

## UPGRADING SMALL CAPS ON DEVELOPING ROTATION

LPL Research Monthly Market Outlook

### Color Key

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

### Key Changes from March report:

- Upgraded small caps to neutral
- Trimmed overweight to large cap growth

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 foster a close monitoring of all global economic and capital markets conditions to ensure that all the latest information is being digested and incorporated into its investment thought.

### STAAC Asset Class Tactical Views as of 4/01/2024 (GWI)

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

### STAAC Sector Tactical Views as of 4/01/2024 (GWI)

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

Source: STAAC as of April 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 March as the S&P 500's 3.2% return made it five straight monthly gains for the index. The more than 10% first quarter gain, accompanied by more than 20 record highs, was the best since 2019 as stocks benefited from a resilient U.S. economy, easing inflation, rising corporate profits, and anticipation of Federal Reserve (Fed) rate cuts. As April began, equity markets struggled with a backup in Treasury yields on concerns rate cuts may be delayed.

U.S. Treasury performance was mostly flat in March, but the Bloomberg Aggregate Index did manage to end the month up by about 1%. Markets are now pricing in less than three rate cuts for the remainder of 2024, which is less than the latest Fed communications suggest. Recent economic data has driven the shift in pricing and until the economy begins to show signs of slowing, Treasury yields are like to remain around current ranges,

The LPL Research STAAC sees the risk-reward trade-off between equities and fixed income as roughly balanced despite such a strong start to the year given the improved economic and profit backdrop.

- The STAAC maintains its recommended neutral equities allocation. An increasingly likely soft landing for the U.S. economy, growing earnings, and expected stability in bond yields help offset elevated stock valuations.
- In GWI, the Committee has moved to a neutral view on small cap stocks. High-quality small cap stocks are attractively valued and have made technical progress as market performance broadened out in recent weeks.
- The Committee also maintains a slight preference towards large cap growth, but slightly reduced that overweight tilt in March as value stock performance began to improve and the macroeconomic environment became more favorable for value stocks.
- 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. The Committee favors Japan over Europe amid supportive monetary policy and improved corporate governance.
- 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 due to persistent (but subsiding) inflationary pressures, and the STAAC remains neutral relative to our benchmarks.

## 2024 MARKET FORECASTS

### Expect Yields to Pullback and Stocks to Be Choppy Through Year-End

	Previous	Current
<b>10-Year U.S. Treasury Yield</b>	3.75% to 4.25%	3.75% to 4.25%*
<b>S&amp;P 500 Index Earnings per Share</b>	\$235	\$235
<b>S&amp;P 500 Index Fair Value</b>	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 4/01/24.

## 2024 ECONOMIC FORECASTS

### U.S. Economy Expected to Slow This Year

	2024
<b>United States</b>	1.4%
<b>Eurozone</b>	0.6%
<b>Advanced Economics</b>	1.2%
<b>Emerging Markets</b>	3.9%
<b>Global</b>	2.7%

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

TACTICAL ASSET ALLOCATION AS OF 04/01/2024

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
<b>STOCKS</b>	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%
<b>U.S. EQUITY</b>	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%
<b>INTERNATIONAL EQUITY</b>	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%
<b>BONDS</b>	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%
<b>U.S. CORE</b>	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%
<b>NON-CORE</b>	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%
<b>CASH</b>	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	5.0%	-3.0%	2.0%	7.0%	-5.0%	2.0%	10.0%	-8.0%

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

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

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

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

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

**EQUITY ASSET CLASSES**

**Favor U.S. over Developed International with Tempered Enthusiasm for Large Growth**

The STAAC maintains its recommended neutral equities allocation based on the Committee’s assessment that the risk-reward trade-off between equities and fixed income is roughly balanced, with a soft landing increasingly likely alongside growing earnings, while stock valuations are expected to garner support from stability in the bond market. In GWI, the Committee upgraded small caps this month to neutral on improved technical progress and attractive valuations among high-quality small caps. The Committee maintains a slight preference towards large cap growth, but slightly reduced that overweight tilt in March. The Committee favors U.S. equities over developed international due primarily to the relatively stronger domestic economic growth outlook and superior earnings power, though the Committee still finds Japanese equities attractive. Key risks to equities include renewed upward pressure on inflation and interest rates, a broader conflict in the Middle East or Europe, escalation in U.S.-China tensions, and military aggression toward Taiwan by China.

**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, the premium for strong balance sheets in a slowing economy is not in demand in a solid U.S. economy, and mega-cap technology leadership has started to wane. But superior earnings power and favorable technicals leave us with a slight preference for large growth over value.
	Large Value	. . ● . .	Negative	Beneficiary of increasingly likely soft landing. Valuations are attractive. Better economic growth with sticky inflation and rising interest rates generally help cyclical value. Technical analysis picture has improved. Strong March performance by top value sectors, energy and financials, is encouraging.
	Small/Mid Growth	. . ● . .	No Trend	Attractive valuations, an increasingly supportive capital markets environment for mergers and public offerings, healthy credit markets, and an improving technical analysis picture are positives. The primary concern is a possible material slowdown in the U.S. economy
	Small/Mid Value	. . ● . .	No Trend	As with large value, small/midcap value stocks tend to benefit from better economic growth, sticky inflation, and higher interest rates, all else equal. Valuations are attractive. Credit market deterioration in a possible slowdown is a key risk. Mid value was the best performing style box in March.
Region	United States	. . . ● .	Positive	The U.S. economy is expected to outgrow Europe in 2024, though that slowdown in Europe may facilitate rate cuts by the European Central Bank (ECB) before the Fed. Elevated valuations and waning technology momentum may present headwinds, but our technical analysis work and superior earnings power still favor the U.S.
	Developed International	. . ● . .	Negative	The European economies are gaining their footing, valuations are attractive, and the STAAC likes Japan due to better corporate governance and supportive monetary policy. Still, the Committee has not seen enough technical evidence for an upgrade, and the European economy is barely growing.
	Emerging Markets	. ● . . .	Negative	The STAAC remains cautious toward emerging market (EM) equities on earnings weakness, elevated geopolitical risk, and prolonged relative weakness. Valuations are attractive, however, and China looks like an appealing short-term trade (we emphasize the short-term) based on extreme bearish sentiment and oversold technical conditions. Latin America and India remain good economic stories.

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**

**Several Reasons to Like Energy**

The STAAC continues to recommend a slight cyclical tilt over defensive sectors broadly. Among economically sensitive, or cyclical, sectors, the Committee recommends two overweights: Communication services and energy. The STAAC favors the energy sector due to attractive valuations, improved returns on capital, improving supply/demand balances, war overseas, and favorable seasonality. The sector was the top performer in March. The positive communication services view reflects strong earnings trends, reasonable valuations overall, and a favorable technical analysis picture.

**Color Key**

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

	Sector	Overall View	Relative Trend	S&P Wgt.	Rationale
Cyclical	Materials	• • ● • •	Neutral	2.4	Outperformed for the second straight month in March, bolstered by rising commodities prices. Expectations of more stimulus from China helped buoy sentiment, along with U.S. infrastructure spending and low valuations.
	Consumer Discretionary	• • ● • •	Negative	10.2	After finishing as the top performing sector in February, consumer discretionary finished last in March as retailers and Tesla (TSLA) weighed. Jobs are plentiful but struggles at lower income levels bear watching. Watching prices at the pump.
	Financials	• • ● • •	Positive	13.1	Outperformer in March. Challenges include inverted yield curve, rising credit card delinquencies, stiff bank capital requirements, and office property sector challenges. But capital market environment is improving, and valuations are reasonable.
	Real Estate	• ● • • •	Negative	2.2	Underperformer in March 2024 due to ongoing commercial real estate challenges and rising interest rates. Yields remain attractive, but bonds are competitive as an income choice and data center real estate investment trusts (REITs) have lagged.
Sensitive	Communication Services	• • • ● •	Positive	9.2	Outperformed for third straight month in March on strong earnings, reasonable valuations, and tailwinds in digital media and artificial intelligence. Disney (DIS) and Alphabet (GOOG/L) were March winners. Regulatory risks remain elevated.
	Energy	• • • ● •	Positive	4.1	Top performing sector in March on sharply higher WTI crude prices. Seasonality has turned favorable. Capital allocation is shareholder friendly amid record production. Valuations are attractive. Geopolitics offer potential upside (unfortunately).
	Industrials	• • ● • •	Neutral	8.7	Rode cyclical value tailwinds to March outperformance. Capital investment has slowed, but infrastructure spending and defense offer upside. Near-shoring and management confidence in the economy are key. Reasonable valuations.
	Technology	• • ● • •	Positive	29.6	Underperformed in March amid market rotation away from recent artificial intelligence (AI) winners. Still one of the STAAC's favorite neutral sectors, but it needs rates to settle and inflation to resume its decline. Valuations are elevated, but earnings power is impressive.
Defensive	Consumer Staples	• ● • • •	Negative	5.9	In-line March performance as defensive sectors began to catch a bid as market participants looked for something to buy besides the big technology names that led in 2023 and early 2024. The STAAC favors cyclicals still and interest rate risk remains.
	Healthcare	• • ● • •	Negative	12.2	Slight underperformer in March. The sector has struggled with slowing COVID-19-related sales, patent expirations, policy pressure on drug prices, and disappointing reimbursement rates for private Medicare plans. Attractive valuations.
	Utilities	• • ● • •	Negative	2.2	Strong outperformer in March despite little change in interest rates. Defensive characteristics have started to attract more interest among investors as technology momentum waned. Power demand boost from AI. Interest rate risk is rising.

**FIXED INCOME**

**Bond Market Out "Hawking" the Fed?**

Longer-maturity U.S. Treasuries were flat in March, but markets are now pricing in fewer rate cuts than recent Fed communication. Solid economic data continues to call into question the number of rate cuts in 2024, but markets expect less than the three cuts expected by Fed officials. However, until economic data softens, we think Treasury yields will likely stay around current ranges.

Starting yields are the best predictor of long-term returns and with starting yields at levels last seen over a decade ago, the return prospects for fixed income have improved as well. That said, aside from preferred securities, valuations for riskier fixed income sectors remain rich relative to core sectors, in our view.

**Color Key**

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

	Low	Med	High	Rationale
Current Stance			✓	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
		✓		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	Trend	Rationale
Core Sectors	U.S. Treasuries	No Trend	Treasury yields were flat in March, offering an attractive entry point. Last year's back-up in yields likely increased the diversification benefits of owning U.S. Treasuries. Technically, 10-year yields are retesting key resistance at 4.35%–4.40%, while 2-year notes hover below 4.75%. A breakout in both could be a warning sign from the market for reduced rate cut expectations.
	MBS	No Trend	We remain constructive on Agency MBS. With yields and spreads at multi-year highs, we think MBS remain an attractive investment opportunity particularly relative to lower rated corporates. Due to higher mortgage rates, the lack of new mortgage supply should help buoy prices.
	Investment-Grade Corporates	Positive	We recommend a slight underweight to benchmarks, but we think there is currently an opportunity to invest in shorter maturity corporate securities without taking on elevated levels of interest rate or credit risk. Fundamentals remain solid.
	TIPS	No Trend	All-in yields for Treasury Inflation-Protected Securities (TIPS) are attractive and could provide a good hedge against unexpected inflation surprises.
Plus Sectors	Preferred Securities	Positive	The selloff in the banking sector provided an opportunity to invest in these senior securities. Higher credit quality among the riskier fixed income options. Large, money-center bank fundamentals generally sound overall. But environment favors active management. Technically, preferreds continue to climb their way out from a major bottom.
	High-Yield Corporates	Positive	Yields for high yield bonds are above historical averages and with economic conditions improving, yields and spreads could remain well contained. The environment broadly remains supportive for credit risk. Economic growth should slow but not collapse, which is typically good for credit. But credit is not cheap.
	Bank Loans	Positive	Given the variable rate debt, higher interest rates may make repayment more challenging for some issuers. Fewer investor protections and illiquidity of individual loans remain concerns. 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.
	Foreign Bonds	No Trend	Valuations have improved, but potential currency volatility still remains a challenge.
	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

Commodities End Seven-Month Slide

The broad commodity sector rallied last month, snapping a seven-month losing streak. Metals outshined the rest of the commodities complex as building confidence for a summer rate cut stabilized interest rates and the dollar. The Bloomberg Commodity Index (BCOM) rose 2.9% amid widespread buying pressure. Technically, BCOM has inflected higher off support from the December 2021 lows and reversed a shorter-term downtrend. A close above the approaching 200-day moving average (dma) should open the door for a retest of the 2023 highs. The dollar will be key to the rally continuing, and with the U.S. Dollar Index approaching key overhead resistance near the 105–106 range, upside risk could be limited if the greenback can hold below this range.

Precious metals shined bright in March as gold and silver rallied around 9–10%. Outside of a stable dollar and the prospect of rate cuts, elevated geopolitical tensions in the Middle East and Ukraine remained in place, supporting gold’s safe haven bid. Central bank demand remained another major catalyst for gold, including China, which added to its reserves for 16 straight months. Industrial metals also had a strong showing as copper climbed 4.5% and cleared key resistance around \$400. While steel prices rose over 8%, iron ore dropped 20% due to ongoing concerns over China’s property crisis and abundant supply.

Energy markets were mostly higher, with natural gas being the exception. Oversupply due to a warmer-than-expected winter and rising U.S. production snuffed out shorter-term intramonth relief rallies, leaving natural gas down over 5% last month. Crude oil rallied 6% and cleared several key resistance levels. Tensions in the Middle East and Ukrainian-led drone attacks on Russian refineries continued to support a risk premium in oil, while curbed OPEC+ production has supported the supply side of the market. Signs of improving global demand have also emerged, including from China, the world’s largest importer of oil.

Grains outperformed within the agricultural and livestock space. Corn rose 6% as oversold conditions and reports of lower-than-expected planting acreage brought buyers back into the space. Cocoa led softs with an impressive 50% rally due to a developing supply shortage in West Africa.

Color Key

- Negative
- Neutral
- Positive

Sector	Overall View			Trend	Rationale
Energy	•	•	<span style="color: green;">●</span>	Positive	West Texas Intermediate (WTI) crude oil has recaptured its 200-dma and key resistance near \$83, leaving the 2023 highs near \$95 as the next major area of overhead resistance. Ongoing production cuts from OPEC+, signs of improving global demand, and an embedded risk premium from elevated geopolitical tensions continue to support oil. A tighter oil market is also apparent on the futures curve, which remains in backwardation. Natural gas remains volatile and in a downtrend, but on a more positive note, prices have held above support from the pandemic-era lows (\$1.45). <b>We maintain our positive view on the energy commodity sector.</b>
Precious Metals	•	•	<span style="color: green;">●</span>	Positive	Gold continues to climb in record-high territory. Rate cuts on the horizon should limit interest rate and dollar upside risk, while robust central bank demand and the potential for a rebound in physical gold ETF holdings should continue to support the rally. Silver has rallied into resistance near the \$25–\$26 range. A topside breakout above this area should open the door for a retest of the 2020 highs near \$30. <b>Based on the improving technical setup, we are upgrading our view on the precious metals group to positive from neutral.</b>
Industrial Metals	•	<span style="color: yellow;">●</span>	•	Positive	Industrial metals advanced last month, with copper climbing above key resistance near \$400. Improving global manufacturing activity and expectations for curbed production from Chinese smelters have supported the rebound. Aluminum is also making technical progress but has yet to breakout from its bottom formation. <b>We maintain our neutral view on the industrial metals group.</b>
Agriculture (Ag) & Livestock	•	<span style="color: yellow;">●</span>	•	No Trend	Ag and livestock markets underperformed last month. Weakness in livestock was offset by a strong showing in the ag space. Corn rallied 6% off oversold levels, while cocoa soared 50% due to a supply shortage. <b>Mixed technicals across the space support our neutral view on the group.</b>
U.S. Dollar	•	<span style="color: yellow;">●</span>	•	No Trend	The dollar has recaptured its 200-dma and trading near key resistance at the 105–106 range. While relative U.S. economic strength supports a stronger dollar, the potential for Fed rate cuts this year should limit upside for the greenback.

**ALTERNATIVE INVESTMENTS**

**Ending Q1 on a High Note**

**Strong Gains in March and Q1 for Liquid Alts.** Alternative investment strategies posted strong results in March based on the preliminary data from Hedge Fund Research (HFR).

**Remain Constructive on Global Macro, Managed Futures, and Multi-Strategy.** Our preferred methods of implementation delivered attractive returns in March. Within Global Macro, gains from long positions in commodities and the U.S. dollar drove performance. Going forward, we continue to expect Global Macro strategies to benefit from central bank policy adjustments across the globe, specifically in the rates and currency markets. Managers have also been active in trading around the changes in expectations around Fed rate cuts.

Managed Futures continued their streak of strong performance with gains across equities, commodities, and currencies. The diversifying benefits of managed futures were on display during the month. Smaller, niche futures markets, such as cocoa, experienced outsized moves to the upside that managers were able to capitalize on. Multi-strategy funds also posted positive results for the month, reflecting the positive performance from their major Equity long/short (L/S) and Macro driven strategies. Multi-Strategy remains a core focus of ours as we believe they can supply additional sources of uncorrelated returns.

**Value and Long Biased Equity L/S Led Gains within Fundamental Strategies.** Fundamental strategies posted positive results, with long-value based strategies leading from a style perspective. With value beginning to narrow the year-to-date return gap with growth, strategies have been able to profit from a larger opportunity set which has reduced crowding across portfolios. If the equity market rally loses momentum, we also expect short positioning to be a source of alpha going forward. Merger arbitrage was also positive during the month, with deal spreads tightening towards announced target prices and no significant deal breaks.

**Color Key**

● Negative    ● Neutral    ● Positive

	Sector	Overall View			Rationale
Fundamental	Long/Short Equity	•	●	•	Long/Short Equity strategies have benefitted from a growing opportunity set with increasing sector dispersion and a more constructive shorting environment. Weakness in the equity market will improve alpha opportunities on the short side, while managers will also be able to adjust net levels of market exposure.
	Event Driven	•	●	•	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. Further political clarity may be needed to see a significant pick-up in deal flow.
Tactical	Global Macro	•	•	●	Global Macro strategies have capitalized on diverging global central bank policy, specifically with long U.S. dollar positioning and active trading around changes in expected Fed rate cuts.
	Managed Futures	•	•	●	Managed Futures continue to capitalize on sustained trends in the equity, currency, and commodity markets while providing a source of uncorrelated returns. Trends in niche futures markets have also supported gains.
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	•	●	•	Maintain conviction for suitable clients who are able to tolerate the limited liquidity these strategies exhibit.

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 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.

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.

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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