
Emerging Markets	.	.	<span style="color: yellow;">●</span>	.	.
<b>Cash</b>	.	<span style="color: orange;">●</span>	.	.	.
<b>Alternatives</b>	.	.	.	<span style="color: teal;">●</span>	.
<b>Thematic Equity</b>	.	.	<span style="color: blue;">→</span>	<span style="color: teal;">●</span>	.

### STAAC Sector Tactical Views as of 06/01/26

Sector	1	2	3	4	5
Materials	.	.	<span style="color: yellow;">●</span>	.	.
Consumer Staples	.	.	<span style="color: yellow;">●</span>	.	.
Financials	.	.	<span style="color: yellow;">●</span>	.	.
Real Estate	.	<span style="color: blue;">→</span>	<span style="color: yellow;">●</span>	.	.
Communications Services	.	.	<span style="color: yellow;">●</span>	.	.
Energy	.	.	<span style="color: blue;">→</span>	<span style="color: teal;">●</span>	.
Industrials	.	.	.	<span style="color: teal;">●</span>	.
Information Technology	.	.	<span style="color: yellow;">●</span>	<span style="color: blue;">←</span>	.
Consumer Discretionary	<span style="color: brown;">●</span>	<span style="color: blue;">←</span>	.	.	.
Healthcare	.	.	<span style="color: yellow;">●</span>	.	.
Utilities	.	.	<span style="color: yellow;">●</span>	.	.

Source: STAAC as of June 1, 2026. 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 followed April's strong monthly gain with another healthy advance in May with all three major large cap averages closing the month at record levels. Artificial intelligence (AI) tailwinds continued to support and were the most prominent market driver last month with key takeaways around "insatiable" demand and upbeat spending plans and outlooks. The blockbuster first quarter earnings season was also tabbed for the upside with the S&P 500 pacing its best quarter since the end of 2021 with blended earnings growth reaching 29%. Developments from the Mideast also remained in focus with optimism around a U.S.-Iran peace deal supporting equities with both sides appearing to be closing in on a potential initial agreement, despite some flare-ups in hostilities late in the month.

In fixed income markets, core bonds edged higher in May, measured by a 0.3% rise in the Bloomberg U.S. Aggregate Index (Agg). Treasuries eked out a 0.1% gain with shorter-dated securities weakening as inflation data suggested price pressures remained evident, while some central banker remarks left the door open to tighter policy. However, cooling energy prices helped the Treasury curve stabilize despite some pressure from rising yields in the U.K. and Japan. Elsewhere, corporate bonds outperformed and mortgage-backed securities (MBS) rose in line with the Agg.

Looking ahead, as geopolitical risk fades, we expect the strong earnings outlook to provide support for further, albeit modest, equity market gains in 2026. LPL Research maintains a slight equities overweight but has moved to a more conservative equities allocation.

In fixed income, we expect yields to remain rangebound, although high oil prices may delay Fed rate cuts until later this year.

Underpinning the outlook is an economy still growing above trend,

though surging oil prices and damaged infrastructure in the Persian Gulf have increased the risk of a near-term slowdown in growth. Tailwinds to growth are expected to come from higher-than-expected tax refunds, business tax incentives, and clarity on trade policy. Risks to the economic outlook include further spikes in oil from the Iran conflict, sticky inflation, a softening job market, and potential business disruption from AI.

The STAAC's recommended tactical asset allocation includes:

- An overweight stance toward U.S. equities. Earnings strength has outweighed high oil prices. Over the balance of the year, expect the macro backdrop to improve as the situation in the Strait of Hormuz eventually plays out to a resolution, and potentially bringing interest rates down with it.
- Balanced Style Exposure. The latest run in AI names has gotten stretched, so the Committee believes it is prudent from a risk management perspective to trim some growth stocks and square up growth/value exposure.
- Industrials. The positive industrials stance is supported by strong earnings momentum, a favorable technical backdrop, and continued tailwinds from fiscal spending and AI investment.
- Energy. The Committee recommends an overweight to the energy sector due to logistical challenges surrounding normalizing global oil flows. The Committee believes oil prices may stay higher for longer than markets currently anticipate and places value on this hedge against potential additional Mideast flare ups.
- Within fixed income, the STAAC keeps a neutral allocation to core bonds. Spreads remaining near secular tightens potentially caps returns, and in an environment that is likely to get more supportive of risk-taking, favoring equities seems prudent.

### 2026 MARKET FORECASTS

#### S&P 500 Tracking Above Bull Case Scenario

	Current
10-Year U.S. Treasury Yield	3.75% to 4.25%*
S&P 500 Index Earnings per Share	\$290+ (under review)
S&P 500 Index Fair Value	7,350+ (under review)**

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

\*Our 2026 year-end target for the 10-year Treasury yield is based on further Fed rate cuts but also a steepening yield curve due to ongoing concerns about sticky inflation and Federal debt/deficits.

\*\*Our year-end 2026 fair-value target range for the S&P 500 is 7,300–7,400, based on a price-to-earnings ratio (PE) of 23 and our S&P 500 earnings per share (EPS) forecast of \$320 in 2027.

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

All data, views, and forecasts herein are as of 06/01/26.

### 2026 ECONOMIC FORECASTS

#### U.S. Economy Expected to Slow This Year

	2026 (Y/Y, real GDP)
United States	1.9%
Eurozone	0.7%
Advanced Economies	1.6%
Emerging Markets	4.1%
Global	2.3%

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

# Tactical Asset Allocation as of 06/01/26

## 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
<b>Stocks</b>	98.0%	95.0%	3.0%	84.0%	80.0%	4.0%	63.0%	60.0%	3.0%	42.0%	40.0%	2.0%	21.0%	20.0%	1.0%
<b>U.S. Equity</b>	79.0%	76.0%	3.0%	68.0%	64.0%	4.0%	51.0%	48.0%	3.0%	34.0%	32.0%	2.0%	17.0%	16.0%	1.0%
Large/Mid Growth	28.5%	28.5%	0.0%	24.0%	24.0%	0.0%	18.0%	18.0%	0.0%	12.0%	12.0%	0.0%	6.0%	6.0%	0.0%
Large/Mid Value	28.5%	28.5%	0.0%	24.0%	24.0%	0.0%	18.0%	18.0%	0.0%	12.0%	12.0%	0.0%	6.0%	6.0%	0.0%
Small Growth	9.5%	9.5%	0.0%	8.0%	8.0%	0.0%	6.0%	6.0%	0.0%	4.0%	4.0%	0.0%	2.0%	2.0%	0.0%
Small Value	9.5%	9.5%	0.0%	8.0%	8.0%	0.0%	6.0%	6.0%	0.0%	4.0%	4.0%	0.0%	2.0%	2.0%	0.0%
<b>Thematic Equity</b>	3.0%	0.0%	3.0%	4.0%	0.0%	4.0%	3.0%	0.0%	3.0%	2.0%	0.0%	2.0%	1.0%	0.0%	1.0%
U.S. Minimum Volatility	3.0%	0.0%	3.0%	4.0%	0.0%	4.0%	3.0%	0.0%	3.0%	2.0%	0.0%	2.0%	1.0%	0.0%	1.0%
<b>International Equity</b>	19.0%	19.0%	0.0%	16.0%	16.0%	0.0%	12.0%	12.0%	0.0%	8.0%	8.0%	0.0%	4.0%	4.0%	0.0%
Developed (EAFE)	12.0%	12.0%	0.0%	10.0%	10.0%	0.0%	8.0%	8.0%	0.0%	5.0%	5.0%	0.0%	4.0%	4.0%	0.0%
Emerging Markets	7.0%	7.0%	0.0%	6.0%	6.0%	0.0%	4.0%	4.0%	0.0%	3.0%	3.0%	0.0%	0.0%	0.0%	0.0%
<b>Bonds</b>	0.0%	0.0%	0.0%	12.0%	15.0%	-3.0%	32.0%	35.0%	-3.0%	53.0%	53.0%	0.0%	74.0%	70.0%	4.0%
<b>U.S. Core</b>	0.0%	0.0%	0.0%	12.0%	15.0%	-3.0%	32.0%	35.0%	-3.0%	53.0%	53.0%	0.0%	74.0%	70.0%	4.0%
Treasuries	0.0%	0.0%	0.0%	7.0%	7.0%	0.0%	16.5%	16.5%	0.0%	27.0%	25.0%	2.0%	37.5%	33.5%	4.0%
MBS	0.0%	0.0%	0.0%	1.5%	4.0%	-2.5%	7.5%	9.5%	-2.0%	13.5%	14.5%	-1.0%	19.5%	19.0%	0.5%
IG Corporates	0.0%	0.0%	0.0%	3.5%	4.0%	-0.5%	8.0%	9.0%	-1.0%	12.5%	13.5%	-1.0%	17.0%	17.5%	-0.5%
<b>Alternatives</b>	0.0%	0.0%	0.0%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%
Tactical: Global Macro	0.0%	0.0%	0.0%	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%	0.0%	0.0%	0.0%	1.5%	0.0%	1.5%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%
<b>Cash</b>	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	7.0%	-5.0%	2.0%	10.0%	-8.0%

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

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

Bond benchmark sector allocations are based on a look-through analysis of the major sector components of the Bloomberg US Aggregate Bond Index. The exact percentage mix may fluctuate moderately throughout the year based on the relative market cap weights of each component within the Bloomberg US Aggregate Bond Index. The bond sector allocations in the TAA and benchmark will be updated twice per year, or as necessary, in January and July where the absolute values are subject to change, but the difference between the TAA and benchmark will remain constant (absent any Tactical Asset Allocation changes from the STAAC).

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

To better align with STAAC's asset allocation framework, mid caps have been combined with large caps in the TAA. Accounts with distinct mid cap allocations may disaggregate mid caps from the "Large & Mid" exposure shown in the table roughly in-line with relative market cap values: 80% Large Cap 20% Mid Cap. For a more detailed breakdown and explanation, please refer to the Supplemental Mid Cap Reference Guide on page 9.

# Equity Asset Classes

## Maintaining Equities Overweight But Shifting to a Slightly More Conservative Equities Mix

The STAAC remains constructive on equities over the medium term but is shifting toward a slightly more defensive stance in the interim. The change reflects concerns about the narrow breadth of the recent rally and potential rotational shifts that could increase volatility or change market leadership. Minimum, or low, volatility strategies, which emphasize higher-quality, stable companies, may be a good way to stay invested in U.S. equities and participate in potential upside while helping reduce downside risk.

During a potential market rotation or leadership transition, the Committee believes it is appropriate to balance out style exposure between growth and value but maintains a slight preference for large caps over small caps, partly due to a preference for high-quality balance sheets and to capture benefits of AI. Regionally, the STAAC has a slight preference for the U.S. but maintains a neutral position on developed international and EM equities.

**Color Key:**

- Strong Overweight
- Overweight
- Neutral
- Underweight
- Strong Underweight

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization and Style	Large/Mid Growth	• • ● ← •	No Trend	Outsized rally in the technology-heavy growth style drives this downgrade. While AI-driven earnings growth prospects remain very strong, the risk of AI disappointments is rising as AI infrastructure stocks get more overbought. The growth style still offers compelling growth potential and momentum even if valuations are full and a period of consolidation or a pause is likely warranted.
	Large/Mid Value	• • ● • •	No Trend	The AI trade on the growth side might be due for a pause or a rotation into value stocks, which may get support from an energy sector that we believe may be underpricing upside risk to oil prices. If markets pull back in the near-term, defensive, high-quality value stocks such as those that make up much of low volatility strategies may get a bid.
	Small Growth	• • ● • •	Positive	A risk-friendly environment, resilient economic conditions, and resurgent earnings growth have supported small cap growth stocks recently. But delayed Fed rate cuts and sticky inflation dampen the near-term outlook. Favorable technicals but not insulated from a potential technology sector or broad market pullback.
	Small Value	• • ● • •	Negative	April upgrade reflected improved technicals, attractive relative valuations, and the potential for a bounce on de-escalating Mideast tensions. Financial deregulation, robust capital investment, and a more domestic focus are also positive, offset by delayed Fed rate cuts, sticky inflation, and weaker balance sheets.
Region	United States	• • • ● •	Positive	Favor the U.S. for continued growth potential and innovation driven by AI and stimulus, and relative insulation from high oil prices and dwindling global inventories. The Iran conflict remains the key risk as pressure on consumers continues to build. Heightened scrutiny on AI investment and delayed Fed rate cuts are secondary concerns.
	Developed International	• • ● • •	Negative	Added deficit/defense spending in Europe, corporate reforms and Bank of Japan support for the yen in Japan, and valuations are supportive. Short term, an opening of the Strait of Hormuz could provide Europe and Asia with a performance boost, balanced against slower growth and earnings alongside a firm U.S. dollar.
	Emerging Markets	• • ● • •	Positive	Pre-Iran conflict, fundamentals, valuations and technicals were all aligning and moved STAAC close to an upgrade. However, with geopolitical tensions still high, the Strait of Hormuz barely open, and Asian chipmakers surging (about half the EM index is Korea and Taiwan), EM may have gotten ahead of itself. While valuations are fair overall, STAAC is closer to a downgrade than an upgrade.

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

## Downgrading Technology to Neutral and Upgrading Energy to Overweight to Manage Risk

STAAC continues to recommend an overweight equities position but given the outsized move in AI-related stocks, has shifted its tactical stance to neutral on technology and an overweight on energy to help mitigate the risk of either AI disappointment a more prolonged period of elevated oil prices due to the Iran conflict. STAAC continues to favor industrials, which offers strong earnings momentum and a favorable technical backdrop, is poised to benefit from fiscal stimulus and AI investment and may offer more near-term upside than the AI plays in the technology sector. Consumer discretionary remains a high conviction underweight due to ongoing pressure on consumer spending, while valuations have improved enough in real estate to warrant neutral positioning.

**Color Key:**

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

	Sector	Overall View	Relative Trend	S&P Wgt.	Rationale
Cyclical	Basic Materials	• • ● • •	No Trend	1.8	Slight decline in May (-0.8%) as weakness in chemicals offset strength in metals and mining. Fiscal stimulus and data center builds are still supportive, but Chinese demand is not particularly strong and technical momentum has started to wane.
	Consumer Discretionary	● ← • • •	Negative	9.5	Gained ground in May (+2.6%), boosted by Ford (F), Best Buy (BBY), and Tesla (TSLA). Consumers have held up well amid high oil prices but we're not sure how much longer that can last. High valuations. Sub-par technicals.
	Financial Services	• • ● • •	Negative	11.2	Lagged in May (-1.2%) despite strong capital markets environment. AI disruption remains a concern in fintech, asset management, and private equity. Positives include a steep yield curve, bank de-regulation, and reasonable valuations. Negatives include credit concerns, slow earnings growth, and lackluster technicals.
	Real Estate	• → ● • •	Negative	1.8	Lagged in May (-1.2%) as markets favored technology over income amid rising interest rates and AI enthusiasm. Technology-oriented segments of real estate, such as data center REITs, offered little help. Reasonable valuations. Improving technicals.
Sensitive	Communication Services	• • ● • •	Negative	10.2	Slight decline in May (-0.9%) as strength in Meta (META) was more than offset by weakness in Alphabet (GOOG/L), Disney (DIS), Netflix (NFLX), and Comcast (CMCSA). Solid growth at reasonable valuation. Technical conditions are mixed.
	Energy	• • → ● •	Positive	3.2	Worst sector performer in May (-6.1%) for the second straight month. Upgrade reflects STAAC's view that oil prices may stay higher for longer than markets anticipate in addition to desire to manage risk. Attractive valuations after latest dip.
	Industrials	• • • ● •	No Trend	8.2	Lagged in May with a 1% decline despite strength in airline stocks as oil prices slipped. Weakness was broad based. Business tax incentives and AI investment remain tailwinds. Solid earnings growth, full valuations, and supportive technicals.
	Technology	• • ● ← •	Positive	39.4	Biggest gainer by far in May (+15.9%) as the AI trade strengthened and broadened, led by Dell (DELL), Micron (MU), and Datadog (DDOG). The downgrade is a response to the outsized move higher recently and represents prudent risk management. Valuations remain reasonable for the growth, but the group has gotten stretched.
Defensive	Consumer Staples	• • ● • •	Negative	4.5	Lagged in May (-3.3%) as defensive sectors lagged the AI rally. Costco (COST), PepsiCo (PEP), and Walmart (WMT) dragged the sector lower as consumer stresses continued to build. Slow earnings growth. Rich valuations. Weak technicals.
	Healthcare	• • ● • •	Negative	8.2	Gained a respectable 2.3% in May to move out of the cellar in year-to-date performance rankings. Strength in Humana (HUM), Davita (DVA), Waters (WAT), and Dexcom (DXCM) offset weakness in Zoetis (ZTS) and Boston Scientific (BSX). Attractive valuation but slow growth, weak technicals.
	Utilities	• • ● • •	Negative	2.0	Underperformed in May (-5.5%) as interest rates rose and the AI trade focused on chips and hardware more so than power. Below average yields, full valuations, lackluster technicals balanced against solid growth.

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

## How Much Higher Could Yields Go? A Lot of Bad News is Already Priced In

The bond market has priced in a rate hike, reset the neutral rate higher, and is demanding a meaningful term premium; all without inflation expectations coming unanchored or the data rolling over. In our view, a lot of the bad news is already priced into the Treasury market. As such, absent a resurgence in oil prices, we believe the recent surge in yields is likely behind us, though longer-maturity Treasury yields will likely remain near current levels in the near term.

In taxable markets, with yields still elevated, particularly for high-quality sectors within the fixed income universe, (Treasury, MBS and shorter-maturity corporates) income opportunities remain attractive.

### Color Key:

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

	Low	Med	High	Rationale
Current Stance	Credit Quality Preference		✓	Recommend an up-in-quality approach in allocating to fixed income sectors. All-in yields for lower quality remain near or below longer-term averages, so we think the risk/reward favors owning core bond sectors over the riskier sectors.
	Duration Preference		✓	The combination of still high inflation due to the Iran conflict and ongoing AI-related growth uncertainty argues for continued caution in interest-rate exposure. For now, we remain neutral duration relative to benchmarks, waiting for more attractive entry points. We would look for the 10-year Treasury yield to reach the 4.75–5.00% range before reconsidering duration positioning.
	Municipal Bond View		✓	Record demand has helped keep prices contained despite the record pace of new supply. And despite the recent rally, tax-equivalent yields remain above longer-term averages. Credit quality remains strong and technical supply/demand dynamics improve over the next several months. We think the intermediate parts of the muni market offer the best risk/reward.
	Short	Inter.	Long	Rationale
	Neg.	Neut.	Pos.	Rationale
	Overall View		Overall Trend	Rationale
Core Sectors	U.S. Treasuries	• • ● • •	Negative	Treasury yields remain at the mercy of oil prices and interest rate volatility has increased recently (but below longer-term averages). Term premium remains low and could continue to move higher the longer the Iran conflict stretches out. That said, the 10-year yield is only slightly higher than our 2026 yearend forecast but would look to a 4.75–5.0% as potentially an attractive entry point. Technically, 10-year yields continue on a path of higher highs and higher lows. A close above resistance at 4.50% would introduce upside risk toward the May highs (4.69%).
	Mortgage-Backed Securities	• ● • • •	No Trend	We recently downgraded MBS due to valuations as spreads are below our fair value estimates. But supply/demand dynamics remain favorable so it's unlikely, absent a resumption of rate hikes by the Fed, that spreads would widen much from current levels. All-in bond yields remain compelling.
	Investment-Grade Corporates	• ● • • •	No Trend	We recommend an underweight to benchmarks, but we think there is an opportunity to invest in shorter to intermediate maturity corporate securities without taking on elevated levels of interest rate or credit risk. Fundamentals remain solid, but spreads remain tight to historical averages.
	TIPS	• • ● • •	Positive	Inflation expectations remain well anchored but all-in real yields for TIPS remain attractive, particularly shorter maturity TIPS, and could provide a good hedge against unexpected inflation surprises.
	Preferred Securities	• • ● • •	No Trend	Valuations/spreads are back to historical averages, but all-in yields remain attractive for income-oriented investors. Recent Fed stress tests continue to show large, money-center bank fundamentals are generally sound, but the environment favors active management.
Plus Sectors	High-Yield Corporates	• • ● • •	Positive	Software concerns have pushed tech sector spreads wider, but the broader market remains tight to historical averages. High-yield markets have priced out most risks with spread volatility collapsing. Yields for high-yield bonds are below historical averages, and we think the risk/reward is unattractive for most investors. The quality of the market has improved recently though.
	Bank Loans	• • ● • •	Positive	The loan market is highly concentrated in software loans so downgrades and defaults will likely increase if AI risks are real. The Iran conflict has pushed out rate cut expectations and while broader default activity has moderated of late, "higher for longer" could increase repayment risks.
	Foreign Bonds	• • ● • •	No Trend	Yields have moved higher recently and are at the highest level in decades. Near term pressures could keep yields high but dollar hedged investments look attractive for those investors that can take off benchmark exposures.
	EM Debt	• • ● • •	No Trend	Valuations/yields are relatively attractive, but idiosyncratic risks remain, and ongoing trade wars could negatively impact smaller emerging countries. It's an environment for active management.

## Commodities and Currencies

### Commodity Markets Snap a Nine-Month Win Streak

The broader commodity complex retreated in May, snapping a nine-month winning streak. The Bloomberg Roll Select Commodity Total Return Index declined 2.9%, struggling to break through resistance levels that date back to the 2008 highs. Energy markets led the weakness as easing geopolitical tensions and progress in U.S.-Iran negotiations weighed heavily on crude oil prices, sending Brent crude down nearly 20% for the month. Natural gas was a notable exception, rallying 19% as oversold conditions, improving weather-driven demand expectations, and signs of a more constructive supply backdrop fueled a sharp rebound.

Precious metals came under pressure as rising Treasury yields, reduced expectations for Federal Reserve rate cuts, and a firmer U.S. dollar dampened investor demand. Gold retraced toward a key technical support level. Industrial metals bucked the broader commodity trend, with copper surging to record-high territory amid continued enthusiasm surrounding global electrification and artificial intelligence-related demand.

In currency markets, the U.S. Dollar Index gained 0.9%, though it remained confined within its year-long trading range. Digital assets also struggled, with Bitcoin and other cryptocurrencies ending the month near multi-week lows.

**Color Key:** ● Positive ● Neutral ● Negative

Sector	Overall View			Overall Trend	Rationale
Energy	.	.	●	Positive	Oil prices continue to ease as the U.S. and Iran appear to be moving toward a peace agreement. Brent crude has pulled back toward support near \$96, though it has not yet broken decisively below that key technical level. Implied oil market volatility has declined but remains well above its long-term average. While a reopening of the Strait of Hormuz could meaningfully reduce immediate supply shock concerns, the timing of supply chains normalizing and the risk premium that may remain embedded in oil after a peace deal remain uncertain. <b>We continue to maintain a constructive view on the energy sector.</b>
Precious Metals	.	.	●	Positive	Rising real yields, fading expectations for Federal Reserve rate cuts, and improving risk sentiment over the past two months have created headwinds for precious metals. While we believe the longer-term structural drivers supporting gold remain intact, the metal is testing an important area of support near its rising 200-day moving average (dma). We remain respectful of gold's long-term uptrend and are monitoring for signs that support is holding, along with an improvement in momentum. <b>We maintain our positive view on precious metals.</b>
Industrial Metals	.	.	●	Positive	Industrial metals outperformed last month, supported by strong demand tied to AI-related capital spending, global infrastructure investment, and electrification trends. At the same time, years of underinvestment in production capacity and evolving trade policies have tightened supply-demand balances, with export controls and production restrictions adding further support to prices. <b>We maintain our positive view on industrial metals.</b>
Agriculture (Ag) & Livestock	.	●	.	Neutral	Ag traded lower last month amid growing optimism over the Strait of Hormuz reopening. Corn pulled back nearly 4% from overbought levels and is back to support at the 200-dma. Wheat followed a similar path and is now approaching support from the April lows. Live cattle outperformed lean hogs in May after fear over a new screwworm pressured cattle prices into month-end. <b>We maintain our neutral view on ag &amp; livestock.</b>
U.S. Dollar	.	●	.	Neutral	The dollar edged higher last month but remained confined to its longer-term range. The greenback has deviated from the recent rise in rates. Structural headwinds, including central bank diversification away from the dollar, widening global monetary policy expectations, and the U.S. fiscal trajectory, have weighed on the currency. While the longer-term secular uptrend remains intact, near-term technical evidence suggests further consolidation ahead.
Crypto	●	.	.	Negative	Bitcoin declined nearly 4% during a volatile month despite seemingly positive developments for the digital asset space, including the Senate Banking Committee's approval of the CLARITY Act on May 14. From a technical perspective, Bitcoin's mid-month rebound stalled at its declining 200-dma, with prices now approaching support near the April and February lows. Given the prevailing downtrend and continued weakness in momentum, we maintain a cautious outlook on Bitcoin until further technical evidence suggests a durable bottom has been established.

The Bloomberg Commodity Index (BCOM) is made up of 24 exchange-traded futures on physical commodities, representing 22 commodities which are weighted to account for economic significance and market liquidity

Any futures referenced are being presented as a proxy, not as a recommendation. The fast price swings in commodities will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.

Precious metal investing involves greater fluctuation and potential for losses.

# Alternative Investments

## The Trend Continues

Alternative investment strategy performance turned broadly positive in May, with all major sub-strategies participating in the month's equity market advance. The S&P 500 gained 5.3% for the month, as resilient economic data and solid corporate profit growth continued to outweigh headwinds from higher oil prices and geopolitical uncertainty. Alternative investment strategies captured a meaningful portion of that upside while generally exhibiting lower volatility.

Long/short equity strategies continued their positive trajectory, as the HFRX Equity Hedge Index gained 2.9% in May. Growth equity outperformed value meaningfully for the month, as AI supply chain and hyperscaler-driven investment demand continued to fuel earnings momentum in technology. Long/short managers with concentrated long exposure to AI beneficiaries and disciplined short books in rate-sensitive and commodity-exposed names were best positioned to capture this dispersion. Emerging markets also outperformed materially during the month, led by extraordinary returns in Korea and Taiwan, offering an additional source of alpha for managers with international mandates. Factor rotation dynamics remained elevated, and managers who maintained tactical flexibility on the short side continued to benefit from the volatility in factor performance. The HFRX Equity Hedge: Equity Market Neutral Index was essentially flat at 0.05% for the month, consistent with its role as a low-beta, volatility-dampening allocation in a month dominated by directional equity strength.

In the trend-following space, managed futures delivered another constructive month, as the HFRX Macro: Systematic Diversified Index gained 1.1% and the broader HFRX Macro/CTA Index advanced 2.1%. Rising real yields were the dominant rates narrative in May, as 10-year Treasury yields moved higher. Long equity positions also contributed to the monthly returns.

Overall, with economic and policy uncertainty likely to continue through 2026, we remain positive on alternative investment strategies, as we believe they can help strengthen portfolio stability during periods of volatility. The events of the first half of the year have reinforced this thesis — strategies like managed futures and market-neutral equity provided meaningful offsets during the Q1 drawdown, and active long/short approaches have continued to capitalize on the elevated dispersion environment. Our preferred approaches include equity market-neutral, nimble discretionary global macro, and event-driven strategies.

**Color Key:** ● Positive ● Neutral ● Negative

	Sector	Overall View			Rationale
Fundamental	Long/Short Equity	.	.	●	Elevated volatility and ongoing stock dispersion should continue to create a favorable environment for low-net, stock-picking strategies. For long-biased long/short equity managers, expanding beyond U.S. markets into regions with supportive policy frameworks may offer more compelling opportunities.
	Event Driven	.	.	●	Mergers and acquisitions (M&A) and initial public offerings (IPO) have improved relative to the low levels of prior years. Distressed debt opportunities remain limited as credit spreads continue to tighten. The M&A and IPO markets have begun to show signs of recovery, expanding the investable universe for merger arbitrage managers which they should benefit from.
Tactical	Global Macro	.	.	●	Agile discretionary macro managers should continue to capitalize on economic and policy shifts, along with intermittent spikes in market volatility. Tactical discretionary macro strategies are well-positioned to capitalize on opportunities emerging from shifting economic conditions, evolving policy landscapes, and elevated market volatility.
	Managed Futures	.	●	.	We continue to favor holding a diversified mix of sub-strategies, including but not limited to, short-term momentum, volatility breakout, pattern recognition, and trend following. Diversification within trend following in terms of markets and time frame is encouraged as well. We remain mindful of the large long equity and short bond exposure. In this environment, a broadly diversified allocation across sub-strategies is preferred.
Multi-Strategy	Multi-PM Single Funds	.	.	●	Multi-strategy funds should continue to benefit from the ability to dynamically invest across alternative investment strategies.
	Specialty Strategies	.	●	.	Volatility arbitrage and cross-asset tail risk strategies with minimal carrying cost may be good additional diversifiers in portfolios. Volatility arbitrage and tail risk with reduced/no negative carry can potentially add value to portfolios.

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

## Supplemental Mid Cap Reference Guide

### Rationale for Large and Mid Cap Aggregation

The STAAC's decision to aggregate mid cap equities with large caps is driven by a desire to construct asset allocation models using distinct and efficient building blocks that either a) materially enhance expected returns, or b) materially reduce expected risk relative to our benchmark. We believe that a four-box framework, segmented by size and style, provides the most impactful differentiation for our investment decision making. Additionally, this is most aligned with our investment universe, given most active large cap managers benchmark to the Russell 1000 (which has significant overlap with the Russell Midcap Index, 800 stocks representing approximately 20% of market cap).

We also believe that reducing the number of style boxes improves capital efficiency and lowers trading costs and turnover. By streamlining these classifications, we can avoid such inefficiencies.

### Disaggregated U.S. Mid Cap and Large Cap Tactical Asset Allocation as of 01/01/2026

The 80% Large Cap / 20% Mid Cap decomposition provided below is intended as a general reference for advisors who prefer to maintain a distinct mid cap allocation. The exact percentage mix may fluctuate moderately throughout the year based on the relative market cap weights of each component within the Russell 1000. The STAAC's official position is to treat large and mid caps as a combined category within the TAA as shown on page 3. The Supplemental Mid Cap Reference Guide will be updated twice per year, or as necessary, in January and July.

Asset Class	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
Large Growth	25.390%	22.615%	2.775%	21.425%	19.045%	2.380%	16.265%	14.285%	1.980%	11.110%	9.520%	1.590%	5.555%	4.760%	0.795%
Mid Growth	6.610%	5.885%	0.725%	5.575%	4.955%	0.620%	4.235%	3.715%	0.520%	2.890%	2.480%	0.410%	1.445%	1.240%	0.205%
Large Value	23.410%	22.615%	0.795%	19.835%	19.045%	0.790%	14.680%	14.285%	0.395%	9.520%	9.520%	0.000%	4.760%	4.760%	0.000%
Mid Value	6.090%	5.885%	0.205%	5.165%	4.955%	0.210%	3.820%	3.715%	0.105%	2.480%	2.480%	0.000%	1.240%	1.240%	0.000%

## 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 issued 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 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

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 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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