GLOBAL PORTFOLIO STRATEGY

LPL Research

FEBRUARY 2024

STOCKS START NEW YEAR ON THE FRONT FOOT

LPL RESEARCH'S MONTHLY MARKET OUTLOOK

Key changes from January report:

- None

Stocks started 2024 off on a positive note with gains in January and early February, a positive signal for potential gains over the rest of the year. Returns were driven by increasing investor confidence in a soft landing, supported by falling inflation and Federal Reserve (Fed) messaging, and came despite a treacherous geopolitical environment and messy start to earnings season. The S&P 500 Index gained 1.7% for the month including dividends.

However, the still resilient U.S. economy is pushing out interest rate cuts that helped support bond prices late last year. As such, Treasury yields were generally higher in January, with the Bloomberg Aggregate Bond Index down nearly –0.30% for the month.

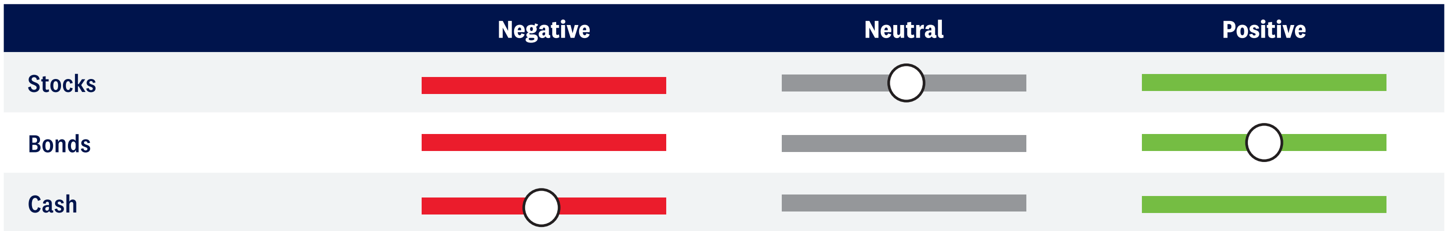
LPL Research's Strategic and Tactical Asset Allocation Committee (STAAC) continues to see the risk-reward trade-off between equities and fixed income as roughly balanced, with a resilient U.S. economy, stable bond yields, and growing earnings supportive of elevated valuations.

INVESTMENT TAKEAWAYS:

- The STAAC maintains its recommended neutral equities allocation based on the Committee's assessment that the risk-reward trade-off between equities and fixed income is roughly balanced despite strong year-to-date gains given the improved economic backdrop.
- The Committee favors large cap stocks over their smaller brethren due to a potential economic slowdown in coming quarters.
- If the downward trajectory in inflation remains intact and interest rates stabilize or fall further, growth style stocks may continue to outperform.
- The STAAC favors U.S. equities over developed international due to a relatively stronger domestic economic growth outlook and superior earnings power, though the Committee still finds Japanese equities attractive.
- The bond market likely front-ran Fed rate cuts for 2024 so with the strong economic data recently, a repricing higher in Treasury yields was likely warranted, in our view. Additionally, Treasury supply is expected to increase in the coming quarters, which could keep upward pressure on yields. As such, our year-end 2024 target for the 10-year Treasury yield is 3.75% to 4.25%.
- The selloff in the banking sector provided an attractive opportunity in preferred securities; however, the risk-reward for core bond sectors (U.S. Treasury, Agency mortgage-backed securities (MBS), investment-grade corporates) is more attractive than plus sectors, in our view.

BROAD ASSET CLASS VIEWS

LPL Research's Views on Stocks, Bonds, and Cash



OUR ASSET CLASS & SECTOR CHOICES

Equity Asset Classes	Equity Sectors	Fixed Income	Alternative Asset Classes
▪ U.S. Equities	▪ Communication Services ▪ Energy	▪ Mortgage-Backed Securities ▪ Short Maturity High Quality Corporates ▪ Preferred Securities	▪ Alt asset class choices — Global Macro, Short Term Managed Futures, and Multi-Strategy

2024 MARKET FORECASTS

Our S&P 500 Year-End 2024 Target Implies Stocks Are Fully Valued

	Previous	Current
10-Year U.S. Treasury Yield	3.75% - 4.25%	3.75% to 4.25%*
S&P 500 Index Earnings per Share	$235	$235
S&P 500 Index Fair Value	4,850 – 4,950	4,850 – 4,950**

Source: LPL Research, FactSet, Bloomberg

All indexes are unmanaged and cannot be invested into directly. The economic forecasts may not develop as predicted.

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

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

Any forward-looking statements including economic forecasts may not develop as predicted and are subject to change.

2024 ECONOMIC FORECASTS

U.S. Economy Expected to Slow in 2024

2024 Annual Forecasts*	GDP Growth	CPI
United States	1.40%	1.90%
Eurozone	0.60%	2.10%
Advanced Economies	1.20%	3.80%
Emerging Markets	3.90%	6.80%
Global	2.70%	4.20%

*Annual Average, Y/Y %

Source: LPL Research, Bloomberg 02/06/24

The economic forecasts may not develop as predicted.

All data, views, and forecasts herein are as of 02/06/24.

LPL RESEARCH STRATEGIC AND TACTICAL ASSET ALLOCATION COMMITTEE

LPL Research Tactical Asset Allocation as of 01/31/2024

INVESTMENT OBJECTIVE

	Aggressive Growth			Growth			Growth with Income			Income with Moderate Growth			Income with Capital Preservation		
	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference	TAA	Benchmark	Difference
STOCKS	95.0%	95.0%	0.0%	80.0%	80.0%	0.0%	60.0%	60.0%	0.0%	40.0%	40.0%	0.0%	20.0%	20.0%	0.0%
U.S. EQUITY	80.0%	76.0%	4.0%	67.0%	64.0%	3.0%	50.0%	48.0%	2.0%	33.5%	32.0%	1.5%	16.0%	16.0%	0.0%
Large Value	16.0%	16.0%	0.0%	13.5%	13.5%	0.0%	10.0%	10.0%	0.0%	6.5%	6.5%	0.0%	3.5%	3.5%	0.0%
Large Blend	18.0%	16.0%	2.0%	15.0%	13.5%	1.5%	11.0%	10.0%	1.0%	7.5%	7.0%	0.5%	3.5%	3.0%	0.5%
Large Growth	20.5%	16.0%	4.5%	17.0%	13.5%	3.5%	13.0%	10.0%	3.0%	8.5%	6.5%	2.0%	4.0%	3.5%	0.5%
Small/Mid Value	8.0%	9.5%	-1.5%	7.0%	8.0%	-1.0%	5.0%	6.0%	-1.0%	3.5%	4.0%	-0.5%	1.5%	2.0%	-0.5%
Small/Mid Blend	8.5%	9.0%	-0.5%	7.0%	7.5%	-0.5%	5.5%	6.0%	-0.5%	3.5%	4.0%	-0.5%	1.5%	2.0%	-0.5%
Small/Mid Growth	9.0%	9.5%	-0.5%	7.5%	8.0%	-0.5%	5.5%	6.0%	-0.5%	4.0%	4.0%	0.0%	2.0%	2.0%	0.0%
INTERNATIONAL EQUITY	15.0%	19.0%	-4.0%	13.0%	16.0%	-3.0%	10.0%	12.0%	-2.0%	6.5%	8.0%	-1.5%	4.0%	4.0%	0.0%
Developed (EAFE)	12.0%	12.0%	0.0%	10.0%	10.0%	0.0%	8.0%	8.0%	0.0%	5.0%	5.0%	0.0%	4.0%	4.0%	0.0%
Emerging Markets	3.0%	7.0%	-4.0%	3.0%	6.0%	-3.0%	2.0%	4.0%	-2.0%	1.5%	3.0%	-1.5%	0.0%	0.0%	0.0%
BONDS	3.0%	0.0%	3.0%	18.0%	15.0%	3.0%	38.0%	35.0%	3.0%	58.0%	53.0%	5.0%	78.0%	70.0%	8.0%
U.S. CORE	3.0%	0.0%	3.0%	17.0%	15.0%	2.0%	36.0%	35.0%	1.0%	55.0%	53.0%	2.0%	74.0%	70.0%	4.0%
Treasuries	1.5%	0.0%	1.5%	8.0%	7.0%	1.0%	17.5%	16.0%	1.5%	26.5%	24.0%	2.5%	35.5%	32.0%	3.5%
MBS	1.0%	0.0%	1.0%	5.5%	4.5%	1.0%	11.5%	10.0%	1.5%	18.0%	15.5%	2.5%	24.0%	20.5%	3.5%
IG Corporates	0.5%	0.0%	0.5%	3.5%	3.5%	0.0%	7.0%	9.0%	-2.0%	10.5%	13.5%	-3.0%	14.5%	17.5%	-3.0%
NON-CORE	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%	4.0%	0.0%	4.0%
TIPS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
International	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%	2.0%	0.0%	2.0%	3.0%	0.0%	3.0%	4.0%	0.0%	4.0%
High-Yield Corporates	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Bank Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Emerging Markets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CASH	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	7.0%	-5.0%	2.0%	10.0%	-8.0%

For investors who have their own benchmarks, we would recommend emphasizing underweights or overweights relative to the individual benchmark at the most similar overall risk level.

Equity benchmark style weights are equally distributed across growth, core, and value. Cap weights are based on the underlying holdings of the domestic benchmark indexes.

Bond benchmark sector allocations are based on a look-through analysis of the major sector components of the Bloomberg US Aggregate Bond Index.

Treasuries include other government related debt. MBS includes other securitized debt.

Abbreviations: TAA - tactical asset allocation; MBS - mortgage-backed securities; IG corporates - investment-grade corporates; TIPS - Treasury inflation-protected securities.

EQUITY ASSET CLASSES

Favor U.S. over International, Large Caps over Small, Growth over Value

The STAAC maintains its recommended neutral equities allocation based on the Committee's assessment that the risk-reward trade-off between equities and fixed income is roughly balanced given the resilient U.S. economy, stable interest rates, and improving earnings. The outlook for growth style stocks is supported by falling inflation, stable interest rates, and impressive profit potential of the big technology platform companies. STAAC favors U.S. equities over developed international due primarily to the relatively stronger domestic economic growth outlook and superior earnings power, though the Committee still finds Japanese equities attractive. Key risks to equities include renewed upward pressure on inflation and interest rates, a broader conflict in the Middle East or Europe, escalation in U.S-China tensions, and military aggression toward Taiwan by China.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			Large caps typically perform better during economic slowdowns with their generally stronger balance sheets, but strong earnings have given large companies a lift so far in 2024 as prospects for a soft landing have improved. Mega-cap technology stocks can still benefit from lower interest rates. Large caps look better on a technical analysis basis, but valuations are elevated.
	Mid Caps			A resilient economy and attractive valuations are supportive, but our technical analysis work continues to point toward large caps as a better place to be. Meanwhile, credit conditions may tighten further as the economy slows and merger and acquisition activity is tepid, limiting opportunities down the market capitalization spectrum.
	Small Caps			Small caps surged in late 2023 amid plummeting interest rates but got off to a rough start in 2024—major small cap indexes fell about 4% in January. Low valuations and the better U.S. growth outlook may attract some interest to the asset class, but the economic environment may get tougher, a headwind for economically sensitive asset classes like small caps.
Style	Growth			Our STAAC Committee favors the growth style amid better technicals and expected stabilization in interest rates as inflation likely continues its downtrend. The growth style, particularly technology-oriented companies, enjoyed a strong start to 2024 and should continue to benefit from an improved macroeconomic environment and superior earnings power, though valuations are elevated.
	Value			Value stock valuations are relatively attractive vs. their historical averages and cyclical value stocks are starting to benefit from a soft landing. However, the Committee maintains a slight preference for growth due to better technical analysis trends, falling inflation, superior earnings growth, and a cautious view of defensive value sectors such as consumer staples and utilities.
Region	United States			The U.S. economy is expected to outgrow Europe in 2024, though that slowdown in Europe may facilitate rate cuts by the European Central Bank (ECB) before the Fed. The U.S. will likely generate faster earnings growth than Europe this year. Elevated valuations present a headwind, but our technical analysis work points to the U.S. over international.
	Developed International			The Committee downgraded its view of developed international stocks in November as economic conditions deteriorated in Europe. European companies have experienced waning earnings momentum, and our technical analysis work points to the U.S., though the STAAC still likes Japan amid increasingly more shareholder-friendly management teams and low valuations.
	Emerging Markets			The Committee remains cautious toward emerging market equities due largely to deteriorating earnings and elevated geopolitical risk in Asia, though valuations remain attractive. The Committee favors Latin America to take advantage of near-shoring trends and a potential rebound in commodity prices, while India remains an interesting opportunity. Stimulus is key to China's near-term direction.

Relative trend is an assessment of the intermediate term price trend and performance between various asset classes and sectors. For regions and styles the relative trends are compared to each other.

EQUITY SECTORS

Favor Communication Services and Looking for a Rebound in Energy

The STAAC recommends a slight cyclical tilt over defensive sectors broadly as 2024 gets underway. Among economically sensitive, or cyclical, sectors, the Committee recommends two overweights (communication services and energy) and no underweights. December's communication services upgrade reflected a solid Q3 earnings season, reasonable valuations overall, and a favorable technical analysis picture. The STAAC favors the energy sector due to potential upside to oil and natural gas prices on an improved supply/demand balance and war overseas, as well as attractive valuations and improved returns on capital. Real estate, which topped all sectors in December, lagged in January amid heightened risk in the commercial real estate market and the catalyst of falling rates may have fully played out.

	Sector	Overall View	Relative Trend	S&P Wgt	Rationale
Cyclical	Materials			2.3	Underperformer in January amid softness in commodities prices, particularly metals, sluggish growth in China and Europe, and a strong U.S. dollar. A resilient U.S. economy, infrastructure spending, and low valuations help shore up the outlook somewhat. Weak technicals.
	Energy			3.7	Lagged for fourth straight month (barely) on lower natural gas prices, even as oil rose. Confidence in OPEC+ production cuts frayed. Middle East conflict has been offset by record U.S. production. Valuations are attractive. Improved profitability. Watching weakening technicals.
	Industrials			8.6	Slight underperformer in January. Capital investment has slowed but infrastructure and defense offer upside. Keys to outlook are near-shoring and corporate executives' confidence in the economy. Reasonable valuations. Improved technicals, but relative strength is a concern.
	Communication Services			9.1	Favorite sector in January on strong earnings, reasonable valuations, tailwinds in digital media (though regulatory risks linger), and favorable technicals. Streaming business seems to have stabilized. Well received Q4 earnings results from Meta (META) and Netflix (NFLX).
	Consumer Discretionary			10.5	Weakness in Tesla (TSLA) on slowing EV demand is a big reason for January weakness. Still, consumers are fully employed and still spending. Earnings growth has been solid. Valuations are high. Technicals remain favorable. Watching credit card delinquencies.
	Technology			29.6	Strong performer in January amid earnings optimism in semiconductors related to artificial intelligence and favorable economic backdrop for the sector. Valuations are elevated but technicals look quite good and earnings look to be entering a sweet spot. Positive bias.
	Financials			12.9	Outperformed in January despite rising credit card delinquencies, still-inverted yield curve, higher bank capital requirements, soft capital markets, and lingering office property sector challenges. Reasonable valuations. Improved technicals. Haven't seen enough to upgrade.
Defensive	Utilities			2.2	Underperformed in January for third straight month due to defensive characteristics and got little help from rates. Competitive returns from fixed income also likely slowed down the "utes". We would consider a more positive view if the economy were to weaken materially.
	Healthcare			12.6	Obesity drug enthusiam helped drive outperformance in January as the sector has struggled with slowing COVID-19-related sales, patent expirations, and policy pressure on drug prices. Election risk is below average, in our view. Attractive valuations. Technicals improving.
	Consumer Staples			6.1	Roughly a market performer in January, boosted by consumer products giants. Impressively kept up despite strength in big growth sectors. Lower inflation helps ease margin pressure as pricing power wanes. Reasonable valuations. Weak technicals. LPL Research favors cyclicals.
	Real Estate			2.3	Top sector in December 2023 as rates fell was the worst performer in January 2024 due to ongoing commercial real estate issues and stabilization in interest rates. Yields are still attractive, but bonds are competitive as an income choice. Positive bias.

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

FIXED INCOME

Snap Back to Reality

Treasury yields were higher in January as interest rate cuts got priced out until the May Fed meeting due to the still resilient economy. The market got ahead of itself late last year in pricing in aggressive rate cuts so the back-up in yields is warranted in our view. Starting yields for many fixed income markets are still at levels last seen over a decade ago, so the return prospects for fixed income remain favorable, in our view. That said, aside from preferred securities, valuations for riskier fixed income sectors remain rich relative to core sectors.

We favor municipal bonds as a high-quality option for taxable accounts with tax-equivalent yields as attractive as they've been in over a decade. Additionally, for appropriate investors, we believe high-yield municipal bonds offer an attractive tax-equivalent yield; however, we would expect additional volatility as economic growth concerns increase. Fundamentals in both markets may have peaked but remain solid.

		Low	Medium	High	Rationale
Positioning	Credit Quality			●	We recommend an up-in-quality approach in allocating to fixed income sectors. While all-in yields for lower quality sectors remain above longer-term averages, we think the risk-reward favors owning core bond sectors over the riskier sectors.
		Short	**Int.**	**Long**	
	Duration		●		The compensation for adding duration to portfolios isn't sufficient given the still elevated (but falling) inflationary pressures. We remain neutral relative to our benchmark.
		Neg.	**Neutral**	**Pos.**	**Rationale**
Core Sectors	U.S. Treasuries		●		Treasury yields moved higher in January and are still high relative to the last decade. Last year's back-up in yields has likely increased the diversification benefits of owning U.S. Treasuries. All-in yields for Treasury Inflation-Protected Securities (TIPS) are attractive and could provide a good hedge against unexpected inflation surprises.
	MBS			●	We remain constructive on Agency MBS. With yields and spreads at multi-year highs, we think MBS remain an attractive investment opportunity particularly relative to lower-rated corporates. Favorable supply/demand dynamics in 2024 may help support the market.
	Investment-Grade Corporates	●			We recommend a slight underweight to benchmarks, but we think there is currently an opportunity to invest in shorter maturity corporate securities without taking on elevated levels of interest rate or credit risk. Fundamentals remain solid.
Plus Sectors	Preferred Securities			●	The selloff in the banking sector provided an opportunity to invest in these senior securities. Higher credit quality among the riskier fixed income options. Large-cap bank fundamentals generally sound overall. Yields and spreads still attractive. But environment favors active management.
	High-Yield Corporates		●		Yields for high yield bonds are above historical averages, but tighter lending standards have correlated with higher downgrades and defaults. The improving economic environment could keep yields and spreads well contained but we think the asset class may be better suited for long-term investors.
	Bank Loans		●		While high yields are attractive currently, as the Fed cuts rates, yields will come down as well. We would favor high yield bonds over loans for those investors interested in leveraged credit.
	Foreign Bonds		●		Valuations have improved, but potential currency volatility remains a challenge.
	EM Debt		●		Central banks have largely ended rate hikes as inflationary pressures are starting to abate. A strong dollar could provide a headwind to prices. Valuations are relatively attractive but idiosyncratic risks remain. Liquidity can be an added risk during periods of stress.

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

Treasury inflation-protected securities (TIPS) help eliminate inflation risk to your portfolio as the principal is adjusted semiannually for inflation based on the Consumer Price Index – while providing a real rate of return guaranteed by the U.S. Government.

COMMODITIES

A Rebound in the Dollar Drags Down Commodities

The broad commodity sector declined for a sixth straight month as a rebound in the dollar created headwinds for the space. The U.S. Dollar Index rose nearly 2% and snapped a two-month losing streak. Relatively resilient U.S. economic data pushed rate cut expectations further out on the calendar, helping buoy the front end of the yield curve and inflows into the greenback. The Bloomberg Commodity Index (BCOM) slipped 0.1% and settled just above support from the May lows near 97. Despite another modest mid-month relief rally amid oversold conditions, there has been no technical progress as BCOM remains in a downtrend with limited signs of capitulation.

Metals were the weakest link last month as they tend to be the most negatively correlated to the dollar. Industrial metals such as aluminum and zinc underperformed, while copper dodged the selling pressure and rose 0.4%. The resiliency of copper has been notable against a challenging economic backdrop in China. Precious metals traded lower across the board, with platinum leading losses. Gold continued to struggle with overhead resistance at $2,075 but found support on a pullback near the October highs. Elevated geopolitical risk and continued central bank buying (including China for 14 straight months) helped offset some of the selling pressure.

Energy remained volatile but closed higher for the first time since September. Heating oil rallied nearly 12% and outperformed. Supply risk stemming from the escalating conflict in the Middle East and the Red Sea created a geopolitical risk premium in crude oil. WTI added 5.6% and reversed a short-term downtrend off the September highs. Natural gas pared a significant intra-month rally and closed down nearly 10%. Waning heating demand due to warmer temps across the U.S. and above-seasonal storage ended the relief rally.

	Neg. Neutral Pos.	Relative Trend	Rationale
Energy			Crude oil continues to tread water above support off the 2023 lows ($64 – $68 range). Continued OPEC+ production cuts and the prospect for a stimulus-fueled economic recovery in China have limited downside, while rising non-OPEC+ production and concerns over global demand have capped upside. The recent flip on the futures curve to backwardation suggests conditions are tightening. A close above $79.29 would point to an uptrend developing. Oversupply continues to act as a major overhang for natural gas. Watch for a short-term relief rally off support near $2. While the lack of technical progress is a concern, we are sticking with our positive view on the energy commodity sector as downside risk at this juncture appears limited.
Precious Metals			Precious metals declined last month across the board. Silver continues to register lower highs and lows, leaving $21.88 as the next major area of downside support. Price action in gold remains choppy as the yellow metal consolidates below key resistance near $2,075 and support near $2,000. We maintain our neutral view on the precious metals group.
Industrial Metals			Industrial metals have stabilized and the increased likelihood of an end to global monetary policy tightening could help the group recover. Increased monetary and fiscal stimulus in China could also be a catalyst for the space. Copper has reversed an important downtrend, while technical evidence for a bottom in aluminum is building. We maintain our neutral view on the industrial metals group.
Agriculture (Ag) & Livestock			Momentum in the ag & livestock space remains bearish. Grains underperformed last month as corn and soybeans dropped to 12-month lows. Supply surpluses, especially in Europe, remain an overhang for upside. Soft commodities staged a relief rally last month, including sugar, which jumped 17.3% primarily due to reduced Indian production. Live cattle rebounded back above their 200-day moving average, while technical evidence for a bottom in lean hogs is building.

Any futures referenced are being presented as a proxy, not as a recommendation. The fast price swings in commodities will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.

ALTERNATIVE INVESTMENTS

Positive January for Liquid Alts

The alternative investment strategies posted mixed results with positive bias in January based on the preliminary data from Hedge Fund Research (HFR).

Positive Stock Picking and Market Direction Drove Gains for Equity L/S

Equity markets continued their positive momentum and the yield curve steepened slightly, led by investors' optimism on soft landing and possible beginning of the Fed's rate cuts in 2024. Among liquid alts, Tactical Trading strategies gained the most, followed by Equity long/short (L/S) strategies. The rest of the liquid alt strategies posted muted returns with Multi-Strategy up slightly while Relative Value and Event Driven were down slightly.

Equity L/S strategies had another positive month, with gains seen across the sub-strategies. In general, managers carried relatively high gross and net exposure throughout the month, which benefitted the managers across the strategies. Greater dispersion among stocks also contributed positively during the month, helping equity market neutral strategies generate excess returns. Event Driven and Relative Value strategies posted small losses, with the Merger Arbitrage strategy detracting the most.

Remain Constructive on Global Macro, Managed Futures and Multi-Strategy

Tactical Trading strategies had a strong month in January. Within the managed futures strategies, those focused on trend following recouped their previous month's losses as their net long USD biased currency positions and energy positions saw the markets turning in their favor. Net long equity exposure also added to their performance. Global Macro posted mixed results with positive bias. Curve steepeners, in general, were positive contributors, as were tactical equities and currency trades, where they traded with long bias. Given the continued uncertainties around the economy and fiscal and monetary policy, we expect the volatility to transition higher and remain constructive on both Global Macro strategies that tend to perform in such a regime and provide uncorrelated returns and portfolio diversification for investors.

Multi-strategy funds posted positive results for the month, reflecting the positive performance from their major Equity L/S and Macro driven strategies. Multi-strategy remains a core focus of ours as we believe they can supply additional sources of uncorrelated returns and help dampen portfolio volatility in an environment where interest rates are expected to remain persistently elevated.

FAVORED ALTERNATIVE STRATEGIES

Alternative Investment Strategy
Global Macro, Short Term Managed Futures, Fundamental Equity Market Neutral, and Multi-Strategy

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

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

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.

IMPORTANT DISCLOSURES

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

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

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

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

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

Floating rate bank loans are loans issues by below investment grade companies for short term funding purposes with higher yield than short term debt and involve risk.

Credit Quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. Credit ratings are published rankings based on detailed financial analyses by a credit bureau specifically as it relates to the bond issue’s ability to meet debt obligations. The highest rating is AAA, and the lowest is D. Securities with credit ratings of BBB and above are considered investment grade. Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. It is expressed as a number of years.

Preferred stock dividends are paid at the discretion of the issuing company. Preferred stocks are subject to interest rate and credit risk. As interest rates rise, the price of the preferred falls (and vice versa). They may be subject to a call feature with changing interest rates or credit ratings.

Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor’s portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

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.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments. The fast price swings in commodities and currencies will result in significant volatility in an investor’s holdings.

Precious metal investing involves greater fluctuation and potential for losses.

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

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

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

All index data from FactSet.

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.

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