LPL RESEARCH PRESENTS

OUTLOOK

midyear ed.2026

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Midterm Elections
What a split Congress means for markets

Resource Nationalism
How geopolitics is driving commodities

Monetary Policy
A new Fed chair and the policy tightrope

AI
From spending boom to ROI

Policy, Buildouts, & Bottlenecks

Silver Peak mine, Esmeralda County, Nevada — the only active lithium-producing mine in the U.S.

LPL Financial

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Chief Investment Officer,
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FROM THE CIO

In our *2026 Outlook: The Policy Engine*, we spent considerable time talking about how policy is increasingly a driver of capital markets. The Iran conflict, and the resulting market disjoint, certainly served as another example of how policy, geopolitical or otherwise, should be top of mind when investors consider portfolio construction and risk management.

So, what now? The simple answer is we expect more of the same. Policy again will be front and center as we turn our attention to U.S. midterm elections, and the uncertainty surrounding Kevin Warsh as the new chair of the Federal Reserve (Fed). Mr. Warsh's ability to influence his colleagues, and questions around congressional balance of power in midterm elections, should be key items that help shape the second half of 2026.

This doesn't mean we have lost focus on artificial intelligence (AI) and the definitive upside trend we have seen in corporate earnings. That is indeed part of our calculus as well. As a matter of fact, strength in earnings is a key reason we have added to our 2026 return expectations for equities. While some frothiness around AI expectations and market concentration do leave us a bit concerned, the wave of earnings growth we have seen could persist, adding degrees of comfort to our forecast.

Internationally, we are less sanguine, as European economies have again fallen behind, and emerging markets may continue to be hit-or-miss in aggregate. Simply stated, while our bias for U.S. equity exposure remains, the variance between the U.S. and the rest of the world may not be as pronounced as in years past.

All these items should be major variables of focus for the balance of the year. But the key question is: How should investors position themselves to optimize investment opportunities? The answer is grounded in the expectation that we believe equity markets should indeed be constructive in the second half, yet historical precedent also tells us that midterm election years make for a bumpy investment ride. Keep the latter point in mind.

To that end, bonds should remain a steadfast allocation, while market conditions persistently point to increased needs for alternative exposure, in our view. Being well-balanced is key, but it is perhaps most important when policy shifts can cause the market to turn on a dime.

Finally, we invite you to sit back and take in this latest version of our Midyear Outlook. We have highlighted key themes we believe will drive markets in the short and intermediate term, and we hope the piece is informative and thought-provoking. As always, we also invite you to lean on us at LPL Research for your capital market guidance. We indeed take your trust in us seriously and endeavor to direct our tools, resources, and experience in a manner that is consistent with helping you build a durable investment strategy.

AT A GLANCE

ECONOMY

We expect economic growth to moderate but remain positive through the balance of 2026, as strong business investment – anchored by AI – will help offset weakness in housing and other rate-sensitive sectors of the economy. If geopolitical tensions ease meaningfully, a key near-term source of inflationary pressure should fade, allowing inflation to move toward 2.9% by year-end. While unemployment may edge up to around 4.6%, consumer demand should remain generally supported by elevated household net worth and the ongoing wealth effect.

STOCKS

An improving but still challenging macro backdrop and AI-driven earnings strength will continue to be the key pillars of support that will help the broader equity advance continue through year-end. Risks remain, however, as developments in the Middle East and AI monetization progress will determine the magnitude and frequency of potential pullbacks. We expect modest equity market gains in the second half and maintain a moderate equity overweight to take advantage – but staying diversified between the AI theme and potential rotation beneficiaries could be critical.

BONDS & CASH

Sticky inflation and resilient growth are likely to keep the Fed on an extended pause, leaving Treasury yields range-bound, with the 10-year expected to finish the year between 4.00% and 4.50%. In this environment, bond market returns may remain primarily driven by income, and we favor owning core bond sectors over lower-quality riskier sectors. Longer-term oriented investors should continue to benefit from extending cash maturities slightly to capture still elevated bond yields, as we believe the Fed will eventually continue its rate-cutting campaign.

PORTFOLIOS

The overall investment environment remains susceptible to rapid change but is likely to grow more supportive of risk-taking. As such, we hold a modest preference for equities over fixed income, tactically expressed via a slightly conservative domestic equity mix given the extent of recent growth-led gains. We favor balance across global stock markets and continue to believe allocations to alternatives can help enhance portfolio resilience and stability.

FOUR KEY THEMES TO WATCH

We see four themes shaping markets in the second half. First, U.S. midterms could shift congressional control and policy direction. Second, rising resource nationalism is steering capital toward commodities and real assets and shifting the geopolitical landscape. Third, AI is maturing, and focus is likely to move from buildout to beneficiaries and return on investment. Finally, a leadership change at the Fed adds uncertainty; with inflation elevated and geopolitics tense, the new chair will have little margin for error.

THEME ONE

MIDTERM ELECTIONS

With midterm elections approaching, shifts in policy direction and control of Congress are set to impact markets. In our base case of a split Congress, financials are likely to face headwinds as deregulation momentum stalls. Additionally, long-end yields should remain elevated, as budget fights and debt ceiling standoffs become more frequent. In the event of a Democratic sweep, healthcare stocks are poised to benefit as the risk of adverse legislation fades. Regardless of the election outcome, investors should be ready to lean into dip-buying opportunities once the usual election uncertainty clears.

Looking ahead to the November elections, our base case is a split Congress **[Fig.01]**. In that environment, investors should expect fewer large legislative changes and more volatility around key issues like government funding and the debt ceiling. With major bills harder to pass, policy momentum is likely to shift away from Congress and toward the executive branch, where action can be taken through executive orders and regulatory rulemaking. While a Democratic sweep or continued Republican control would alter the outlook at the margins, the bigger picture is that the likely narrow majorities in either direction will lead to more incremental and contested policy outcomes.

Split Congress

If Republicans lose control of the House, we can expect legislative gridlock, as chamber leadership would need to rely on negotiation and bipartisan agreement to move bills forward. A divided legislature reduces the likelihood of major statutory change. However, it raises the probability of standoffs over the debt ceiling, government funding, and other must-pass legislation, such as the National Defense Authorization Act (NDAA).

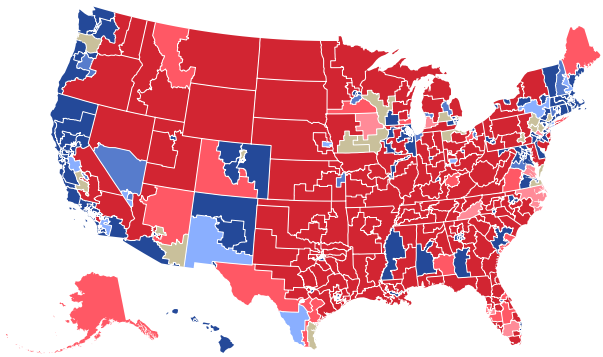
With legislative pathways constrained, the White House would rely more heavily on executive orders, agency rulemaking, and regulatory reinterpretation to advance its policy agenda. The winners would be agencies and stakeholders looking for fast regulatory clarity. Regulators can continue advancing the Administration's agenda through rulemaking, exemptions, guidance, and enforcement discretion. The losers would be stakeholders seeking statutory changes that would require bicameral agreement. Bipartisan measures could still advance, but congressional leadership would need to make a concerted effort to resolve policy differences and prioritize limited floor time. Affordability measures could still move on a bipartisan basis, but Democrats may be reluctant to give the Administration a major legislative win ahead of the 2028 presidential election.

KEY WATCHPOINTS: Under a split Congress scenario, House oversight hearings on the Consumer Financial Protection Bureau (CFPB), bank capital, and prediction markets intensify. Senate continues administration confirmations but faces cross-pressure from retiring moderates. If not passed this year, the CLARITY Act risks stalling between chambers.

WHAT'S ON THE LINE?

fig.01

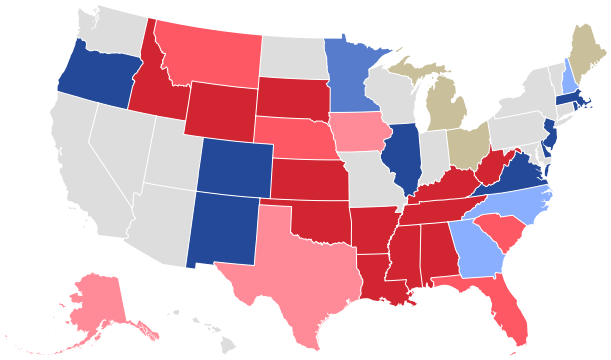
Source: 270towin.com



HOUSE

435 seats are up for re-election. Democrats need a net gain of six seats to reach the majority threshold.

Projection: Democrats likely flip, but by small margins.



SENATE

35 seats are up for re-election, including two special elections. Democrats need to flip four seats to claim a majority.

Projection: Republicans retain control.

Democratic Sweep

If Republicans lose control of both chambers, legislative activity will remain constrained due to narrow Democratic majorities and the President's ability to veto legislation that does not align with the Administration's agenda. With tight margins, it would be difficult for Congress to override a presidential veto in both chambers without strong bipartisan support.

As in President Trump's first-term, Democratic leadership would place significant emphasis on oversight, investigations, and hearings focused on the Administration's actions during the first two years of the President's current term.

There would be fewer clear policy winners in this scenario, as Democratic majorities would likely focus on advancing party priority legislation to show voters accomplishments with unified congressional control, even though most partisan measures would face a presidential veto. Democrats would likely lack the votes to overcome the Senate filibuster. One of the losers would be the President's judicial and executive-branch nominees, who would face a difficult confirmation process in a Democratic-controlled Senate.

KEY WATCHPOINTS: In a Democratic sweep scenario, CFPB restoration advances aggressively on Capitol Hill. CLARITY Act is renegotiated with stronger consumer protections. Bank capital deregulation is constrained via confirmation leverage in the Senate over pending nominations. Prediction market regulation advances.

Republicans Retain Control

If Republicans retain control of both chambers, we will experience a similar scenario as we are currently in. Congress would continue to advance the Administration's legislative agenda, particularly on affordability and other priorities that may not pass this Congress, such as a capital formation package. Unified control gives Republicans the ability to pursue additional reconciliation legislation, including further changes to the tax code. However, the success of legislation would depend on the size of Republican majorities and we would continue to face intraparty disputes.

The main winners would be stakeholders seeking statutory changes aligned with the Administration. Financial services and digital asset firms could benefit from a greater likelihood of legislation around crypto and tax treatment, modernizing company disclosure, and limiting perceived regulatory overreach. Congress would be more likely to codify agency action through legislation, virtually future-proofing regulatory changes.

KEY WATCHPOINTS: In a Republicans retain control scenario, deregulatory trajectory continues and CFPB is further diminished. Bank capital rules are eased. Crypto tax treatment and tokenization agenda advances.

LPL Research would like to thank LPL Financial's Government Relations team and specifically Mary Kate Clement for important insight and contributions to the policy section.

THEME TWO

STOCKPILING SECURITY

Resource nationalism is becoming an increasingly dominant force, with governments actively asserting control over natural resources to secure economic and geopolitical leverage. The clear implication of this shift is structurally higher commodity prices, as competition to secure supply intensifies. Beyond commodities themselves, commodity-linked equities — particularly in energy and materials — as well as commodity-exposed regions like Latin America, are poised to be clear and sustained beneficiaries over time.

The term "resource nationalism" generally describes the deliberate effort by nation states to assert control over, direct, and secure access to natural resources within their borders or broader spheres of influence. It is rarely just about commodities themselves. Rather, it reflects a deeper strategic impulse where governments begin to view resource endowments as core to national power, economic resilience, and geopolitical advantage. Once that mindset takes hold, it does not remain confined to the resource sector alone. It propagates outward, reshaping policy frameworks, trade relationships, capital flows, and ultimately, the broader macro landscape

The Cyclical Nature of Natural Resource Control

Despite how it is often framed, resource nationalism is not a permanent feature of the global system. It is cyclical. For much of the 19th and early 20th centuries, particularly under colonial and imperial arrangements, control over natural resources was effectively externalized. Dominant global powers, often working through quasi-national private enterprises, dictated extraction, pricing, and distribution. Local sovereignty over resources was limited, and in many cases, largely irrelevant to how the system functioned.

That began to change in the post-World War II period. As decolonization unfolded, newly independent states gradually moved to reclaim ownership and control over their resource bases. What followed was not an immediate shift, but a steady accumulation of policies aimed at nationalization, production control, and revenue capture. This process reached its most visible and forceful expression in the 1970s, culminating in the years surrounding the 1973 OPEC oil embargo. At that point, resource nationalism moved from the periphery to the center of the global macro landscape, influencing inflation dynamics, growth trajectories, and geopolitical alignments.

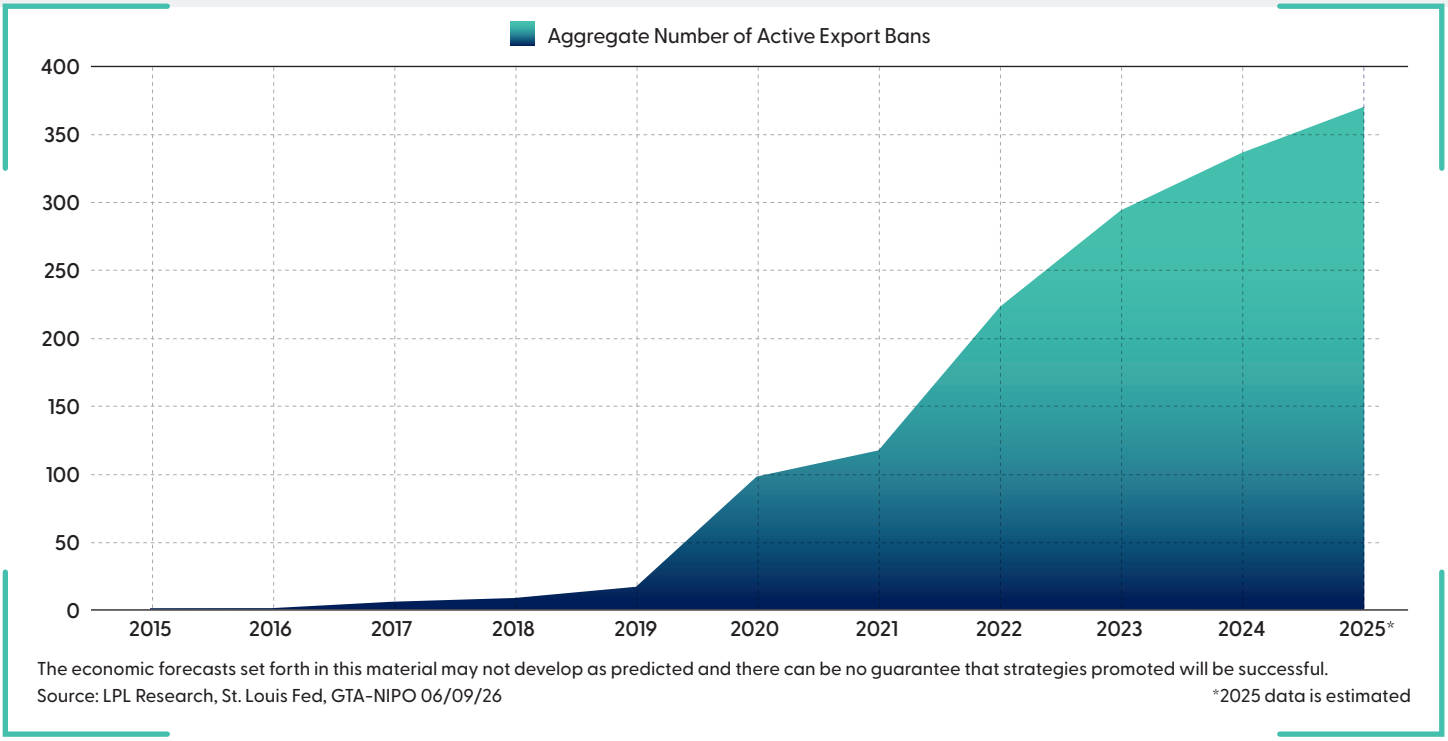
But as is the case in macro, regimes do not persist indefinitely. The surge in resource nationalism that defined the 1970s ultimately gave way to a different paradigm. Beginning in the 1980s and accelerating through the 1990s, the global system shifted toward liberalization and integration. Global supply chains expanded, capital mobility increased, and the primacy of efficiency over security took hold. Resource nationalism did not disappear entirely, but it receded as a dominant force, overshadowed by a broader wave of globalization that persisted through much of the first two decades of the 2000s. Then around 2020, the cycle began to turn again **[Fig.02]**. The pandemic acted as a catalyst, exposing structural fragilities in global supply chains that had been building for years. Suddenly, the assumption that critical inputs, including key natural resources, would always be available at the lowest global cost came into question. In that environment, governments began to reassess priorities. Resilience, redundancy, and control started to matter more than marginal efficiency.

From Supply Shock to Structural Trend

From a macro perspective, this is typically how resource nationalism reasserts itself. Not as an isolated policy choice, but as part of a broader shift in the global political economy. What began as a response to supply

fig.02

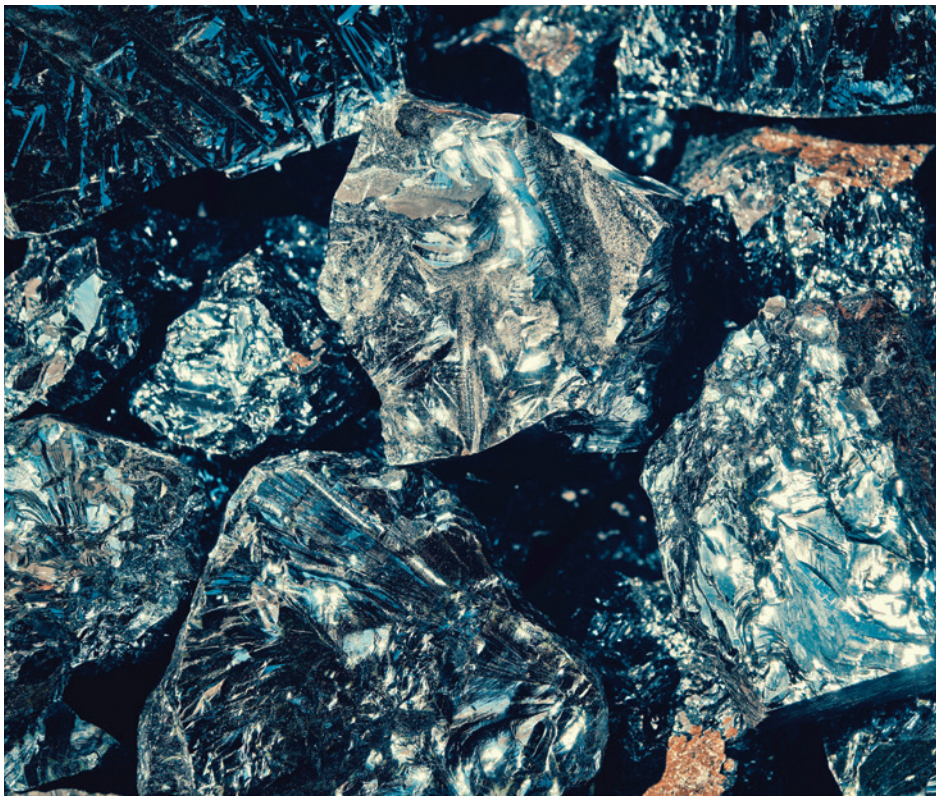
SURGE IN EXPORT BANS GLOBALLY POST-2020



The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
Source: LPL Research, St. Louis Fed, GTA-NIPO 06/09/26
*2025 data is estimated

chain disruption is increasingly evolving into a more durable trend, where access to energy, metals, food, and strategic materials is being reframed as a national security issue. And once that framing takes hold, it tends to reinforce itself, feeding back into the geopolitical and economic cycle in ways that can persist for years.

From an investment perspective, the implications are becoming increasingly clear. A market regime characterized by rising resource nationalism is typically more supportive of commodities and commodity-linked equities. Constraints on supply, combined with a greater willingness by governments to procure commodities, tend to underpin pricing power across the resource complex. As the cycle continues to unfold, exposure in energy, metals, and other real assets will become increasingly more important in portfolios for navigating what is shaping up to be a more fragmented and strategically driven environment in the quarters and years ahead.



Silicon, a chemical element and essential component in electronic devices and solar cells.

THEME THREE

AI'S NEXT ACT

The AI theme is clearly entering a more advanced phase, setting up a decisive shift from the buildout winners to those that can actually monetize at scale. If the next leg of AI adoption delivers as expected, U.S. and emerging market equities should continue to lead, given their dominant positions across the AI supply chain. That said, hyperscalers could become increasingly exposed as the capital expenditure (CapEx) cycle matures and returns come under scrutiny. At the same time, the proliferation of AI will create clear winners and losers, pressuring parts of the software space while driving meaningful margin expansion in areas such as industrials through productivity gains.

Looking ahead to the second half of 2026, we believe AI will remain a dominant driver of equity markets. At the same time, AI will also be an increasing source of uncertainty as the investment cycle matures. In AI's "next act," markets will face a transition, moving from enthusiasm about the AI infrastructure buildout and surging earnings to a more balanced debate around the returns on the massive capital spending and who will be the biggest beneficiaries.

Data center facility, Vernon, California.

Where Are We Now?

Capital investment by the hyperscalers has been extraordinary and continues to grow. These five companies – Alphabet (GOOG/L), Amazon (AMZN), Meta (META), Microsoft (MSFT), and Oracle (ORCL), are on track to invest more than $750 billion in AI infrastructure in 2026, and that number may exceed $1 trillion in 2027 **[Fig.03]**.

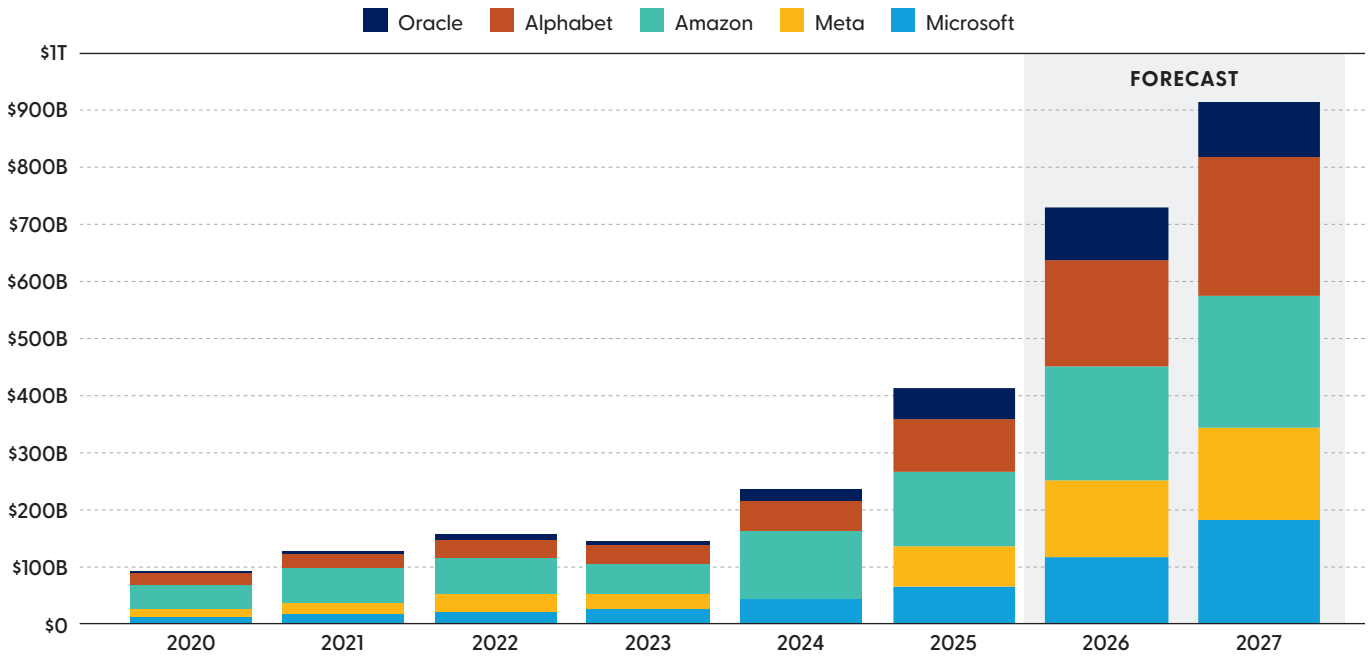
The earnings growth driven by this investment has been historic. The technology sector grew profits 54% during the first quarter, and the consensus estimate for the second quarter calls for similar strength. Broadly, profit margins are expected to continue to expand as AI adoption ramps and companies realize productivity benefits. We're still early in the adoption cycle, with just 61% of large companies reporting use and 44% of small companies (Source: Ramp Economics Lab), with usage mostly narrow in scope. As AI utilization deepens and broadens in the coming years, more productivity should result, in our view.

Durability of the Buildout

Despite the strong technology sector performance and earnings growth this year, particularly from semiconductor companies, there is plenty of skepticism about AI. One concern is the durability of the buildout.

HYPERSCALER CAPITAL EXPENDITURES CONTINUE TO RISE

fig.03



Oracle's fiscal year ends May 31. All other companies report on a calendar year basis. Estimates may not materialize as predicted and are subject to change.
Source: LPL Research, Bloomberg 06/30/26

The cost is enormous, but several factors point to more runway. First, the leading AI players have told us to expect more spending in 2027 on top of the massive 2026 spend. Second, bottlenecks exist in terms of shortages of memory and other materials, power, and regulation that will likely elongate the cycle. And third, the significant cash flow generation and balance sheet strength of the hyperscalers suggest capital will be available.

Markets Will Increasingly Scrutinize ROI

Scrutiny on AI capital expenditures has increased alongside the investments. While early enthusiasm centered on growth potential, investors have become increasingly focused on returns on these investments (ROI). Wall Street analysts and strategists have put expanding margins into their earnings forecasts and equity valuations reflect optimism, so now it's on corporate America to deliver. Some spending may prove wasteful, but that doesn't mean that the benefits of AI won't justify the costs. AI's first act is spending, and it's still going. The next act will be monetization. This coming earnings season, watch for more examples of how companies are using AI to enhance the bottom line, particularly outside of technology.

Tug of War: Margins vs. Employment

The job loss question keeps coming up regarding AI, and understandably so. But history shows that the U.S. labor force adapts to technological change. Workers reinvent themselves. Our hope is that companies maintain or even slightly grow headcount while revenue grows faster over time, boosting profit margins. For those who are skeptical, consider an underweight allocation to the consumer discretionary sector. High oil prices and related sticky inflation continue to pressure consumers' discretionary income, though past performance does not guarantee future results.

The Bottom Line

AI is entering a transition phase. The market is moving from pricing in promise to pricing in execution and returns. Over the next six months, we believe the most likely outcome is not a collapse of the AI theme, but a more selective market environment in which winners show monetization, and those that don't face valuation resets. Investors recalibrating expectations for what this historic buildout might ultimately deliver may cause volatility. How investors will value the back end of the AI investment cycle remains uncertain.

THEME FOUR

A FED CHAIR WITHOUT A GRACE PERIOD

The Kevin Warsh era at the Fed is set to begin with virtually no margin for error, as the path to price stability is complicated by a commodity supply shock and a historic capex surge — reinforcing the case for a prolonged pause in rate cuts. In this environment, shorter-duration U.S. Treasuries and Treasury Inflation-Protected Securities (TIPS) should clearly outperform, while non-U.S. debt and longer-duration Treasuries are likely to be more vulnerable.

Warsh Steps Into a High-Stakes Policy Environment

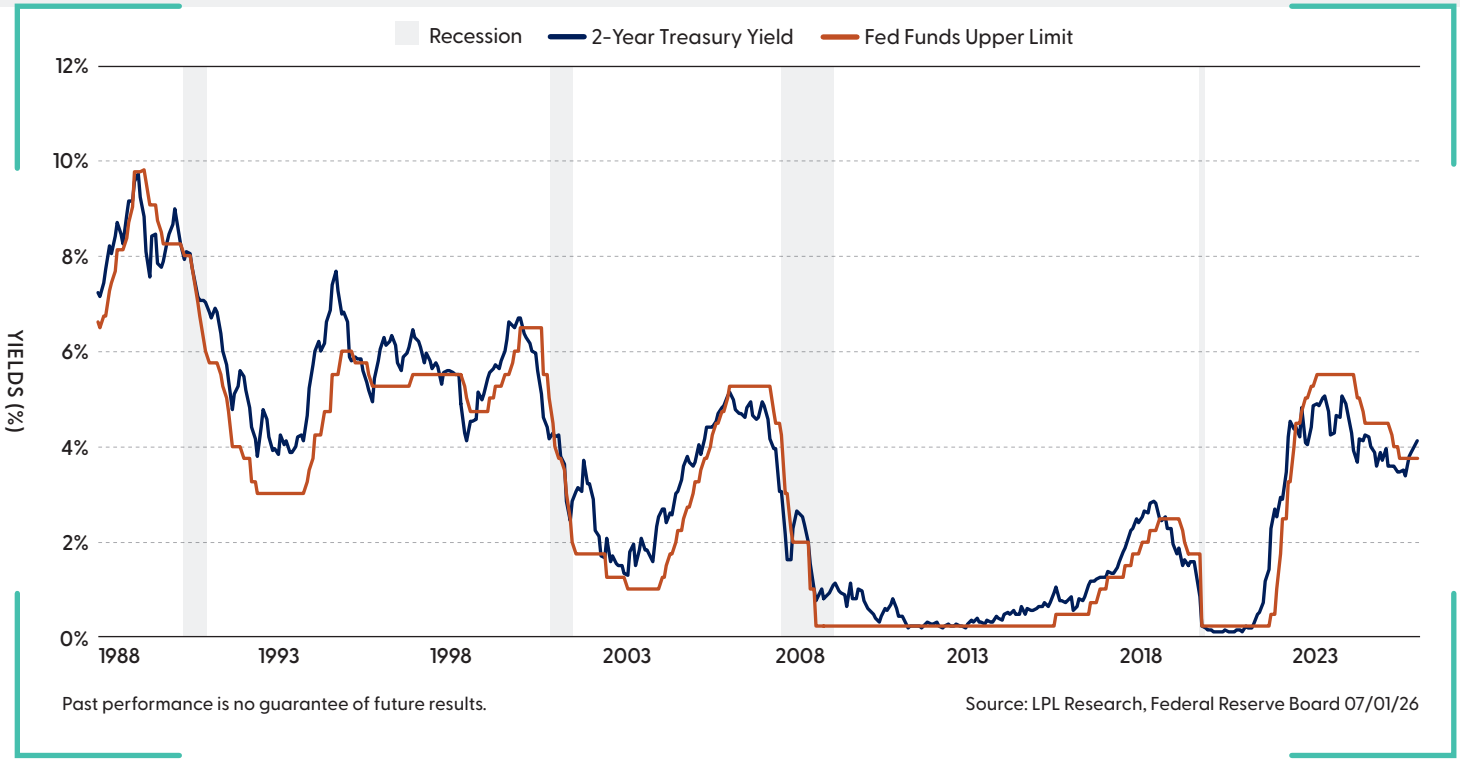
As we develop the outlook for the next few quarters, we must assume a more challenging period for the Federal Open Market Committee (FOMC) and its new chairman, Kevin Warsh. In our view, Warsh will likely experience only a brief honeymoon period as he steps into his new role given inflation remains stubbornly sticky, particularly in core categories, limiting the Fed's flexibility and exposing policymakers to potential criticism if progress stalls. At the same time, the ongoing Iran conflict introduces a geopolitical risk that keeps energy markets volatile and inflation expectations elevated. With the crisis extending past 100 days — and potentially longer if negotiations falter — continued disruption of the Strait of Hormuz risks compounding price pressures, leaving Warsh to inherit a policy environment where exogenous shocks, not just domestic demand, are shaping the inflation trajectory. In that context, market participants would be less patient, and the usual grace period for new leadership could vanish almost immediately.

Recent consumer inflation data underscores just how difficult the path back to price stability will be. Core inflation in May rose 0.2% month over month, keeping the annual rate just under 3%, which is psychologically important but still meaningfully above the Fed's 2% target. Headline inflation climbed to 4.2% year over year, the highest since mid-2023. Inflation was driven heavily by rising gasoline and energy costs. While energy is often volatile, the concerning element is broader pressure in services, particularly medical care, which continues to push higher even as health insurance costs have moderated over the past six months. Transportation costs are another stress point, reflecting both strong travel demand and elevated fuel prices. This mix of resilient demand and supply-side shocks creates a "no easy wins" backdrop for policymakers, where inflation declines only gradually and unevenly.

The deeper challenge for Warsh — and for the Fed more broadly — lies in the persistence of services inflation. Unlike goods prices, which could normalize as supply chains heal, services inflation is tied to wage growth, labor market tightness, and structural demand patterns, making it slower to adjust. Even if headline inflation were to soften with easing energy prices, sustained progress toward the 2% target will require a meaningful cooling in services, which remains elusive. The risk in the current environment is that prolonged geopolitical stress keeps energy prices elevated through the summer, amplifying second-order effects across sectors and complicating the Fed's policy calculus. As a result, the Fed is likely to remain on hold in the near term, removing any bias toward easing and considering further tightening if conditions warrant, even as markets grapple with heightened uncertainty about the timing and credibility of any return to target inflation.

fig.04

TREASURY YIELDS RISE WHEN GROWTH PROSPECTS IMPROVE



Past performance is no guarantee of future results.

Source: LPL Research, Federal Reserve Board 07/01/26

As such, with a Fed likely on a prolonged pause, we believe that likely means Treasury yields will remain range-bound in the second half of 2026. We think the 10-year settles into a 4.0–4.5% range throughout the rest of the year **[Fig.04]**. Also, the additional compensation (spreads) to own corporate credit remains muted. Though, we could see upward pressure on spreads for the hyperscaler companies that are leaning into the debt markets to fund the AI infrastructure buildout. However, with still high yields and a higher-quality composition, we don't expect corporate credit spreads to widen much from current levels. So, with little potential price appreciation through falling Treasury yields and/or spread tightening, in our view, returns will once again come from attractive income opportunities, which remain historically attractive.

Federal Reserve Chair Kevin Warsh delivers remarks at his swearing-in ceremony, May 22, 2026.

Jeffrey Roach, PhD, Chief Economist

Disruption and Division — AI, Inflation, and the Labor Gap

KEY EXPECTATIONS

- Growth should moderate but remain positive in the second half, with strong business investment helping offset weakness in housing and other rate-sensitive sectors.
- Spending on AI-related equipment, intellectual property, and nonresidential structures will continue to provide an important cushion for overall activity.
- Elevated household net worth relative to income will continue to provide an important buffer for consumers and help support demand.
- Inflation should ease by year-end. We expect inflation to moderate toward 2.9% by the end of 2026 if geopolitical tensions can ease meaningfully.
- Unemployment should edge higher but remain historically low, rising to around 4.6% by year-end as hiring stays subdued.

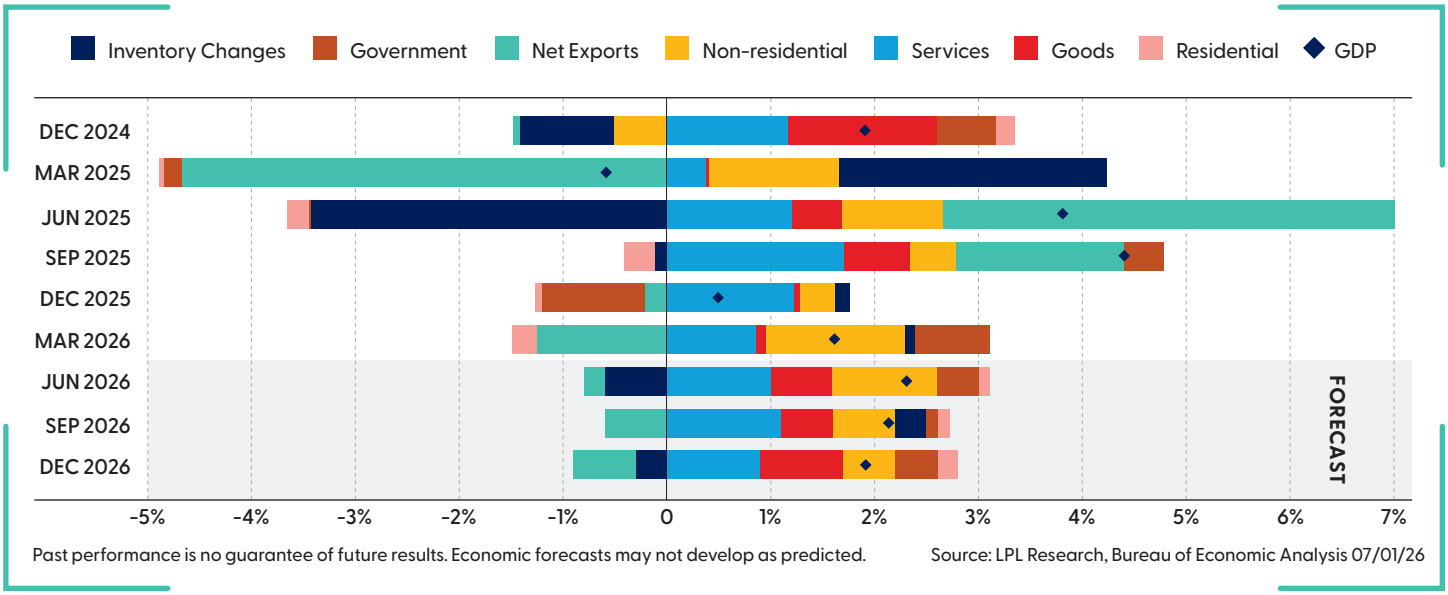
Economic Growth Will Likely Be Under 2% in the Latter Half of 2026

Recession is not in our baseline forecast, but much depends on recent geopolitical events not spilling over negatively into the broader economy. Encouragingly, expectations of a coming increase in supply are helping offset the pressure from higher energy prices. Demand for structural non-residential investment has been a clear pillar of economic growth in recent quarters. This category includes data center construction, oil and gas well drilling, and other non-defense capital goods. These are providing a steady counterbalance to the softer components of gross domestic product (GDP). Business spending on equipment related to AI, intellectual property products, and non-residential structures has generally expanded as firms continue to invest in productivity-enhancing technologies, supply chain resilience, and capacity aligned with longer-term demand trends. This strength has contributed positively to overall output, helping sustain real GDP growth even as tighter financial conditions have weighed on interest-sensitive sectors.

In contrast, residential investment has contracted, reflecting the significant drag from elevated mortgage rates and housing affordability challenges. Higher borrowing costs have dampened home sales, curtailed new construction activity, and reduced renovation spending, implying that residential investment will likely subtract from growth in the balance of 2026. Thus, while business investment has acted as a stabilizing force, housing has remained a cyclical headwind, underscoring the uneven transmission of monetary tightening across sectors **[Fig.05]**.

ECONOMIC GROWTH MAY BENEFIT FROM CAPITAL SPENDING

fig.05

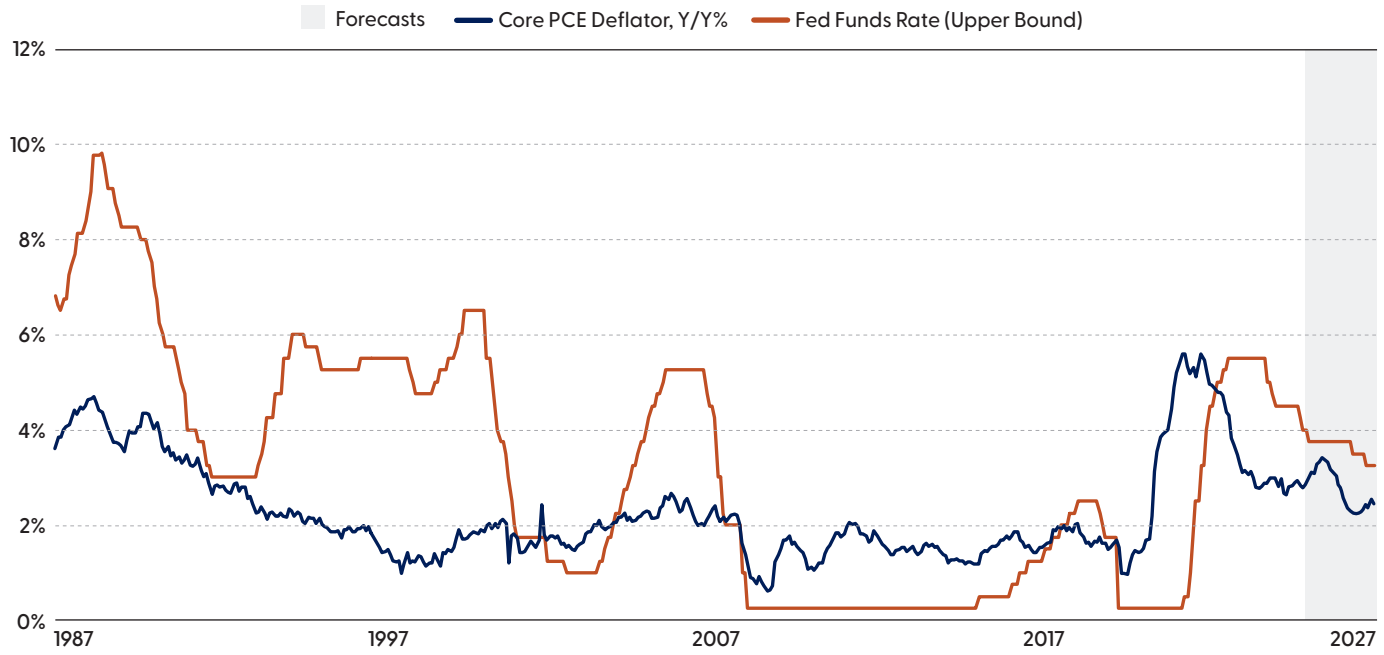


Past performance is no guarantee of future results. Economic forecasts may not develop as predicted.

Source: LPL Research, Bureau of Economic Analysis 07/01/26

fig.06

GEOPOLITICAL SHOCKS MAY KEEP INFLATION ELEVATED FOR LONGER



Past performance is no guarantee of future results. Economic forecasts may not develop as predicted. Source: LPL Research, U.S. Bureau of Labor Statistics 07/01/26

Rising Household Wealth May Add Roughly 0.7 Percentage Points to Growth

At the same time, the elevated level of household net worth relative to disposable income provides an important buffer for consumers navigating persistent inflation pressures. Strong gains in asset prices over recent years have lifted balance sheets, leaving households with a greater cushion to absorb higher costs for essentials such as food, energy, and services. According to recent Fed data, the ratio of household net worth to disposable personal income is higher than pre-COVID-19 levels and explains why the economy is holding up amid the headwinds.

Rising wealth can support consumption in the coming quarters by allowing consumers to draw on savings, tap home equity, or maintain confidence in their financial position despite real income pressures. One risk, however, is a market correction, since the wealth effect can also work in reverse. When geopolitical uncertainty rises or asset prices fall, consumers and businesses often reassess spending habits. Although higher interest rates may constrain some forms of borrowing, the overall strength in net worth relative to income helps mitigate downside risks to spending. As a result, consumer demand has shown resilience, even in the face of elevated inflation, supported in part by these stronger balance sheet dynamics.

Inflation Should Ease to 2.9% by End of Year

Our base case is that inflation pressures should moderate by the end of 2026 if geopolitical tensions more permanently ease, because the recent upside pressure **[Fig.06]** has been driven disproportionately by energy and related supply chain channels rather than by a broad-based reacceleration in underlying inflation. If geopolitical tensions de-escalate meaningfully, energy transit normalizes, and we don't get major amounts of strategic stockpiling, the direct boost to gasoline and utility prices should fade, and the indirect pressure on transportation, freight, and input costs should begin to subside as well.

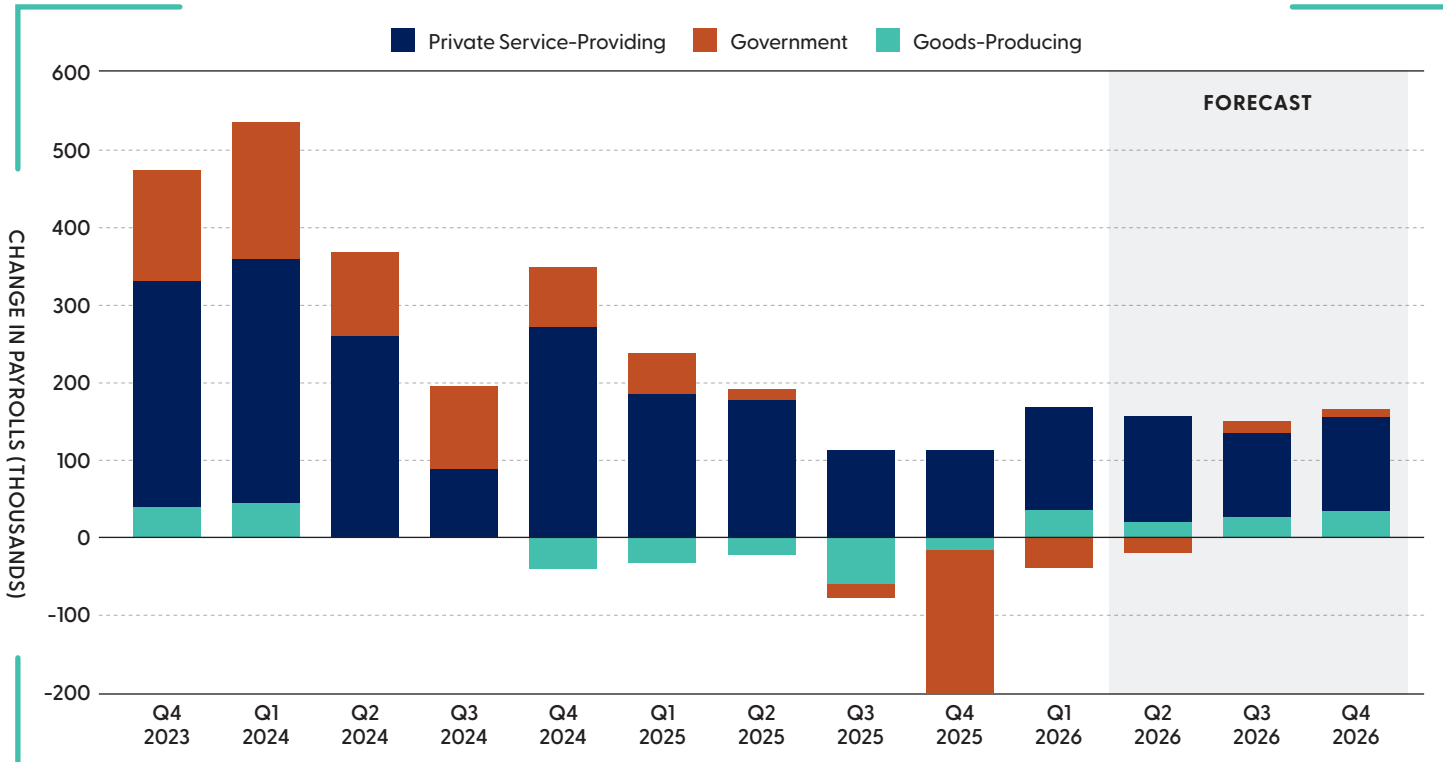
Analysis from the Richmond Fed shows that trend inflation has remained in the 2.5–3.0% range since the third quarter of 2023, with housing and food accounting for much of that persistence, while services inflation has continued to fall from its peak.* If the geopolitical risk premium embedded in commodity and shipping markets convincingly recedes, the economy should be left dealing mainly with slower-moving domestic categories rather than a fresh, broad-based price shock.

Softer labor-market dynamics and reasonably anchored inflation expectations should help keep inflation from becoming self-reinforcing. The New York Fed's May

**Are We There Yet? The Road Back to 2% Inflation*, RichmondFed.org

fig.07

JOB GROWTH MAY LIKELY CLUSTER IN SERVICE ECONOMY



Past performance is no guarantee of future results. Economic forecasts may not develop as predicted.

Source: LPL Research, U.S. Bureau of Labor Statistics 07/01/26

2026 Survey of Consumer Expectations showed some cooling in labor-market sentiment, including a decline in perceived job-finding prospects and an increase in layoff expectations, while New York Fed research on wage trends says underlying wage inflation has fallen sharply from its 2021 peak and is now near pre-pandemic norms. Put differently, if geopolitical tensions ease enough, we would expect inflation to lose one of its main near-term accelerants just as domestic demand and labor-market conditions are becoming less inflationary at the margin.

The Unemployment Rate May Rise to 4.6% but Still Historically Low

The labor market is still posting a relatively low unemployment rate mainly because layoffs remain restrained, not because hiring is especially strong. The corporate sector is in a "low-hiring, low-firing, low-quits" equilibrium: firms are hiring more cautiously than in earlier years, but they are also not shedding many workers, which helps keep measured unemployment from rising much. Today's hiring rate would historically have been associated with a much higher unemployment rate, but the unusually low separation rate is offsetting that pressure.

Another reason unemployment has stayed low is that labor supply growth has slowed sharply. Labor force growth could be near zero because of weaker population growth, lower net immigration, and aging-related declines in participation, meaning the economy needs only modest job growth to keep the unemployment rate steady.

However, if labor force participation starts to edge higher, the unemployment rate can rise mechanically even without a recession. The reason is definitional: the unemployment rate measures the share of the labor force that is jobless but actively looking for work, so people who come off the sidelines and begin searching are added to the labor force and may initially be counted as unemployed until they find a job.

That effect is more important in a labor market like today's **[Fig.07]**, where hiring is subdued even though firing is also low. In a low-hire environment, an increase in labor supply can temporarily outpace job matching, which would nudge the unemployment rate higher even if overall employment continues to grow.

Keys to Second Half Include Better Macro Backdrop and AI

In some ways, 2026 has played out as expected and in others it hasn't. AI capital investment and fiscal stimulus have been key drivers as expected, and while geopolitical tensions were on our risk list entering 2026, lasting and significant energy supply disruption in the Middle East was not. The good news for stock investors is that the massive AI buildout and resulting earnings boom has offset higher oil prices, helping deliver solid first half gains. In the second half, we expect stocks to grind higher amid an improved but still challenging macro backdrop and continued AI-driven earnings strength.

Cycle Support Shifting, Not Vanishing

In our 2026 Outlook, we made the case for the three-year-old advance in stocks to make it through year four. Market expansions that make it to year four usually generate strong gains that year. The last negative year four for the S&P 500 came during the first bull market after WWII more than 70 years ago, and five out of the last seven periods of stock market appreciation have experienced double-digit gains in their fourth year, including the current one.

This expansion continues to enjoy support from economic growth as AI investment and stimulus keep recession risk low. High oil prices and sticky inflation are expected to be only modest and temporary drags on growth.

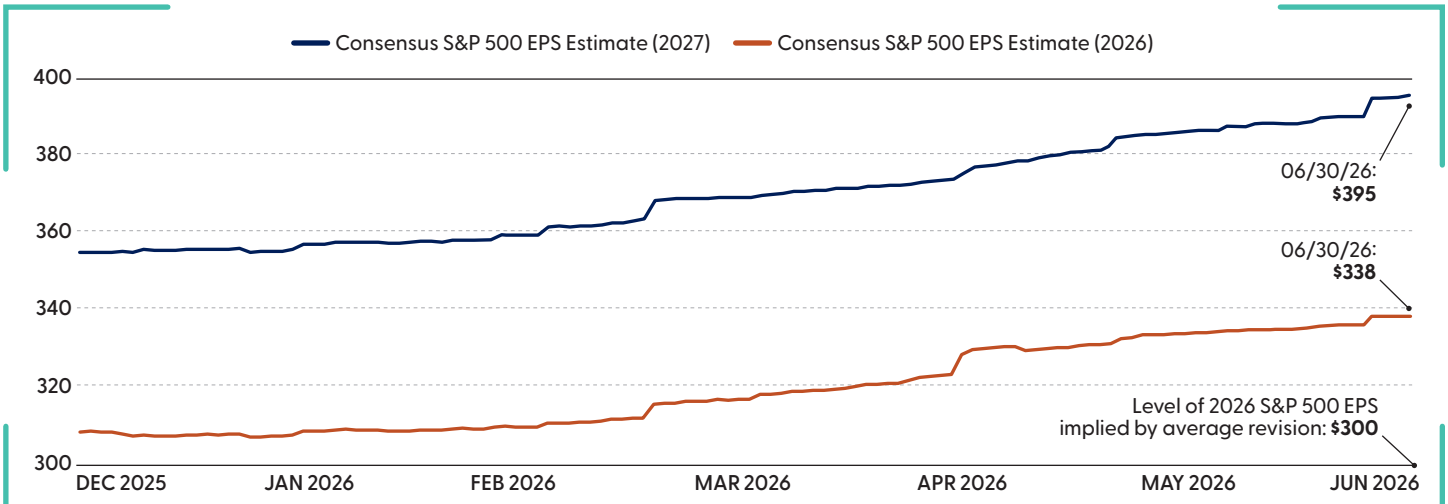
One cycle with waning support is monetary policy. Fed rate-cutting cycles have historically elongated and strengthened bull markets, but the next cut may not come until 2027, and markets often test new Fed chairs.

KEY EXPECTATIONS

- Expect the bull market to continue in the second half, bolstered by an improving macro backdrop, strong earnings growth, and AI execution.
- Developments in the Middle East and AI monetization progress will determine the magnitude and frequency of pullbacks.
- LPL Research expects modest gains for stocks in the second half and recommends a modest overweight allocation to U.S. equities to take advantage.
- Diversification will be critical as portfolios may benefit from exposure balanced across the AI theme and potential beneficiaries of a market rotation.

fig.08

RARE AND STEADY INCREASE IN EARNINGS ESTIMATES



Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results. Estimates may not materialize as predicted.

Source: LPL Research, FactSet 07/01/26

Earnings Must Do Some Heavy Lifting Again

Stock market gains so far this year have been driven by earnings, not by higher valuations. First quarter earnings growth near 30% was extraordinary and an encore is likely coming in the second quarter. AI-fueled technology earnings have far exceeded expectations **[Fig.08]**, and S&P 500 earnings per share (EPS) estimates for 2026 and 2027 have risen by more than 10% year to date, compared to an average 3% reduction.

S&P 500 EPS are on track to grow over 20% this year, but growth is concentrated in the technology sector, which is expected to drive two-thirds of the overall increase (15.5% out of 23.6%). That puts stocks at the mercy of the technology spend as scrutiny on investments may rise. Meanwhile, capital to fund the buildout could get more expensive.

What is the Stock Market Worth?

U.S. stocks are trading at slightly elevated valuations **[Fig.09]** based on a simple price-to-earnings (P/E) calculation, which has led some to characterize the stock market as overvalued. However, based on our macroeconomic outlook and corporate fundamentals, we would consider stock valuations fair rather than extreme.

Stock valuations are a function of several factors that we believe are supportive of a slightly higher P/E in six months, including: 1) above-average earnings growth; 2) below-average recession risk, bolstered by stimulus and AI spend; 3) margin expansion opportunities from AI; and 4) potential for an improving macro backdrop.

Our confidence in the first three pieces of valuation support is fairly high, but the fourth piece – the macro backdrop – is tougher to call. If the backdrop improves and the Iran conflict winds down meaningfully, we expect to see some P/E expansion as inflation pressures ease and interest rates potentially move lower. Higher valuations likely also depend on an AI spending peak in 2027 and a subsequent rebound in free cash flows.

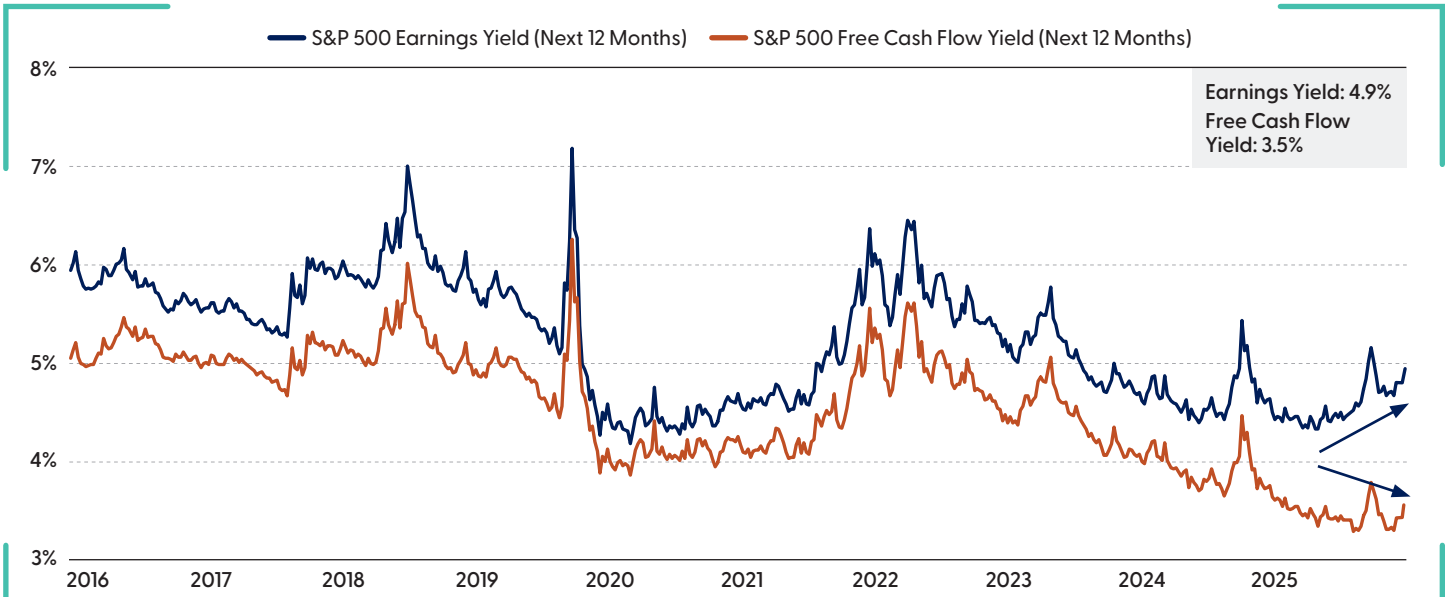
AI Trade May Have Gotten a Little Stretched

The sharp rally in semiconductor stocks on AI enthusiasm sparked comparisons to the dot-com bubble of the late 1990s. From March 30, 2025 through June 3, 2026, the Philadelphia SOX Index surged 225% compared with the S&P 500's 35% gain. Earnings may have justified the rally broadly, but the extreme move in some of the leading chip names was extreme and accompanied by stretched positioning. Simply put, market participants own a lot of AI names.

That observation was the primary reason LPL Research's Strategic and Tactical Asset Allocation Committee (STAAC) downgraded the technology sector in early June from modest overweight to neutral despite 50% earnings growth. The biggest winners of the AI trade may simply need a cooldown period **[Fig.10]**.

STOCK VALUATIONS ON EARNINGS ARE MORE REASONABLE THAN FREE CASH FLOW

fig.09

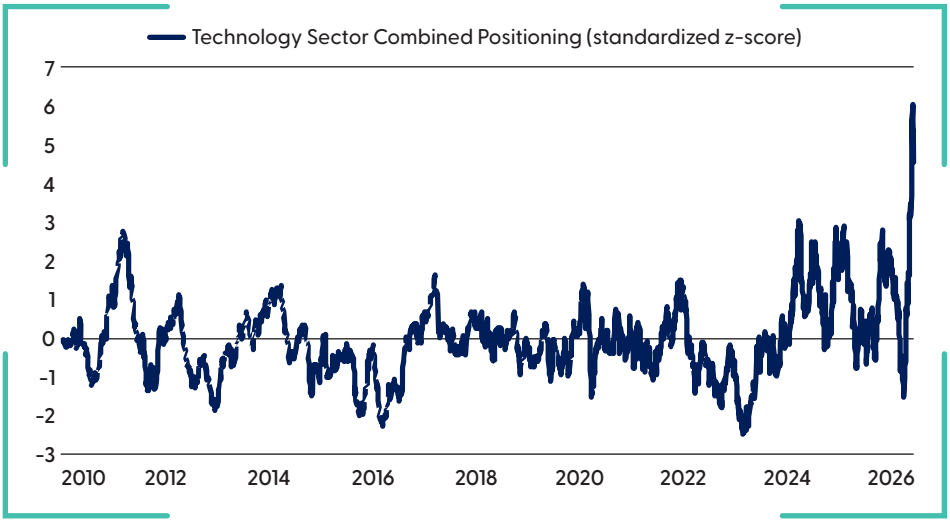


Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results. Estimates may not materialize as predicted and are subject to change. Free cash flow is calculated by taking operating cash flow and subtracting capital expenditures. Earnings yield represents earnings divided by price. Free cash flow yield represents free cash flow divided by price.

Source: LPL Research, FactSet 07/01/26

fig.10

TECH SECTOR POSITIONING HAS GOTTEN CROWDED



Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results. Based on the volume weighted average investors' positioning in U.S. equity sectors. This metric combines: Institutional and retail investors' net bullish positions in U.S. single stocks and ETFs (3-month rolling sum of OTM call – put US$ traded premium) and the 3-month rolling sum of inflows into U.S. sector-focused ETFs. All the metrics are standardized and averaged. The mean and standard deviation used for the Z-score are calculated using the full history range for all metrics except for: Call to put indicators and retail net buying average and standard deviation are adjusted for pre- and post-COVID-19 as retail participation increased. Weights are based on estimated investors' volumes as % of the total, we apply a cap to the maximum weight for each investor to avoid high levels of concentration. Source: LPL Research, Vanda 07/01/26

Earnings Up a Lot, Valuations Up a Little

The LPL Research base case assumes that more macro drivers break positively than negatively, allowing the AI-driven earnings boom to carry stocks higher. With uncertainty around geopolitics and the benefits of AI, and a lot of optimism priced in, volatility may remain elevated. Our updated year-end fair value forecast for the S&P 500 is 7,650–7,750, based on a 22 P/E and $350 in S&P 500 EPS in 2027.

Year-end Fair Value S&P 500 Target Range	7,650 – 7,750
2026 S&P 500 EPS Forecast	$320
2027 S&P 500 EPS Forecast	$350

Source: LPL Research 07/01/26

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

Maintain U.S. Focus

LPL Research favors U.S. equities for resilient economic growth, AI innovation, and relative insulation from possible additional energy shocks. Europe and Japan markets may benefit from attractive valuations and their own stimulus, but any boost from lower oil prices may be short-lived. Technology-driven strength in emerging market equities appears stretched, potentially setting up pullbacks.

Stock Market Risks: The Usual Suspects

The Iran conflict, possible Fed rate hikes, and the potential for AI disappointments head up the list of risks to stocks in the second half. Also consider stocks tend to be more volatile during midterm election years (more on that on page 3). A flare-up of China-Taiwan tensions and excess equity supply via initial public offerings (IPOs) are other risks to monitor.

SECTOR RECOMMENDATIONS

OVERWEIGHT	STRONG UNDERWEIGHT
Energy and Industrials	Consumer Discretionary

NEUTRAL

Communication Services, Consumer Staples, Financials, Healthcare, Materials, Real Estate, Utilities, and Technology

STAAC recommends a slightly conservative equity sector mix as the second half begins given the extent of gains in the AI-related areas of the market. Low-volatility equity strategies may be beneficiaries of periodic rotations out of AI names near term. Once a resolution to the Iran conflict is reached and the Strait of Hormuz clears, consider a shift from energy to AI buildout beneficiaries.

ENERGY: Oil prices may remain higher for longer given the ongoing disruption to tanker traffic in the Strait of Hormuz and the time needed to fully restore Middle East production. Valuations are reasonable and the attractively valued sector offers a desirable hedge against potential additional disruptions to global oil supplies.

INDUSTRIALS: Industrials offer strong earnings momentum, a favorable technical backdrop, and are a less-stretched way to play the AI buildout. Although valuations appear full, the sector is poised to continue to benefit from fiscal stimulus and AI investment.

CONSUMER DISCRETIONARY: The consumer discretionary sector remains a high-conviction underweight due to building pressure on consumer spending and sticky inflation. We acknowledge that a sustained resolution to the Iran conflict could help boost retailers, but the benefits may be short-lived. Valuations are elevated and technical analysis conditions have deteriorated.

Lawrence Gillum, CFA, Chief Fixed Income Strategist

Higher for Longer – Keep Calm and Carry On

KEY EXPECTATIONS

- Sticky inflation and resilient growth keep the Fed on extended pause, leaving Treasury yields range-bound, with the 10-year likely finishing the year between 4.00% and 4.50% absent disinflation or clear economic weakening.
- Tight credit spreads likely to persist, though AI-driven borrowing by hyperscalers may pressure spreads modestly higher; short-to-intermediate corporate bonds remain attractive for income-focused investors.
- Returns may be income-driven as Treasury yields stay range-bound and credit spreads remain tight; core and core plus models that overweight securitized markets (agency mortgage-backed securities (MBS), asset-backed securities (ABS), and select commercial mortgage-backed securities (CMBS) and unconstrained strategies should perform well. We prefer TIPS over nominal Treasuries as well.

Coming into 2026, we expected inflation to move closer to the Fed's 2% target, the Fed to cut rates by roughly 75 basis points (bps), and Treasury yields to drift lower. Instead, the first half delivered three stress tests in rapid succession: a leadership change at the Fed, a geopolitical shock that sent oil prices and yields surging, and an AI buildout that is having a measurable impact on the corporate bond market. While these tests are likely to linger throughout the rest of 2026, starting yields are still comfortably above their long-term averages. At current yields, carry alone offers a meaningful cushion, allowing bond investors to keep calm, collect coupons, and carry on.

A New Regime at the Fed

The early May handover from Jerome Powell to Kevin Warsh as Fed Chair represented a meaningful philosophical shift at the central bank. Warsh, a former Fed governor and investment banker, has long pushed for a smaller Fed footprint.

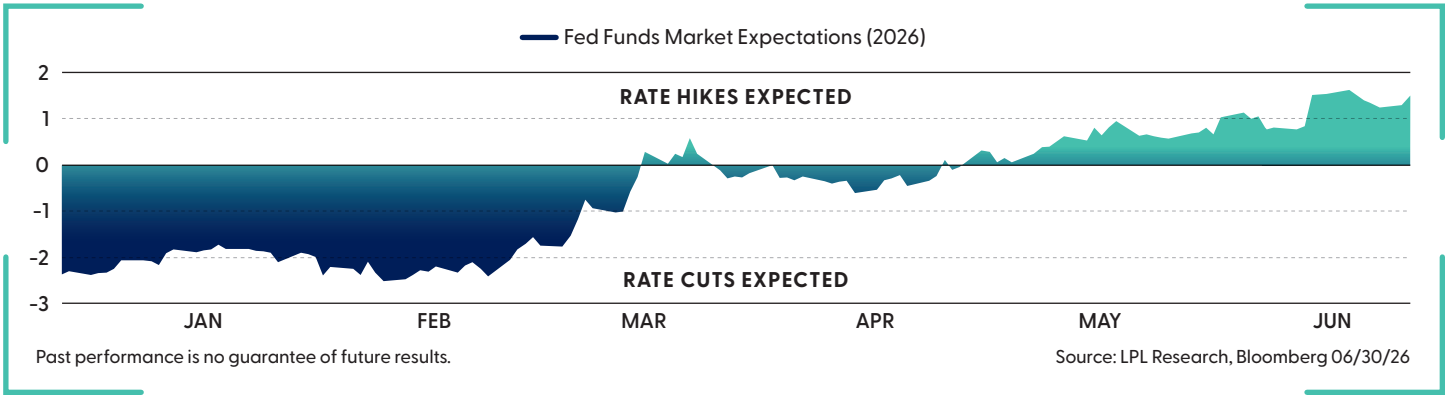
His prescription: a smaller balance sheet, fewer promises about the future path of rates, and more room for markets to discover prices on their own. If enacted, we would expect interest rate volatility to increase, particularly for longer maturity Treasury securities. However, it's important to remember that the FOMC takes a true committee approach, so proposed policy prescriptions still must garner seven votes (out of 12 voters), which may be easier said than done.

A Geopolitical Shock

The escalation of the Iran conflict represented a second test as it pushed oil prices higher and rippled quickly through the Treasury market. After the first 100 days, the 10-year yield rose by more than 50 bps, while the 2-year yield rose even more. Markets that began the year debating how many rate cuts were coming were suddenly pricing meaningful odds of a rate hike **[Fig.11]**, with the assumed "neutral" policy rate (the level that neither stimulates nor restricts the economy) revised up toward 4%.

FROM MULTIPLE CUTS TO A POTENTIAL HIKE: THE MARKET'S FED REPRICING

fig.11

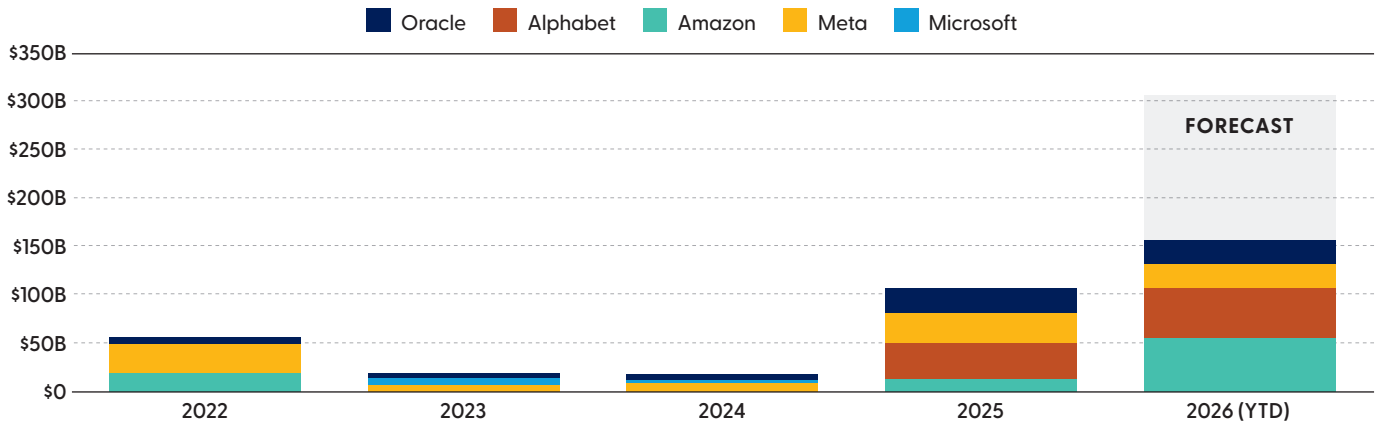


Past performance is no guarantee of future results.

Source: LPL Research, Bloomberg 06/30/26

fig.12

HYPERSCALER DEBT ISSUANCE HAS GONE VERTICAL



Past performance is no guarantee of future results.

Source: LPL Research, Bloomberg 06/30/26

The remarkable part of this episode is what did not happen. Long-run inflation expectations, arguably the truest measure of the Fed's credibility, stayed firmly anchored, a sharp contrast to 2022. Most of the increase in Treasury yields reflects stronger expectations for economic growth (real yields), aided by the AI investment boom, rather than fear of uncontrolled inflation. Further, Treasury auctions have been absorbed in an orderly fashion, suggesting investors are comfortable with current yield levels. So yields rose for largely constructive reasons: resilience, not distress.

This backdrop shapes our policy outlook. Even under new leadership, we expect the Fed to deliver, at most, one rate cut this year, likely in December, and contingent on the trajectory of the conflict and oil prices. At the same time, we believe the bar for a rate hike is higher still than current market expectations. Some of the recent hawkish rhetoric, in our view, is intended to let financial conditions do the tightening. With the neutral rate now seemingly higher than in past cycles, we do not expect rates to fall much from current levels. Accordingly, we are revising our year-end 10-year Treasury yield forecast higher, from 3.75–4.25% to 4.00–4.50%.

A Historic Borrowing Wave

The third test is likely just beginning. The AI story, long an equity market phenomenon, has migrated to fixed income. The hyperscalers (Amazon, Alphabet, Meta, Microsoft, and Oracle) once funded their ambitions almost entirely from internal cash flow. No longer. Building data centers, securing chips, and powering them requires sums beyond even their formidable cash flows. These companies issued roughly $110 billion of bonds in 2025, more than five times their 2023/2024 issuance trends, and estimates point to some $300 billion of AI-related investment-grade supply in 2026 **[Fig.12]** with record total issuance approaching $2 trillion or more.

The borrowers themselves remain in excellent financial shape: hyperscaler leverage runs at a fraction of the typical investment-grade company, and new deals are routinely oversubscribed. Still, the sheer scale is changing the market's characteristics. Because data centers last decades, the bonds funding them are long dated, adding interest rate sensitivity to corporate bond indexes. Technology's share of the corporate bond market has climbed to around 10%.

That said, corporate bonds represent only about a quarter of the broad U.S. bond market (the Bloomberg Aggregate Bond Index). Moreover, the five hyperscalers still represent only 4% of the corporate bond index. And while the supply calendar will stay heavy, demand has proven persistent and fundamentals sound. That is why, despite these issuance trends, we do not expect credit spreads to widen meaningfully from current levels.

Passing Grades, and What Comes Next

The bond market has absorbed a Fed transition (still early days, however), a geopolitical shock, and a historic wave of corporate borrowing without losing its footing. Our second-half outlook follows directly from that resilience: a higher-for-longer rate environment anchored by an elevated neutral rate, a patient Fed delivering one cut at most, 10-year yields ending the year between 4.00% and 4.50%, and credit spreads remaining contained. With little potential price appreciation through falling Treasury yields and/or spread tightening, we believe, returns will once again come from attractive income opportunities.

Michael McClain, CFA, Senior Investment Analyst

Looking Beyond Market Beta

KEY EXPECTATIONS

- Markets are increasingly being shaped by dispersion, structural change, and rising complexity which reinforces the important role of alternatives in enhancing portfolio flexibility, diversification, and return potential.
- Elevated single-stock volatility in the second half should continue to benefit long/short equity strategies, while diverging monetary policies and ongoing geopolitical uncertainty will create a constructive backdrop for global macro.

In the first half of 2026, markets have been defined by elevated uncertainty, with shifting interest rate expectations, ongoing geopolitical tensions, and persistent policy ambiguity challenging traditional portfolio construction. In our view, this environment has further exposed some of the limitations of the traditional 60/40 allocation and reinforces the case for the inclusion of alternative investments in portfolios.

Liquid Alternatives: Tactical Flexibility

Within liquid alternatives, the current backdrop is favorable across several strategy types. Long/short equity and equity market neutral strategies stand out as particularly well-positioned, driven by increasing dispersion across companies and industries. A key catalyst is the rapid adoption of AI, which is creating a dynamic of clear winners and losers in the equity market. Companies

		OVERALL VIEW			
	Sector	–	Neutral	+	Rationale
FUNDAMENTAL	Long/Short Equity			✓	A rise in volatility and stock market dispersion may create good trading opportunities for market-neutral stock pickers. For more long-biased managers, international equities could provide attractive opportunities.
FUNDAMENTAL	Event Driven			✓	Mergers and acquisitions (M&A) and IPOs have improved relative to the low levels of prior years. Distressed debt opportunities remain limited as credit spreads continue to tighten.
TACTICAL	Global Macro			✓	Agile discretionary macro managers should continue to capitalize on economic and policy shifts, along with intermittent spikes in market volatility.
TACTICAL	Managed Futures		✓		Continue to favor exposure to a mix of sub-strategies, such as short-term trading, volatility breakout, pattern recognition, and trend following. Diversification within trend following in terms of markets and time frame is encouraged as well. Monitor buildup in single asset class exposures.
STRATEGIC	Multi-PM Single Funds			✓	Multi-strategy funds should continue to benefit from the ability to dynamically invest across alternative investment strategies.
STRATEGIC	Specialty Strategies			✓	Volatility arbitrage and cross-asset tail risk strategies with minimal carrying costs may be good additional diversifiers in portfolios.

effectively deploying AI are seeing improved productivity, margin expansion, and stronger growth trajectories, while those with legacy models or weak digital capabilities face disruption and competitive erosion. This widening performance gap creates a compelling opportunity set for managers to express both long and short views with conviction.

Higher interest rates and additional tightening of financial conditions would amplify these dynamics; disproportionately pressuring highly leveraged or structurally weaker firms. If market participants continue to become more selective, business quality, balance sheet strength, and adaptability are increasingly critical drivers of returns. In this environment, generating alpha or performance above benchmark depends less on broader market direction and more on effective stock selection. Market neutral strategies are also particularly attractive, as they can capitalize on stock-level dispersion while minimizing exposure to macro volatility. Lower correlations across equities further enhance their ability to isolate idiosyncratic return streams.

At the cross-asset level, global macro strategies have experienced a notable resurgence. Divergent monetary policy across major central banks, the repricing of sovereign yield curves, and persistent geopolitical uncertainty have restored opportunities across currencies, rates, and commodities. Discretionary macro managers can position themselves ahead of policy shifts and inflection points, complementing systematic approaches such as managed futures. Trend-following strategies remain a strategic allocation as well, benefiting from sustained directional moves across asset classes and offering a convex return profile in extended risk-off environments. While their current positioning of long equity and short bonds should be watched for a shorter-term reversal, we maintain a constructive view of their long-term use. As a result, liquid alternatives are not only tactical tools but increasingly core portfolio diversifiers capable of enhancing resilience across market cycles.

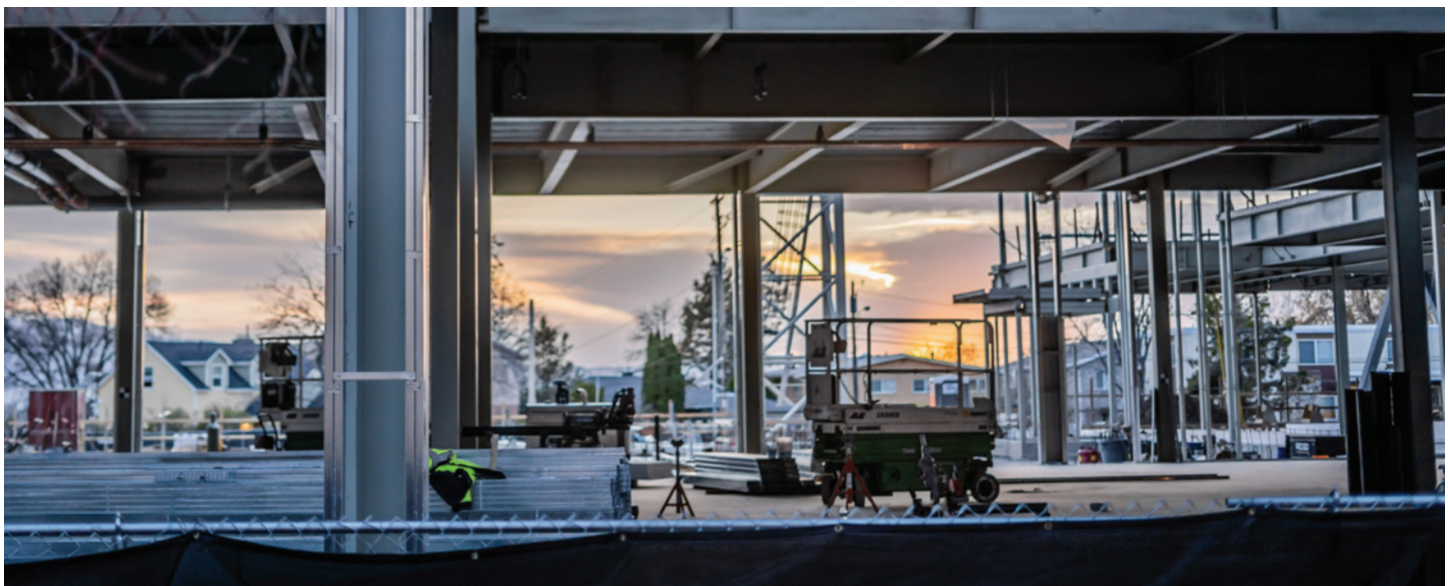
Private Assets: Moving Beyond Beta

In private markets, the opportunity set remains compelling but has evolved meaningfully. The prior environment of abundant liquidity and multiple expansion has transitioned toward one defined by discipline, selectivity, and operational execution. Infrastructure stands out as a cornerstone allocation, offering stable and often inflation-linked cash flows supported by high barriers to entry and strong pricing power. In addition to its defensive characteristics, infrastructure is benefiting from powerful secular growth themes, this includes the digital buildout (such as data centers and fiber networks). These forces are expanding the opportunity set while introducing higher-growth segments within what has traditionally been viewed as a stable asset class.

Private credit also presents an attractive opportunity, with improved underwriting standards and stronger lender protections enhancing the quality of new vintages. While some legacy portfolios continue to work through volatility, the overall foundation of the asset class appears healthier, with more disciplined lending practices and better alignment between risk and return. This positions private credit as a compelling income-generating allocation in a higher-rate environment.

Private equity, however, has become more nuanced and skill-dependent. Elevated valuations, slower exit activity, and a backlog of unsold assets have made the opportunity set more challenging compared to prior cycles. As a result, dispersion between top- and bottom-quartile managers is likely to widen significantly. Success increasingly depends on manager expertise, sector specialization, and the ability to drive operational improvements rather than relying on financial engineering or multiple expansion. The most attractive areas today include secondaries, which can benefit from liquidity-driven discounts, as well as operationally focused buyouts and niche transactions such as corporate carve-outs and AI-adjacent investments.

Infrastructure stands out as a cornerstone allocation, offering stable cash flows supported by strong pricing power.



Adam Turnquist, CMT, Chief Technical Strategist

Real Assets, Real Constraints

KEY EXPECTATIONS

- The trend towards resource nationalism will broadly support key commodities.
- Oil volatility should remain elevated as inventories stay tight and supply recovers gradually.
- Gold's long-term fundamentals remain favorable despite weaker technicals.
- Industrial metals are benefiting from infrastructure and AI-driven demand amid constrained supply.
- The dollar remains range-bound but supported by U.S. economic resilience, AI-led equity gains, favorable interest-rate differentials, and a still intact secular uptrend.

Supply Shock Support

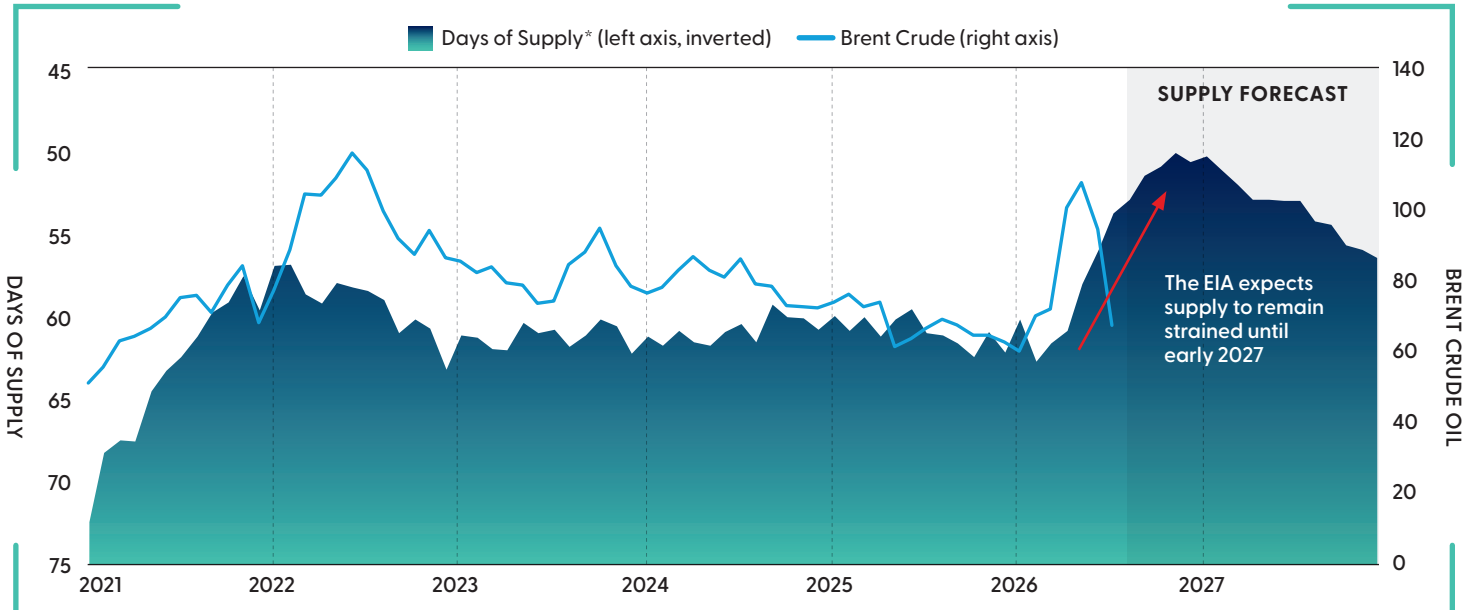
The first half of 2026 was defined by a historic supply shock across commodity markets. The Iran conflict and closure of the Strait of Hormuz removed at least 10% of global oil supply, sending crude prices above $120 per barrel within days. Higher energy prices weighed on risk assets, lowered growth expectations, lifted inflation forecasts, and reset rate-cut expectations. The shock also extended the commodity bull market, briefly lifting the Bloomberg Commodity Index to its highest level since 2013. While easing tensions have cooled the melt-up, commodities enter the second half leading the broader U.S. equity market.

Iran's use of the Strait of Hormuz demonstrated the power of resource nationalism. In a matter of days, the oversupply narrative that dominated oil markets in 2025 disappeared. The disruption also exposed broader supply-chain vulnerabilities. Beyond oil, the strait is a critical route for fertilizer inputs, industrial chemicals, and other essential materials.

When a single foreign-controlled resource inflicts this much disruption, governments often respond by treating supply risk as a national-security issue. The lesson extends beyond energy into any commodity with concentrated supply, reinforcing resource nationalism as a catalyst for a higher price floor in the commodity complex.

SUPPLY FORECASTS REMAIN SUPPORTIVE OF OIL

fig.13



*OECD commercial stocks of crude oil and other liquids

Any commodities, options or futures referenced are being presented as a proxy, not as a recommendation. Past performance is no guarantee of future results. Estimates may not materialize as predicted and are subject to change.

Source: LPL Research, Bloomberg, U.S. Energy Information Administration 07/01/26

CRYPTO

Digital assets continue to evolve and make gradual progress toward broader institutional adoption, but they still remain largely defined by elevated volatility and ongoing regulatory uncertainty, with any meaningful role in portfolios still likely years away.

The CLARITY Act, which aims to create a clear regulatory framework for digital assets, passed the House with strong bipartisan support in July 2025 but faced a more complex path in the Senate, where progress slowed due to industry concerns, particularly around stablecoins, before a May 2026 compromise enabled committee approval.

The bill would classify major cryptocurrencies as digital commodities and clarify Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC) oversight, marking a key step toward broader financial adoption, tokenization, and stablecoin-based payments. At the same time, the SEC's May 22 decision to indefinitely delay its proposed "innovation exemption" for trading tokenized stocks highlights the ongoing challenges in building a comprehensive regulatory structure, especially amid concerns over unauthorized third-party token representations of equities. While tokenization and digital assets are edging into the financial mainstream, regulatory uncertainty persists. Near-term gains are mostly operational, while more transformative shifts, like fully integrated 24/7 markets, are still a ways off.

Energy

Oil prices have retreated from their recent highs, but volatility remains elevated and despite a potential peace deal, questions over when the strait fully reopens, at what cost, and how quickly supply returns remain unanswered. Reopening the strait is unlikely to create a linear path to replenished supply. Tanker repositioning, production restarts, and infrastructure repairs point to incremental, not immediate, supply coming back online.

Stockpiles also remain tight. According to the U.S. Energy Information Administration, global inventories across Organization for Economic Cooperation and Development countries are projected to reach their lowest levels since 2003. While reopening the strait restores flows, it does not instantly rebuild inventories, leaving the market vulnerable to disruption.

From a technical perspective, Brent crude remains above gap support near $70 per barrel. A break below that area would shift focus to the year-to-date lows around $60. We expect volatility to remain elevated and believe expectations for a sustained move through pre-war price levels may prove overly optimistic **[Fig.13]**.

Metals

Performance within metals has become increasingly divided. Counterintuitively, gold has underperformed since the war began, failing to attract meaningful safe-haven demand. Rising real yields, fading Fed rate-cut expectations, and improving risk appetite have weighed on prices, while futures open interest and exchange-traded fund (ETF) flows have moderated. Gold has also transitioned from a store of value to a source of dollars for many export-reliant countries in the Middle East, which faced dollar liquidity constraints after the oil spigots were closed.

Despite the recent weakness, structural tailwinds appear intact. Central bank demand has been strong, while fiscal deficit concerns, persistent inflation risks, and dollar reserve diversification support the longer-term case. Technically, gold's parabolic rally into January proved unsustainable. The subsequent correction pulled prices below the 200-dma and longer-term uptrend. The decline in gold has recently begun to show signs of exhaustion, and a close above $4,600 would suggest the corrective phase is over. We remain positive on precious metals, but acknowledge the technical setup has weakened.

Industrial metals enter the second half on strong footing. Middle East disruptions, mining outages, years of underinvestment, and a growing critical-minerals arms race have tightened supply. Demand continues to benefit from AI-related infrastructure spending, the clean-energy transition, and rising global infrastructure investment.

Trade policy uncertainty is also influencing prices. The U.S. Critical Minerals List continues to expand, and the administration is reviewing potential restrictions on refined copper imports. If implemented, new tariffs could further tighten domestic supply. Given the supportive fundamental and technical backdrop, we maintain a positive outlook on industrial metals.

The Dollar Remains Parked, Not Paused

The U.S. Dollar Index (DXY) enters the second half of the year near where it began, but significant macro crosscurrents remain beneath the surface. Escalation with Iran supported risk aversion, higher oil prices, rising inflation expectations, and reduced rate-cut expectations, creating a tailwind for the dollar. De-escalation has had the opposite effect, leaving the greenback parked in a trading range it has occupied since last summer.

Technically, a sustained move above 103.00 would validate a more durable bottom, while a break below 95.50 would signal a breakdown. Critically, the dollar's secular uptrend remains intact, suggesting the path of least resistance remains higher until proven otherwise.

PUTTING IT ALL TOGETHER

STAAC Views

Strong Overweight | Overweight | Neutral | Underweight | Strong Underweight

ASSET CLASS

Stocks	Overweight	LPL Research expects modest gains for stocks in the second half and recommends a modest overweight allocation to U.S. equities to take advantage. Favor diversification across the AI theme and rotation beneficiaries. Expect this bull market to continue thanks to an improving macro backdrop, strong earnings growth, and AI execution. Developments in the Middle East and AI monetization progress will determine the magnitude and frequency of pullbacks.
Bonds	Underweight	Fixed income provides attractive income opportunities with starting yields still elevated (relative to history). With Treasury yields expected to stay around current levels, investors should prioritize coupon clipping as opposed to expected price appreciation. However, bonds offer portfolio preservation and potential price appreciation if an unexpected event occurs that causes the Fed to cut rates more aggressively than what is currently priced in.
Cash	Underweight	While the Fed may be on hold for most (all) of the year, we think the Fed could continue its rate-cutting campaign in the future. As such, 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	Markets are becoming increasingly defined by dispersion, structural change, and greater complexity, calling for a more active and broadened portfolio approach. In this environment, liquid alternatives should help enhance flexibility, diversification, and return potential. We believe elevated single-stock volatility should continue to support long/short equity strategies, while diverging monetary policy and geopolitical uncertainty create a favorable backdrop for global macro.

EQUITIES

Geography

U.S.	Overweight	Favor the U.S. for continued growth potential and innovation driven by AI and stimulus, alongside relative insulation from high oil prices and dwindling global energy supplies. The Iran conflict remains the key risk as pressure on consumers continues to build. Heightened scrutiny on AI investment and delayed Fed rate cuts are secondary concerns.
Developed International	Neutral	Added deficit/defense spending in Europe, corporate reforms and Bank of Japan support for the yen in Japan, and valuations are supportive. Short term, an opening of the Strait of Hormuz could provide Europe and Asia with a performance boost, balanced against slower growth and a firm U.S. dollar.
Emerging Markets (EM)	Neutral	With geopolitical tensions still high, the Iran conflict not yet fully resolved with just a fragile agreement, and Asian chipmakers having surged, EM equities may have moved too far, too fast. The MSCI EM Index, up 22.7% year-to-date, has a higher weighting in the technology sector than the S&P 500, essentially making EM an AI trade.

Style and Market Capitalization

Large/Mid Growth	Neutral	The outsized rally in the technology-heavy growth style and stretched institutional and retail investor positioning suggests some caution is warranted at this time. While AI-driven earnings growth prospects remain very strong and an opportunity may present itself after a period of consolidation, the risk of technology disappointments has risen as AI stocks have gotten more overbought.
Large/Mid Value	Neutral	In the near term, the AI trade on the growth side might be due for a pause and rotation into value stocks. The value style may also get support from an energy sector that we believe may be underpricing upside risk to oil prices. If markets pull back in the near-term, defensive, high-quality value stocks, such as those that make up much of the low volatility strategies, may get a bid.
Small Growth	Neutral	A risk-friendly environment, resilient economic conditions, and resurgent earnings growth have supported small-cap growth stocks recently. But delayed Fed rate cuts and sticky inflation dampen the near-term outlook. Not insulated from a potential technology sector pullback or broad market weakness.
Small Value	Neutral	STAAC's upgrade in April reflected attractive relative valuations, an improved technical analysis backdrop, and the potential for a bounce on de-escalating Middle East tensions. Financial deregulation, booming capital investment, and their more domestic focus are also positive, offset by delayed Fed rate cuts, sticky inflation, and weaker balance sheets.
Thematic Equity	Overweight	Our overweight to minimum volatility reflects a desire to take a somewhat more defensive stance in the near term, given the narrow breadth of the recent rally and the potential for rotations that could increase volatility or shift market leadership. Minimum or low volatility strategies, which emphasize higher-quality and more stable companies, can help investors stay invested in U.S. equities, participate in potential upside, and help reduce some downside risk.

Strong Overweight | Overweight | Neutral | Underweight | Strong Underweight

FIXED INCOME

Core Sectors

U.S. Treasuries	Neutral	With the Fed on hold in the near term, the U.S. Treasury yield curve will likely stay fairly flat, reducing the attractiveness of longer-term Treasury securities. Absent a sharp, unexpected fall 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%. A large amount of Treasury issuance, sticky inflation, and higher non-U.S.-developed government bond yields should keep longer maturity Treasury yields elevated. We prefer TIPS over nominals, however.
Mortgage-Backed Securities (MBS)	Underweight	We recently downgraded MBS due to valuations as index spreads are below our fair value estimates. But supply/demand dynamics remain favorable, so it's unlikely, absent a resumption of rate hikes by the Fed, that spreads would widen much from current levels. All-in-bond yields remain compelling but remain (marginally) attractive, 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.
Investment Grade Corporates	Underweight	We recommend an underweight position to benchmarks given rich valuations, 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 solid and a slowing (not collapsing) economy should remain supportive of credit.
Treasury Inflation-Protected Securities (TIPS)	Neutral	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 TIPS are attractive and could provide a good hedge against unexpected inflation surprises. We prefer shorter maturity TIPS for most TIPS exposures.

Plus Sectors

Preferred Securities	Neutral	We're neutral preferred, but starting yields are still elevated versus historical averages, and provide attractive income opportunities. Preferreds offer higher credit quality among the riskier fixed income options, while bank fundamentals are generally sound overall. Given the ongoing risks to regional banks, we prefer active management in this space.
High-Yield Corporates	Neutral	Both yields and spreads are below historical averages, so coupon clipping will likely be the primary driver of returns. A still strong economy should support spreads, but 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.
Bank Loans	Neutral	The loan market is highly concentrated in software loans, so downgrades and defaults will likely increase if AI risks are real. The Iran conflict has pushed out rate cut expectations and while broader default activity has moderated of late, "higher for longer" could increase repayment risks. Fewer investor protections and the illiquidity of individual loans remain concerns as well. Yields for the asset class remain above historical averages, but spreads are tight, leaving little room for further price appreciation.
Foreign Developed Market Bonds	Neutral	Non-U.S.-developed bonds provide potential diversification benefits to a U.S. economy that may have stickier inflation than their European counterparts. Political uncertainty in France, monetary normalization in Japan, and increased government spending in Germany may keep longer maturity non-U.S. government bond yields elevated. Currency volatility remains a concern though, so investors may be better served by using a currency-hedged option.
EM Debt	Neutral	Emerging Market (EM) central banks are slightly more accommodative than the Fed, but with over 70 emerging markets, it's hard to find commonality in the asset class. Valuations are relatively attractive, but idiosyncratic risks remain. Liquidity is also an added risk during periods of market stress.

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 10-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
Senior Investment Analyst, Manager Research

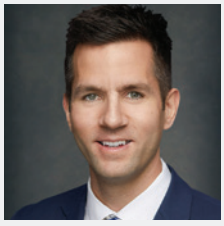
Lawrence Gillum, CFA
Chief Fixed Income Strategist

Jason Hoody, CFA
Head of Investment Consulting

Kristian Kerr
Head of Macro Strategy

Jeffrey Roach, PhD
Chief Economist

George Smith, CFA, CAIA, CIPM
Portfolio Strategist



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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.

Asset allocation does not ensure a profit or protect against a loss. 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 7, 2026. 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.

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.

The Philadelphia Semiconductor Sector Index (SOX) is a modified market capitalization-weighted index composed of companies primarily involved in the design, distribution, manufacture, and sale of semiconductors.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

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 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.

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.

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. The information presented is for educational and informational purposes only and is not intended as a recommendation or specific advice.

Cryptocurrency and cryptocurrency-related products can be volatile, are highly speculative and involve significant risks including: liquidity, pricing, regulatory, cybersecurity risk, and loss of principal. A cryptocurrency fund may trade at a significant premium to Net Asset Value (NAV). Cryptocurrencies are not legal tender and are not government backed. Cryptocurrencies are non-traditional investments, resulting in a different tax treatment than currency. Federal, state or foreign governments may restrict the use and exchange of cryptocurrency. The use and exchange of cryptocurrency may also be restricted or halted permanently as regulatory developments continue, and regulations are subject to change at any time. Cryptocurrency exchanges may stop operating or permanently shut down due to fraud, technical glitches, hackers, malware, or bankruptcy.

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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RES-0007080-0526
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