

Market Sell-Off Intensifies on Adverse Tariff News

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

Key changes from STAAC:

- Revised 2025 GDP forecast down to 1.5%
- Put the 2025 end of year target for the S&P 500 under temporary review

STAAC Asset Class Tactical Views as of 04/01/2025 (GWI)

| Asset Class | 1 | 2 | 3 | 4 | 5 |
|--------------------------------|---|---|---|---|---|
| Equity | . | . | ● | . | . |
| U.S. | . | ● | . | . | . |
| International Developed (EAFE) | . | . | ● | . | . |
| Emerging Markets | . | . | . | ● | . |
| Large/Mid Growth | ● | . | . | . | . |
| Large/Mid Value | . | . | ● | . | . |
| Small Growth | . | . | ● | . | . |
| Small Value | . | . | . | ● | . |
| Fixed Income | . | . | ● | . | . |
| Treasuries | . | . | ● | . | . |
| MBS | . | ● | . | . | . |
| IG Corporates | . | . | . | ● | . |
| TIPS | . | . | ● | . | . |
| International Developed | . | . | ● | . | . |
| Preferred | . | . | ● | . | . |
| High-Yield | . | . | ● | . | . |
| Bank Loans | . | . | ● | . | . |
| Emerging Markets | . | . | ● | . | . |
| Cash | . | . | . | ● | . |
| Alternatives | . | ● | . | . | . |

STAAC Sector Tactical Views as of 04/01/2025 (GWI)

| Sector | 1 | 2 | 3 | 4 | 5 |
|-------------------------|---|---|---|---|---|
| Materials | . | . | . | ● | . |
| Consumer Staples | . | . | ● | . | . |
| Financials | . | . | ● | . | . |
| Real Estate | . | . | . | ● | . |
| Communications Services | . | ● | . | . | . |
| Energy | . | . | . | ● | . |
| Industrials | . | ● | . | . | . |
| Information Technology | . | . | ● | . | . |
| Consumer Discretionary | . | ● | . | . | . |
| Healthcare | . | . | ● | . | . |
| Utilities | . | . | ● | . | . |

Source: STAAC as of April 1, 2025. 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

U.S. equity markets extended declines in March, with the S&P 500 suffering its biggest monthly decline since December of 2022. Much of the headwind for risk appetite last month centered around policy and trade uncertainty after President Donald Trump announced an additional “permanent” 25% tariff on all vehicles and auto parts not produced in the U.S., setting the stage for the April 2 reciprocal tariff announcement. Policy uncertainty spilled over into soft economic data, including an uptick in inflation expectations, which helped fuel concerns around future economic growth and corporate earnings. On the corporate front, scrutiny around artificial intelligence (AI) continued to act as a drag on index heavyweights and broader sentiment while multiple retailers, airlines, and homebuilders flagged increased consumer caution. The selloff intensified in early April as tariffs went into effect and China, Europe and Canada retaliated, putting the S&P 500 Index deep in correction territory and close to a bear market decline of 20%.

Within fixed income markets, Treasury yields ended narrowly mixed with some curve steepening. Core bonds, measured by the Bloomberg U.S. Aggregate Bond Index ended little changed. The yield curve steepening experienced last month arrived as investors remained cautious around potential negative impacts on economic growth from tariffs, sending shorter-term yields lower. Adding to uncertainty in the bond market was stagflation jitters after the Federal Reserve (Fed) held rates steady and gross domestic product (GDP) forecasts fell. Meanwhile, corporate credit and high-yield markets printed a monthly decline, reflecting the equity market sell off.

Due to the heightened uncertainty, LPL Research has placed its 2025 S&P 500 year-end fair value target and its S&P 500 earnings

per share forecast under review. The most recent targets of 6,275–6,375 and \$260 were conservative relative to Wall Street at the start of the year but now they should probably come down. But until more clarity on tariff landing spots arrives, it's prudent to take a wait-and-see approach. That doesn't mean de-risk. In fact, LPL Research's Strategic and Tactical Asset Allocation Committee (STAAC) will likely add some risk fairly soon now that the 90-day tariff pause is in place. Either way, it's a good time to fortify diversification and think about rebalancing into equities.

- In this uncertain and volatile environment, the Committee believes it is prudent to keep tactical asset allocations near benchmark except where conviction is high. At this point in time, the Committee maintains its preference for U.S. equities over emerging markets. The Committee also maintains its conviction on large caps over small caps in this volatile market environment.
- LPL Research has lowered its GDP forecast for 2025. The domestic economy is now expected to grow at 1.5% in 2025 with most of the growth coming in the latter part of the year. Irrespective of future trade policy, the downbeat sentiment of both consumers and businesses could be a harbinger of much slower economic growth. Financing from capital markets continued to be broadly available for large-to-midsize businesses and municipalities. However, credit conditions for small businesses remained moderately tight. This is something to monitor, given the greater impact that tariffs have on small businesses. Further, recent surveys indicate fewer firms are planning capital expenditures in the next three to six months. Purchasing managers reported fewer new orders, which also impacted our decision to reduce our growth estimate for 2025.

2025 MARKET FORECASTS

Elevated Volatility May Continue in the Near-Term

| | Current |
|---|-----------------|
| 10-Year U.S. Treasury Yield | 3.75% to 4.25%* |
| S&P 500 Index Earnings per Share | Under review |
| S&P 500 Index Fair Value | Under review |

Source: LPL Research, FactSet, Bloomberg

All indexes are unmanaged and cannot be invested into directly.

*Our year-end 2025 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 2025 fair-value target range for the S&P 500 of 6,275–6,375 is based on a price-to-earnings ratio (PE) of 23 and our S&P 500 earnings per share (EPS) forecast of \$275 in 2026.

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 04/01/25.

2025 ECONOMIC FORECASTS

U.S. Economy Expected to Slow This Year

| | 2025 (Y/Y, real GDP) |
|---------------------------|----------------------|
| United States | 1.5% |
| 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 04/01/2025

| | 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/Mid Growth | 36.0% | 28.5% | 7.5% | 30.0% | 24.0% | 6.0% | 22.5% | 18.0% | 4.5% | 15.5% | 12.0% | 3.5% | 7.0% | 6.0% | 1.0% |
| Large/Mid Value | 29.5% | 28.5% | 1.0% | 25.0% | 24.0% | 1.0% | 18.5% | 18.0% | 0.5% | 12.0% | 12.0% | 0.0% | 6.0% | 6.0% | 0.0% |
| Small Growth | 9.5% | 9.5% | 0.0% | 8.0% | 8.0% | 0.0% | 6.0% | 6.0% | 0.0% | 4.0% | 4.0% | 0.0% | 2.0% | 2.0% | 0.0% |
| Small Value | 5.0% | 9.5% | -4.5% | 4.0% | 8.0% | -4.0% | 3.0% | 6.0% | -3.0% | 2.0% | 4.0% | -2.0% | 1.0% | 2.0% | -1.0% |
| 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 | 0.0% | 0.0% | 0.0% | 15.0% | 15.0% | 0.0% | 35.0% | 35.0% | 0.0% | 55.0% | 53.0% | 2.0% | 75.0% | 70.0% | 5.0% |
| U.S. Core | 0.0% | 0.0% | 0.0% | 15.0% | 15.0% | 0.0% | 35.0% | 35.0% | 0.0% | 55.0% | 53.0% | 2.0% | 75.0% | 70.0% | 5.0% |
| Treasuries | 0.0% | 0.0% | 0.0% | 7.0% | 7.0% | 0.0% | 16.0% | 16.0% | 0.0% | 26.5% | 24.5% | 2.0% | 36.5% | 32.5% | 4.0% |
| MBS | 0.0% | 0.0% | 0.0% | 4.5% | 4.0% | 0.5% | 11.0% | 10.0% | 1.0% | 16.0% | 15.0% | 1.0% | 21.5% | 20.0% | 1.5% |
| IG Corporates | 0.0% | 0.0% | 0.0% | 3.5% | 4.0% | -0.5% | 8.0% | 9.0% | -1.0% | 12.5% | 13.5% | -1.0% | 17.0% | 17.5% | -0.5% |
| Alternatives | 3.0% | 0.0% | 3.0% | 3.0% | 0.0% | 3.0% | 3.0% | 0.0% | 3.0% | 3.0% | 0.0% | 3.0% | 3.0% | 0.0% | 3.0% |
| Tactical: Global Macro | 3.0% | 0.0% | 3.0% | 2.0% | 0.0% | 2.0% | 1.5% | 0.0% | 1.5% | 1.0% | 0.0% | 1.0% | 0.0% | 0.0% | 0.0% |
| Multi-Strategy | 0.0% | 0.0% | 0.0% | 1.0% | 0.0% | 1.0% | 1.5% | 0.0% | 1.5% | 2.0% | 0.0% | 2.0% | 3.0% | 0.0% | 3.0% |
| 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 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.

To better align with other STAAC publications, mid caps have been combined with large caps in the TAA. Accounts with distinct mid cap allocations may disaggregate mid caps from the "Large & Mid" exposure shown in the table roughly in-line with relative market cap values: 75% Large Cap 25% Mid Cap.

Equity Asset Classes

Holding Steady While Patiently Awaiting More Clarity on Tariff Landing Spots

Due to heightened uncertainty associated with tariffs from the Trump administration, LPL Research has temporarily placed its 2025 S&P 500 year-end fair value target and its S&P 500 earnings per share forecast under review. Previous targets of 6,275–6,375 and \$260, were conservative relative to Wall Street at the start of the year, but now it appears they should come down. That said, until more clarity on tariff landing spots arrives, it seems prudent to take a wait-and-see approach. That doesn't mean de-risk. In fact, LPL Research's Strategic and Tactical Asset Allocation Committee (STAAC) will likely add some risk fairly soon now that the 90-day tariff pause is in place. Either way, it's a good time to fortify diversification and think about rebalancing into equities.

In this environment, the Committee believes it is prudent to keep tactical asset allocations near benchmarks except where conviction is high. At this point in time, the Committee maintains its preference for U.S. equities over emerging markets. The Committee also maintains its conviction on large caps over small caps in this volatile market environment. And once stocks rebound, the Committee expects growth to outpace value, but conviction is limited and the technical picture for value has improved in recent months.

Color Key:

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

| | Sector | Overall View | Relative Trend | Rationale |
|---------------------------------|-------------------------|--------------|----------------|--|
| Market Capitalization and Style | Large/Mid Growth | ● | Positive | LPL's STAAC continues to favor the growth style despite recent value strength. Slowing economic growth and superior earnings power support growth, which is likely to benefit more from lower tariff rates if they come. However, our technical and quantitative analysis suggests a more balanced view. |
| | Large/Mid Value | . . ● . . | No Trend | Defensive value stocks should continue to hold up well during this period of high volatility and policy uncertainty, but cyclical value faces high tariff risk and, by definition, economic sensitivity as recession risk rises. LPL Research's quantitative and technical analysis work points to neutral style and preference for large caps. |
| | Small Growth | . . ● . . | No Trend | Low valuations are not enough to favor small caps, especially given the increasingly uncertain economic environment in which small caps may have a harder time mitigating tariff effects. Enthusiasm surrounding a more domestic focus may be overdone and technicals are not supportive in a risk-off environment. Market volatility is a headwind for small cap tech and biotech. |
| | Small Value | . . . ● . | No Trend | LPL Research's quantitative and technical analysis work indicates the small value outlook has deteriorated. Valuations are attractive but that's not enough in a trade war to offset the market volatility in an environment in which balance sheet strength is favored. Slowing economic growth is a headwind for banks. |
| Region | United States | . ● . . . | Positive | Tariffs are impairing the near-term economic growth outlook for the U.S., but LPL Research expects tariff rates to come down and for the Trump tax cuts to be extended, putting a potential floor under U.S. markets. Although the U.S. exceptionalism trade has faded, AI investment and innovation will still likely result in U.S. earnings growth outpacing the world. Our technical analysis work and positioning/sentiment data also favor the U.S. despite elevated valuations. |
| | Developed International | . . ● . . | No Trend | The STAAC continues to favor U.S. over developed international due largely to superior domestic earnings and economic growth, though the gap seems to be narrowing some. Recent U.S. dollar weakness, European Central Bank rate cuts, and deficit/defense spending are bullish for Europe. Encouraging signs on tariff negotiations with Japan. Staying neutral but staying flexible. |
| | Emerging Markets | . . . ● . | No Trend | The STAAC remains cautious on emerging markets (EM) equities primarily due to escalating trade tensions with China. Fiscal stimulus from China is probably not enough to sustain outperformance in a trade war. Low valuations, recent U.S. dollar weakness, and potential tech strength are supportive. |

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

Waiting for Additional Trade Clarity Before Making Any Sector Moves

The top sectors in March were defensive (e.g., consumer staples, healthcare, and utilities) and income-oriented (energy and real estate). The growth sectors tied to AI (communication services and technology) and heavy tariff risk (consumer discretionary) lagged.

Our sector recommendations will benefit from tariff clarity, particularly consumer discretionary and communication services which the STAAC continues to overweight. Our quantitative work continues to support the positive view on communication services, and a negative view of materials. Once more trade clarity arrives, a shift toward more cyclical sector stance may be warranted but until then, balanced sector positioning between defensives and cyclicals is prudent.

Color Key:

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

| | Sector | Overall View | Relative Trend | S&P Wgt. | Rationale |
|-----------|------------------------|--------------|----------------|----------|---|
| Cyclical | Basic Materials | * * * ● * | Negative | 2.0 | Fell less than the S&P 500 in March (-2.6%) as some mining and steel stocks garnered support from tariff protection. A China trade war and increased odds of a global recession are not a favorable environment for materials. Technicals are negative. |
| | Consumer Cyclical | * ● * * * | Positive | 10.5 | Worst sector performer in March (-8.9%) on retailers' tariff risk and pressure on consumer confidence due to policy uncertainty. Housing/homebuilders may garner some support from lower mortgage rates. Lower oil helps. Likely winner in a market rebound but requires better tariff headlines. |
| | Financial Services | * * ● * * | Positive | 14.4 | Slight laggard in March (-4.2%) as capital markets-oriented companies sold off on market weakness except exchanges. Insurance stocks held up well. Weaker credit conditions on tariffs are a risk. Maintain positive bias on potential to lead in rebound. |
| | Real Estate | * * * ● * | No Trend | 2.3 | Held up fine in March (-2.4%) but fell as market may be seeing limited downside to interest rates and economic sensitivity in some real estate sectors (such as AI-oriented data centers). Yields remain attractive but technicals are mixed at best. |
| Sensitive | Communication Services | * ● * * * | Positive | 9.4 | Underperformed in March (-8.3%) despite solid gains in legacy telco carriers as sharp declines in Alphabet (GOOG/L) and Meta (META) overwhelmed the sector index. Still a favored sector on built-in diversification with digital media and high dividends under one roof. Reasonable valuations and relatively better technicals shore up the near-term outlook. |
| | Energy | * * * ● * | No Trend | 3.4 | Outperformer in March (+3.9%) on higher oil and natural gas prices before collapse in April on tariff news, increased OPEC+ production. With recession risk rising and trade tensions with China intensifying, it's tough to be bullish despite reasonable valuations and improved capital allocation. Technicals are mixed at best. |
| | Industrials | * ● * * * | No Trend | 8.4 | Tariffs and rising recession risk hurt industrials in March (-3.6%). Market paying little attention to tailwinds of infrastructure spending, AI data center buildouts, and near-shoring. Valuations aren't compelling, nor are technicals. Negative bias. |
| | Technology | * * ● * * | Negative | 29.1 | Big loser in March (-8.8%) on high tariff risk, slowing growth, and AI skepticism, exacerbated by high starting point for valuations. Potential winner in market rebound once trade tensions start to abate. Very reasonable valuations after latest sell-off. |
| Defensive | Consumer Defensive | * * ● * * | No Trend | 6.4 | Outperformer in March (-2.4%) on defensive sector leadership. Sector still faces fundamental headwinds (RFK Jr. healthy food initiatives, stressed low-income consumers, tariff risk) but time-tested bear market winner on "needs" over "wants". |
| | Healthcare | * * ● * * | No Trend | 11.4 | Outperformed in March (-1.7%) led by services. The market's desire for defensives and healthcare's relatively low exposure to tariff risk were supportive. Likely laggard in recovery but a good place to hide out until tariffs start coming down. |
| | Utilities | * * ● * * | No Trend | 2.6 | Outperformer in March (+0.3%) amid market shift to defensive, income-oriented sectors amid heightened policy uncertainty. Interest rates may not fall much further, but outperformance may continue until tariff headlines get better. |

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.

Fixed Income

The Calm Before The Storm

Fixed income markets, as proxied by the Bloomberg Aggregate Bond Index, were relatively flat in March, returning 0.04% as slowing growth but stickier inflation (stagflation lite?) continued to push and pull on Treasury yields. Within the month, we lowered our tactical view on preferreds (to neutral) and upgraded our view on investment-grade corporates (to underweight). February's calm, however, was short lived as the calendar turned and "Liberation Day" increased more uncertainty regarding the economic impact of tariffs and trade wars. We expect volatility to remain elevated.

Valuations for riskier fixed income sectors remain rich relative to core sectors, in our view, however, continued spread widening in these sectors is a good first step back to becoming more attractive. Too early in our view to take on additional fixed income risk. And while price appreciation may be limited, until inflationary pressures abate, income levels remain attractive.

Color Key:

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

| | Low | Med | High | Rationale | |
|----------------|------------------------------------|--------------|----------|---|---|
| Current Stance | 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. | |
| | Duration Preference | Short | Inter. ✓ | Long | Yields remain under pressure from conflicting narratives: slowing growth (lower yields) but stickier inflation (high yields), tariff pressures, and an ongoing Treasury Department debt ceiling debate will likely keep rates directionless until/unless the economic data softens enough to allow the Fed to continue its rate cutting campaign. We remain neutral duration to benchmarks. |
| | Municipal Bond View | Neg. | Neut. ✓ | Pos. | Performance was negative for the month and has underperformed taxable markets this year. Underperformance has been mostly the result of onerous net supply, Treasury rate volatility, ETF outflows, and headline concerns about the removal of the tax-exemption status of munis. Curve steepness still suggests intermediate term allocations are worth a look. |
| | | Overall View | | Overall Trend | Rationale |
| Core Sectors | U.S. Treasuries | • • ● • • | Negative | The 10-year was flat in March as the tug-of-war between sticky inflation and slowing growth concerns came front and center. Markets are pricing in three full cuts in 2025, which seems appropriate given the economic concerns. To get Treasury yields much lower though, economic data will need to show further deterioration. Technically, 10-year yields are retesting an emerging downtrend; a close above 4.40% would point to a trend reversal. | |
| | MBS | • ● • • • | Negative | We remain constructive on agency mortgage-backed securities(MBS). Yields and spreads remain near multi-year highs, so we think MBS remain an attractive investment opportunity, particularly relative to lower-rated corporates. Elevated interest rate volatility is a headwind to MBS but recent demand from banks, traditionally the largest buyer of MBS, remains supportive. | |
| | Investment-Grade Corporates | • • • ● • | Negative | We recommend an 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. | |
| | TIPS | • • ● • • | No Trend | Treasury Inflation-Protected Securities (TIPS) outperformed nominals in March as real yields fell on growth concerns. That said, all-in yields for TIPS remain attractive , particularly shorter maturity TIPS, and could provide a good hedge against unexpected inflation surprises. | |
| Plus Sectors | Preferred Securities | • • ● • • | Negative | Preferred securities have outperformed most other bond sectors over the past 12 months, but valuations are back to historical averages, so no longer as attractive for tactical models. Recent Fed stress tests continue to show large, money-center bank fundamentals are generally sound, but the environment favors active management. | |
| | High-Yield Corporates | • • ● • • | Negative | High-yield bonds underperformed most core sectors in March and have been under pressure thus far in April. Yields for high-yield bonds are above historical averages, but spreads are at risk for further widening due to tariff/trade war uncertainty. We think it's too soon to change our view on high yield but further spread widening would make the asset class more attractive. | |
| | Bank Loans | • • ● • • | Negative | Downgrades and defaults have increased and could increase still if the economy slows/contracts. Given the current economic uncertainty, high-risk credit sectors could underperform safer "core" sectors. | |
| | Foreign Bonds | • • ● • • | Negative | Yields have surged higher recently but risks to still higher yields remain. | |
| | EM Debt | • • ● • • | Negative | Valuations are relatively attractive, but idiosyncratic risks remain, and ongoing trade wars could negatively impact smaller emerging countries. Dollar strength is another risk. Liquidity can be an added risk during periods of stress. | |

Commodities and Currencies

Winning Streak Continues

The broader commodities complex climbed for a fifth straight month in March. Oversold conditions at the start of the month and a drop in the dollar (via euro strength) sparked a 3.5% rally in the Bloomberg Commodity Index (BCOM) last month. Buying pressure was widespread, with precious metals leading the way. Gold jumped 9% and continued its record-high rally. Tariff uncertainty, central bank buying, and notable inflows into physical gold exchange-traded funds (ETF) provided additional tailwinds beyond a weaker greenback. Silver kept up with its precious metal cousin and rallied 9.4%, while platinum climbed 5.1% after finding support again near \$900. From a technical perspective, BCOM finished the month at the highs but struggled with resistance at the 107.50–108 range as the calendar turned to April.

Currency markets remained volatile throughout the month. Uncertainty over “Liberation Day” and the impact new tariffs could have on growth and central bank decisions pushed implied volatility currency gauges to their highest levels since 2022. Dollar selling and euro outperformance was a big theme, along with notable strength in the Swedish Krona and Norwegian Krone. The dollar sank 3.1% and continued to face selling pressure in the aftermath of the tariff news. Oversold conditions and support near the 100–101 range could be a near-term catalyst for a potential bounce.

Energy markets traded higher last month despite a challenging supply and demand backdrop. West Texas Intermediate (WTI) rose 2.5% before giving up gains into April. Concerns over slowing growth and OPEC+’s shift to protecting market share over the price of oil dragged oil down below key support near \$65. Natural gas jumped 7.4% and continued to climb in its rising price channel. A drawdown in winter storage and projected demand growth for LNG feedgas helped support the rally.

Color Key: ● Positive ● Neutral ● Negative

| Sector | Overall View | Overall Trend | Rationale |
|------------------------------|--------------|---------------|---|
| Energy | ● | Neutral | WTI has broken below key support near the \$65–\$68 range. While price action is oversold, the lack of buyers at this multi-year support level points to elevated risk for downside pressure. Natural gas remains volatile, but pullbacks have been contained to its rising price channel. We expect the uptrend to continue and see \$3.63, \$3.89, and \$4.25 as the next resistance hurdles for gas to clear. We maintain our neutral view on the energy commodity sector. |
| Precious Metals | ● | Positive | Deleveraging pressure in the wake of “Liberation Day” dragged gold down to support at the 50-day moving average (dma). Buyers quickly defended this level and bid bullion back to record highs. Elevated geopolitical and trade war risk, consistent central bank demand, and growing gold-related ETF inflows should continue to support the yellow metal. Use pullbacks as buying opportunities. Silver has found support off the December lows but will need to clear the 200-dma before making a run back toward the March highs. We maintain our positive view on the precious metals group. |
| Industrial Metals | → ● | Neutral | Near-term demand due to the front-running of tariffs has faded and price action related to the longer-term backdrop of slowing growth and complicated trade. China demand remains a big wildcard as the White House and Beijing volley on escalating tariffs. Copper’s breakout to breakdown left prices oversold and near support off the 2024 lows (\$400 area). We expect more volatility ahead until tariff headlines turn into negotiations. Given the deterioration to the technical backdrop, we are lowering our view on industrial metals to neutral from positive. |
| Agriculture (Ag) & Livestock | ● | Neutral | Ag and livestock markets advanced last month on the back of strength in livestock. Live cattle and lean hogs rallied around 5%. Ag was a weak spot with cocoa down 14% and leading losses. Cocoa prices have been nearly cut in half since late December due to a bear surplus stemming from last year’s rally. Grains were mixed, with corn climbing 0.8% after finding support at the 200-dma. Wheat finished near the flatline but remains above support from the 2024 lows (~\$500 area). Given the mixed technical backdrop, we maintain our negative view on the group. |
| U.S. Dollar | ● | Neutral | The dollar sank 3.1% and continued to face selling pressure in the aftermath of the tariff news. Oversold conditions and support near the 100–101 range could be a near-term catalyst for a potential bounce. |

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.

Precious metal investing involves greater fluctuation and potential for losses.

Alternative Investments

Strong Downside Equity Preservation

Alternative investment strategy performance was mixed during March, as all strategies were able to outperform the 5.6% decline in the S&P 500, however, all but market neutral strategies underperformed the flat performance of the bond market. Once again, market neutral strategies benefitted from significant levels of sector dispersion, as the energy sector gained 3.9%; however, consumer discretionary lost 8.3%, a difference of 12.2%. For the month, the HFRX gained 0.42%, while for the quarter the index was up 2.0%, leading all sub-strategies and outpacing the equity market, but slightly below the 2.8% gain of the bond index.

The main laggards during the month were the HFRX Equity Hedge Index (down 1.3%) and the HFRX Macro: Systematic Diversified (down 1.2%). As equity-centric strategies are expected to participate in equity market sell-offs in-line with their beta profile, the 1.3% decline in the HFRX index was only 23.2% of the total S&P 500 decline, indicating that the industry added alpha from their short positions in excess of their risk-profile. In the trend-following space, strategies entered the month with mixed equity positioning, with short domestic exposure and long international markets. As a group, equity trading was a small negative contributor, while currency trading was the main detractor from overall performance as there was a significant increase in volatility during the month.

Broadly speaking, we hold the view that hedge fund strategies have a favorable environment developing for them. In general, excess return generation is higher when there is a reasonable level of volatility, which is what we expect. Furthermore, total return tends to be higher in a medium to high interest rate environment, which is also what we expect given limited interest rate cuts in 2025. Looking ahead, agility will be crucial, and we favor strategies that can benefit from the macro and fundamental dispersions, higher volatility as well as medium to high interest rates, while staying nimble. As such, we favor Global Macro, Managed Futures and Multi-Strategies for that reason.

Color Key: ● Positive ● Neutral ● Negative

| | Sector | Overall View | | | Rationale |
|----------------|-----------------------|--------------|---|---|---|
| Fundamental | Long/Short Equity | • | ● | • | The current equity market environment lends to a more attractive stock picking environment for low net equity long/short managers. With rich valuations these managers should be able to build solid short books that can increase their total alpha generation. |
| | Event Driven | • | ● | • | Merger Arbitrage strategies remain attractive fixed income diversifiers and may see a more favorable backdrop in the event of deregulation and an extension of the Tax Cuts and Jobs Act. However, uncertainty surrounding tariffs may hinder the expected pick up in deal flow. |
| Tactical | Global Macro | ● | • | • | 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 | ● | • | • | We encourage investors to consider a combination of trend followers with alternative market coverage and balanced exposure and short-term multi-strategy managers. Recent performance has been whipsawed as the markets have seen significant daily moves due to tariff uncertainty. |
| Multi-Strategy | Multi-PM Single Funds | ● | • | • | 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 | • | ● | • | 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 issued 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 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.

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