

# Resilience and Rotations Shape the Start of 2026

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:

- **Raised 2026 GDP forecast to 2.7%**

### STAAC Asset Class Tactical Views as of 02/01/2026 (GWI)

Asset Class	1	2	3	4	5
<b>Equity</b>	.	.	●	.	.
U.S.	.	.	●	.	.
International Developed (EAFE)	.	.	●	.	.
Emerging Markets	.	.	●	.	.
Large/Mid Growth	.	●	.	.	.
Large/Mid Value	.	.	●	.	.
Small Growth	.	.	●	.	.
Small 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 02/01/2026

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

Source: STAAC as of February 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

U.S. equities started the new year on a positive note with the S&P 500 posting its best month since October, the Nasdaq snapping a two-month losing streak, and the Russell 2000 small cap index rallying over 5%. January trading was choppy with a market rotation the major focus as investors pressured mega-cap tech names in favor of cyclical pockets of the market. Nonetheless, additional evidence supporting the resilient economy narrative aided risk sentiment, while equities broadly shrugged off a deluge of geopolitical volatility amid the U.S. capture of Venezuelan President Nicolas Maduro, European-U.S. tensions, and developments in Iran. Meanwhile, earnings season started strong, although muted reactions underscored a high bar, particularly for banks and artificial intelligence (AI) related names.

Core bonds overcame mid-month weakness to end January slightly higher, measured by a 0.1% advance in the Bloomberg U.S. Aggregate Index. U.S. Treasuries, however, posted a fractional loss after yields were pressured higher as a forceful sell-off in Japanese government bonds spilled across the Pacific, sending five- to 30-year yields to their highest levels in four months. Simultaneously, a surge in oil prices and a pause in Federal Reserve rate cuts also contributed to upward pressure on Treasury yields. Mortgage-backed securities advanced while corporates edged higher.

Looking forward, investors may be well served by bracing for additional bouts of volatility as ongoing rotation dynamics and increasing AI investment scrutiny linger. Pullbacks may be shallow given technology-fueled earnings strength, likely additional Fed rate cuts, and the fiscal stimulus boost this year. Our analysis shows positioning remains relatively neutral, but valuations are elevated.

LPL Research expects mid-to-high single digit returns for equities in 2026 amid policy crosscurrents and surging AI investment, as discussed in [Outlook 2026: The Policy Engine](#).

### 2026 MARKET FORECASTS

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

	Current
<b>10-Year U.S. Treasury Yield</b>	3.75% to 4.25*
<b>S&amp;P 500 Index Earnings per Share</b>	\$290
<b>S&amp;P 500 Index Fair Value</b>	7,350**

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 02/01/26.

Underpinning the outlook is an economy still growing above trend. Rebounds in the January PMI figures and recent solid payroll gains improved the growth outlook from just a few months ago. The tailwinds to growth will come from higher-than-expected tax refunds, resolution of trade uncertainty, and looser financial conditions. Risks to the outlook include geopolitical discord, nagging inflation, and softer job market.

The fixed income market remains rangebound, although downside pressure on yields could emerge as the Fed continues its rate-cutting cycle.

The STAAC's recommended tactical asset allocation includes:

- A neutral stance toward U.S. equities. A lot of good news is priced in, potentially limiting the opportunity for near-term upside
- The Committee slightly favors growth over value for exposure to AI and compelling earnings growth, but recent value strength is nearing an inflection point that could prove sustainable.
- The Committee favors large caps over small caps, partly due to superior balance sheet quality, ongoing AI investment, and potentially tighter credit markets in 2026.
- Within fixed income, the STAAC keeps a neutral allocation to core bonds and shows a slight preference for mortgage-backed securities over investment-grade corporates. The Committee views the risk-reward profile of core sectors such as Treasuries, agency MBS, and high-quality corporates as more attractive than that of the plus sectors.

### 2026 ECONOMIC FORECASTS

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

	2026 (Y/Y, real GDP)
<b>United States</b>	2.7%
<b>Eurozone</b>	1.2%
<b>Advanced Economics</b>	1.8%
<b>Emerging Markets</b>	4.1%
<b>Global</b>	3.1%

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

# Tactical Asset Allocation as of 02/01/2026

## 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>	76.0%	76.0%	0.0%	64.0%	64.0%	0.0%	48.0%	48.0%	0.0%	32.0%	32.0%	0.0%	16.0%	16.0%	0.0%
Large/Mid Growth	32.0%	28.5%	3.5%	27.0%	24.0%	3.0%	20.5%	18.0%	2.5%	14.0%	12.0%	2.0%	7.0%	6.0%	1.0%
Large/Mid Value	29.5%	28.5%	1.0%	25.0%	24.0%	1.0%	18.5%	18.0%	0.5%	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	5.0%	9.5%	-4.5%	4.0%	8.0%	-4.0%	3.0%	6.0%	-3.0%	2.0%	4.0%	-2.0%	1.0%	2.0%	-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%	15.0%	15.0%	0.0%	35.0%	35.0%	0.0%	55.0%	53.0%	2.0%	75.0%	70.0%	5.0%
<b>U.S. Core</b>	0.0%	0.0%	0.0%	15.0%	15.0%	0.0%	35.0%	35.0%	0.0%	55.0%	53.0%	2.0%	75.0%	70.0%	5.0%
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%	4.5%	4.0%	0.5%	10.5%	9.5%	1.0%	15.5%	14.5%	1.0%	20.5%	19.0%	1.5%
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>	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%	3.0%
Tactical: Global Macro	3.0%	0.0%	3.0%	2.0%	0.0%	2.0%	1.5%	0.0%	1.5%	1.0%	0.0%	1.0%	0.0%	0.0%	0.0%
Multi-Strategy	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	1.5%	0.0%	1.5%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%
<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

## AI Disruption of Technology Weighs on Growth Stocks, Sparks Rotation

Investors may be well served by bracing for additional bouts of volatility as ongoing rotation dynamics and increasing AI investment scrutiny linger. LPL Research still believes pullbacks are likely to be shallow given technology-fueled earnings strength, likely additional Fed rate cuts, and the fiscal stimulus boost this year and, therefore, maintains a neutral U.S. equities view.

The Strategic and Tactical Asset Allocation Committee (STAAC) continues to favor large caps slightly over small caps and growth slightly over value. From a geographic perspective, the STAAC has warmed up to emerging markets (EM) amid improving relative strength vs. the U.S. and developed international markets and earnings acceleration. The STAAC continues to recommend benchmark-level allocations to the U.S., developed international, and emerging markets but the Committee is watching short-term technical trends in EM and currency markets to identify potential opportunities to add EM exposure.

### Color Key:

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

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization and Style	Large/Mid Growth	●	Negative	The technology-driven earnings of the growth style help justify rich valuations, but recent underperformance of growth stocks on AI disruption fears leaves the growth style chart near an inflection point that may trigger a downgrade. Large cap companies continue to offer a compelling earnings outlook, but AI scrutiny will only increase. Watching technicals closely. Negative bias.
	Large/Mid Value	●	Positive	What we wrote last month has rung true: “More market volatility or weakness in the AI theme may be needed for value stocks to outperform in 2026, although stimulus and commodities strength are supportive of cyclical value stocks.” That’s exactly what’s unfolded so far in 2026. Better economic data supports cyclical value. We’re not quite ready to call it sustainable just yet but it’s getting close.
	Small Growth	●	Negative	Attractive valuations, resilient economic growth, and impending Fed rate cuts are supportive, but tighter credit markets in 2026 and the AI theme still favor large caps, especially if volatility remains elevated. Technical trends have turned more negative.
	Small Value	●	Positive	Attractive valuations, financial deregulation, booming capital investment, and Fed rate cuts are supportive. While some policy uncertainty has cleared and the outlook for banks has improved, balance sheet strength still matters. Technical trends have improved.
Region	United States	●	No Trend	AI investment, Fed rate cuts, and fiscal stimulus are keys to potential U.S. outperformance in 2026. With AI scrutiny intensifying and valuations elevated, in the near term, non-U.S. may be better positioned. That said, U.S. earnings growth is very strong, and the innovation advantage remains. Staying neutral.
	Developed International	●	No Trend	International economies have become more competitive, with significant deficit/defense spending in Europe and corporate reforms in Japan, valuations are attractive, and the U.S. dollar is on the cusp of a technical breakdown. U.S. technology underperformance gives developed international an edge though STAAC prefers EM where earnings and technical analysis trends are better.
	Emerging Markets	●	Positive	This month’s upgrade of EM equities to overweight is driven by a combination of fundamental and technical factors. First, earnings are accelerating. Second, the U.S. dollar is on the cusp of breaking below key support. Third, EM equities remain attractively valued. Fourth, EM is benefiting from AI investment. And fifth, technical trends in EM are positive, including absolute price and relative strength.

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

### Continuing to Watch our “Shopping List” For Ideas Amid Market Rotation

The STAAC continues to watch the sector “shopping list” LPL Research presented in its Outlook 2026: The Policy Engine. First, LPL Research indicated an interest in adding technology exposure on weakness and that is indeed what we have gotten in 2026. We believe the technology sector is attractively valued following the recent pullback despite some incremental AI-related earnings risk in software. Other possible candidates for upgrade include healthcare, which benefit from greater policy clarity, and industrials, which is one of the biggest beneficiaries of fiscal stimulus and AI.

#### Color Key:

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

	Sector	Overall View	Relative Trend	S&P Wgt.	Rationale
Cyclical	Basic Materials	• • ● • •	Positive	2.0	Outperformed for the third straight month in January (+8.7%) on surging metal prices. Strength was broad based across mining and chemicals. Fiscal stimulus, the data center buildout, and shortages are providing support, but China remains a wildcard.
	Consumer Cyclical	• • ● • •	No Trend	10.2	In line performer in January (+1.7%) as upper income consumers continue to support consumer spending (the upper half of the “K-shaped economy.” Job market slowing gradually but incomes are outpacing inflation. Tax refunds help. Rich valuations.
	Financial Services	• • ● • •	No Trend	13.1	Worst performer in January (-2.5%) after two straight months of outperformance. Tepid reaction to earnings season in part because of risk that credit card rates are capped. Credit markets remain healthy. Reasonable valuations, a steep yield curve, and de-regulation are supportive.
	Real Estate	• • • ● •	Negative	1.9	Outperformed in January (+2.8%) on strength in data center, storage, and residential REITs. Stable interest rates and rotation out of technology were beneficial. Reasonable valuations but little growth. Dividends back in favor. Sub-par technicals.
Sensitive	Communication Services	• ● • • •	No Trend	10.9	January outperformer (+5.8%) on strong reaction to initial earnings reports, led by Verizon (VZ), Meta (META), and Alphabet (GOOG/L). Sector still offers a solid growth outlook at a reasonable valuation, but technical analysis conditions have softened some. Negative bias after two years of such significant outperformance.
	Energy	• • ● • •	No Trend	3.3	Top performer in January (+14.4%) as oil bounced on potential military action in Iran. Natural gas got a boost from unusually cold weather. Sanctions on Russian oil provided added support. Global oversupply still presents a cap on upside in our view, along with lackluster growth in China. Reasonable valuations. Improved technicals.
	Industrials	• • ● • •	Positive	8.9	Outperformed in January (+6.7%) for second straight month. Transports, defense, and machinery performed well, benefiting from the market’s rotation to cyclicals as the economic outlook improved. Business tax incentives, AI investment, and defense spending provided tailwinds. Rich valuations. Positive technicals. Positive bias.
	Technology	• • ● • •	No Trend	32.4	Lagged for third straight month in January (-1.7%) amid increasing AI skepticism. Big increases in capital investment plans widen the range of outcomes and software prospects are difficult to predict, but earnings tailwinds for the broad sector are too strong for us to ignore at now lower valuations.
Defensive	Consumer Defensive	• • ● • •	No Trend	5.3	Solid outperformer in January (+7.7%). The sector was a beneficiary of the rotation out of the AI theme. Agriculture names paced sector gains, while packaged food and beverage groups struggled some during the month. Back at elevated valuation levels.
	Healthcare	• • ● • •	Positive	9.7	Lagged in January (unchanged) after less-than-expected Medicare Advantage reimbursement rates dragged managed care stocks sharply lower. CVS (-5.3%), Humana (-23.8%), and UnitedHealth (-13.1%) were particularly weak. Policy uncertainty should soon clear. Valuations are attractive. Technicals have improved.
	Utilities	• • ● • •	Negative	2.3	In line performer in January (+1.4%) after finishing last in the sector rankings in December. Constellation Energy (CEG) fell 20.6% as the AI power demand theme cooled. Technical trends have deteriorated. Negative bias.

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

## Munis Poised for Strong Returns in 2026

Municipal bonds enter 2026 as a compelling option for investors: attractive yields, strong fundamentals, and structural changes that continue to reshape the market. After a volatile 2025, marked by Treasury market dislocations and record muni issuance, the outlook for this year suggests more stability—and opportunity. The muni curve steepened significantly in 2025, making intermediate maturities (10–20 years) particularly attractive.

In taxable markets, with yields still elevated, particularly for high-quality sectors within the fixed income universe, (Treasuries, 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.
	Short	Inter.	Long	Rationale
	Duration Preference			Yields remain under pressure from conflicting narratives: slowing growth (lower yields) but stickier inflation and large budget deficits (higher yields), which will likely keep rates directionless (but volatile) until/unless the economic data softens enough to price in a deeper rate cutting campaign by the Fed. We think the yield curve can continue to steepen, led by a fall in shorter maturity yields. We remain neutral duration.
	Neg.	Neut.	Pos.	Rationale
	Overall View		Overall Trend	Rationale
Core Sectors	U.S. Treasuries			Treasury yields were generally higher to start the year, but we think the 10-year will trade mostly between 3.75–4.25% in 2026. To get Treasury yields much lower though, economic data will need to show further deterioration. Technically, 10-year yields are consolidating around prior highs/200-day moving. Resistance sets up at 4.31%.
	Mortgage-Backed Securities			Spreads are below longer-term averages and while near-term momentum of falling interest rate volatility and constrained net supply will likely continue into the first half of the year, already tight spreads and eventually lower mortgage rates, which will increase prepayment risks, potentially cap returns for 2026.
	Investment-Grade Corporates			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 valuations are stretched.
	TIPS			Inflation expectations have widened recently making the "hurdle" to invest in TIPS (versus nominals) higher. However, all-in yields for TIPS remain attractive, particularly shorter maturity TIPS, and could provide a good hedge against unexpected inflation surprises.
Plus Sectors	Preferred Securities			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.
	High-Yield Corporates			High-yield markets have priced out most risks with spread volatility collapsing and spreads near secular tightness across quality buckets. 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. The asset class is better suited for income-oriented investors.
	Bank Loans			Downgrades and defaults have increased and could increase still if the economy slows/contracts. With Fed rate cuts expected to continue in 2026, yields will continue to fall. Recent stresses within the software sector, which is a large sector within the asset class, remains a concern.
	Foreign Bonds			Yields have moved higher recently but are still generally lower than U.S. markets, despite ongoing political dysfunction in France and monetary policy normalization in Japan. Currency volatility is a risk. The asset class is more attractive for U.S. dollar hedged investors.
	EM Debt			Valuations are relatively attractive, but idiosyncratic risks remain, and ongoing trade wars could negatively impact smaller emerging countries.

# Commodities and Currencies

## Commodity Markets Volatile but Higher

The commodities rally extended into January, with the Bloomberg Roll Select Commodity Total Return Index — designed to mitigate negative roll yields — advancing 10%. The gain marked the index's sixth consecutive monthly increase and its strongest performance since December 2010. Strength was broad-based, led by notable outperformance in the energy sector. A softer U.S. dollar, heightened geopolitical tensions, and signs of improving global growth were key drivers behind the move.

Metals remained a focal point, though the earlier melt-up cooled sharply toward month-end. Gold and silver retreated from recent parabolic advances as the debasement trade lost momentum. Many attributed the pullback to a firmer dollar and the nomination of Kevin Warsh as the new Federal Reserve (Fed) Chair, but markets were already deeply overbought. Heavy leverage, crowded positioning, and extreme bullish sentiment amplified the reversal. Historically, parabolic moves tend to unwind quickly and require time to stabilize. Early rebound attempts also often fail, reinforcing the need for patience until momentum stabilizes.

Industrial metals finished the month in positive territory. Lithium carbonate led the group with a 56% surge amid tightening supply and growing demand from electric vehicles and energy storage. Copper, aluminum, and zinc also posted solid gains despite experiencing some late-month volatility.

Energy, a consistent underperformer in 2025, finally joined the broader commodity market advance. West Texas Intermediate (WTI) climbed nearly 14% and snapped a five-month losing streak. Oversold conditions, a growing list of geopolitical tensions (Venezuela, Greenland, Iran), and supply disruptions in the Middle East brought buyers back into the market. The continuation of production cut quotas from OPEC+ also helped assuage some oversupply fears. Natural gas earned its reputation as the “widow maker” market in January as prices soared 18% during a volatile month of trading. An arctic blast across most of the U.S. pushed prices to multi-year highs, which were quickly pared over the last few days as weather-related production reductions came back online and forecasts improved.

The U.S. Dollar Index slid 1.4% and posted its third straight monthly decline. However, the greenback was able to hold above its secular uptrend after another successful retest of support near 96. The subsequent bounce off support stemmed from constructive trade developments, an improving domestic growth outlook, and Kevin Warsh's nomination for Fed Chair — viewed as a more hawkish candidate than the other candidates.

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

Sector	Overall View	Overall Trend	Rationale
Energy	●	Neutral	WTI has bounced off support near \$55 and recaptured its 200-day moving average (dma). A breakout above \$68 could open the door for a retest of the longer-term downtrend. Gasoline and heating oil also continue to make technical progress. Natural gas remains extremely volatile as prices plunged back toward support at \$3. <b>We maintain our neutral view on the energy commodity sector.</b>
Precious Metals	●	Positive	Gold and silver have broken down from parabolic rallies but remain above their long-term uptrends. We remain skeptical of near-term rallies and recommend waiting for support to be established and momentum to stabilize. <b>We do not believe the bullish fundamental backdrop has changed and maintain our positive view on precious metals.</b>
Industrial Metals	●	Positive	Industrial metals remain volatile but continue to trend higher. Demand remains supported by surging AI capex, rising global infrastructure spending, improving global growth, and building electrification trends. Underinvestment in production and global trade policy have added to the supply/demand imbalance. <b>We maintain our positive view on industrial metals.</b>
Agriculture (Ag) & Livestock	●	Neutral	Wheat led gains in grains with a 6% rally. Corn slid around 3% but held above its 200-dma. Softs lagged as sugar and coffee dropped 5%. Lean hogs and live cattle advanced. Relative trends point to continued outperformance for grains over softs, and further upside potential in livestock. <b>We maintain our neutral view on the ag &amp; livestock space.</b>
U.S. Dollar	●	Neutral	The U.S. Dollar Index found support once again at 96 last month. Resistance at the 98–99 range will be a key test for the sustainability of the latest relief rally, while a close above 100.40 would validate a breakout from the current range.

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.  
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# Alternative Investments

## Strong Start to 2026

Alternative investment strategies started the year on a strong note, with most sub-strategies outperforming traditional equity and bond markets. The HFRX Macro: Systematic Diversified CTA Index led monthly performance with a gain of 5.2%. Long gold and silver exposure were the main contributor to returns; however, both suffered an incredible single day price decline on the last day of the month which weighed on what would have been one of the strongest starts to a year ever for the strategy. Long international developed equity markets were also a positive contributor to returns and helped offset losses in commodities markets later in the month.

Following the trend-following strategies, the HFRX Equity Hedge Index returned 2.7% during January. The rotation to value from growth was a headwind for managers who increased their technology exposure throughout last year. However, we have seen many strategies beginning to reallocate their holdings as the market narrative has shifted. Against a backdrop of policy uncertainty, tariff shocks, and a late-year pivot toward monetary easing, we continue to expect performance across strategies to be highly differentiated. Long/short equity is expected to benefit from sector dispersion and possibly a broader opportunity set if the growth style does not solely drive the market higher. Global macro, particularly discretionary approaches, is expected to capitalize on rate differentials and currency trends, while trend-followers have added value in commodity markets, providing a strong source of diversification from their long equity and bond exposure.

Overall, with economic and policy uncertainty likely to continue into 2026, we remain positive on alternative investment strategies, as we believe they can help strengthen portfolio stability during periods of volatility. Our preferred approaches include equity market-neutral, nimble discretionary global macro, and a range of managed futures strategies. In private markets, infrastructure, secondary private equity investments, and private credit remain our preferred strategies. Secondary private equity investments have seen strong momentum in deal volumes and a pickup in the number of participants. With more limited partners, including pensions and endowments, looking to monetize some of their holdings and rebalance their portfolios, as well as general partners looking to create continuation funds, the space has become more liquid and efficient, making it a more viable standalone strategy.

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

	Sector	Overall View	Rationale
Fundamental	Long/Short Equity	● . .	Elevated volatility and ongoing stock dispersion 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. The recent style rotation has been a headwind for managers who increased their growth and technology holdings last year.
	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 significant long exposure to certain asset classes, specifically equities and precious metals. 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

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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