Pragmatic Optimism, Measured Expectations

Considerations to discuss with your financial advisor

We started 2025 on a high note, though acknowledged "no market environment is ever permanent, and that change is always potentially around the corner." Well change did come and with it, volatility. Perhaps change was the main reason to blame for the volatility. After all, a significant amount of it stemmed from assuming President Trump's policies would simply mirror those of his prior term.

Of course, the impact of policy direction has been central to market direction this year. In fact, knowing how to think about the rest of the year is hard. That's why LPL Research created this report. Full of insights, considerations, and potential action steps, it's a resource on what may lie ahead — to help you and your financial advisor plan for 2025 as it relates to your goals.

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Economy

We expect to see slower economic growth, a weakening job market, and a slight uptick in inflation as the delayed effects of trade policy begin to take their toll. This will make things more challenging for the Federal Reserve (Fed), whose job is to keep inflation in check and maintain maximum employment. With a full plate to balance, the federal funds rate (which affects interest rates) will likely remain higher for longer.

> **Tariff headlines will continue to drive market sentiment, adding complexity to both growth and inflation forecasts.**
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> *– Marc Zabicki*
> *Chief Investment Officer,*
> *LPL Research*

LPL Research Expectations	Action Steps to Consider
Difficulty gauging the true health of the economy amid trade policy swings	Leverage industry trends and reports (e.g., Institute of Supply Management) with your advisor vs. lagging official statistics
Uptick in inflation due to both an increased demand of goods and supply chain issues Weakening job market Continuation of current, higher interest rates	Stay focused on your long-term investment strategy Seek to enhance stability by diversifying across asset classes and regions and adding alternatives to portfolios

The labor market looks to be stable in the near-term, but we see "choppy waters" on the horizon that could serve to significantly disrupt recent positive employment trends.

Stock Market

Uncertainty around trade policy dominated the stock market's path in the first half of the year and will continue to play a large role in the second half. That's because tariffs influence the key drivers of stock market performance: economic and corporate profit growth, inflation, and interest rates. If stocks are going to continue to move higher through year end, trade policy and corporate earnings will need to cooperate. A silver lining could come from big-tech companies that continue to invest in innovation.

DRIVING EARNINGS GROWTH

30%+

From big tech in Q1 who continued investing in innovation like AI

LPL Research Expectations	Action Steps to Consider
Bouts of market volatility due to uncertainty	Keep portfolio risk levels near benchmarks, given potential market catalysts (e.g., tax bill, AI investment)
Modest gains given already high valuations – S&P 500 will end the year between 6,000 – 6,100	Utilize market pullbacks as opportunity to selectively increase stock exposure
Potential for opportunity by sector and company size	• Communication services and financials • U.S. large caps with strong growth prospects (large caps are stocks from larger, well-established companies)

Bonds

Treasury yields will likely remain rangebound at elevated levels as the bond market grapples with rising debt concerns and economic challenges. If economic data shows more material weakness, especially from the job market, yields should decline, but volatility in the bond market is expected to continue. Given historically high starting yields, investors should look to bonds for income-generation opportunities and overall portfolio protection.

TREASURY EXPECTATIONS

4.0% - 4.5%

By year-end for the 10-year yield

LPL Research Expectations	Action Steps to Consider
Bond yields are still elevated and likely to stay around current levels	Take advantage of historically high yields with bonds up to five-year terms
Rates on cash accounts will decrease when the Fed eventually cuts rates	Replace some cash holdings with bonds to lock in higher yields and help shore up portfolios

Alternative Investments

"Alts" is a category of investments that goes beyond traditional investments like stocks and bonds. Investing in private companies, trading in a wide variety of markets (managed futures) are examples of strategies under the alts umbrella. Alternative investments diversify a portfolio, helping to manage risk, plus they may have the potential for higher returns compared to traditional investments, especially in certain market conditions, like economic uncertainty and market volatility. Given the likelihood for continued bouts of volatility:

- Alts are worth considering to further diversify and potentially enhance portfolio stability
- Preferred approaches include equity market-neutral, nimble discretionary global macro, and a range of managed futures sub-strategies

Commodities and Currencies

The first half of the year has been challenging for commodities but clear signs of a sustained economic recovery in China and rising demand from data centers (for copper) remain potential catalysts for a broader rally. Gold remains a bright spot given:

- It's a safe-haven during times of geopolitical tension and uncertainty (both from volatility on the stock market and trade policy)
- It has been in demand by global central banks that want to diversify away from the U.S. dollar.

It's also been a tough year for the U.S. dollar so far. And between increased divergences with the rest of the world on growth and rates, uncertain U.S. trade policy, and questions on U.S. leadership in technological innovation (e.g., DeepSeek), challenges can persist throughout the remainder of the year. Despite the challenges, the dollar is currently the world's reserve currency and will retain that status without any real alternatives for the foreseeable future.

As economic and policy uncertainty is expected to persist, we continue to stress the importance of diversification and the integration of stability-enhancing strategies.

Inspired by insights?

Get in touch with your financial advisor or get in-depth commentary and analysis at **go.lpl.com/midyearoutlook**

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Investing involves risk including the potential loss of principal. 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.

Investing in stock includes numerous specific risks including the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

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.

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

The fast price swings of 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 is subject to substantial fluctuation and potential for loss.

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RES-0003846BRO3-0425 Tracking #762790 | LPLE Tracking #762796 (Exp. 07/26)

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