

LPL RESEARCH PRESENTS

MIDYEAR

# OUTLOOK

*Pragmatic Optimism* ..... *Measured Expectations*

ed. 2025  
2 / 2





# From the CIO

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**VOLATILITY, AS DEFINED** by Merriam-Webster, is “a tendency to change quickly and unpredictably” – a fitting description of the economic and market environment in 2025. A significant portion of this market turbulence originated from the widely held assumption that President Trump’s second term policies would simply mirror those of his first. The gradual understanding that this was not the case – and the subsequent impact of these new policy directions – has been central to the market volatility experienced this year.

As we move forward and more hard data becomes available, investors and policymakers will need to carefully evaluate the true economic impact of these policy shifts. They will also need to consider the very real possibility of the administration pivoting back towards a more pro-growth, pro-market policy as we move nearer to the 2026 mid-term election season. Given the array of potential outcomes over the next six months, investors should prepare for ongoing uncertainty and the market volatility that may accompany it. However, there’s also a strong likelihood that policy-driven uncertainty is past its high-water mark, and as it recedes, stability should gradually return, bringing with it plenty of new investment opportunities.

To make sense of such a fluid market environment, we turn to our Strategic and Tactical Asset Allocation Committee (STAAC). This experienced team of investment professionals, utilizing our data-driven framework, meets weekly to assess global market trends, identify emerging risks, and uncover potential investment opportunities for our investors.

With economic and policy uncertainty expected to persist in the second half to some degree, the STAAC believes tactical portfolios should seek to carefully balance risk mitigation with proactive positioning for new opportunities. As such, we continue to emphasize the importance of diversification across asset classes and geographic regions. We also favor integrating holdings that enhance stability, such as allocations to alternatives and other investments with low correlation to traditional assets. Additionally, we advocate staying attentive during periods of volatility to take advantage of more attractive levels in equities, as we ultimately see potential for stocks to deliver favorable returns by year end.

Regardless of what the markets may bring, it is truly a privilege to stand alongside you as a partner, and we sincerely appreciate the confidence you continue to place in LPL Research.



Sincerely,

Marc Zabicki, CFA  
Chief Investment Officer,  
LPL Financial

## OVERVIEW

**GIVEN THE ECONOMIC** distortions witnessed in recent months and the ongoing uncertainty around policy and geopolitics, it is a difficult time to have strong convictions. However, some semblance of clarity is expected in the near future, and our base-case view is that the economy will begin to show more definitive adverse effects from trade policy with slower labor demand, weaker growth, and an uptick in inflation. This challenging macro-environment will create periods of volatility for the stock market, but we ultimately expect equities to finish the year moderately higher, as we believe neither the administration nor the Federal Reserve (Fed) is permanently committed to their current policy trajectory. We think bonds will remain largely range-bound in the second half, influenced by the interplay of debt level concerns and burgeoning economic weakness, though we see greater potential for a downside surprise in yields given the economic risks. Overall, we believe the environment ahead calls for balancing risk mitigation with proactive positioning for upside opportunities. Achieving this will require a stronger emphasis on diversification across asset classes and geographies, along with increased allocations to investments that do not move in lockstep with traditional assets, such as alternatives.

## The Bottom Line



## ECONOMY

In the second half, delayed trade policy impacts will lead to weak economic growth, softening labor demand, and slightly higher levels of inflation. This environment will make things challenging for the Fed and force them to maintain their cautious stance on monetary policy for longer.



## STOCKS

The stock market's performance in the second half will center around trade negotiations, artificial intelligence (AI), interest rate volatility, and the tax bill, among other things. Stock valuations reflect a lot of good news amid so much policy uncertainty. Given the limited room for multiple expansion, we expect only modest gains by year-end. Periods of volatility are likely amid a challenging macro environment, but market pullbacks should be viewed as opportunities to selectively increase equity exposure.



## BONDS &amp; CASH

Debt concerns, trade policy headwinds, and a cautious Fed will keep Treasury yields range-bound in the second half. Given historically high starting yields, investors should prioritize income generation, favoring intermediate-term maturities. As the Fed eventually moves to cut short-term rates, cash yields will decline, making bonds a more attractive option for long-term investors seeking stable returns and portfolio risk mitigation.



## PORTFOLIOS

With economic and policy uncertainty expected to persist, tactical portfolios should balance risk mitigation with positioning for new opportunities. Diversification across asset classes and regions, along with allocations to alternatives, can enhance stability. Stay attentive during periods of market volatility to be able to take advantage of equities at more attractive levels.

# Is the Economy Entering Uncharted Waters?



## KEY EXPECTATIONS

- The delayed effects of trade policy will begin to weigh on the economy in the second half, leading to a deceleration in overall growth, weaker labor demand, and an uptick in inflation
- This more complex macro environment will force the Fed to maintain its cautious stance on monetary policy for longer than markets originally expected
- Ongoing tariff headlines will continue to influence market sentiment, complicating both growth and inflation forecasts

● By Jeffrey Roach, PhD, Chief Economist

The current economic landscape is difficult to gauge given all the distortions that obscure the true health of the economy. After a decline in gross domestic product (GDP) in the first quarter following a surge in imports, the subsequent rebound in growth might create a perception of a strong recovery, but we think this is likely a false dawn. The whiplash in trade policy is adversely impacting official economic data and creating difficulties for investors, as it becomes almost impossible to discern whether the economy is genuinely rebounding or merely experiencing short-term fluctuations. Such distortions highlight the importance of looking beyond government statistics to industry reports from the likes of the Institute for Supply Management (ISM) to form a clearer picture of economic conditions. The ISM Composite Index, which gives insights into business views from across the country in both the goods and services industries, fell in recent months and points to a broader slowdown coupled with reaccelerating inflation **[Fig.01]**.

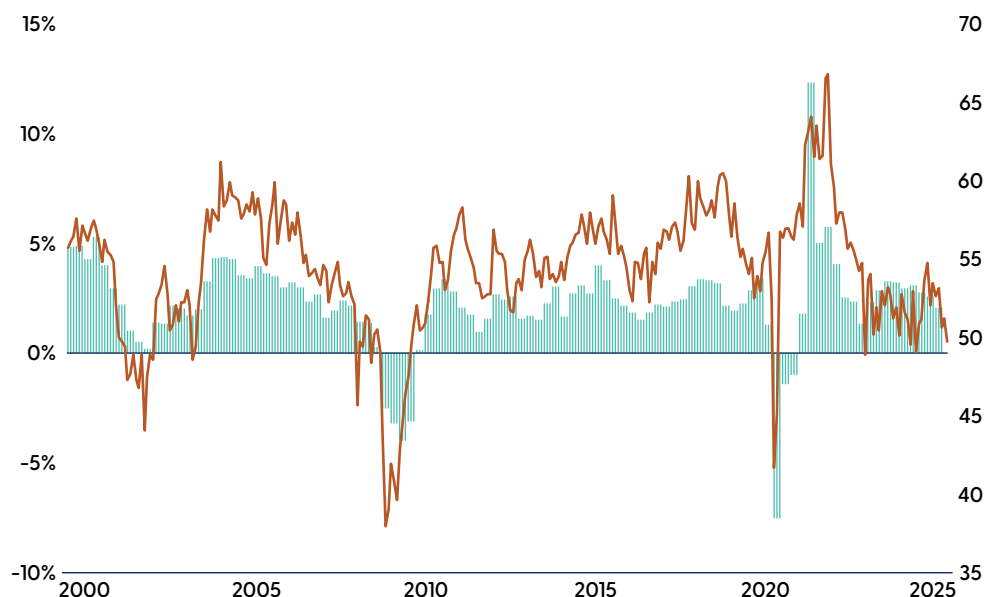
The May ISM Report on Business for the services sector revealed some disturbing realities for several sectors amid trade uncertainty. For example, the amount of new orders contracted for the first time in nearly a year. Tariff impacts are also likely elevating prices paid by services sector companies, with the Prices Index hitting its highest level since November 2022 when annual inflation rose to 7.1%.

Business leaders' perspectives serve as a vital complement to official government statistics, which often suffer from low response rates and delayed reporting. Listening to these insights helps provide real-time signaling on industry health and emerging risks, which is even more crucial in uncertain economic times.

fig.  
01

## Businesses Report Slowdown in New Orders

— GDP Growth Y/Y% (left axis)  
— ISM Composite Index (right axis)



Source: LPL Research, Bureau of Economic Analysis, Institute of Supply Management 06/09/25

All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.



Fed officials have expressed concern over the difficult tradeoffs involved in navigating the current environment, especially as new tariffs and policy measures could exacerbate inflationary pressures. This echoes the past, when aggressive monetary tightening was eventually implemented to tame inflation, often at the expense of economic growth, illustrating the delicate balancing act policymakers must undergo at the moment.

For markets, these challenges present a difficult environment because they combine the adverse effects of inflation, weaker employment, and slow growth, which impact various asset classes differently. The stock market, for instance, tends to struggle when growth-oriented equities, including tech companies, start to suffer from rising borrowing costs and waning demand. The bond market, on the other hand, is historically negatively impacted when inflation rises as fixed income returns get eroded in real terms. Meanwhile, commodities like gold can often perform well in such environments, but the associated rising raw material costs can end up harming industries reliant on industrial production.

Ultimately, investors must remain vigilant, relying on industry trends and early indicators rather than lagging official statistics to identify emerging opportunities and sidestep risks.

### Expect a Slight Reacceleration of Inflation in the Back Half of 2025

Headline inflation has decelerated to 2.1% annually so far this year. Core inflation reached 2.5% from a revised 2.7% in March. However, this looks to be a near-term low and we think inflation could reaccelerate for the remainder of 2025 as both supply and demand pressures will start to push annual inflation rates higher.

The growth in real income is providing support for households uncertain about the current macroeconomic landscape, but that same thing can also start putting pressure on consumer prices. We think that as long as the job market doesn't fall out of bed, there is upside risk to inflation forecasts as many baseline estimates cannot reasonably account for the volatility in tariff policy.

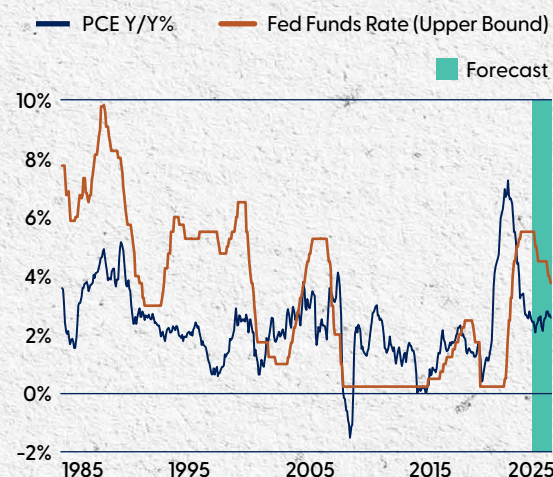
In the latter half of 2025, we expect a modest reacceleration of inflation, driven primarily by modestly growing demand and adverse supply chain dynamics. Excluding potential tariff-related impacts, the headline Personal Consumption Expenditures (PCE) index is expected to rise from its recent low of 2.1% in April to around 2.5%. Tariffs could add to this baseline inflation forecast as ongoing consumer income growth may further underpin demand-driven inflationary pressure.

Supply constraints are also anticipated to play a significant role in maintaining inflationary pressure. As companies reassess and restructure their supply chains – prompted by geopolitical shifts, technological changes, or lingering disruptions from previous shocks – there will be increased costs associated with the production of goods and their distribution. This reevaluation of supply chains will lead to shortages or delays, which in turn push consumer prices higher. Such factors underscore the complex interplay between demand-side momentum and supply-side constraints, both of which we think will ultimately work to keep inflation rates above the Fed's 2% target [Fig.02].



fig.  
02

## The Fed Could Cut, Yet Remain Restrictive



Source: LPL Research, Federal Reserve, Bureau of Labor Statistics 05/13/25

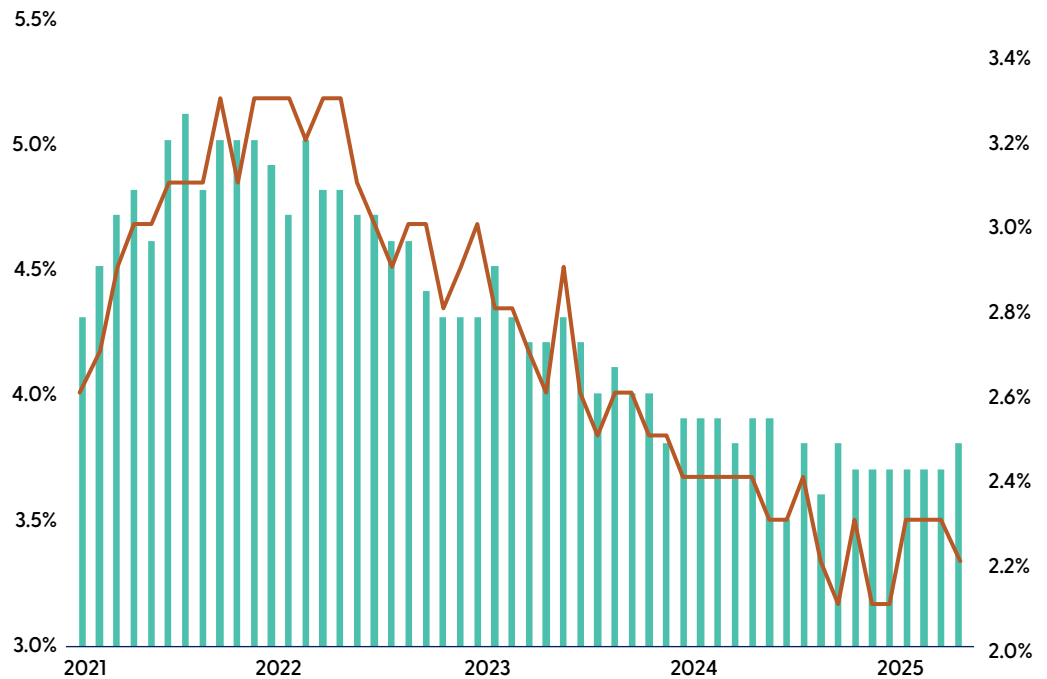
All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

fig.  
03

## Businesses and Workers Are Hesitant About Current Labor Market

— Hires Rate (left axis)  
— Quits Rate (right axis)

Source: LPL Research, Bureau of Labor Statistics 06/09/25



Given these dynamics, Fed policymakers are expected to maintain a cautious stance, which will force them into keeping the federal funds rate higher for longer. By pursuing this approach, their aim will be to keep inflation expectations anchored, but even so, we believe inflation will still likely inch higher in the back half of 2025. Ultimately, the Fed will try to do everything it can to strike a balance in their dual mandate of full employment and price stability, but something may have to give.

### Choppy Waters Could Upend the Labor Market

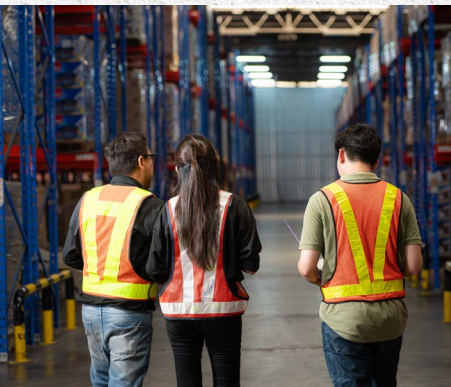
The labor market looks to be stable in the near-term, but we see “choppy waters” on the horizon that could serve to significantly disrupt recent positive employment trends. To start, we think many companies will start to face hurdles in maintaining current employment levels.

In the Fed’s June Beige Book, we saw all 12 Fed districts describe lower labor demand, citing declining hours worked and overtime, hiring pauses, and staff reduction plans. Given this, it is not difficult to see lower payroll numbers in the coming months, especially if we do not get more clarity on international trade policy.

Gauging this going forward, the monthly metrics on the “quits” rate and “hires” rate should give indispensable insights. The quits rate will give us a better look into workers’ inclinations to voluntarily quit work in search of better prospects. When the job market begins to weaken, workers become less inclined to quit their current jobs. Similarly, the hires rate measures businesses’ demand for labor. Both workers and firms are experiencing a weakening labor market **[Fig.03]**.

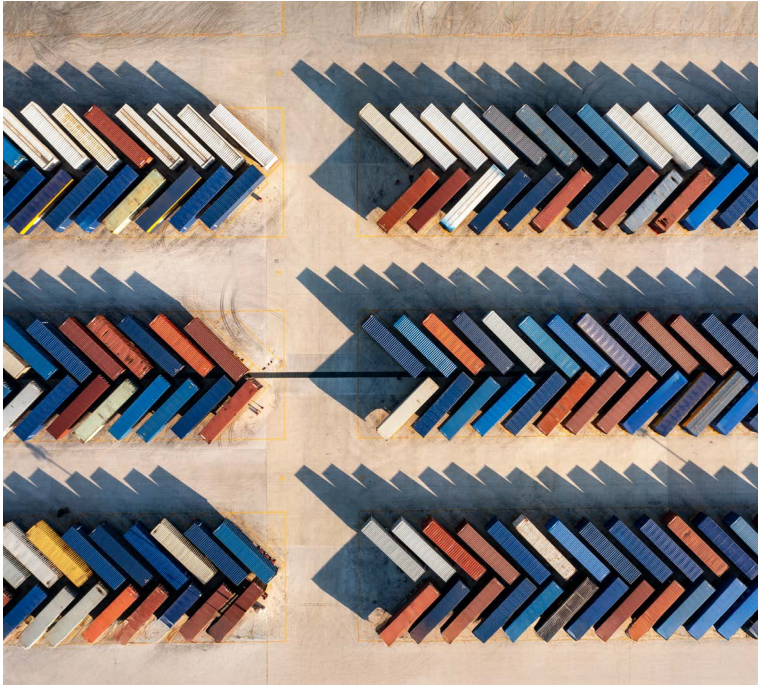
### Trade Uncertainty Will Be a Top Concern

American companies are currently facing significant risks stemming from tariff uncertainty, which has become a major obstacle to strategic planning and investment. Volatile trade policy, characterized by unpredictable tariff adjustments, creates an unstable environment that discourages firms from committing significant capital to expansion and new projects. When tariff policy is so fluid and unpredictable, companies are hesitant to invest in new manufacturing facilities, infrastructure, or international markets, fearing changes will erode profit margins. This unpredictability adds a layer of





financial risk that complicates long-term planning, forcing companies to adopt more cautious and conservative approaches to growth. This hesitation not only dampens immediate growth prospects but also prolongs the period of economic sluggishness, as companies prioritize risk mitigation over innovation and expansion. In this context, tariff uncertainty remains a critical barrier to sustained economic growth and competitiveness for American businesses and will drag on the economy in the second half of the year [Fig.04].



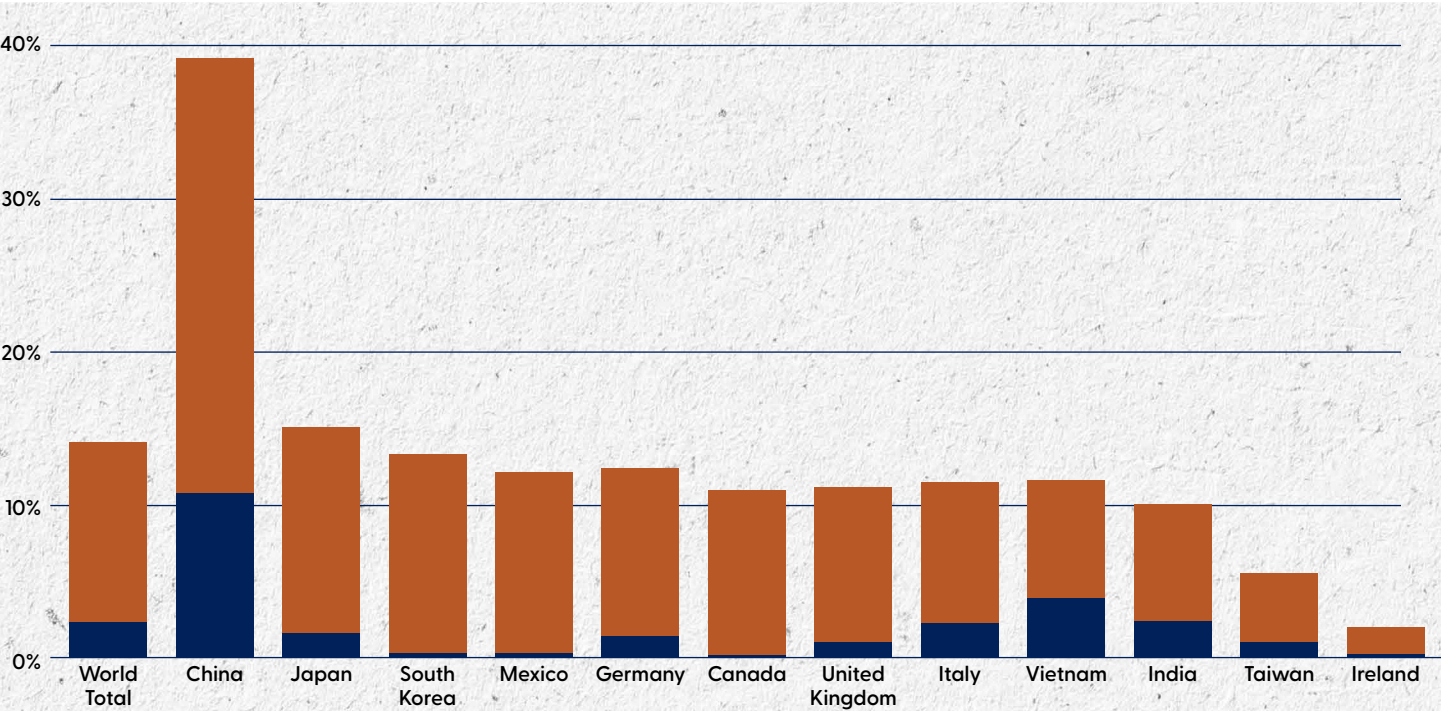
THE BOTTOM LINE

In the second half of the year, the delayed effects of trade policy will begin to take a more noticeable toll on the economy, resulting in slower growth, weakening labor demand, and a modest uptick in inflation. These emerging challenges will create a more complex landscape for the Fed, requiring them to navigate carefully as they assess the appropriate course for monetary policy. Tariff and geopolitical headlines will continue to drive market sentiment, adding complexity to both growth and inflation forecasts.

fig.  
04

Recession Risks Will Rise If Effective Tariff Rate Surpasses 20%

Effective Tariff Rate: 2024 2025 Increase



Source: LPL Research, Fitch Ratings, Census Bureau 06/09/25

# Insights from Washington

This update provides insight into how the Trump Administration and Congress's policy priorities might influence the economy and financial markets for the remainder of the year. The White House is prioritizing areas such as trade, cybersecurity, and financial policy, while the summer and early fall will focus on Congressional reconciliation. The Republican-controlled Congress will push many policy goals through this process, which requires only a simple majority for approval.



## ADMINISTRATION PRIORITIES

### Trade

- **IEEPA Tariff Court Decision:** Two federal courts invalidated the Trump Administration's tariffs imposed under the International Emergency Economic Powers Act (IEEPA) on countries like China, Canada, and Mexico, particularly concerning immigration and fentanyl issues. Although the rulings have been stayed (temporary suspension), the government has appealed. If the Supreme Court upholds the decision, the administration will need to reimburse those who paid these tariffs. If IEEPA is ruled unconstitutional, alternative legal mechanisms may be explored.
- **China Trade Talks:** President Trump agreed to an initial understanding with China on June 11, which includes a maximum total tariff burden of 55% on certain Chinese goods in exchange for access to rare earth minerals and magnets, alongside educational exchanges.

### AI & Cybersecurity

- **Executive Branch Deregulation Initiative:** The Trump Administration's key AI policy, Executive Order 14179, signed on January 23, 2025, revokes the Biden Administration's AI safety framework and deregulates AI development. This move has boosted market sentiment, particularly among tech stocks. The AI Action Plan, due by July 23, 2025, will be critical.
- **Cybersecurity Oversight:** Budget cuts and leadership instability threaten the enforcement of the Cyber Incident Reporting for Critical Infrastructure Act (CIRCIA), which requires 72-hour breach reporting. Delays in breach disclosures could exacerbate market volatility, as seen with the 2023 MOVEit breach.

### Financial Services & Banking

- **Regulatory Reforms:** Executive Order 14215, signed on February 18, 2025, mandates increased accountability and oversight for independent regulatory agencies, like the SEC. It requires agencies to submit significant regulatory actions for review by the Office of Information and Regulatory Affairs (OIRA). Recently, banking regulators like the FDIC and OCC have submitted proposals on changes to the supplementary leverage ratio (SLR) to OIRA for review.
- **Reputational Risk:** The OCC and FDIC have issued guidance eliminating the consideration of reputational risk when evaluating bank safety and soundness, particularly for banks involved with digital assets.

## CONGRESSIONAL ACTIONS

### AI & Cybersecurity

- **Federal Preemption of State AI Laws:** Congress is pushing for federal preemption of state AI regulations through the House budget reconciliation package (H.R. 1). This could disrupt the implementation of state-level AI regulations, especially in states like California and Illinois.
- **Cybersecurity Reauthorization:** The Cybersecurity Information Sharing Act (CISA) of 2015 is set to expire in September 2025. This law facilitates cybersecurity information sharing between the government and the private sector. There is bipartisan support in Congress for its reauthorization, but swift action is required.

### Budget Reconciliation

- **One Big Beautiful Bill Act (OBBBA):** Republicans are working to advance a budget reconciliation package that passed the House by a narrow margin in May. The bill includes extension and permanence of the expiring provisions in 2017's Tax Cuts and Jobs Act (TCJA) and President Trump's tax-related campaign priorities, such as no tax on tips. Republicans are also eyeing increasing the debt limit by \$4 trillion to \$5 trillion.
- **Timeline:** Republicans aim to pass the bill by President Trump's deadline set for July 4, 2025. However, the real deadline is when Treasury hits the debt ceiling, which is currently projected to hit the end of the summer/beginning of fall.



# Path to Upside Clouded with Uncertainty



## KEY EXPECTATIONS

- Stocks are expected to post modest gains this year, with performance largely hinging on policy clarity and the ability to sustain earnings momentum
- Be prepared for more episodic bouts of market volatility
- Use market pullbacks as tactical opportunities to selectively increase equity exposure

● By Jeffrey Buchbinder, CFA, Chief Equity Strategist

If “tariff” isn’t the word of the year for stock investors so far, then perhaps it’s “uncertainty.” Uncertainty around trade policy dominated the path of the stock market in the first half and will continue to play a large role in the second half. Tariffs influence the key drivers of stock market performance: economic and corporate profit growth, inflation, and interest rates. If stocks are going to continue to move higher in the second half of the year, trade policy will need to cooperate. Meanwhile, geopolitics remain a wildcard.

## History Does Not Provide Much Clarity on Market Direction

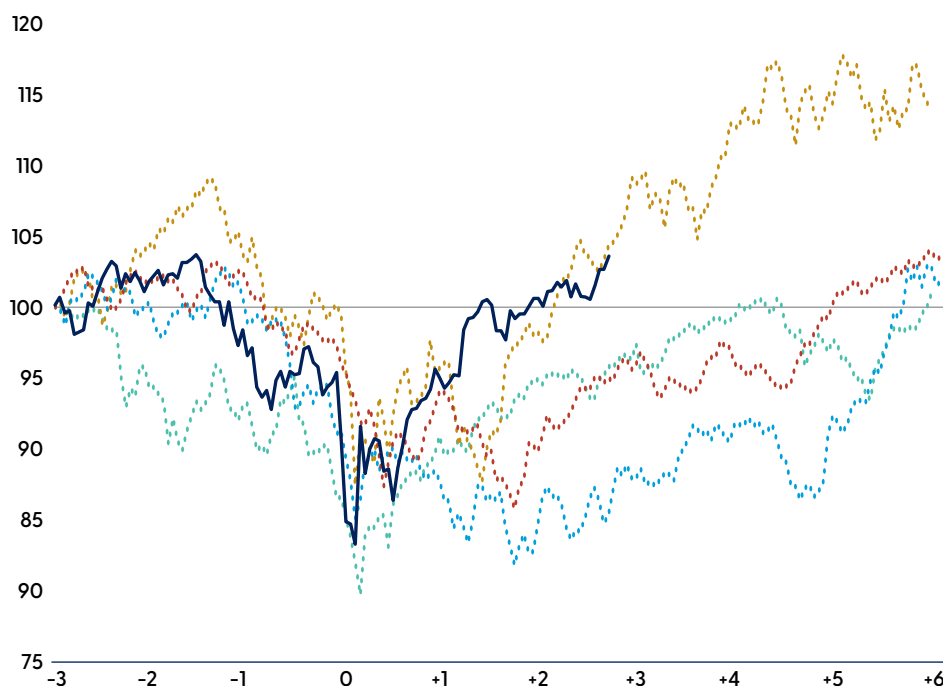
To help us with the difficult task of gauging where stocks might go over the next six months, we first turn to history as a guide. Examine how the S&P 500 fared after the last 15 corrections since 1950 **[Fig.05]** (corrections are defined as declines of 15% or more). The most recent correction began on February 19 and hit the 15% drawdown mark on April 4. The first takeaway is results are all over the map, meaning this new bull market could easily break higher or lower. The second takeaway to flag is that the best stock market performance after corrections tends to come when the economy is emerging from recession or coming out of a crisis. And while we don’t know if corrections will turn into bear markets (20% declines or more), and past performance does not guarantee future results, if they don’t, stocks are very likely to be higher over the next six to nine months.

fig.  
05

## History Suggests Bull Market Could Break Either Direction

S&P 500 Normalized to 100:

— 2025    ..... 2018    ..... 1990  
             ..... 1998    ..... 1966



Source: LPL Research, Bloomberg 06/27/25

All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.



## Post-Correction Recoveries Tend To Keep Going Higher

High	Low	Decline	Recovery	S&P 500 FORWARD RETURNS	
				+6-month	+12-month
6/12/50	7/17/50	-14.0%	9/22/50	17.0%	29.8%
1/5/53	9/14/53	-14.8%	3/11/54	18.4%	40.9%
9/23/55	10/11/55	-10.6%	11/14/55	3.0%	3.1%
8/3/59	10/25/60	-13.9%	1/27/61	10.4%	14.6%
9/25/67	3/5/68	-10.1%	4/30/68	7.9%	9.5%
4/28/71	11/23/71	-13.9%	2/4/72	6.8%	12.2%
11/7/74	12/6/74	-13.6%	1/27/75	21.0%	37.1%
7/15/75	9/16/75	-14.1%	1/12/76	12.0%	11.6%
9/21/76	3/6/78	-19.4%	8/15/79	9.5%	22.7%
10/5/79	11/7/79	-10.2%	1/21/80	12.4%	23.5%
2/13/80	3/27/80	-17.1%	7/14/80	14.0%	13.4%
10/10/83	7/24/84	-14.4%	1/21/85	13.8%	22.4%
10/9/89	1/30/90	-10.2%	5/29/90	-10.7%	9.9%
10/7/97	10/27/97	-10.8%	12/5/97	14.1%	21.4%
7/17/98	8/31/98	-19.3%	11/23/98	12.7%	19.7%
7/16/99	10/15/99	-12.1%	11/16/99	3.8%	-2.2%
11/27/02	3/11/03	-14.7%	5/12/03	13.0%	18.1%
4/23/10	7/2/10	-16.0%	11/4/10	11.4%	4.7%
4/29/11	10/3/11	-19.4%	2/24/12	4.5%	13.5%
5/21/15	2/11/16	-14.2%	7/11/16	7.6%	15.9%
1/26/18	2/8/18	-10.2%	8/24/18	-1.9%	1.1%
9/20/18	12/24/18	-19.8%	4/23/19	3.4%	-2.7%
7/31/23	10/27/23	-10.3%	12/1/23	15.7%	33.1%
2/19/25	4/8/25	-18.9%	?	?	?
Average				9.6%	16.2%
Median				11.4%	14.6%
% Positive				91%	91%

Source: LPL Research, Bloomberg, CFRA 06/09/25

Bear market declines (20% or more) are excluded from this analysis. Recovery dates represent new highs. All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

### The More Bullish Scenario

Turning again to history, the unusually sharp and swift “V-shaped recovery” from April 8 through mid-May has few rivals. However, the S&P 500 has rallied 15% or more in 28 trading days or less 11 other times since 1950, as it did from April 8 through mid-May. Subsequent 12-month returns for the index after these occurrences averaged 26%, with all 11 periods producing positive returns. Before you expect that much upside, consider most of these periods immediately followed recessions or significant growth scares — hardly the environment we are in today.

Corrections (10–20% declines) that were fully recovered may be a better way to assess current market conditions given a new high for the S&P 500 following its April–May correction could be reached in short order. Once a correction loss is fully recovered, double-digit gains over the next six months are a reasonable expectation **[Fig.06]**, though past performance does not guarantee future results. The S&P 500 Index set a new all-time high on June 27, 2025.

### Earnings Outlook: The “T”s Are the Keys

If stocks are going to go meaningfully higher from here in the second half of 2025, earnings will be an important part of the story. And you can’t talk about the earnings outlook without the two “T”s: tariffs and technology. Starting with tariffs, earnings growth in the first quarter for S&P 500 companies was solid at around 13%, with nearly half of that increase coming from big tech companies known as the Magnificent (Mag) Seven. Normally investors would be celebrating these numbers, but they were produced before most of the tariffs went into effect, which clouds the outlook.

Perhaps the biggest positive surprise last earnings season was 30%-plus earnings growth from the Mag Seven. Every one of them maintained their capital expenditures (capex) guidance for the year — or in Meta’s (META) case, increased it. This capex — expected to exceed \$340 billion this year — is a big potential driver of earnings growth and future productivity



gains. This group continues to dominate the rest of the companies in the index (the remaining “493”) [Fig.07].

As the economy likely slows in the second half and tariffs hit companies’ profit margins, the pace of earnings growth is poised to slow. While the latest consensus estimates for double-digit S&P 500 earnings gains may be credible in a blue-sky tariff scenario, they are too high for a tariff regime in the mid-teens, which is where we expect them to land (up from a less than 3% overall tariff rate on Inauguration Day). Tariffs could easily drag earnings down 2% or more, which informs our estimate range of \$255 to \$260 for S&P 500 earnings per share (EPS) in 2025 and roughly \$275 – give or take a couple dollars – in 2026. Risk of an oil price spike can’t be dismissed, but the Mideast conflict is unlikely to have much impact on corporate profits.

### Elevated Valuations Are Pricing in an Optimistic Outlook

Earnings are going to need to carry most of the load if stocks are going to achieve attractive second half returns. The outlook for the economy and corporate profits remains clouded by tariff uncertainty, a potential uptick in inflation, and the risk of higher long-end yields. In that environment, LPL Research believes the opportunity for expansion of the S&P 500 price-to-earnings multiples (P/E) is limited. Recent valuations slightly below 22 times reflect a fair amount of optimism on trade policy given below-average earnings growth is likely this year and next. We forecast 6–7%



fig.  
07

## Big Tech Continues To Provide Significant Earnings Boost

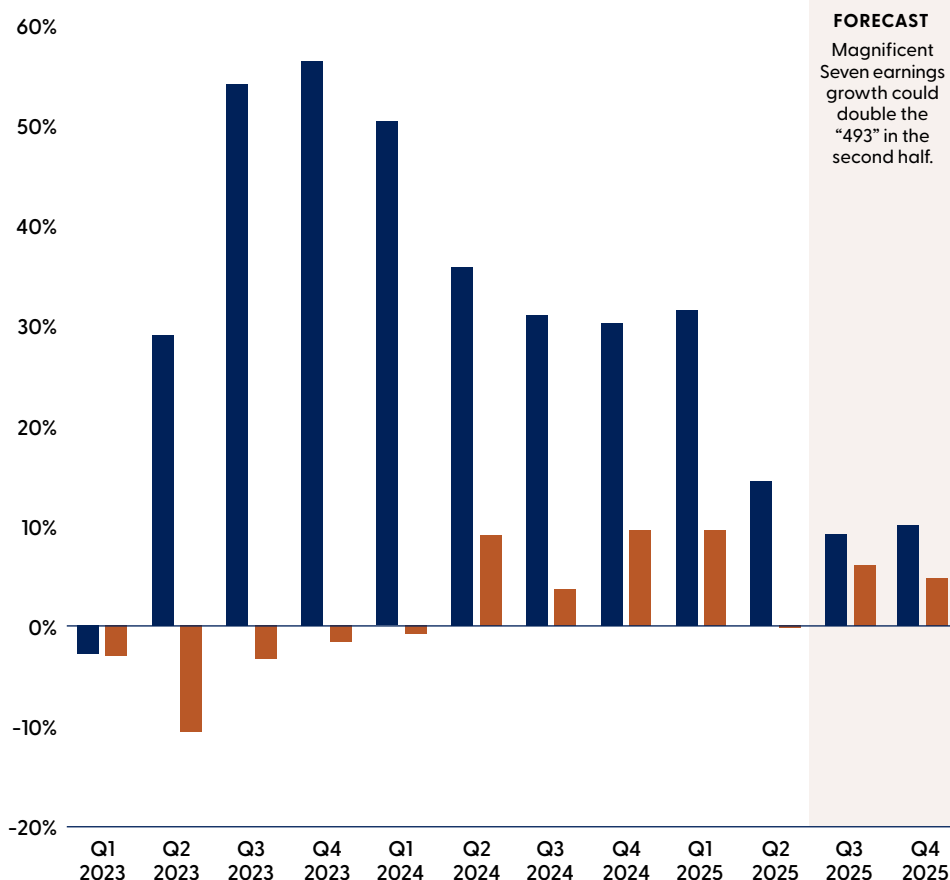
■ Magnificent Seven Earnings Growth Y/Y%

■ S&P 500 Earnings Growth excluding Magnificent Seven Y/Y%

Source: LPL Research, Bloomberg, 06/27/25

Magnificent Seven includes Alphabet (GOOG/L), Amazon (AMZN), Apple (AAPL), Meta (META), Microsoft (MSFT), NVIDIA (NVDA), and Tesla (TSLA).

Indexes are unmanaged and cannot be invested in directly. Estimates may not materialize as predicted and are subject to change.



earnings gains in 2025 and 2026 as price increases and corporate share buybacks help offset slower economic growth and tariff-related pressure on profit margins **[Fig.08]**.

### Fair Value S&P 500 Target Range

Trade policy uncertainty and the potential for more tariff-driven upward pressure on inflation and interest rates make the case for a higher P/E tough to make. But as long as tariff rates don't go higher, we believe the S&P 500 can hold its current P/E near 22. LPL Research's year-end 2025 fair value target range on the S&P 500 is 6,000 to 6,100, based on \$275 in S&P 500 EPS in 2026. Key risks to monitor besides trade policy include stagflation and heightened geopolitical risk.

There are several paths to more upside. One is unanticipated productivity gains from AI investment. Another is the tax bill currently working its way through Congress that could help lift corporate profits, as could just a general, more definitive pivot from the administration back towards a more pro-growth-friendly policy ahead of the mid-term elections. Lower interest rates could also help. A blue-sky bull case scenario could put the index potentially at 6,450 at year end, based on a P/E of 23 times and \$280 in S&P 500 EPS for 2026 **[Fig.09]**.

### THE BOTTOM LINE

As the second half of 2025 begins, earnings growth is slowing, tariffs are starting to bite, and geopolitical risk remains elevated. Yet, stock valuations reflect a lot of optimism. While trade uncertainty should start to dissipate in the second half, the path to clarity may be bumpy. Potential upside catalysts make us comfortable suggesting portfolio risk levels should be near benchmarks. Bottom line, anticipate modest gains for stocks over the next six months with volatility in between.

fig.  
08

## Stock Valuations Are Elevated, But Less So Excluding Mega-Cap Technology Stocks

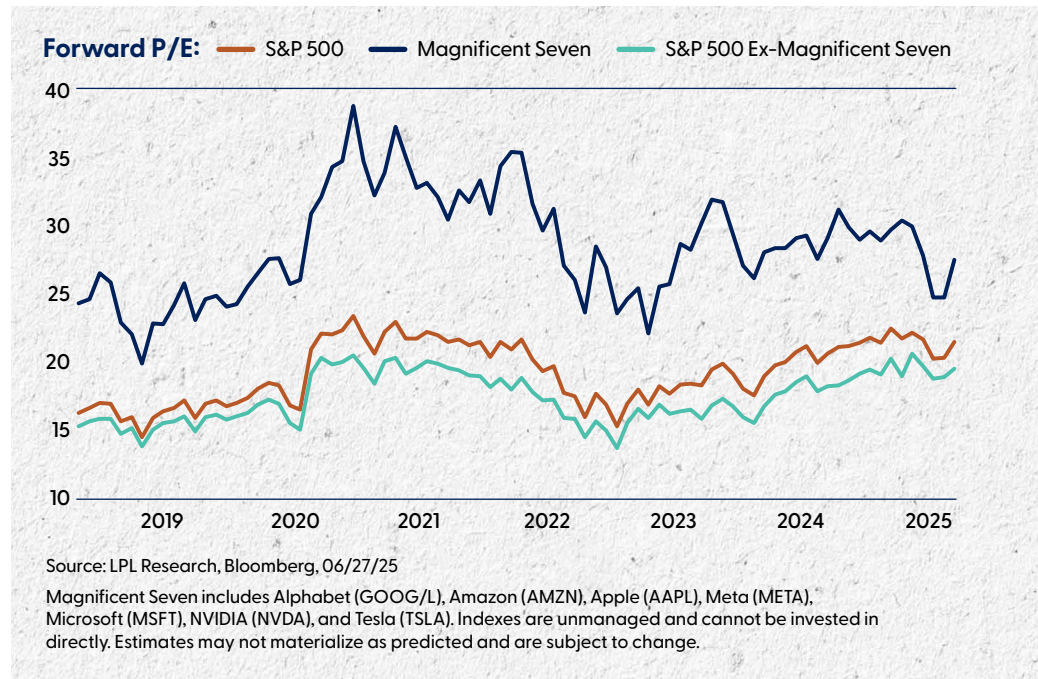


fig.  
09

## Year-End 2025 S&P 500 Fair Value Target Scenarios

S&P 500 forward P/E ratio (as of June 27) = 21.4

	19	20	21	22	23	24
<b>\$260</b>	4,940	5,200	5,460	5,720	5,980	6,240
<b>\$265</b>	5,035	5,300	5,565	5,830	6,095	6,360
<b>\$270</b>	5,130	5,400	5,670	5,940	6,210	6,480
<b>\$275</b> Proposed LPLR 2026 S&P 500 EPS	5,225	5,500	5,775	6,050	6,325	6,600
<b>\$280</b>	5,320	5,600	5,880	6,160	6,440	6,720
<b>\$285</b>	5,415	5,700	5,985	6,270	6,555	6,840
<b>\$290</b>	5,510	5,800	6,090	6,380	6,670	6,960

Source: LPL Research, FactSet 06/27/25

Indexes are unmanaged and cannot be invested in directly. Estimates may not materialize as predicted



# Sector Recommendations

## Favor Communication Services and Financials for the Second Half

The STAAC continues to recommend a slight tilt toward more economically sensitive or cyclical sectors for the second half of 2025. Financials are attractively valued, face manageable tariff risk, and may garner support from deregulation and a steepening yield curve. Continued robust investment in AI, more trade policy clarity, and a strong earnings outlook could help the attractively valued communication services sector continue to outperform.

### Limit Exposure to Materials and Utilities

Waning earnings momentum and slowing global growth support the Committee's cautious stance on materials. The Committee's preference for economic sensitivity over rate sensitivity explains the utilities underweight.

### Other Potential Opportunities

In a favorable trade and tariff outcome scenario, industrials would stand a good chance to outperform. For value among defensive sectors, some segments within the healthcare sector, such as biotech and medical equipment, may offer attractive opportunities in the second half.

#### OVERWEIGHT

- Communication Services
- Financials

#### NEUTRAL

- Consumer Discretionary
- Consumer Staples
- Energy
- Healthcare
- Industrials
- Real Estate
- Technology

#### UNDERWEIGHT

- Materials
- Utilities



# The Jekyll & Hyde Bond Market

## KEY EXPECTATIONS

- Yields will remain elevated due to growing debt concerns, increased Treasury issuance, higher inflation, and waning foreign demand for U.S. Treasuries
- Prioritize income generation in this environment and take advantage of historically attractive yields in portfolios
- The yield curve should steepen further, favoring a more cautious approach to extending duration

● By Lawrence Gillum, CFA, Chief Fixed Income Strategist

Within fixed income markets, a tug of war has unfolded between two opposing forces, much like the classic tale of Dr. Jekyll and Mr. Hyde. The benevolent Dr. Jekyll emerges when economic data suggest weakness, which leads to lower interest rates and relief for borrowers. However, the menacing Mr. Hyde appears in response to America's mounting federal debt and deficit spending concerns, which push rates higher, via a higher Treasury term premium. Given these opposing forces, we think 10-year Treasury yields will settle between 4.0–4.5% by the end of the year. To get much lower than 4% the economy would likely need to weaken more than we are expecting, as that would allow the Fed to cut rates more than what is currently priced in. However, with inflation potentially turning back up in the second half, the Fed may feel compelled to remain on hold until the economy shows more definitive signs of cooling. And with credit spreads for most fixed income markets below long-term averages, the performance of many fixed income sectors will likely come from movement in Treasury yields (versus further spread tightening).

### A Mr. Hyde Bond Market

Deficit spending serves as the catalyst that transforms the bond market from the well-mannered Dr. Jekyll into the fearsome Mr. Hyde. When the federal government spends beyond its means, it must issue new debt securities to make up for the difference between revenue and outlays. All else being equal, this creates downward pressure on bond prices and upward pressure on yields as investors in turn demand a higher compensation for increased supply and growing inflation risk. However, further complicating the picture for lower Treasury yields is potentially waning demand from foreign buyers, as well as a yield curve that is simply still too flat, in our opinion.

**Debt and deficit spending:** As the Republicans' "big, beautiful bill" gets legislated through Congress, initial estimates suggest, in a best-case scenario, that deficits will continue to run in the 6–7% range of GDP, suggesting Treasury issuance will need to remain elevated to fill the budget gap. The U.S. government has \$36 trillion in total debt outstanding, and that number grows by \$1 trillion every six months or so. To be clear, though, we don't think the debt level is the problem per se, but rather the interest expense on that debt that will continue to grow unless interest rates move meaningfully lower (which we don't think will happen). According to the Congressional Budget Office (CBO), net interest payments are set to make up nearly a quarter of all federal outlays by 2054 from 18% currently, while total debt loads are headed to over 160% of GDP over the same period. As interest expense as a percentage of outlays increases, the government is prevented from spending on more productive options. Moreover, since interest expenses are contractually obligated, it makes cutting spending that much more difficult. But ultimately, the additional supply necessary to fund deficits can weigh on prices and keep yields elevated and net interest expenses increasing.

**Foreign investors have other options again:** Long-term interest rates have surged globally, with a significant sell-off in April and May pushing, among others, U.K. gilts, Japanese Government Bond (JGBs), and German Bund yields to multi-year highs. As such, interest rates are higher in many non-U.S. markets, which may mean that foreign investors (who



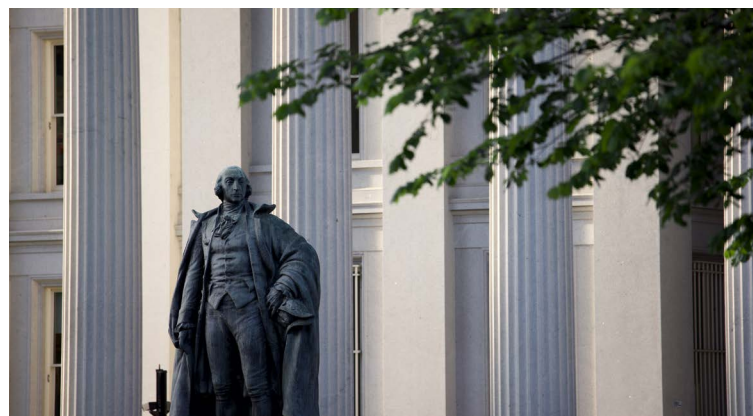
make up 30% of U.S. Treasury ownership) may not be as willing to invest in U.S. Treasury securities as they have historically been. In short, non-U.S. investors, particularly from Europe and Japan, are becoming increasingly dis-incentivized to own U.S. Treasuries on a currency-hedged basis due to rising home-market yields and higher hedging costs.

**The Treasury curve still isn't very steep:** While the U.S. Treasury yield curve has recently steepened, it still isn't steep by historical standards. Historically, the difference between the 2-year Treasury yield and the 10-year Treasury yield is close to 1%, albeit with a lot of variability. The 2Y/10Y spread is only at +0.48%, so we think the curve could further steepen throughout the year. With the 10-year only offering 0.50% per year more than a 2-year Treasury but with five times the interest rate risk, it doesn't make a whole lot of sense, in our view, to extend duration within portfolios **[Fig.10]**.

### A Dr. Jekyll Bond Market (or Why Rates Could Fall)

Yet even as Mr. Hyde prowls with fiscal concern, Dr. Jekyll stands ready to emerge whenever economic data indicates weakness. This benevolent transformation occurs because weakening conditions typically lead to lower rates through multiple channels: Fed rate cuts, declining inflation expectations, and flight-to-safety flows into government bonds despite fiscal concerns.

Ultimately, Treasury yields are the average expected fed funds rate over the life of the Treasury security plus, or minus a Treasury term premium. Moreover, the 10-year Treasury



yield is highly correlated (0.98) with the expected trough in the fed funds rate, so as rate cuts get priced in and/or out, Treasury yields will tend to move alongside this repricing as well. Currently, markets have priced in less than two full rate cuts this year and the expected trough rate is around 3.7% (according to the expected secured overnight financing rate), which is higher than what the Fed has explicitly told us should be the expected trough rate. This mismatch presents an opportunity for price appreciation in Treasury securities if the Fed ultimately needs to cut rates more than currently anticipated. Should the economy – especially the labor market – slow more than expected, or if geopolitical events prompt the Fed to accelerate rate cuts beyond what is priced in,

fig.  
10

## The Treasury Yield Curve Could Further Steepen From Here

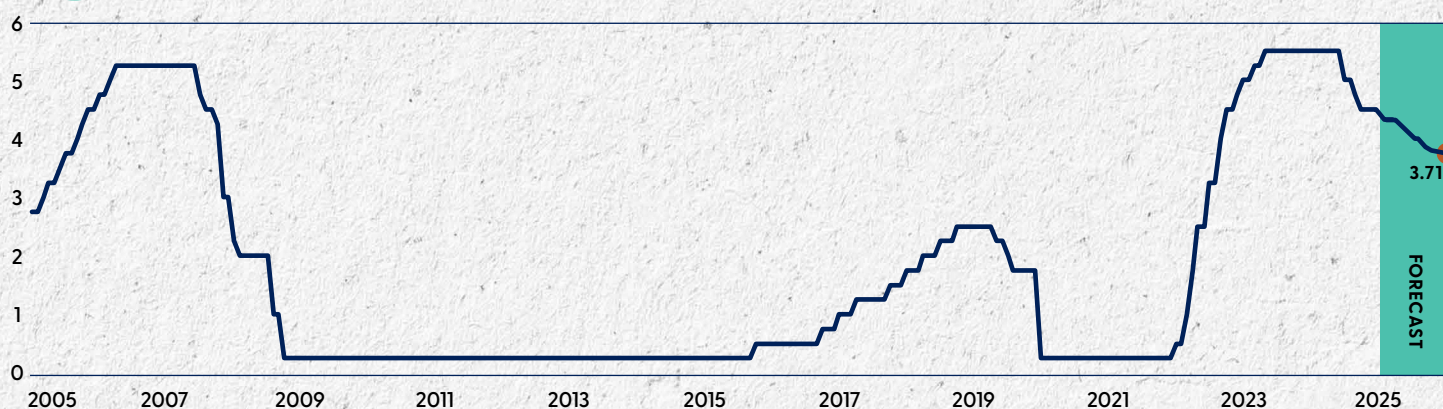
— 2Y/10Y Curve Spread  
- - - Average



Source: LPL Research,  
Bloomberg 06/09/25  
Past performance is no  
guarantee of future results.



## Historical and Market-Implied Fed Funds Rate



Source: LPL Research, Bloomberg 06/09/25

Past performance is no guarantee of future results. Estimates may not materialize as predicted and are subject to change.

Treasury yields would likely decline more significantly from current levels **[Fig.11]**.

Additionally, it's not all bad news on the budget front. In hopes of filling budget gaps, the Trump Administration's use of tariffs is expected to bring somewhere in between \$2–3 trillion over a 10-year horizon. The additional revenue would likely be enough to offset most, if not all, of the expected deficit spending with the current bill being proposed in Congress. The court's recent decision to challenge the legality of tariffs potentially puts that additional revenue source at risk (although we don't think tariffs are going away). Nonetheless, if the additional revenue from tariffs comes to fruition, that would ultimately allow the Treasury Department to issue less debt, which could be supportive of Treasury prices, although deficit concerns remain.

### The Broader Perspective

Much has been written about the potential headwinds to Treasury yields, which include policy uncertainty, a related increase in term premium, an ongoing lack of fiscal restraint, the de-dollarization story and fear of asset sales, a more neutral Fed, better-than-feared economic data, and higher non-U.S. yields. But ultimately, Treasury yields are primarily a function of growth and inflation expectations, so as economic data goes, so go Treasury yields. No doubt, obstacles remain to a sustained rally in rates, but if economic data starts to show a weakening economy, particularly from the labor market, Treasury yields will likely fall from elevated levels. But we think the volatility in the Treasury market is here to stay until the economic data softens materially, which would allow markets to price in more rate cuts from the Fed. Ultimately, that means the bond market's split personality isn't going away anytime soon – it's the new normal in an era of fiscal excesses and economic uncertainty.

We still think high-quality fixed income deserves an important spot in portfolios. There is an optionality that you get from bonds that you don't get from cash. While current yields for bonds and cash are similar, bonds offer portfolio risk mitigation and the potential for price appreciation if an unexpected event occurs that negatively impacts the economy – an advantage that cash simply lacks.

That said, we don't think right now is a good time to be overweight duration (interest rate sensitivity) in fixed income portfolios. A neutral duration relative to benchmarks is, in our view, still appropriate. And for those investors who want to own bonds for income, as mentioned in our 2025 Outlook, the opportunity for income remains robust, with the belly of the curve (out to five years) remaining the most attractive in our view.

### THE BOTTOM LINE

Treasury yields face multiple headwinds, including policy uncertainty, fiscal concerns, de-dollarization, and global yield trends. Despite obstacles to a sustained rate rally, yields largely depend on growth and inflation expectations. If economic data – especially labor market figures – show more material weakness, yields should decline, but volatility in the bond market is expected to persist. While price appreciation for fixed income is likely to be limited, high-quality bonds remain valuable for portfolio risk mitigation and potential gains in times of broader uncertainty and economic stress. However, maintaining a neutral duration in fixed income portfolios is advisable. We believe investors seeking income can find attractive opportunities in bonds with maturities of up to five years.



# Building Resilience in Times of Uncertainty

## KEY EXPECTATIONS

- Investors should anticipate further bouts of market volatility in the second half and consider incorporating alternative strategies to enhance portfolio stability

fig.  
12

## Policy Uncertainty To Remain High

— U.S. Economic Policy Uncertainty Index

Source: LPL Research, Bloomberg 06/05/25  
Past performance is no guarantee of future results. All indexes are unmanaged and cannot be invested in directly.

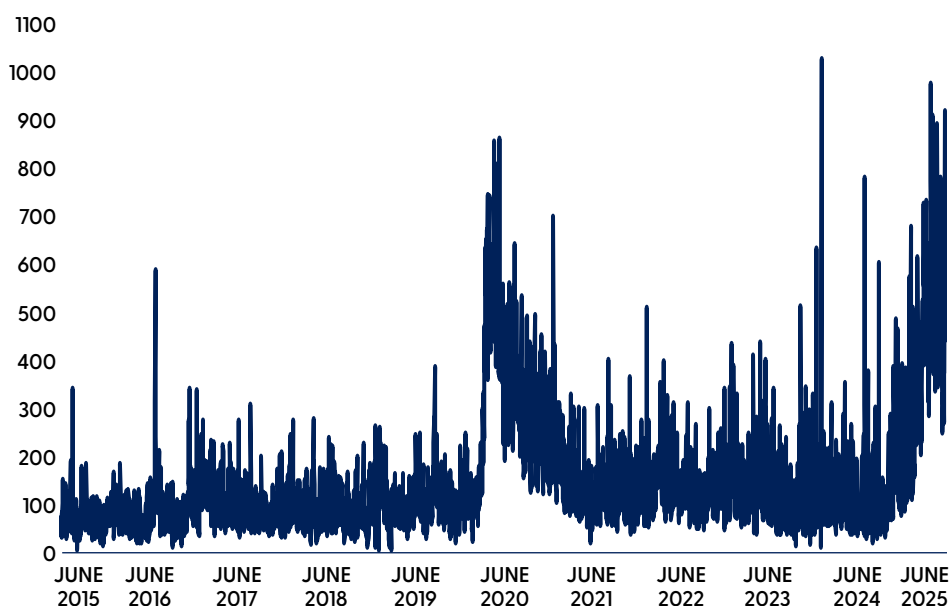
● By Jina Yoon, CFA, Chief Alternative Investment Strategist

In the first half of 2025, several key market forces we identified at the start of the year — rising uncertainties tied to the new U.S. administration's policy shifts, increased market volatility, and the testing of elevated U.S. equity valuations — began to take shape. As such, broadening portfolio diversification beyond the traditional 60/40 framework was crucial for effectively navigating the shifting market environment.

Looking ahead, we expect there will be continued bouts of broad market volatility and varied performance within and across asset classes. While the current administration appears willing to work with international partners, uncertainty surrounding tariff policy is likely to persist. Prospects for deregulation and lower taxes remain, but quantifying their ability to offset tariff-related impacts will be challenging, given the true economic effects are not yet clear. Meanwhile, escalating geopolitical tensions and mixed economic data are expected to complicate the Fed's decision-making process, limiting the likelihood of a clear path forward. Considering these factors, we maintain a positive outlook on alternative strategies in general, as we believe they can help enhance portfolio stability in periods of uncertainty **[Fig.12]**.

### Stock Picking Alpha Will Remain Valuable

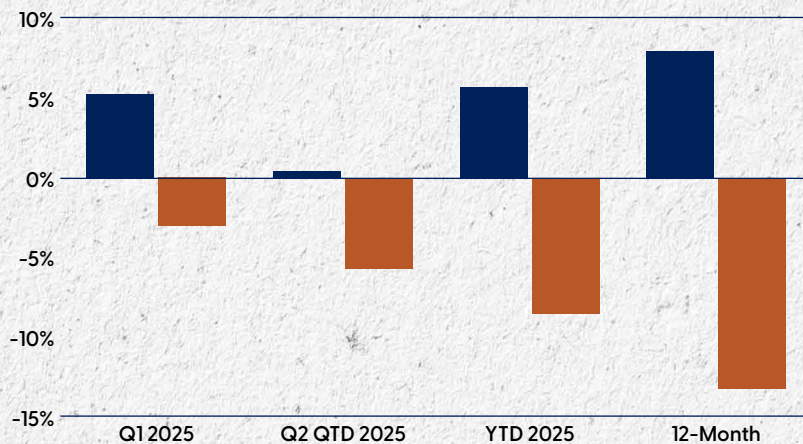
The first half of the year was quite conducive for equity market-neutral strategies, and we expect this environment to continue. Although tariff concerns briefly pushed the U.S. equity market near bear territory, it quickly rebounded





## Discretionary Macro Responds Better in Whipsawing Market

**HFRI Macro:** ■ Discretionary Thematic  
■ Systematic Diversified

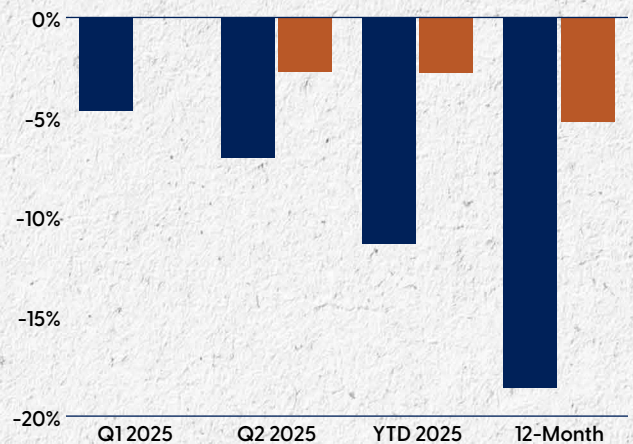


Source: LPL Research, HFR, Bloomberg 04/30/25

Past performance is no guarantee of future results. All indexes are unmanaged and cannot be invested in directly.

## Sharp Market Reversals Challenged Trend Followers

**Societe Generale:** ■ Trend Index  
■ Short Term Traders Index



Source: LPL Research, HFR, Bloomberg 05/31/25

to near-record highs following a temporary pause in tariff enforcement. However, tariff negotiations remain unresolved, with potential legal challenges adding further uncertainty. While deregulation and favorable tax policies could offer some support, elevated U.S. equity valuations – requiring higher earnings multiples amid slowing growth and shifting policies – reinforce our view that market-neutral strategies can continue to perform well and add value to portfolios.

### Focus on Sub-Strategy and Manager Differentiation

For alternative strategies that help diversify portfolios, like global macro and managed futures, we came into 2025 holding a constructive view on subsets of each strategy, namely nimble discretionary macro with broad geographic exposure in global macro, and trend followers with broader mandates and reduced equity market concentration within managed futures. As we anticipate a somewhat challenging market environment for the remainder of the year, our positive view on discretionary macro managers remains unchanged. Meanwhile, trend followers in managed futures have spent the first five months of 2025 re-adjusting their portfolios and now hold lighter and more balanced exposure. However, given the potential for more market whipsaw, we favor holding a more diversified mix of managed futures sub-strategies [Fig.13].

### Niche Strategies That Can Capitalize on Market Volatility

Beyond core strategies, investors seeking additional diversification in the current environment may find value in niche approaches, such as volatility arbitrage, which exploits volatility dislocations, and cross-asset focused tail risk strategies with minimal negative carrying costs, designed to capitalize on episodic market disruptions.

### Finding Structural Momentum in Private Markets

In private markets, infrastructure, secondary private equity investments, and private credit remain our preferred strategies. In the first half of the year, infrastructure once again proved its resilience, with global public and private valuations holding steady despite broader stock market pressures. Continued investment – driven by both government initiatives and private sponsors – should further support the space. 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. Meanwhile, private credit continues to deliver compelling returns relative to its public counterparts, though investors should remain cautious of growing competition for high-quality deals and potential interest rate shifts that could adversely impact performance.



A hand is pointing at a digital financial chart. The chart features a candlestick pattern with blue and orange bars, overlaid with a red line graph. The background is dark and filled with various financial data points, including percentages like +0.01%, +2.9%, +0.7%, +12%, +15%, +55%, and +14%, as well as numerical values such as 70.75, 32.80, 70.88, 83.13, 93.86, 143.47, 297.58, 92.65, 76.70, and 0.78. The overall aesthetic is high-tech and data-driven.

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# Mixed Results Amid Messy Macro Backdrops



## KEY EXPECTATIONS

- A weaker dollar, clear signs of sustained economic recovery in China, and rising data center demand could serve as catalysts for a broader rally in commodities
- Precious metals, especially gold, are favored as they are likely to gain from ongoing reserve diversification trends

● By Adam Turnquist, CMT, Chief Technical Strategist

Commodity markets have faced a turbulent first half of the year. Tailwinds from a weaker dollar were largely counterbalanced by downgraded global growth forecasts, higher-for-longer monetary policy, tariffs, and an underwhelming economic response to Chinese stimulus measures, the world's largest importer of commodities. This backdrop left the Bloomberg Commodity Index (BCOM) with a 1.2% gain through May. Technically, hope for the start of any major commodity supercycle – a secular period marked by a synchronized rally in commodity markets – was put on hold as BCOM struggled with resistance from its prior highs. While downside risk to the dollar, the prospect of a sustained economic rebound in China, the green energy transition, and booming data center demand all remain valid catalysts for a prolonged commodity market rally, the first step to kickstarting the supercycle will be for BCOM to break out of its range with multi-week closes over 109 **[Fig.14]**.

## Spotlight on Metals

Gold continues to capture the spotlight as the precious metal rallied by over 20% through May. The advance briefly pushed prices to \$3,500 before profit-taking pressures emerged from overbought levels. Gold's valuation relative to the S&P 500 also recently reached its highest level since the onset of the pandemic, suggesting there is risk for mean reversion from these lofty levels. A weaker dollar and inflows into gold-related exchange-traded funds (ETFs) helped offset a recent uptick in real yields. Rising geopolitical tensions, elevated equity market volatility, and historically high levels of trade policy uncertainty further underpinned the case for gold.

Steady demand from global central banks has been another key catalyst for gold as they continue to diversify reserve holdings away from the dollar. According to the World Gold Council, global central banks added 1,045 metric tons of gold in 2024, marking the third straight year in which demand topped 1,000 metric tons. The surge in gold buying intensified after the U.S. and its allies

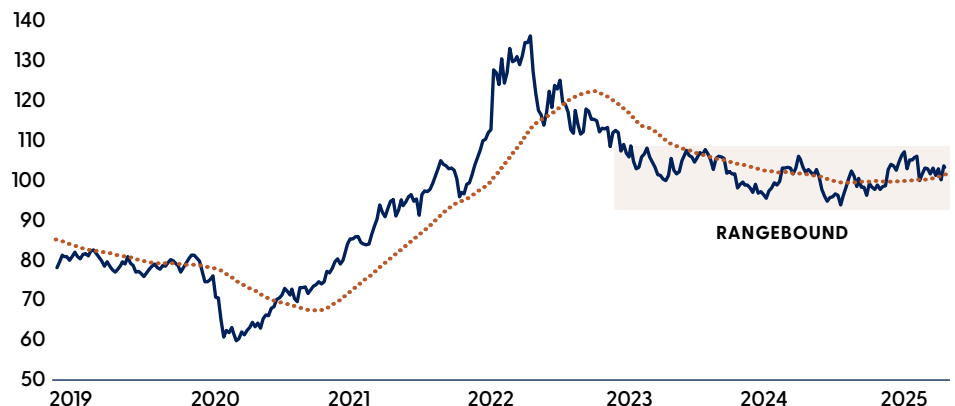
fig.  
14

## Commodity Cycle Stuck in Consolidation

— Bloomberg Commodity Index (BCOM)  
 ..... 40-Week Moving Average

Source: LPL Research, Bloomberg 06/09/25

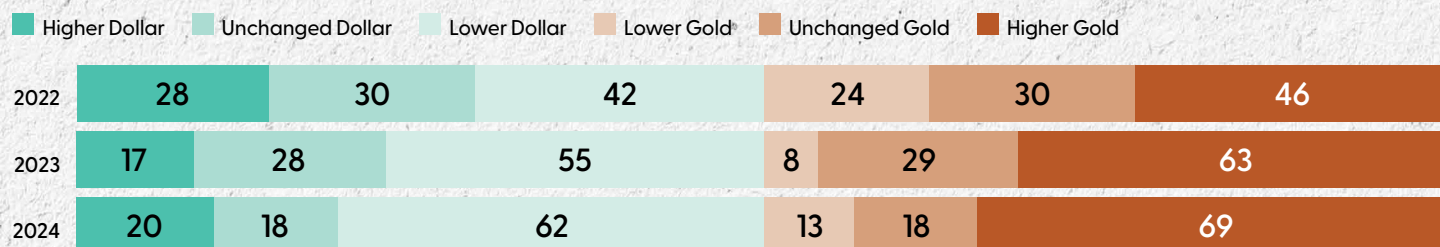
Past performance is no guarantee of future results. All indexes are unmanaged and cannot be invested in directly.







## Central Bankers Expect More Gold and Less Dollar Reserves Over the Next Five Years



Source: LPL Research, World Gold Council 06/09/25

seized Russian central bank assets in 2022 following their invasion of Ukraine – annual central bank gold demand averaged only 473 metric tons from 2010–2021.

The trend of more gold and fewer dollars in foreign reserves could be sustainable. Over the last several years, central bankers have expressed an increased intent to add to their gold reserves, according to the World Gold Council. In 2024, 81% of central bankers indicated they would increase their gold reserves over the next 12 months, a notable jump from 52% in 2021. Furthermore, 62% reported that they expect to hold a lower percentage of reserves in U.S. dollars over the next five years **[Fig.15]**.

Industrial metals have struggled to keep pace with their precious metal counterparts as trade policy uncertainty persists, weighing on the growth outlook and sentiment within the sector.

China, the world's largest metals consumer, recently reported shipments to the U.S. declined by the most in five years, while manufacturing activity plunged to nearly a two-year low in May. In the U.S., manufacturing indexes remained in contraction territory while construction spending declined for three straight months through May. Export controls of rare earth minerals from China and rising U.S. tariffs on aluminum and steel further distorted the supply and demand outlook, as rallies in several metals were largely influenced by front-running tariff deadlines, not necessarily an improving growth outlook.

Copper has held up well as the metal continues to rebrand itself as an AI play. The metal's superior conductivity is vital to powering the surge in electricity demand from data centers, and is also a key component in their buildout. According to the Copper Development Association (CDA), an estimated 27 tonnes of copper are required to install one megawatt (MW) of new data-center power capacity. Demand for global data center power is also expected to climb from 82,000 MW in 2025 to 127,000 MW by 2029 (per Boston Consulting Group). Upgrading global energy grids, electric vehicle production, and adding alternative energy sources are also long-term drivers of copper demand.

### Spotlight on Energy

Oil markets have not only faced an increasingly complex macroeconomic backdrop but also a radical shift in OPEC+ strategy, from defending prices to defending market share. In April, the oil cartel surprised the market with a supply increase of 411k barrels per day (bpd), well above consensus expectations for an increase of 135k bpd. The trend of supply hikes continued into the summer as the group ramped up output quotas through July. Demand from China has also been underwhelming as imports into the country recently fell to their lowest level in four months. West Texas Intermediate (WTI) dropped to multi-year lows in May amid this challenging environment. Support near \$55 was eventually found as prices reached historically oversold levels and sentiment improved following the 90-day tariff accord with China and the recent tensions in the Middle East. WTI will need to clear \$80.00 to convincingly reverse its downtrend off the January highs. The situation in the Middle East and the transition from trade negotiations to trade deals, especially with China, could be a near-term catalyst for oil, but rising supply and bearish longer-term momentum suggest upside progress will be challenging.

### THE BOTTOM LINE

Longer-term growth drivers for the broader commodities complex remain intact. However, how trade policy and geopolitics unfold in the second half will ultimately dictate how commodity markets perform. China's economic recovery remains a wild card, and until a trade deal is inked, the probabilities for a broader commodities rebound remain subdued. Gold remains a bright spot, with an array of catalysts supporting the rally, leaving us positive on the precious metals group. Recent price action in cyclically sensitive metals, such as copper and silver, suggests recession risk is potentially fading. Oil faces headwinds from rising supply, weakening demand, and an easing geopolitical risk premium. With this backdrop and a weak technical setup, we suspect upside in oil could be limited, barring further escalation in the Middle East conflict.

# The Dollar Is Down, But Not Out



## KEY EXPECTATIONS

- The U.S. dollar will remain the world's reserve currency as there are no real alternatives, but the risk of a more prolonged period of weakness is rising
- The administration will continue to push for further cryptocurrency adoption

● By Adam Turnquist, CMT, Chief Technical Strategist

To say the dollar has had a rough year is probably an understatement. The U.S. Dollar Index (DXY) wrapped up the first five months of the year with a loss of 8.4%, marking its second-worst start to a year since its inception in 1973. Selling pressure in the greenback really began back in January as the post-Election Day momentum faded and news of more efficient AI models reached U.S. shores. The emergence of China's DeepSeek R1 model and other cost-effective large language models not only threatened disruption to the U.S. technology sector but also stoked the debate over American Exceptionalism — a theme that has driven strong capital inflows into the U.S. for over a decade.

As U.S. stocks struggled and recession risks began to rise in the first quarter, Germany approved a fiscal support package of around €500 billion. This watershed moment marked a shift in economic strategy as the country removed its so-called “debt brake,” ultimately ending its longstanding tradition of fiscal austerity. Growth expectations for Europe's largest economy quickly re-rated higher, and the euro simultaneously strengthened against the dollar. President Trump's introduction of reciprocal tariffs on April 2 further fueled dollar weakness as capital flows out of the U.S. gained momentum.

While many considered the de-dollarization response a boycott of U.S. assets, it may simply be an example of how money flows to where it is treated best. U.S. stocks have significantly underperformed international developed markets this year, putting added pressure on asset managers to diversify outside of the U.S. and hedge more of their currency exposure. The dollar has been a victim of this rotation, as foreign investors have increased hedge ratios and began to sell some U.S. holdings to fund international allocations. According to VandaXasset, combined institutional and retail positioning in European equity markets reached multi-year high levels in February, while combined institutional and retail investor ownership of U.S. equities reached historically low levels this spring.

fig.  
16

## The Dollar Is Retesting Key Support

— U.S. Dollar Index  
 ..... 40-Week Moving Average

Source: LPL Research, Bloomberg 06/09/25

Past performance is no guarantee of future results. All indexes are unmanaged and cannot be invested in directly.





From a technical perspective, persistent dollar headwinds this year have dragged the DXY back to the lower end of its multi-year trading range. A string of weekly closes below the April lows at 97.92 would validate a breakdown from the consolidation, implying the dollar's downtrend could continue toward the next major area of support near 90 [Fig.16].

### End of the Dollar – Not so Fast

The macro and technical backdrop point to elevated downside risk for the dollar into year-end. However, we do not subscribe to the theory that the dollar will be dethroned as the world's reserve currency (at least not anytime soon). Our conviction lies in the fact that there is no alternative to the dollar. A reserve currency requires a large, consumption-driven economy with a relatively stable fiscal, monetary, and political environment. In addition to widespread acceptance in global trade, deep liquidity in open and regulated markets is also required, along with geopolitical strength demonstrated through military might. While several countries may check a few of these boxes, the U.S. remains the only country that can categorically fulfill these requirements, allowing the American economy to enjoy the so-called "exorbitant privilege" of being home to a true reserve currency.

Despite all of the spilled ink over the end of the dollar's reign – a perceived threat that has been especially prevalent since the inception of the euro in 1999 – potential contenders have a long way to go. The dollar is deeply entrenched in global trade. According to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the primary messaging network for financial institutions to initiate account-based money transfers, the dollar is involved in roughly half of all global transactions. The euro stands in a distant second place, representing only 22% of international foreign-exchange traffic. The high percentage of dollar-based global trade also means that other countries, especially those with significant trade surpluses with the U.S., must hold the dollar to facilitate dollar-based transactions. In aggregate, Bloomberg data indicates that 58% of all global central bank reserves are held in U.S. dollars.

### Spotlight on Cryptocurrency

In the months following the election of President Trump, much of the initial enthusiasm across the cryptocurrency industry has slowly faded, which is evident in the price of Bitcoin moving largely sideways since December. From a technical perspective, Bitcoin remains in a long-term uptrend that was successfully retested during a sharp drawdown into the April lows, adding to the evidence that it remains more of a risk asset than a store

of value. Upside momentum has slowed into the summer as overbought conditions have met overhead resistance near the January highs. A breakout above the \$111k–112k resistance range will be required for Bitcoin's uptrend to continue.

While Bitcoin's gains have been muted, we recognize that this is a steady moving industry and Trump's view on the space is favorable, with several constructive initiatives still ongoing. David Sacks was appointed the first-ever Crypto Czar and will oversee the integration of cryptocurrencies into the U.S. economy. Sacks announced the formation of a working group between the House Financial Services Committee and Senate Banking Committee and stressed the need to synchronize oversight between the SEC and Commodity Futures Trading Commission (CFTC). Stablecoin regulation has also been a focus. Stablecoins are a type of cryptocurrency designed to maintain a stable value by pegging their price to another asset – in this case, the reference point would likely be the U.S. dollar. Just as a majority of global trade is settled in U.S. dollars, if the stablecoin market operated in a comparable method, it would advance the United States' position in the asset class. A Strategic Bitcoin Reserve was also established on March 6. The reserve is funded by Bitcoin forfeited to the U.S. Treasury through criminal or civil asset forfeiture proceedings. Initially, it was believed the U.S. would be an ongoing and active buyer of Bitcoin, so this was a slight disappointment for ardent Bitcoin supporters; however, it does represent continued interest by the administration.

### THE BOTTOM LINE

Downside risk to the dollar remains elevated. Significant fiscal support has revitalized growth prospects abroad while U.S. trade policy remains fragile. The administration's goal of reducing the U.S. trade deficit could have a meaningful impact on global trade and ultimately reduce demand for the dollar. Growing concerns over the fiscal deficit and threats to U.S. leadership in technological innovation have further weighed on the American exceptionalism narrative and its embedded premium in U.S. assets. Sanctions on foreign assets after Russia's invasion of Ukraine have also underpinned a shift away from dollar reserves among global central banks. Collectively, these factors have reduced the dollar's valuation, but its status as the world's reserve currency remains unrivaled. Bitcoin's momentum has slowed amid policy uncertainty, but its long-term uptrend remains intact. The Trump Administration continues to advance crypto integration, appointing a Crypto Czar, promoting stablecoin regulation, and establishing a Strategic Bitcoin Reserve, signaling ongoing government interest in the space.

# Putting It All Together

## A Summary of the STAAC's Midyear 2025 Tactical Views

		Strong Overweight	Overweight	Neutral	Underweight	Strong Underweight
ASSET CLASS	Stocks	Neutral	Stock valuations reflect a lot of good news amid trade policy uncertainty and geopolitical risk. Modest gains are quite possible, with seemingly balanced upside and downside risks. AI developments, trade negotiations, interest rates, and the tax bill are keys to second half gains. Maintain well-diversified portfolios with risk levels near benchmarks. Continue to favor a patient approach geared toward buying into weakness.			
	Bonds	Neutral	Fixed income provides attractive income opportunities with starting yields still elevated (relative to history). With limited signs of a slowing economy for the time being, investors should prioritize coupon clipping as opposed to expected price appreciation. However, while current yields for bonds and cash are similar, bonds offer portfolio preservation and potential price appreciation if an unexpected event occurs that would negatively impact the economy.			
	Cash	Underweight	With the Fed cutting short term interest rates, cash rates will continue to fall. And while cash rates are likely going to stay above levels experienced pre-COVID-19, long-term investors are likely better served by extending the maturity of cash holdings (not too far out on the Treasury curve) and taking advantage of still-high bond yields.			
	Alternative Investments	Overweight	With economic and policy uncertainty likely to continue in the second half of the year, 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.			
EQUITIES	Geography					
	U.S.	Neutral	LPL Research's STAAC downgraded U.S. equities to neutral in May 2025 to align regional exposures and add diversification in an uncertain economic and policy environment. U.S. equities are dependent on AI, superior earnings growth, and stable interest rates to regain leadership and for "U.S. exceptionalism" to continue.			
	Developed International	Neutral	The economic and earnings growth picture in Europe and Japan remains inferior to the U.S., strong 2025 performance for developed international has left valuations relatively less compelling, and U.S. technology strength is tough to keep up with. However, broader U.S. dollar weakness could offer a tailwind.			
	Emerging Markets	Neutral	LPL Research's STAAC upgraded emerging market equities to neutral in May 2025 to align regional exposures and enhance diversification in an uncertain environment. EM equities should benefit from a potentially weaker U.S. dollar and attractive valuations. Beneficiaries of shifts in global trade help mitigate China risk.			
	Style and Market Capitalization					
	Large/Mid Growth	Overweight	The AI-fueled earnings on the growth side help justify rich valuations, and large cap companies enjoy compelling earnings power. Outperformance is more likely in a cooling but still growing economy in the second half of 2025.			
	Large/Mid Value	Neutral	A steady economy is positive for cyclical value stocks and value stocks are more attractively valued than normal. However, the earnings gap has hardly narrowed vs. growth and AI spending is still booming. Maintain near-neutral exposure.			
	Small Growth	Neutral	Low valuations and healthy credit markets are supportive, but rate cuts do not offer much of a catalyst at this point and managing tariffs is tougher for smaller companies. Until markets reflect more sustained risk taking and relative performance improves, favor large caps.			
	Small Value	Underweight	As with small growth, attractive valuations are not sufficient to favor an underperforming asset class with relatively weaker balance sheets. Regional banks could benefit from deregulation and a steeper yield curve, but a slowing U.S. economy limits potential upside.			



■ Strong Overweight
 ■ Overweight
 ■ Neutral
 ■ Underweight
 ■ Strong Underweight

FIXED INCOME	Core Sectors	
	U.S. Treasuries	<p>The U.S. Treasury yield curve remains relatively flat, so the risk of a meaningful fall in longer-maturity yields is limited, in our view. Absent a sharp drop in economic growth, we think the 10-year yield is likely to remain range-bound and will end the year between 4.0% and 4.5%, which is slightly higher than our initial 2025 Outlook range. A large amount of Treasury issuance and still unclear economic priorities under the Trump Administration remain risks.</p>
	Mortgage-Backed Securities (MBS)	<p>With yields and spreads at multi-year highs, we think MBS remain an attractive investment opportunity, particularly relative to lower-rated corporates. Due to still-high mortgage rates and a lack of prepayments, favorable supply/demand dynamics may help support the market. Additionally, as the Fed continues to cut rates and interest rate volatility eventually falls, MBS should outperform other high-quality fixed income sectors.</p>
	Investment Grade Corporates	<p>We recommend an underweight position relative to benchmark, but we think there is currently an opportunity to invest in shorter to intermediate maturity corporate securities without taking on elevated levels of interest rate or credit risk. Fundamentals remain sound and a slowing (not collapsing) economy should be generally supportive for credit.</p>
	Treasury Inflation-Protected Securities	<p>While inflationary pressures have fallen from peak levels, we think inflation volatility could remain higher than pre-COVID-19 levels. And all-in yields for Treasury Inflation-Protected Securities (TIPS) are attractive and could provide a good hedge against unexpected inflation surprises.</p>
	Plus Sectors	
	Preferred Securities	<p>Preferreds offer higher credit quality among the riskier fixed income options and bank fundamentals are generally sound overall. Yields remain elevated relative to history, so the asset class still provides attractive income levels.</p>
	High-Yield Corporates	<p>Yields for high-yield bonds are above historical averages, but spreads have fallen back to near-secular tights. A fairly steady economy should support spreads; however, further price appreciation is limited, in our view. The asset class may be better suited for longer-term minded investors with a tolerance for higher volatility.</p>
	Bank Loans	<p>Given the variable-rate debt, higher interest rates may make repayment more challenging for some issuers and the default rate for loans has increased recently. Fewer investor protections and the illiquidity of individual loans remain concerns as well. Yields for the asset class remain above historical averages, but given the risks of the two leveraged credit asset classes, we have a slight preference for high-yield bonds over loans.</p>
	Foreign Developed Market Bonds	<p>Non-U.S. developed bonds provide potential diversification benefits to a U.S. economy that may have stickier inflation than their European counterparts. We're neutral on foreign bonds, but given the potential for additional European Central Bank (ECB) rate cuts, foreign bonds, ex Japanese government bonds, may outperform. Currency volatility remains a concern though, so investors may be better served by using a currency-hedged option.</p>
	EM Debt	<p>Emerging market (EM) central banks are slightly more accommodative than the Fed, but with over 70 EMs, it's hard to find commonality in the asset class. Valuations are relatively attractive, but idiosyncratic risks remain. A weak dollar could provide a tailwind to prices. Liquidity is also an added risk during periods of market stress.</p>

## Our Investment Committee is Your Investment Committee

The Strategic and Tactical Asset Allocation Committee (STAAC) is the investment committee broadly charged with overseeing the investment decisions for LPL's discretionary asset allocation platform. The 11-member committee is comprised of the senior members within LPL's Research department and is responsible for the firm's capital market views that ultimately form the firm's asset allocation decisions.

The STAAC determines the firm's investment outlook and asset allocation that helps define LPL Research's investment models and overall strategic and tactical investment guidance. That guidance is delivered via recommended allocation weightings and a suite of strategy reports, articles, chart analyses, videos, and podcasts.

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 the close monitoring of all global economic and capital market conditions, and to ensure the latest information is analyzed and incorporated into its investment thought.



**Marc Zabicki, CFA**  
Chief Investment  
Officer



**Jeffrey Buchbinder, CFA**  
Chief Equity  
Strategist



**Garrett Fish, CFA**  
Head of  
Model Portfolio  
Management



**Scott Froidl**  
Investment Analyst



**Lawrence Gillum, CFA**  
Chief Fixed  
Income Strategist



**Jason Hoody, CFA**  
Head of Investment  
Manager Analysis



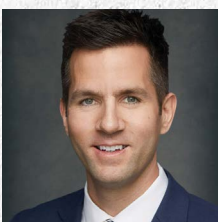
**Kristian Kerr**  
Head of  
Macro Strategy



**Jeffrey Roach, PhD**  
Chief Economist



**George Smith, CFA, CAIA, CIPM**  
Portfolio Strategist



**Adam Turnquist, CMT**  
Chief Technical  
Strategist



**Jina Yoon, CFA**  
Chief Alternative  
Investment Strategist



The opinions, statements, and forecasts presented herein are general information only and are not intended to provide specific investment advice or recommendations for any individual. It does not take into account the specific investment objectives, tax and financial condition, or particular needs of any specific person. There is no assurance that the strategies or techniques discussed are suitable for all investors or will be successful. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing.

Any forward-looking statements, including the economic forecasts herein may not develop as predicted and are subject to change based on future market and other conditions. All performance referenced is historical and is no guarantee of future results.

References to markets, asset classes, and sectors are generally regarding the corresponding market index. Indexes are unmanaged statistical composites and cannot be invested into directly. Index performance is not indicative of the performance of any investment and does not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

Precious metal investing involves greater fluctuation and the potential for losses.

Any company names noted herein are for educational purposes only and are not an indication of trading intent or a solicitation of their products or services. LPL Financial doesn't provide research on individual equities.

All index data from FactSet or Bloomberg as of July 8, 2025. All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

#### GENERAL RISK DISCLOSURES

Investing involves risks, including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Investing in foreign and emerging markets debt or securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Investors can get exposure to crypto assets through exchange-traded products (ETPs) and publicly traded companies that are involved in crypto asset-related activities. Crypto assets can be exceptionally risky and are often extremely volatile. They may lack the robust regulatory protections and market oversight that traditional investments have and lack the key information that investors need to make informed decisions. Information provided might not be accurate. Crypto assets are less liquid than more traditional financial instruments, like stocks and bonds, which can exacerbate price volatility and make it more difficult to sell. In addition, fraud and scams involving crypto assets are common. The risk of losing all of an investment is significant.

#### GENERAL DEFINITIONS

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

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

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

**The Standard & Poor's 500 Index** is a capitalization-weighted index of 500 stocks designed to measure

performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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

**The Bloomberg Commodity Index** 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.

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

#### EQUITY RISK

Investing in stock includes numerous specific risks, including the fluctuation of dividends, loss of principal, and potential illiquidity of the investment in a falling market. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies. Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time. The prices of small and mid-cap stocks are generally more volatile than large cap stocks.

#### EQUITY DEFINITIONS

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

**Growth stocks** are shares in a company that are anticipated to grow at a rate significantly above the average for the market due to capital appreciation. A value stock is anticipated to grow above the average for the market due to trading at a lower price relative to its fundamentals, such as dividends, earnings, or sales.

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

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

#### FIXED INCOME RISKS

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and changes in price. Bond yields are subject to change. Certain call or special redemption features may exist, which could impact yield. Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

#### FIXED INCOME DEFINITIONS

**Credit quality** is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default. Credit ratings are published rankings based on detailed financial analyses by a credit bureau, specifically as it relates to the bond 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.

**The credit spread** is the yield the corporate bonds less the yield on comparable maturity Treasury debt. This is a market-based estimate of the amount of fear in the bond market.

**Base-rated bonds** are the lowest-quality bonds that are considered investment-grade, rather than high-yield. They best reflect the stresses across the quality spectrum.

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

#### FIXED INCOME ASSET CLASSES

**Mortgage-backed Securities (MBS)** are secured by a collection of mortgages, referred to as a pool. The mortgages are "securitized", or packaged, together and can be sold to investors. In this structure, interest and principal payments from the borrower pass through to the MBS securities holder. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

**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.

**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.

**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.

**Commodities** include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors. The fast price swings in commodities will result in significant volatility in an investor's holdings.

#### CRYPTOCURRENCY RISKS

Investors can get exposure to crypto assets through exchange-traded products (ETPs) and publicly traded companies that are involved in crypto asset-related activities. Crypto assets can be exceptionally risky and are often extremely volatile. They may lack the robust regulatory protections and market oversight that traditional investments have and lack the key information that investors need to make informed decisions. Information provided might not be accurate. Crypto assets are less liquid than more traditional financial instruments, like stocks and bonds, which can exacerbate price volatility and make it more difficult to sell. In addition, fraud and scams involving crypto assets are common. The risk of losing all of an investment is significant.

#### ALTERNATIVE INVESTMENT RISKS AND ASSET CLASSES

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.

**Hedge funds** are private investment partnerships that pool funds. Hedge funds use varied and complex proprietary strategies and invest or trade in complex products, including listed and unlisted derivatives.

**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.

**Private credit** is non-publicly traded debt instruments created by non-bank entities, such as private credit funds or business development companies (BDCs), to fund private businesses.

**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.

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Not Insured by FDIC/NCUA or Any Other Government Agency	Not Bank/Credit Union Guaranteed	Not Bank/Credit Union Deposits or Obligations	May Lose Value
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