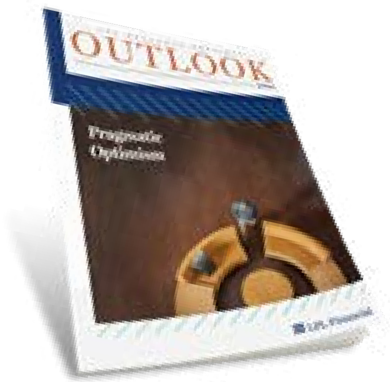
LPL RESEARCH PRESENTS

OUTLOOK 2025



Pragmatic Optimism

> We're cautious because no market environment is ever permanent, yet optimistic since constructive long-term technology trends are in place.
>
> *– Marc Zabicki*
> *Chief Investment Officer, LPL Research*

Overview

Looking back, 2024 clearly echoed many of the themes from 2023. By and large, the economy continued to defy expectations and surprised once again to the upside. Stocks continued their strong performance, driven by powerful trends in artificial intelligence and technology. On the other hand, the bond market experienced another lackluster year amid policy ambiguity and uneasiness over rising debt levels.

As we look to 2025, we remain cautiously optimistic. We're cautious because no market environment is ever permanent, yet optimistic since constructive long-term technology trends are in place. Plus, potential tax policy and deregulation efforts in 2025 could provide some tailwinds — particularly from an economic perspective. While growth asset returns are not expected to be as robust in 2025, the investment environment should prove to be favorable for investors.

To better ensure optimal outcomes for investors, we leverage the expertise of our Strategic & Tactical Asset Allocation Committee (STAAC), which identifies potential risks and opportunities. For 2025, new fiscal and regulatory policies will need to be digested, and relatively rich valuations may get tested. For the time being, this backdrop favors a constructive, but also a conservative and balanced approach, when it comes to tactical stock and bond allocations.

LPL Research is committed to supporting our advisors, our institutions, and their clients throughout every market cycle. We truly value our partnerships and will always strive to deliver the highest level of guidance and support. We remain incredibly grateful for the confidence bestowed upon us.

Economy

The economy has experienced significant shifts over the last few years, including aggressive rate hikes followed by a pivot to rate cuts, as inflation has come down some. The economy will likely downshift throughout 2025 as consumer spending begins to moderate, though pent-up demand for business capital expenditures, favorable tax policy, and likely deregulation could help offset some of the softening. Inflationary pressures may re-emerge as new policies are digested, so upticks in inflation could lead to changing narratives and a slower pace of Federal Reserve (Fed) rate cuts than expected. The labor market continues to show signs it is slowly shifting and remains key to how the economy ultimately lands.

Executive Summary

Stocks

Expect modest stock market gains in 2025 supported by a stable economy, solid corporate profits, a Fed that is no longer hawkish, and some potential deregulation tailwinds. With stocks pricing in a lot of good news, positive surprises may be tougher to come by, so a repeat of 2024's performance is unlikely. With the bull market another year older, interest-rate risk rising, valuations elevated, and still significant geopolitical threats, be prepared for bouts of volatility in 2025 and consider buying equities on market pullbacks. Our S&P 500 fair value target range for 2025 is 6,275 to 6,375.

Bonds

Bond yields are expected to remain elevated, with the 10-year Treasury yield likely to remain between 3.75% and 4.25%. Over the next 12 months, we see roughly equal upside and downside risks to yields as the markets grapple with the true impacts of budget deficits, increasing Treasury supply, and the scope of the Fed's current easing cycle. For fixed income investors, a focus on income generation and duration management is advised and we believe the most attractive opportunities lie in the five-year maturity range.

Alternative Investments

Lower interest rates and potential policy shifts will impact markets differently, creating both opportunities and risks. Equity market-neutral, global macro, and managed futures strategies are well-positioned to capitalize on increased volatility and market dispersion. In the private market space, private credit and infrastructure remain attractive, albeit with some moderation in expectations. While challenges persist in private equity, opportunities should exist in the secondary market. Investors should be prepared for a more dynamic market environment in 2025 and consider the use of alternative strategies to further diversify and enhance portfolios.

Commodities

Demand for a broad assembly of commodities will be crucial for new infrastructure projects globally, and continued renovation of aging infrastructure. The build out of data centers is poised to require an abundance of commodities. For investors, commodity exposure should remain a small portion of a portfolio that's diversified across the commodity complex. In addition, investors should consider infrastructure opportunities previously mentioned in the Alternatives section.

Currencies

The dollar continues to reign across global currency markets. Solid economic growth, especially compared to other developed countries, has been a major driver of strength and stability. Developing uncertainty over the trajectory of inflation, expectations for gradual easing from the Fed, and positive interest-rate differentials have further supported the dollar. President-elect Trump's proposed tariffs could elevate currency market volatility and stoke inflation fears, putting additional upward pressure on the dollar. Based on this backdrop, we believe the dollar will be well-supported in 2025. We expect limited downside risk, while meaningful upside could be capped by the gravitational pull of a less hawkish Fed.

Geopolitics

Despite a geopolitical landscape increasingly punctuated by military skirmishes, armed conflict, and clearly defined war, markets have been able to navigate around the risk. Given the military turbulence in the Middle East and Europe, markets in the U.S. have performed with distinction as the underpinning of a bull market and solid economic backdrop stand in stark contrast to the images and consequences of war.

GENERAL DISCLOSURES

The opinions, statements and forecasts presented herein are general information only and are not intended to provide specific investment advice or recommendations for any individual. It does not take into account the specific investment objectives, tax and financial condition, or particular needs of any specific person. There is no assurance that the strategies or techniques discussed are suitable for all investors or will be successful. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing. Any forward-looking statements including the economic forecasts herein may not develop as predicted and are subject to change based on future market and other conditions. All performance referenced is historical and is no guarantee of future results. References to markets, asset classes, and sectors are generally regarding the corresponding market index. Indexes are unmanaged statistical composites and cannot be invested into directly. Index performance is not indicative of the performance of any investment and does not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses. Hedge funds are private investment partnerships that pool funds. Hedge funds use varied and complex proprietary strategies and invest or trade in complex products, including listed and unlisted derivatives. Managed futures are speculative, use significant leverage, may carry substantial charges, and should only be considered suitable for the risk capital portion of an investor's portfolio. Private credit is non-publicly traded debt instruments created by non-bank entities, such as private credit funds or business development companies (BDCs), to fund private businesses.

Event driven strategies, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position.

Precious metal investing involves greater fluctuation and potential for losses.

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

All index data from FactSet.

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 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.

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 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.

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.

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.

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 dividend, 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 price is 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 is 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.

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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 change 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 Aggregate U.S. 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.

Mortgaged-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 Investments may not be suitable for all investors and involve special risks such as leveraging the investment, potential adverse market forces, regulatory changes and potentially illiquidity. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

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