LPL Financial

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Dear Valued Investor,

LPL Research is pleased to present *Midyear Outlook 2026: Policy, Buildouts, & Bottlenecks*. Our semi-annual update offers a comprehensive analysis of the economic and market environment and highlights potential implications for investors and their portfolios.

In our *2026 Outlook: The Policy Engine*, we spent considerable time talking about how policy is increasingly a driver of capital markets. The disruptions from the Iran conflict certainly served as another example of how policy, geopolitical or otherwise, should be top of mind for investors.

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

This doesn't mean we have lost focus on AI and corporate earnings. As a matter of fact, strength in earnings is a key reason we have raised our 2026 stock market return expectations. While some frothiness around AI expectations and market concentration are concerning, the earnings wave adds conviction to our forecast.

Internationally, we are less sanguine, as European economies have again fallen behind, and emerging markets may continue to be hit-and-miss in aggregate. Simply stated, while our bias for U.S. equity exposure remains, the variance between the U.S. and the rest of the world may be less pronounced.

All these items should be major variables of focus for the balance of the year. But the key question is: How should investors position themselves to optimize investment opportunities? The answer is grounded in the expectation that we believe equity markets should be constructive in the second half, but keep in mind that midterm election years have historically made for a bumpy investment ride.

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

These are just some of the insights you'll find in *Midyear Outlook 2026: Policy, Buildouts, & Bottlenecks.* To get more, including considerations to discuss with your advisor, visit **go.lpl.com/midyearoutlook**. The report, combined with guidance from your financial advisor, will help you navigate through market complexities and crosscurrents and continue to work toward your goals.

As always, please reach out to your financial advisor with questions.

Sincerely,

Marc Zabicki, CFA
Chief Investment Officer
LPL Research

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Important Information

All data is provided as of July 7, 2026.

All index data from FactSet.

The Standard & Poor's 500 Index (S&P 500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

This research material was prepared by LPL Financial, LLC.

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