

## July Gains Give Way to August Volatility

LPL Research Monthly Market Outlook

### Color Key

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

### Key Changes from July Report:

- Less constructive on industrial metals
- More cautious on agriculture commodities

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 foster a close monitoring of all global economic and capital markets conditions to ensure that all the latest information is being digested and incorporated into its investment thought.

### STAAC Asset Class Tactical Views as of 8/01/2024 (GWI)

| Asset Class                    | 1 | 2 | 3 | 4 | 5 |
|--------------------------------|---|---|---|---|---|
| <b>Equity</b>                  | . | . | ● | . | . |
| U.S.                           | . | . | . | ● | . |
| International Developed (EAFE) | . | . | ● | . | . |
| Emerging Markets               | . | ● | . | . | . |
| Large Growth                   | . | . | . | ● | . |
| Large Value                    | . | . | ● | . | . |
| Small/Mid Growth               | . | . | ● | . | . |
| Small/Mid Value                | . | . | ● | . | . |
| <b>Fixed Income</b>            | . | . | . | ● | . |
| Treasuries                     | . | . | ● | . | . |
| MBS                            | . | . | . | ● | . |
| IG Corporates                  | ● | . | . | . | . |
| TIPS                           | . | . | ● | . | . |
| International Developed        | . | . | ● | . | . |
| Preferred                      | . | . | . | . | ● |
| High-Yield                     | . | . | ● | . | . |
| Bank Loans                     | . | . | ● | . | . |
| Emerging Markets               | . | . | ● | . | . |
| <b>Cash</b>                    | . | ● | . | . | . |
| <b>Alternatives</b>            | . | . | ● | . | . |

### STAAC Sector Tactical Views as of 8/01/2024 (GWI)

| Sector                  | 1 | 2 | 3 | 4 | 5 |
|-------------------------|---|---|---|---|---|
| Healthcare              | . | ● | . | . | . |
| Energy                  | . | . | . | ● | . |
| Utilities               | . | . | ● | . | . |
| Consumer Staples        | . | . | ● | . | . |
| Information Technology  | . | . | ● | . | . |
| Communications Services | . | . | . | ● | . |
| Industrials             | . | . | . | ● | . |
| Financials              | . | . | ● | . | . |
| Materials               | . | . | ● | . | . |
| Real Estate             | . | ● | . | . | . |
| Consumer Discretionary  | . | ● | . | . | . |

Source: STAAC as of August 1, 2024. 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 rose in July for the eighth month in nine supported by continued economic growth and a broadening out of market performance toward small caps and value sectors. The S&P 500, which gained 1.2% for the month, pulled back from record highs mid-month before selling pressure intensified in early August, putting the index near correction territory. Despite the 8.5% pullback, the S&P 500 was still up 9.9% year to date as of August 6. Focus among market participants shifted from the upcoming election and Federal Reserve (Fed) and toward macroeconomic factors, currency volatility, and leverage in the financial system. Meanwhile, geopolitical threats remain.

Within fixed income markets, the continued disinflation narrative pushed yields lower in July, which served to erase first half losses for the Bloomberg Aggregate Bond Index. High quality sectors, such as agency mortgage-backed securities and investment-grade corporate bonds outperformed. Additionally, the first few days of August, which saw heightened volatility in risk assets, served as a reminder that high-quality fixed income remains a good ballast within diversified portfolios as the flight-to-quality trade helped bonds.

- LPL's STAAC maintains its tactical neutral stance on equities and modest overweight to fixed income, while actively monitoring the stock market's progress toward establishing a potential durable low. After the sharp August 5 selloff, equities are nearing an attractive entry point.
- Economic growth in the U.S. should outperform other developed markets. Amid headwinds to consumer spending, solid business capital spending is expected to support overall domestic growth, albeit, potentially at below consensus levels. A 2024 recession is unlikely.
- The Committee remains comfortable with a balanced approach to market cap. High-quality small cap stocks are attractively valued, but large cap companies enjoy superior earnings power and tend to outperform late cycle as the economy slows.
- The Committee maintains a slight preference towards large cap growth amid AI-fueled earnings growth, but our technical analysis work has started to turn a bit toward value which remains more attractively valued.
- The STAAC's regional preference remains U.S. over developed international and emerging markets (EM) due largely to superior earnings and economic growth in the U.S. and significant volatility in the Japanese yen.
- The STAAC continues to hold a strong overweight tilt in preferred securities as valuations remain attractive. 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, adding duration isn't attractive at current levels, and the STAAC remains neutral relative to our benchmarks.

## 2024 MARKET FORECASTS

### Elevated Volatility May Continue in the Near-Term

|   | Previous       | Current         |
|---|----------------|-----------------|
| <b>10-Year U.S. Treasury Yield</b>          | 3.75% to 4.25% | 3.75% to 4.25%* |
| <b>S&amp;P 500 Index Earnings per Share</b> | \$235          | \$240           |
| <b>S&amp;P 500 Index Fair Value</b>         | 4,850 – 4,950  | 4,850 – 4,950** |

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

\*Our year-end 2024 forecast for the U.S. 10-year Treasury yield is 3.75% to 4.25%. The Fed's higher for longer narrative and the poor supply/demand technicals for Treasury securities will likely keep interest rates at these elevated levels until the economic data weakens and/or inflation falls back in line with the Fed's longer term 2% target.

\*\*Our year-end 2024 fair-value target range for the S&P 500 of 4,850-4,950 is based on a price-to-earnings ratio (PE) of 19.5 and our S&P 500 earnings per share (EPS) forecast of \$250 in 2025.

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 08/01/24.

## 2024 ECONOMIC FORECASTS

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

|                           | 2024 (Y/Y, real GDP) |
|---------------------------|----------------------|
| <b>United States</b>      | 1.9%                 |
| <b>Eurozone</b>           | 0.9%                 |
| <b>Advanced Economics</b> | 1.6%                 |
| <b>Emerging Markets</b>   | 4.2%                 |
| <b>Global</b>             | 3.1%                 |

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

TACTICAL ASSET ALLOCATION AS OF 08/01/2024

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>               | 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%       |
| <b>U.S. EQUITY</b>          | 80.0%             | 76.0%     | 4.0%       | 67.0%  | 64.0%     | 3.0%       | 50.0%              | 48.0%     | 2.0%       | 33.5%                       | 32.0%     | 1.5%       | 16.0%                            | 16.0%     | 0.0%       |
| Large Growth                | 27.0%             | 24.0%     | 3.0%       | 22.5%  | 20.5%     | 2.0%       | 16.5%              | 15.0%     | 1.5%       | 11.5%                       | 10.0%     | 1.5%       | 5.0%                             | 5.0%      | 0.0%       |
| Large Value                 | 25.0%             | 24.0%     | 1.0%       | 21.0%  | 20.0%     | 1.0%       | 15.5%              | 15.0%     | 0.5%       | 10.0%                       | 10.0%     | 0.0%       | 5.0%                             | 5.0%      | 0.0%       |
| Small/Mid Growth            | 14.0%             | 14.0%     | 0.0%       | 11.5%  | 11.5%     | 0.0%       | 9.0%               | 9.0%      | 0.0%       | 6.0%                        | 6.0%      | 0.0%       | 3.0%                             | 3.0%      | 0.0%       |
| Small/Mid Value             | 14.0%             | 14.0%     | 0.0%       | 12.0%  | 12.0%     | 0.0%       | 9.0%               | 9.0%      | 0.0%       | 6.0%                        | 6.0%      | 0.0%       | 3.0%                             | 3.0%      | 0.0%       |
| <b>INTERNATIONAL EQUITY</b> | 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%       |
| <b>BONDS</b>                | 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%       |
| <b>U.S. CORE</b>            | 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%       | 27.0%                       | 24.5%     | 2.5%       | 36.0%                            | 32.0%     | 4.0%       |
| MBS                         | 1.0%              | 0.0%      | 1.0%       | 5.5%   | 4.5%      | 1.0%       | 11.5%              | 10.0%     | 1.5%       | 17.5%                       | 15.0%     | 2.5%       | 23.5%                            | 20.5%     | 3.0%       |
| 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%      |
| <b>NON-CORE</b>             | 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%       |
| 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%       |
| <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, 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**

**Waiting for the Bottoming Process to Play Out Before Potentially Buying the Dip**

LPL's STAAC maintains its tactical neutral stance on equities and modest overweight to fixed income, while actively monitoring the stock market's progress toward establishing a potential durable low. After the sharp August 5 selloff, equities are nearing an attractive entry point. High-quality small cap stocks are attractively valued, but large cap companies enjoy superior earnings power and tend to outperform late cycle as the economy slows. The Committee maintains a slight preference towards AI-fueled large cap growth stocks, but technical analysis trends have started to turn toward the value style which remains attractively valued relative to its history. The STAAC's regional preference remains U.S. over developed international and EM due largely to superior domestic earnings and economic growth. Elevated volatility in the Japanese yen increases the relative attractiveness of U.S. equities relative to developed international.

**Color Key**

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

|                                 | Sector                  | Overall View | Relative Trend | Rationale  |
|---------------------------------|-------------------------|--------------|----------------|--|
| Market Capitalization and Style | Large Growth            | . . . ● .    | Positive       | Large caps are more expensive than small caps, but the earnings power and quality is superior, and low interest rates and slower economic growth support the growth style.   |
|                                 | Large Value             | . . ● . .    | Negative       | Beneficiary of potential soft landing but if concerns about recession increase following tepid job growth in July, then cyclical value weakness may offset defensive value outperformance. Attractive valuations support near-benchmark allocations.   |
|                                 | Small/Mid Growth        | . . ● . .    | Negative       | Potential beneficiary of rate cuts likely to come in December. Low valuations and relatively healthy credit markets are also supportive, but a slowing economy and heightened market volatility present headwinds. Biotech is a key factor   |
|                                 | Small/Mid Value         | . . ● . .    | Negative       | As with large value, small/midcap value stocks tend to benefit from a possible soft landing and valuations are attractive versus history. However, an economic slowdown may limit performance upside.  |
| Region                          | United States           | . . . ● .    | Positive       | The U.S. economy is expected to handily outgrow and outearn Europe in 2024. European Central Bank (ECB) rate cuts are not enough to drive a sustainable performance advantage. Our technical analysis work and AI innovation still suggests favoring the U.S. despite elevated valuations.                                     |
|                                 | Developed International | . . ● . .    | Negative       | European economies have stabilized, valuations are attractive, rate cuts have begun, and more defensive investments are performing better. The intermediate-term outlook for Japan remains favorable thanks to improved corporate governance and shareholder returns, but yen volatility suggests a cautious stance near term. |
|                                 | Emerging Markets        | . ● . . .    | No Trend       | The STAAC remains cautious on EM equities on earnings weakness, elevated geopolitical risk in Asia and the Middle East, and lack of relative strength. Political uncertainty is high for Mexico. The long-term outlook for India remains positive in the Committee's view. Fed rate cuts would help.                           |

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**

**Fading Consumer Discretionary While Real Estate Outlook Improves as Yields Drop**

Recent volatility strengthens the case for balanced exposure across cyclical, defensive, and secular growth sectors. Industrials are favored as a beneficiary of infrastructure, defense, near-shoring, and the AI buildout. Strong growth, attractive valuations, and election ad spending opportunities drive our communication services recommendation despite growing AI scrutiny. Shareholder-friendly capital allocation, robust U.S. production, and attractive valuations bolster energy's outlook. Pressure on consumers is building as unemployment rises and excess savings dwindle, a drag on consumer discretionary. Slowing COVID-19-related sales and government reimbursement pressure justify a healthcare underweight. Lower yields make real estate a potential upgrade candidate.

**Color Key**

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

|           | Sector                 | Overall View | Relative Trend | S&P Wgt. | Rationale  |
|-----------|------------------------|--------------|----------------|----------|--|
| Cyclical  | Materials              | • • ● • •    | No Trend       | 2.3      | Strong July performer (+4.4%) despite commodity price weakness and lackluster performance by China's economy. A weaker U.S. dollar helped. Valuations are reasonable, but technical conditions are deteriorating.  |
|           | Consumer Discretionary | • ● • • •    | Negative       | 9.6      | Modest 1.6% gain in July driven by Tesla (TSLA) and housing stocks. Pressure on consumers is building as unemployment is rising and excess savings dwindle, supporting a cautious stance. Reasonable valuations. Technical picture is muddled.   |
|           | Financials             | • • ● • •    | No Trend       | 13.0     | Strong July performer (+6.3%) partly due to possible deregulation under Trump 2.0. Regional banks got some relief from lower interest rates, though the yield curve remains inverted. Credit conditions are still favorable. Reasonable valuations. Mixed technical analysis picture.  |
|           | Real Estate            | • ● • • •    | Positive       | 2.4      | Topped all sectors in July with a 7.1% return as rates fell and cell tower stocks surged. Commercial real estate refinancing remains a wildcard. Valuations are reasonable, even relative to bonds. The technical picture is improving. Positive bias.   |
| Sensitive | Communication Services | • • • ● •    | Positive       | 9.0      | Worst sector in July with a 4.1% loss but still year-to-date sector leader with near 18% return (through August 6). Hurt recently by AI scrutiny but long-term story intact. Political ad spending lift coming. Reasonable valuations. Positive technicals.  |
|           | Energy                 | • • • ● •    | No Trend       | 3.7      | Outperformer in July with 2.1% return despite choppy higher oil prices. Shareholder-friendly capital allocation decisions, robust U.S. production, attractive valuations, and heightened geopolitical tensions are supportive. Recession is the key risk.  |
|           | Industrials            | • • • ● •    | Positive       | 8.5      | Outperformer in July with a 4.9% return, with notable strength in aerospace & defense. Play on infrastructure, defense, near-shoring, and AI data center buildout. Rotation beneficiary. Reasonable valuations. Improving technical analysis picture.  |
|           | Technology             | • • ● • •    | No Trend       | 30.5     | Underperformed in July (-2.1%) as some recent semiconductor winners pulled back amid cooling AI enthusiasm. CrowdStrike (CRWD) losses also weighed on the sector. Valuations are still elevated, but earnings are growing at a near-20% pace. Technical damage is beginning to mount.  |
| Defensive | Consumer Staples       | • • ● • •    | Positive       | 6.2      | Somewhat disappointing 1.9% gain in July as defensive sectors came back in favor (though a top performer so far in August). Costco (COST) and Clorox (CLX) were among the biggest July laggards within the sector. Consumer headwinds are stiffening. Tepid earnings outlook. Fair valuations. Improving technicals.                     |
|           | Healthcare             | • ● • • •    | Positive       | 12.3     | Gained a respectable 2.7% in July despite weakness in big pharma's Merck (MRK) and Eli Lilly (LLY). Helped by defensive sector leadership, above-average yields, and Q2's return to earnings growth after a COVID-19 hangover and disappointing Medicare reimbursement rates. Reasonable valuations. Technicals have started to improve. |
|           | Utilities              | • • ● • •    | No Trend       | 2.5      | Strong July performer on falling rates (+6.7%), even as the enthusiasm for AI power generation has waned. Recent bout of volatility has increased demand for defensive, income sectors. Technical analysis picture remains positive.   |

**FIXED INCOME**

**Bonds Acting Like Bonds Again**

Fixed income markets, as proxied by the Bloomberg Aggregate Bond Index, were higher in July with a 2.3% gain for the month, which effectively erased first half losses for the index. Softening economic data and the return of the disinflation narrative pushed Treasury yields lower (prices higher). Additionally, August's flight-to-quality trade into bonds helped high-quality fixed income return to its traditional role of portfolio diversifier during market tumult.

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

**Color Key**

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

|                     | Low                       | Med   | High   | Rationale  |   |
|---------------------|---------------------------|-------|--------|--|---|
| Current Stance      |                           |       | ✓      | 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. |   |
|                     | Credit Quality Preference |       |        | Rationale  |   |
|                     |                           | Short | Inter. | Long   |   |
|                     | Duration Preference       |       | ✓      |  | 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.                      | Neut. | Pos.   | Rationale  |   |
| Municipal Bond View |                           | ✓     |        | While we're likely past peak fundamentals, as the economy slows and tax revenues fall, still-robust cash balances collected throughout the pandemic recovery period should support muni credit over the medium term.                   |   |

|              | Overall View                | Trend    | Rationale  |
|--------------|-----------------------------|----------|--|
| Core Sectors | U.S. Treasuries             | Positive | Treasury yields were lower in July with the 10-year lower by nearly 0.50% for the month. Fed rate cut expectations continue to directionally drive Treasury yields despite the expected increase in Treasury supply. From a fundamental perspective, we think Treasury yields are likely range bound at these higher levels. Technically, 10-year yields remain in a downtrend and are now oversold near support from the December lows (3.78%). Watch for a potential short-term bounce near this area.   |
|              | MBS                         | No Trend | We remain constructive on agency MBS. Yields and spreads remain near multi-year highs, so we think MBS remain an attractive investment opportunity particularly relative to lower rated corporates. As interest rate volatility continues to fall, MBS should outperform most other high quality bond sectors.   |
|              | Investment-Grade Corporates | No Trend | We recommend a strong underweight to benchmarks, but we think there is an opportunity to invest in shorter to intermediate maturity corporate securities without taking on elevated levels of interest rate or credit risk. Fundamentals remain solid.   |
|              | TIPS                        | Positive | All-in yields for Treasury Inflation-Protected Securities (TIPS) are attractive and could provide a good hedge against unexpected inflation surprises.   |
| Plus Sectors | Preferred Securities        | Positive | Preferred securities have outperformed most other bond sectors over the past 12 months, but valuations remain relatively attractive. Higher credit quality among the riskier fixed income options. Recent Fed stress tests continue to show large, money-center bank fundamentals are generally sound, but environment favors active management. The technical backdrop remains constructive, with most preferred indexes/funds trending higher and/or holding above their rising 200-day moving averages. |
|              | High-Yield Corporates       | Positive | Yields for high-yield bonds are above historical averages but spreads remain near all-time lows. The environment broadly remains supportive for credit risk. Economic growth is slowing but not collapsing, which is typically good for credit. But credit is not cheap.   |
|              | Bank Loans                  | No Trend | Given the variable rate debt, Fed rate cuts will eventually push yields lower, although likely still higher than longer-term averages. Downgrades and defaults have increased and could increase still if the economy slows/contracts. We would favor high-yield bonds over loans for those investors interested in leveraged credit.  |
|              | Foreign Bonds               | Positive | Valuations have improved, but potential currency volatility remains a challenge.   |
|              | EM Debt                     | No Trend | Central banks have largely ended rate hikes as inflationary pressures are starting to abate. A strong dollar could provide a headwind to prices. Valuations are relatively attractive, but idiosyncratic risks remain. Liquidity can be an added risk during periods of stress.  |

COMMODITIES AND CURRENCIES

Summertime Blues

The broader commodities complex declined for a second straight month in July. The Bloomberg Commodity Index (BCOM) fell 4.5%, sending the index back into the red for the year. Despite oversold conditions, downside risk remains elevated as BCOM broke down from a head and shoulders top formation and violated support off the February lows. Cooling economic data in the U.S., including signs of softening consumer spending, contractionary manufacturing data, and a disappointing Third Plenum in China, weighed on the commodity market. A weaker dollar failed to provide much of a tailwind. The U.S. Dollar Index (DXX) slid 1.7% after failing at the declining 200-day moving average (dma) later in the month. More recently, a sharp repricing of rate cut expectations dragged the greenback below key support near 104.

Energy markets were notably weak last month. Natural gas led losses after plunging 22% due to ample supply and disappointing cooling demand. Until the supply side improves, the risk for further downside toward the spring lows at \$1.45 appears elevated. West Texas Intermediate (WTI) dropped 4.5% despite escalating geopolitical tensions in the Middle East and Venezuela. The pullback in oil did not persuade OPEC+ enough to alter production quotas at their latest meeting, including the oil cartel’s plan to begin phasing out production cuts in the fourth quarter. Support for oil sets up near the June and December lows (\$72.50 and \$67.75, respectively). China — the world’s largest oil importer — failed to surprise markets during the Third Plenum. While economic policymakers stuck with their full-year growth targets, the once-every-five-year meeting provided little in terms of immediate resolutions to its ongoing property crisis or any material stimulus measures to boost its sputtering economy.

Precious metals outperformed on the back of a weaker dollar and firming rate cut expectations. Real yields also tumbled as pricing pressures continued to cool. Gold rallied over 5% after bouncing off support from the rising 50-dma. Resistance for the yellow metal sets up at 2,485. Silver ticked down 0.5% as prices continue to try and find their footing following a sharp pullback from overbought levels (watch for support near \$26 — a level tracing back to the May lows and 200-dma). Signs of slowing global growth weighed on industrial metals. Copper sank nearly 5% as speculators continued to unwind long positions. Prices are oversold and retesting support near the \$395–\$400 range.

Color Key

● Negative    ● Neutral    ● Positive

| Sector                       | Overall View |   |   | Trend    | Rationale  |
|------------------------------|--------------|---|---|----------|--|
| Energy                       | •            | • | ● | No Trend | A pullback from a lower high has left crude oil below the 200-dma and trading near support from the June lows (\$72.50). Demand concerns stemming from signs of slowing global growth have offset any geopolitical risk premium embedded in oil. The potential for OPEC+ curtailing production cut quotas later this year remains another overhang on the supply side. Natural gas remains volatile as above-average seasonal stockpiles continue to quell relief rallies. Prices are oversold and holding above support near the 2023 lows (\$1.95). Watch for a potential short-term rebound toward the 20-/200-dmas.<br><b>With energy prices oversold and holding above support, we maintain our positive view on the energy commodity sector.</b> |
| Precious Metals              | •            | • | ● | Positive | Gold has pulled back from record highs/overbought levels and is approaching support near the rising 50-dma. Central bank buying, the recent return of inflows into physical gold ETFs, rising over-the-counter demand for gold, a weaker dollar, and falling real yields remain catalysts for buying the dip. The pullback in silver has been more pronounced. Watch for at least a short-term relief rally off support near \$26.<br><b>We maintain our positive view on the precious metals group.</b>   |
| Industrial Metals            | •            | ● | • | Negative | Signs of slowing global growth continue to weigh on industrial metals. Weak factory activity and the lack of any major fiscal stimulus in China remains another overhang. Copper is oversold and retesting support near the \$395–\$400 range. Aluminum is also oversold and near the 2023 lows — a major low with likely limited downside.<br><b>Given the technical deterioration in the space, we are downgrading our view on the industrial metals group to neutral from positive.</b>   |
| Agriculture (Ag) & Livestock | ●            | • | • | Negative | Grains were notably weak again last month. The prospect of strong production in the U.S. pushed corn, soybeans, and wheat down to multi-year lows. Expectations for waning demand from China created additional headwinds for the space. Softs were led lower by a 15% drop in cocoa. Livestock dodged the selling pressure last month as a rally in lean hogs offset weakness in live cattle.<br><b>Weak technicals support our downgrade this month to negative from neutral on the group.</b>   |
| U.S. Dollar                  | •            | ● | • | Negative | The dollar has made consistent lower highs and lower lows since April. Firming rate cut expectations and falling yields have supported the developing downtrend. The recent break below 104 leaves the March lows (102.36) and the December lows (100.62) as the next major support levels. We expect currency market volatility to remain elevated as global monetary policy paths diverge.   |

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

Alts Dispersion Continues

**Mixed Alternative Investment Performance.** Alternative investment strategy performance was mixed during July, as the rally in traditional equity and bond indexes continued, making it difficult for diversified and uncorrelated strategies to keep pace. The 2.3% return of the Bloomberg Aggregate Index was particularly notable as market participants increased expectations of Fed interest rate cuts through the end of the year and starting in September.

**Fundamental Strategies Lead Gains.** For the first time this year, the HFRX Event Driven Index led sub-strategy returns, as the melt-up in equities pushed the share price of announced merger targets further towards their deal price. For the month, the index gained 1.7% and has returned 2.7% for the year. Long/short equity strategies were also in positive territory as the HFRX Equity Hedge gained 0.7% and has gained 5.9% on the year. A reversal in the outperformance of the growth factor and strength in value benefitted managers who had recently reduced their long exposure to the artificial intelligence theme that has paced markets throughout the year.

**Remain Constructive on Global Macro, Managed Futures, and Multi-Strategy.** Our preferred methods of implementation declined during the month, as the HFRX Macro/CTA Index fell 1.1%; however, we maintain a constructive view on their value in a diversified portfolio and long-term benefits. The main detractors were short bond, long energy-related commodities, and long U.S. dollar exposure. At a macro level, major central bank rate expectations drove price action across all asset classes during the month and reversed the prior trends that this space was heavily invested in.

Long U.S. dollar versus the Japanese yen was particularly impactful as the Bank of Japan unexpectedly raised rates at the end of the month leading to a strong rally in the yen. This yen turnaround subsequently led to a broader market unwinding as investors were forced to sell positions they purchased by borrowing in the yen.

Color Key

● Negative    ● Neutral    ● Positive

|                | Sector                | Overall View |   |   | Rationale   |
|----------------|-----------------------|--------------|---|---|---|
| Fundamental    | Long/Short Equity     | •            | ● | • | The current equity market environment lends greater stock picking environment for low net equity long/short managers. With rich valuations and dwindling momentum, these managers should be able to build solid short books that can increase their total alpha generation.   |
|                | Event Driven          | •            | ● | • | Merger Arbitrage strategies remain attractive fixed income diversifiers; however, regulatory and political risk will continue to overshadow the industry as we move closer to the November elections. Increase in oil and gas deals is a positive development as the overall level of transactions remains soft.  |
| Tactical       | Global Macro          | •            | • | ● | Favor multi-strategy global macro strategies with truly diversified asset class and regional exposure as the market moves on from directional structural themes to more balanced tactical themes across both developed and emerging markets. We continue to believe the strategy serves as a solid portfolio diversifier that deserves a steady allocation. |
|                | Managed Futures       | •            | • | ● | While trend following indexes have underperformed for several months, we remain constructive on the industry, with a focus on combining several uncorrelated strategies together to reduce drawdowns and smooth the risk/return profile of the allocation.  |
| Multi-Strategy | Multi-PM Single Funds | •            | • | ● | Multi-Strategy funds continue to benefit from the ability to dynamically invest across the alternative investment strategy landscape, while providing a diversifying risk/return profile. These funds should be able to tactically take advantage of any short-term market disruptions.   |
|                | Specialty Strategies  | •            | ● | • | Among private market strategies, private credit and infrastructure strategies, which we were constructive on, continued to perform well and are expected to show their resilience as we navigate through the fog.   |

Please see <https://www.hfr.com/indices> for further information on the indices

Definition: The HFRI 400 (US) Hedge Fund Indices are global, equal-weighted indices comprised of the largest hedge funds that report to the HFR Hedge Fund Research

## IMPORTANT DISCLOSURES

This material has been prepared for informational purposes only, and is not intended as specific advice or recommendations for any individual. There is no assurance that the views or strategies discussed are suitable for all investors and they do not take into account the particular needs, investment objectives, tax and financial condition of any specific person. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing. Any economic forecasts set forth may not develop as predicted and are subject to change.

Stock investing involves risk including loss of principal. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies. Value investments can perform differently from the market as a whole and can remain undervalued by the market for long periods of time. The prices of small and mid-cap stocks are generally more volatile than large cap stocks. Bonds are subject to market and interest rate risk if sold prior to maturity.

### ASSET CLASS DISCLOSURES

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies. Relative trend is an assessment of the intermediate term price trend and performance between various asset classes and sectors. For sectors each sector's relative trend is versus the S&P 500.

Yield spread is the difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings, and risk. Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk. For the purposes of this publication, intermediate-term bonds have maturities between three and 10 years, and short-term bonds are those with maturities of less than three years.

Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Corporate bonds are considered higher risk than government bonds. Municipal bonds are subject to availability and change in price. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply. U.S. Treasuries may be considered "safe haven" investments but do carry some degree of risk including interest rate, credit, and market risk. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

Floating rate bank loans are loans 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 issuer'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.

HFRX Equity Hedge Index The HFRX Equity Hedge Index measures the performance of the hedge fund market. Equity hedge strategies maintain positions both long and short in primarily equity and equity derivative securities.

The HFRI® Indices are broadly constructed indices designed to capture the breadth of hedge fund performance trends across all strategies and regions.

The HFRI Institutional Macro Index is a global, equal-weighted index of hedge funds with minimum assets under management of USD \$500MM which report to the HFR Database and are open to new investments.

Event driven strategies, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position. Managed futures are speculative, use significant leverage, may carry substantial charges, and should only be considered suitable for the risk capital portion of an investor's portfolio.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Any futures referenced are being presented as a proxy, not as a recommendation. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors. Precious metal investing involves greater fluctuation and potential for losses.

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## IMPORTANT DISCLOSURES

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks. All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy. Precious metal investing involves greater fluctuation and potential for losses.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

All index data from FactSet.

The Strategic and Tactical Asset Allocation Committee (STAAC) is a division of LPL Research.

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|--|---|--|-----------------------|