LPL RESEARCH

Global Portfolio Strategy

September 2024

August: A Tale of Two Trends

The LPL Strategic & Tactical Asset Allocation Committee (STAAC) determines the firm's investment outlook and asset allocation that helps define LPL Research's investment models and overall strategic and tactical investment thinking and guidance. The committee is chaired by the chief investment officer and includes investment specialists from multiple investment disciplines and areas of focus. The STAAC meets weekly to closely monitor all global economic and capital markets conditions to ensure that all the latest information is being digested and incorporated into its investment thought.

Color Key:

- Strong Underweight
- Underweight
- Neutral
- Overweight
- Strong Overweight

Key changes from August report:

- Upgraded healthcare from underweight to neutral.
- Downgraded energy from overweight to neutral.

STAAC Asset Class Tactical Views as of 9/01/2024 (GWI)

Asset Class					
Equity			Neutral		
U.S.				Overweight	
International Developed (EAFE)			Neutral		
Emerging Markets		Underweight			
Large Growth				Overweight	
Large Value			Neutral		
Small/Mid Growth			Neutral		
Small/Mid Value			Neutral		
Fixed Income				Overweight	
Treasuries			Neutral		
MBS				Overweight	
IG Corporates	Strong Underweight				
TIPS			Neutral		
International Developed			Neutral		
Preferred					Strong Overweight
High-Yield			Neutral		
Bank Loans			Neutral		
Emerging Markets			Neutral		
Cash		Underweight			
Alternatives			Neutral		

STAAC Sector Tactical Views as of 9/01/2024 (GWI)

Sector					
Healthcare		→	Neutral		
Energy			Neutral	←	
Utilities			Neutral		
Consumer Staples			Neutral		
Information Technology			Neutral		
Communications Services				Overweight	
Industrials				Overweight	
Financials			Neutral		
Materials			Neutral		
Real Estate		Underweight			
Consumer Discretionary		Underweight			

CIO Asset class views are relative to the CIO Strategic Asset Allocation (SAA) of a multi-asset portfolio.

Source: STAAC as of September 1, 2024. All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors. The STAAC views expressed are based on a Tactical Asset Allocation (TAA) for a portfolio that has a Growth With Income (GWI) investment objective.

Investment Takeaways

Stocks rose in August for the fourth straight month, supported by continued economic growth, accelerating earnings growth, and a broadening out of market performance beyond technology. The S&P 500 was more than 8% off its July 16 record closing high on its August 5 low before rallying to end the month to produce a 2.4% return. As September began, focus among market participants remained on upcoming Federal Reserve (Fed) rate cuts, the degree of softening in the labor markets, geopolitical risks, and leverage, which was a major contributor to the selloff in early August.

Within fixed income markets, Treasury yields were lower in August as markets continue to expect deep rate cuts from the Fed, likely starting at the September Fed meeting. Current market pricing has the Fed cutting interest rates nearly 2% over the next 12 months as labor market weakness has become a larger concern for markets than inflation. The rate cutting expectations helped generate positive returns for most fixed income asset classes with the Bloomberg Aggregate Bond Index higher by 1.4% in August. High quality sectors, such as agency mortgage-backed securities and investment-grade corporate bonds outperformed.

LPL's STAAC maintains its tactical neutral stance on equities and modest overweight to fixed income, while actively monitoring signs of a potential stock market correction as the calendar turns to the historically weak seasonal month of September and the presidential election approaches.

- Economic growth in the U.S. should outperform other developed markets. Amid headwinds to consumer spending, solid business capital spending is expected to support overall domestic growth, albeit, potentially at below consensus levels. A 2024 recession is unlikely.
- The Committee remains comfortable with a balanced approach to market cap. High-quality small cap stocks are attractively valued, but large cap companies enjoy superior earnings power and tend to outperform late cycle as the economy slows.
- The AI-fueled earnings on the growth side helps justify rich valuations, but our technical analysis work has started to turn a bit toward value, which remains more attractively valued than normal. Staying close to neutral seems prudent.
- The STAAC's regional preference remains U.S. over developed international and emerging markets (EM) due largely to superior earnings and economic growth in the U.S. and significant volatility in the Japanese yen.
- The STAAC continues to hold a strong overweight tilt in preferred securities as valuations remain attractive. 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, adding duration isn't attractive at current levels, and the STAAC remains neutral relative to our benchmarks.

2024 MARKET FORECASTS

Elevated Volatility May Continue in the Near-Term

	Previous	Current
10-Year U.S. Treasury Yield	3.75% to 4.25%	3.75% to 4.25%*
S&P 500 Index Earnings per Share	$240	$240
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 is 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 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.

All data, views, and forecasts herein are as of 09/01/24.

2024 ECONOMIC FORECASTS

U.S. Economy Expected to Slow This Year

	2024 (Y/Y, real GDP)
United States	1.9%
Eurozone	0.9%
Advanced Economics	1.6%
Emerging Markets	4.2%
Global	3.1%

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

Tactical Asset Allocation as of 9/1/2024

	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 Growth	27.0%	24.0%	3.0%	22.5%	20.5%	2.0%	16.5%	15.0%	1.5%	11.5%	10.0%	1.5%	5.0%	5.0%	0.0%
Large Value	25.0%	24.0%	1.0%	21.0%	20.0%	1.0%	15.5%	15.0%	0.5%	10.0%	10.0%	0.0%	5.0%	5.0%	0.0%
Small/Mid Growth	14.0%	14.0%	0.0%	11.5%	11.5%	0.0%	9.0%	9.0%	0.0%	6.0%	6.0%	0.0%	3.0%	3.0%	0.0%
Small/Mid Value	14.0%	14.0%	0.0%	12.0%	12.0%	0.0%	9.0%	9.0%	0.0%	6.0%	6.0%	0.0%	3.0%	3.0%	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%	27.0%	24.5%	2.5%	36.0%	32.0%	4.0%
MBS	1.0%	0.0%	1.0%	5.5%	4.5%	1.0%	11.5%	10.0%	1.5%	17.5%	15.0%	2.5%	23.5%	20.5%	3.0%
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%
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%
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

Correction Risk Elevated as Seasonals Turn Weaker and Election Approaches

LPL’s STAAC maintains its tactical neutral stance on equities and modest overweight to fixed income, while actively monitoring signs of a potential stock market correction as the calendar turns to the historically weak seasonal month of September and the presidential election approaches. The Committee remains comfortable with a balanced approach to market cap as attractive valuations for small caps don't outweigh economic risks and superior earnings power for large caps.

The AI-fueled earnings on the growth side helps justify rich valuations, but our technical analysis work has started to turn a bit toward value which remains more attractively valued than normal. Staying close to neutral seems prudent. The STAAC’s regional preference remains U.S. over developed international and EM due largely to superior domestic earnings and economic growth. Elevated volatility in the Japanese yen increases the relative attractiveness of U.S. equities relative to developed international.

Color Key:

Strong Underweight · Underweight · Neutral · Overweight · Strong Overweight

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization and Style	**Large Growth**	· · · ● ·	Positive	Large caps are more expensive than small caps, but the earnings power and quality is superior, and slowing economic growth increases small cap risk.
	Large Value	· · ● · ·	No Trend	Performance has improved as economic concerns in early August have abated, bolstering cyclical value. Defensive sectors have benefited from renewed demand for income stocks. Attractive valuations support near-benchmark allocations.
	Small/Mid Growth	· · ● · ·	No Trend	Potential beneficiary of rate cuts likely to come this month. Low valuations and relatively healthy credit markets are also supportive, but a slowing economy and potential heightened market volatility present headwinds. Biotech is a key driver.
	Small/Mid Value	· · ● · ·	No Trend	As with large value, small/midcap value stocks may benefit from a possible soft landing and valuations are attractive versus history. However, an economic slowdown may limit performance upside.
Region	**United States**	· · · ● ·	Positive	The U.S. economy is expected to handily outgrow and outearn Europe in 2024. European Central Bank (ECB) rate cuts are not enough to drive a sustainable performance advantage. Our technical analysis work and AI innovation still suggests favoring the U.S. despite elevated valuations.
	Developed International	· · ● · ·	No Trend	European economies have stabilized, valuations are attractive, rate cuts have begun, and more defensive investments are performing better. The intermediate-term outlook for Japan remains favorable thanks to improved corporate governance and shareholder returns, but yen volatility suggests a cautious stance near term.
	Emerging Markets	· ● · · ·	No Trend	The STAAC remains cautious on EM equities on earnings weakness, elevated geopolitical risk in Asia and the Middle East, and lack of relative strength. Political uncertainty is high for Mexico. The long-term outlook for India remains positive in the Committee's view. Fed rate cuts and valuations are keys to a bullish case.

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

Upgrading Healthcare, Downgrading Energy

Recent volatility strengthens the case for balanced exposure across cyclical, defensive, and secular growth sectors. Industrials are favored as a beneficiary of infrastructure, defense, near-shoring, and the AI buildout. Strong growth, attractive valuations, and election ad spending opportunities drive our communication services recommendation despite growing AI scrutiny. Deteriorating momentum and less favorable seasonal trends drive our increasingly cautious view of the energy sector. Improving relative strength and accelerating earnings support a more constructive view of the healthcare sector. Dwindling savings and softening labor market may be drags on consumer discretionary over the balance of 2024. Lower yields make real estate a potential upgrade candidate.

Color Key:

Strong Underweight · Underweight · Neutral · Overweight · Strong Overweight

	Sector	Overall View	Relative Trend	S&P Wgt.	Rationale
Cyclical	**Basic Materials**	· · ● · ·	No Trend	2.2	In line August performer (+2.2%) despite lackluster commodity price performance and sluggish Chinese economy. Chemicals strength and a weak U.S. dollar helped. Valuations are reasonable, but technical conditions are deteriorating.
	Consumer Cyclical	· ● · · ·	Negative	9.8	Underperformed in August with a 1.1% decline. Weakness in Tesla (TSLA) and Amazon (AMZN) weighed on the sector. Pressure on consumers is building as unemployment is inching higher and excess savings are dwindling, supporting a cautious stance. Reasonable valuations. Sub-par technical picture.
	Financial Services	· · ● · ·	Positive	13.5	Strong August performer (+4.4%) on combination of insurer strength, normalizing yield curve, and still-favorable credit conditions as the economy continues to grow steadily. Potential upside in a Trump victory from deregulation. Reasonable valuations. Mixed technical analysis picture.
	Real Estate	· ● · · ·	Positive	2.4	Strong August outperformer with a 5.8% return as rates fell and defensive sectors outperformed. Commercial real estate refinancing remains a wildcard, but office risk appears manageable. Reasonable valuations. Improving technicals. Positive bias.
Sensitive	**Communication Services**	· · · ● ·	Positive	8.7	Slight underperformer in August with a 1.2% return. Weakness in Alphabet (GOOG/L) and traditional media/cable stocks offset strength in Netflix (NFLX) and Meta (META). Political ad spending lift coming. Reasonable valuations. Positive technicals.
	Energy	· · ● ← ·	No Trend	3.5	Worst performer in August with 1.7% loss amid energy price weakness. Downgrade reflects technical weakness and seasonal headwinds, though more shareholder-friendly capital allocation decisions and attractive valuations support a neutral.
	Industrials	· · · ● ·	Positive	8.5	Outperformer in August with a 2.9% return amid continued steady economic growth. Play on infrastructure, defense, near-shoring, and AI data center build. Beneficiary of rotation out of technology. Reasonable valuations. Positive technical analysis picture.
	Technology	· · ● · ·	Negative	30.2	Underperformed in August (+1.3%) amid weakness in semiconductors and AI beneficiaries. Super Micro Computer (SMCI) amd Intel (INTC) hit particularly hard. Deteriorating technicals. Elevated valuations. But earnings growth is near 20%.
Defensive	**Consumer Defensive**	· · ● · ·	Positive	6.2	Top performing sector in August with a 5.9% return as defensive sectors remained in favor. Well-received quarterly results from Clorox (CLX), Costco (COST), and Walmart (WMT) bolstered performance, offsetting dollar store weakness as consumer headwinds stiffen. Fair valuations and positive technicals.
	Healthcare	· → ● · ·	Positive	12.4	Solid outperformer (+5.1%) in August as defensive and dividend-rich sectors remained in favor and GLP-1 demand remained strong. Reasonable valuations. Accelerating earnings. Positive technicals. Upgraded this month to neutral.
	Utilities	· · ● · ·	Positive	2.5	Strong August performer on falling rates (+4.9%) and enthusiasm for defensive, income-oriented sectors, with perhaps some added boost from future potential AI power demand. Reasonable valuations. Mixed technical trends.

Fixed Income

Rate Cuts Are Coming

Fixed income markets, as proxied by the Bloomberg Aggregate Bond Index, were higher in August with a 1.4% gain for the month. Softening economic data, most notably a weak July employment report, pushed Treasury yields lower (prices higher). With the narrative shifting from inflation to economic growth concerns, markets expect the Fed to start its rate cutting cycle in September, which has historically been a tailwind to bond prices. Additionally, August's flight-to-quality trade into bonds helped high-quality fixed income return to its traditional role of portfolio diversifier during market tumult.

Aside from preferred securities, valuations for riskier fixed income sectors remain rich relative to core sectors, in our view. And while price appreciation may be limited, until inflationary pressures abate, income levels remain attractive.

Color Key:

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

Current Stance		Low	Med	High	Rationale
	Credit Quality Preference			✓	Recommend an up-in-quality approach in allocating to fixed income sectors. While all-in yields for lower quality remain above longer-term averages, we think the risk/reward favors owning core bond sectors over the riskier sectors.
		Short	**Inter.**	**Long**	**Rationale**
	Duration Preference		✓		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.	**Neut.**	**Pos.**	**Rationale**
	Municipal Bond View		✓		While we're likely past peak fundamentals, as the economy slows and tax revenues fall, still-robust cash balances collected throughout the pandemic recovery period should support muni credit over the medium term.

		Overall View	Overall Trend	Rationale
Core Sectors	**U.S. Treasuries**	· · ● · ·	Positive	Treasury yields were lower in August with the 10-year lower by nearly 0.10% for the month. Fed rate cut expectations continue to directionally drive Treasury yields despite the expected increase in Treasury supply. From a fundamental perspective, we think Treasury yields are likely range bound at these higher levels. Technically, 10-year yields remain in a downtrend and recently violated key support at 3.75%, leaving the 2023 lows near 3.25% as the next major area of downside support.
Core Sectors	**MBS**	· · · ● ·	Positive	We remain constructive on agency MBS. Yields and spreads remain near multi-year highs, so we think MBS remain an attractive investment opportunity particularly relative to lower rated corporates. As interest rate volatility continues to fall, MBS should outperform most other high quality bond sectors.
Core Sectors	**Investment-Grade Corporates**	● · · · ·	Positive	We recommend a strong underweight to benchmarks, but we think there is an opportunity to invest in shorter to intermediate maturity corporate securities without taking on elevated levels of interest rate or credit risk. Fundamentals remain solid.
Core Sectors	**TIPS**	· · ● · ·	Positive	All-in yields for Treasury Inflation-Protected Securities (TIPS) are attractive, particularly shorter maturity TIPS, and could provide a good hedge against unexpected inflation surprises.
Plus Sectors	**Preferred Securities**	· · · · ●	Positive	Preferred securities have outperformed most other bond sectors over the past 12 months, but valuations remain relatively attractive. Higher credit quality among the riskier fixed income options. Recent Fed stress tests continue to show large, money-center bank fundamentals are generally sound, but environment favors active management. The technical backdrop remains constructive, with most preferred indexes/funds trending higher and/or holding above their rising 200-day moving averages.
Plus Sectors	**High-Yield Corporates**	· · ● · ·	Positive	Yields for high-yield bonds are above historical averages but spreads remain near all-time lows. The environment broadly remains supportive for credit risk. Economic growth is slowing but not collapsing, which is typically good for credit. But credit is not cheap.
Plus Sectors	**Bank Loans**	· · ● · ·	No Trend	Given the variable rate debt, Fed rate cuts will eventually push yields lower, although likely still higher than longer-term averages. Downgrades and defaults have increased and could increase still if the economy slows/contracts. We would favor high-yield bonds over loans for those investors interested in leveraged credit.
Plus Sectors	**Foreign Bonds**	· · ● · ·	Positive	Valuations have improved, but potential currency volatility remains a challenge.
Plus Sectors	**EM Debt**	· · ● · ·	Positive	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.

Commodities and Currencies

Losing Streak Continues

The broader commodities complex declined for a third straight month in August. The Bloomberg Commodity Index (BCOM) fell 0.4% after an intra-month relief rally stalled near the declining 50-day moving average (dma). Bulls will be tested again this month as the index hovers near key support at the 94–95 range — a break below this area would greatly diminish the prospect of a bottom developing. Signs of slowing global growth continue to weigh on commodities, including another month of contracting factory activity in China and a weakening labor market in the U.S. Even Fed Chair Jerome Powell acknowledged policymakers "do not seek or welcome further cooling in labor market conditions" during his Jackson Hole Economic Symposium speech where he paved the path for rate cuts kicking off at the September 18 monetary policy meeting. This backdrop led to rising expectations for rate cuts, lower yields, and a weaker dollar that also faced selling pressure from the unwinding of the yen-carry trade.

Energy markets underperformed last month. Gasoline led losses as the end of the summer driving season helped push prices down 11%. West Texas Intermediate (WTI) crude oil sank 5.6% on fear of slowing global growth and weak import demand from China. The supply side was temporarily supported by OPEC+'s recent decision to pause a planned output hike for two months. Natural gas dodged the selling pressure and rose 4.5% as supply ticked lower and forecasts called for increased cooling demand. Prices have formed a short-term double bottom, and a close above $2.30 would validate a breakout.

Metals were a bright spot last month after benefiting from a weaker dollar and lower yields. Gold rallied 2.3% and cleared the July highs, paving the way for another potential leg higher. Silver slipped 0.5% after a relief rally stalled near $30 — a level that will need to be cleared to reverse the metal's emerging downtrend. Industrial metals outperformed despite mixed signals coming from the global economy. Aluminum and zinc rallied close to 9%, while copper lagged with a loss of 0.8%. Copper briefly caught a bid after China exports slowed but momentum quickly faded after disappointing manufacturing activity.

Color Key: Negative Neutral Positive

Sector	Overall View	Overall Trend	Rationale
Energy		Negative	WTI has violated support at $71.50 and appears poised to retest the December lows near $67.71. While momentum is oversold, consistent lower highs and lows followed by a recent bearish crossover between the 50- and 200-day moving averages suggest downside risk remains elevated. **With energy prices continuing to breakdown, we are downgrading our view on the energy commodity sector to neutral from positive.**
Precious Metals		Positive	Gold has broken out from a consolidation range and cleared the July highs. Based on the size of the prior range, a technical-based price objective sets up near $2,650. Silver continues to struggle, but a close above $30 would reverse its current downtrend. **We maintain our positive view on the precious metals group.**
Industrial Metals		Negative	Signs of slowing global growth continue to weigh on industrial metals. Weak factory activity and the lack of any major fiscal stimulus in China remain an overhang. Copper is oversold and retesting support near the $395–$400 range. A close above the August highs near $425 would be a good sign for a bottom. **We maintain our neutral view on the industrial metals group.**
Agriculture (Ag) & Livestock		Negative	Ag and livestock traded higher last month on the back of a rally in soft commodities. Coffee led gains with a 25% rally supported by supply constraints in Vietnam and Brazil. Wheat outperformed in grains with a 1% rally that pushed prices back above support near $515. Livestock lagged last month with notable weakness in lean hogs (-11%). **Based on continued technical weakness, we are downgrading our view on the group to negative from neutral.**
U.S. Dollar		Negative	The greenback is oversold, and a near-term relief rally is likely. However, a break below key support at 99.6 would be technically significant and imply the dollar is likely transitioning from a longer-term consolidation phase into a downtrend. Also, a break below 141 on the dollar/yen pair could create additional currency market instability and drive added selling pressure in the greenback.

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

Alts Dispersion Continues

Macro Weakness. The first half of August was a difficult period for alternative investment strategies, specifically for macro and trend-following managers, as the HFRX Macro/CTA Index and HFRX Systematic Diversified Index declined 1.5% and 3.6%, respectively. Losses were driven by short Japanese yen, long equity, long energy related commodities, and short bond positioning, all of which experienced sharp reversals in their prior trends. As expected, and designed, trend-following strategies were able to cut losses and reverse their existing position levels more quickly. In contrast, slower moving and more fundamentally driven macro trading strategies suffered larger losses. At the end of the month, short Japanese yen and short bond positions had been significantly reduced across the industry with many strategies holding small long positions.

Equity-Centric Strategies Lead Gains. Long/short equity and event driven strategies led sub-strategy returns (HFRX Equity Hedge Index up 1.0% and HFRX Merger Arbitrage Index up .44%) and had more meaningful upside participation as the equity market staged a strong rally into month end. From a factor perspective, low volatility and high dividend related names led the rally, as investors rotated into more defensive related holdings. Net exposure was largely unchanged, in the low 50%, however, the rotation across factors had a more meaningful impact on market dynamics.

In the event driven space, Nippon Steel's proposed acquisition of U.S. Steel remains the main headline. The Committee on Foreign Investment in the United States (CFIUS) indicated in a letter to Nippon Steele that the transaction would pose a national security risk. Expectations are for any cross-boarder deals to come under additional scrutiny ahead of the upcoming elections.

Looking ahead, we expect dispersion to continue expanding and volatility to pick up. At a macro level, major central banks have become more vocal about how each region will take independent action from one another and have taken their initial steps towards their goals. They will continue to decide their own path, which will bring greater macro dispersion among them. This is not a story just for key developed market countries. Emerging market economies have also separated themselves from one another, making macro dispersion a global phenomenon. At a micro level, correlations among index components remain historically low and suggest that rates and momentum are not primary drivers in the current environment.

Color Key: Negative Neutral Positive

	Sector	Overall View	Rationale
Fundamental	Long/Short Equity	Neutral	The current equity market environment lends greater stock picking environment for low net equity long/short managers. With rich valuations and dwindling momentum, these managers should be able to build solid short books that can increase their total alpha generation.
	Event Driven	Neutral	Merger Arbitrage strategies remain attractive fixed income diversifiers; however, regulatory and political risk will continue to overshadow the industry as we move closer to the November elections.
Tactical	Global Macro	Positive	Favor multi-strategy global macro strategies with truly diversified asset class and regional exposure as the market moves on from directional structural themes to more balanced tactical themes across both developed and emerging markets. We continue to believe the strategy serves as a solid portfolio diversifier that deserves a steady allocation.
	Managed Futures	Positive	While trend following indexes have underperformed for several months, we remain constructive on the industry, with a focus on combining several uncorrelated strategies together to reduce drawdowns and smooth the risk/return profile of the allocation.
Multi-Strategy	Multi-PM Single Funds	Positive	Multi-Strategy funds continue to benefit from the ability to dynamically invest across the alternative investment strategy landscape, while providing a diversifying risk/return profile. These funds should be able to tactically take advantage of any short-term market disruptions.
	Specialty Strategies	Neutral	Among private market strategies, private credit and infrastructure strategies, which we were constructive on, continued to perform well and are expected to show their resilience as we navigate through the fog.

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

Important Disclosures

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

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

Asset Class Disclosures

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

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

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

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

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

Floating rate bank loans are loans 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. Alternative investments are include non-traditional asset classes. This may include hedge funds, private equity/debt/credit, etc. This may also include Business Development Companies (BCDs) and Opportunity Zone investments. These are not registered securities and there may be significant restrictions on purchase and suitability requirements. Please contact your advisor for any further information.

The HFRX Absolute Return Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.

The HFRX Equity Hedge Index measures the performance of the hedge fund market. Equity hedge strategies maintain positions both long and short in primarily equity and equity derivative securities.

The HFRI® Indices are broadly constructed indices designed to capture the breadth of hedge fund performance trends across all strategies and regions.

The HFRI Institutional Macro Index is a global, equal-weighted index of hedge funds with minimum assets under management of USD $500MM which report to the HFR Database and are open to new investments.

Event driven strategies, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position. Managed futures are speculative, use significant leverage, may carry substantial charges, and should only be considered suitable for the risk capital portion of an investor's portfolio.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Any futures referenced are being presented as a proxy, not as a recommendation. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors. Precious metal investing involves greater fluctuation and potential for losses.

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Important Disclosures

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

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

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

All index data from FactSet.

The Strategic and Tactical Asset Allocation Committee (STAAC) is a division of LPL Research.

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