LPL RESEARCH

Global Portfolio Strategy

September 2025

# September Fed Rate Cut Is Probably a Lock as Job Growth Slows

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:

- **No changes**

### STAAC Asset Class Tactical Views as of 09/01/2025 (GWI)

| Asset Class | | | | | |
|---|---|---|---|---|---|
| **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 09/01/2025 (GWI)

| Sector | | | | | |
|---|---|---|---|---|---|
| Materials | · | · | · | ● | · |
| Consumer Staples | · | · | ● | · | · |
| Financials | · | ● | · | · | · |
| Real Estate | · | · | ● | · | · |
| Communications Services | · | ● | · | · | · |
| Energy | · | · | ● | · | · |
| Industrials | · | · | ● | · | · |
| Information Technology | · | · | ● | · | · |
| Consumer Discretionary | · | · | ● | · | · |
| Healthcare | · | · | ● | · | · |
| Utilities | · | · | · | ● | · |

Source: STAAC as of September 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.

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# Investment Takeaways

U.S. equities advanced in August, with the S&P 500 scoring multiple records en route to its fourth consecutive monthly advance. Stock market gains were fairly widespread, with small caps outperforming their larger counterparts as the Russell 2000 Index posted its best month since November 2024. August kicked off with Washington's August 1 trade deal deadline spurring a snap-back in reciprocal tariffs on multiple trade partners (however, China received another 90-day delay), as well as much weaker than expected labor market data. Federal Reserve (Fed) rate cut expectations jumped, reinforced by more dovish-than-expected remarks from Fed Chair Jerome Powell in Jackson Hole. In earnings, tariff cost pressures and a generally resilient consumer remained in focus. Plus, big tech bellwether NVIDIA (NVDA) beat and raised, although markets noted weak data center revenue.

U.S. Treasuries ended higher last month, with shorter-dated yields leading the move lower. Yields on two-year and five-year notes hovered near their lowest levels since May by month's end, receiving downward pressure from bolstered Fed rate cut bets as a result of benign inflation, weak jobs data, and moves from the White House to build a dovish policymaking board. The yield curve ended with notable steepening as longer-dated yields hardly budged as duration failed to catch a bid across global bonds, sending 30-year yields in Germany, France, and Japan near multiyear highs. Domestic corporate credit ended higher in August.

Looking forward, investors may be well served by bracing for occasional bouts of volatility amid ongoing tariff uncertainty and a slowing economy. A pullback during the seasonally weak month of September after a 30% rally in five months would not be a surprise. But given the powerful AI trend, big tech's significant earnings power, potential forthcoming Fed rate cuts, and the fiscal stimulus boost when 2026 begins, we believe pullbacks are likely to be shallow and bought.

LPL Research advises against increasing portfolio risk beyond benchmark targets currently with stock valuations reflecting a lot of positive news.

The fixed income market remains volatile, although downside pressure on yields could emerge as the Fed prepares to resume its rate cutting cycle.

The STAAC's recommended tactical asset allocation includes:

- A neutral stance toward U.S. equities as elevated valuations amid pending pressure from a tariff rate in the mid-teens and a cooling economy (that likely skirts recession) offset the opportunity for a meaningful upside, in our view.
- The Committee favors growth over value for exposure to the AI theme and compelling earnings growth, at a premium, as the economy slows.
- The Committee favors large caps over small caps, partly due to superior balance sheet quality and relatively better position to manage tariffs.
- The Committee recommends well diversified regional exposures, with benchmark-level allocations to the U.S., developed international, and emerging markets. Non-U.S. equities offer upside from a potentially weaker U.S. dollar.
- Within fixed income, the STAAC holds a neutral weight in core bonds, with a slight preference for mortgage-backed securities (MBS) over investment-grade corporates. The Committee believes the risk-reward for core bond sectors (U.S. Treasury, agency MBS, investment-grade corporates) is more attractive than plus sectors.

### 2025 MARKET FORECASTS

Second Half Still Clouded With Trade Uncertainty

| | | Current |
|---|---|---|
| **10-Year U.S. Treasury Yield** | | 4.00% to 4.50%* |
| **S&P 500 Index Earnings per Share** | | $255 to $260 |
| **S&P 500 Index Fair Value** | | 6,000 – 6,100 |

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 now 4.00% to 4.50% up from 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 6,000–6,100 is based on a price-to-earnings ratio (PE) of 22 and our updated 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 09/01/25.

### 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** | 1.5% |
| **Emerging Markets** | 3.8% |
| **Global** | 2.5% |

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

# Tactical Asset Allocation as of 09/01/2025

**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** | 76.0% | 76.0% | 0.0% | 64.0% | 64.0% | 0.0% | 48.0% | 48.0% | 0.0% | 32.0% | 32.0% | 0.0% | 16.0% | 16.0% | 0.0% |
| Large/Mid Growth | 32.0% | 28.5% | 3.5% | 27.0% | 24.0% | 3.0% | 20.5% | 18.0% | 2.5% | 14.0% | 12.0% | 2.0% | 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** | 19.0% | 19.0% | 0.0% | 16.0% | 16.0% | 0.0% | 12.0% | 12.0% | 0.0% | 8.0% | 8.0% | 0.0% | 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 | 7.0% | 7.0% | 0.0% | 6.0% | 6.0% | 0.0% | 4.0% | 4.0% | 0.0% | 3.0% | 3.0% | 0.0% | 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 STAAC's asset allocation framework, 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. For a more detailed breakdown and explanation, please refer to the Supplemental Mid Cap Reference Guide on page 9.

# Equity Asset Classes

### Bouts of Volatility Likely During Weak Seasonal Period But Pullbacks May Be Shallow

Investors may be well served by bracing for occasional bouts of volatility amid a slowing economy, ongoing tariff and trade policy uncertainty, and seasonal weakness following a 30% rally in five months. But given our expectation that inflation and interest rates remain contained, supporting Fed rate cuts, alongside the continued massive AI capital investment and fiscal stimulus coming in 2026, we believe pullbacks are likely to be relatively shallow and bought. The Strategic and Tactical Asset Allocation Committee (STAAC) continues to favor large caps slightly over small caps and growth slightly over value. Finally, from a geographic perspective, the STAAC recommends benchmark level exposures to U.S., developed international, and emerging markets, with U.S. upside potential from AI, and non-U.S. upside potential from potential further U.S. dollar weakness.

**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 a modest tilt toward the growth style and large caps. A slowing economy and superior and substantial technology-driven earnings power that was on full display during second quarter earnings season support growth. Large caps are better positioned to manage through tariffs. |
| | **Large/Mid Value** | · · ● · · | Negative | Defensive value stocks may be poised for another stint of outperformance if stocks pull back from recent highs, although any relative strength may be short-lived. Cyclical value faces more tariff risk, but valuations are relatively attractive and the "One Big Beautiful Bill Act" is supportive of capital investment. |
| | **Small Growth** | · · ● · · | No Trend | Attractive valuations, rising earnings estimates, and impending Fed rate cuts are supportive. Additional relative upside following the latest rally may be limited, however, in a slowing economy if stocks pull back in the near term as we expect. The technical analysis picture is better than small value. |
| | **Small Value** | · · · ● · | No Trend | Attractive valuations, financial deregulation, a likely pickup in capital investment, and impending Fed rate cuts are supportive. While some policy uncertainty has cleared, STAAC favors balance sheet strength in a slowing economy as tariffs ramp up. Earnings estimates have been trending lower. Muddled technicals. |
| Region | **United States** | · · ● · · | No Trend | The STAAC maintains its neutral regional stance. Though some trade policy uncertainty has cleared, full valuations, sticky inflation, and continued ramp up of tariffs in a slowing economy may limit opportunities for valuation expansion. AI investment and stable bond yields are keys to potential U.S. outperformance. |
| | **Developed International** | · · ● · · | No Trend | The STAAC remains neutral on developed international as valuations, while still reasonable, have risen, additional U.S. dollar weakness is far from assured, and U.S. tech strength is tough to keep up with. Economic and earnings growth outside the U.S. has become competitive. Deficit/defense spending in Europe is supportive. |
| | **Emerging Markets** | · · ● · · | No Trend | Fundamental and technical improvement in EM is notable. EM valuations remain attractive, the China macroeconomic outlook has improved, and tariff uncertainty has been reduced. The U.S. dollar is a wildcard. Waiting for better technical analysis picture before considering an upgrade. Potential upgrade candidate. |

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

### Leaning Into Cyclicals, Still Favor Communication Services and Financials

The STAAC continues to recommend a slight tilt toward more economically sensitive or cyclical sectors. Financials are attractively valued, face manageable tariff risk, and may garner support from deregulation and a steepening yield curve. Continued robust investment in AI, more trade policy clarity, fiscal stimulus benefits, and a strong earnings outlook could help the attractively valued communication services sector continue to outperform. Slowing global growth and trade uncertainty support the Committee's cautious stance on materials. The Committee's preference for economic sensitivity over interest rate sensitivity keeps the Committee underweight utilities, although the AI power demand surge makes it a sector to watch.

**Color Key:**

Strong Overweight · Overweight · Neutral · Underweight · Strong Underweight

| | Sector | Overall View | Relative Trend | S&P Wgt. | Rationale |
|---|---|---|---|---|---|
| Cyclical | **Basic Materials** | Underweight | Negative | 1.9 | Topped all S&P sectors in August (+5.8%) on higher metal prices. U.S.-China tensions on a low simmer as trade uncertainty lingers and the global economy slows. U.S. fiscal stimulus will present a catalyst in 2026. Poor relative trend. |
| Cyclical | **Consumer Cyclical** | Neutral | No Trend | 10.7 | Outperformer for second straight month in August (+3.4%) despite high tariff risk and decline in Amazon (AMZN). Homebuilders outperformed on rate cut optimism. Slowing consumer spending and rich valuations suggest caution is prudent. |
| Cyclical | **Financial Services** | Overweight | No Trend | 13.9 | Bounced back from weak July to outperform in August (+3.1%) as strength in banks and insurers offset weakness in capital markets. Healthy credit markets, steep yield curve, reasonable valuations, and minimal tariff risk offset soft loan demand. |
| Cyclical | **Real Estate** | Neutral | Negative | 2.0 | In line performer in August (+2.2%). Tech-sensitive REITs lagged. Storage REITs outperformed. Defensive, income-oriented sectors remained out of favor despite slightly lower interest rates. Reasonable valuations. Weak technicals. Only +4.3% YTD. |
| Sensitive | **Communication Services** | Overweight | Positive | 10.4 | August outperformer (+3.6%) on strength in Paramount Skydance (PSKY), Alphabet (GOOG/L), and Netflix (NFLX), which offset weakness in Trade Desk (TTD) and Meta (META). Best sector YTD. Solid earnings season and favorable Google court ruling solidify the growth outlook. Reasonable valuations. Technicals softening a bit. |
| Sensitive | **Energy** | Neutral | Negative | 3.0 | Outperformed in August (+3.6%) for second straight month, led by refiners, even as oil and gas prices fell. Abundance of global supply and slowing global growth limit the sector's attractiveness despite low valuations and ongoing geopolitical risk. |
| Sensitive | **Industrials** | Neutral | No Trend | 8.4 | Flat in August. Beneficiary of One Big Beautiful Bill Act (OBBBA) in 2026. AI data center buildouts and near-shoring are supportive. Tariffs, less support for green energy, and full valuations suggest waiting for a dip to consider adding. |
| Sensitive | **Technology** | Neutral | Positive | 33.4 | Lagged for the first time in five months with 0.3% gain in August. Still up 14.5% YTD. AI enthusiasm started to wane and market participation broadened. High valuations, overbought conditions, and lingering trade policy risk also weighed. |
| Defensive | **Consumer Defensive** | Neutral | Negative | 5.2 | Slight laggard in August (+1.6%) as consumer spending slows and defensive sectors remain out of favor. Target (TGT), Mondelez (MDLZ), and Clorox (CLX) lagged. Tariffs and RFK Jr.'s health policy initiatives create headwinds. |
| Defensive | **Healthcare** | Neutral | Negative | 9.0 | Strong outperformer in August (+5.4%), boosted by rebounds in underperforming services names including UnitedHealth Group (UNH). Still worst sector performer YTD with 0.85% gain. Policy headwinds are stiff, but valuations are attractive. |
| Defensive | **Utilities** | Underweight | No Trend | 2.3 | Worst sector performer in August (-1.6%) after strong July. AI-driven stocks lagged, including Vistra (VST) and Constellation (CEG). A likely outperformer in a stock market sell-off, especially if interest rates fall (not our base case). Positive bias on AI theme and positive technicals,. Candidate for potential upgrade on weakness. |

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

## Still No Love for Duration

U.S. Treasury markets rallied in August with most Treasury yields lower by 0.15% to 0.30%; however, the U.S. 30-year yield was higher on the month as investors continued to shun longer-maturity government bonds. And despite the ongoing concerns about debt and deficit spending, tariff uncertainty, and the potential perceived loss of Fed independence, the U.S bond market remains relatively calm, all things considered. While the U.S. yield curve has steepened recently, we've noted repeatedly that the curve was too flat given current economic conditions, and steepening was warranted to get back to a more normal shaped yield curve. We continue to think high-quality sectors within the fixed income universe (Treasuries, MBS and shorter-maturity corporates) offer attractive risk-return opportunities. Spreads for most bond sectors, particularly plus sectors, remain at or near secular tights.

**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. |
| | | **Short** | **Inter.** | **Long** | **Rationale** |
| | **Duration Preference** | | ✓ | | Yields remain under pressure from conflicting narratives: slowing growth (lower yields) but stickier inflation and large budget deficits (higher yields), which will likely keep rates directionless (but volatile) until/unless the economic data softens enough to allow the Fed to continue its rate cutting campaign. We remain neutral duration. |
| | | **Neg.** | **Neut.** | **Pos.** | **Rationale** |
| | **Municipal Bond View** | | ✓ | | The muni market continues to underperform due to the ongoing supply/demand imbalance. YTD, the municipal market has recorded $400 billion of new issuance, representing a 17% increase over last year's record issuance and is on pace to reach a new record issuance by year-end. However, year-to-date inflows to funds and ETFs have been a paltry $24 billion so far. Curve steepness suggests intermediate term allocations are worth a look. |

| | | Overall View | Overall Trend | Rationale |
|---|---|---|---|---|
| Core Sectors | **U.S. Treasuries** | · · ● · · | Positive | The 10-year Treasury yield was volatile in August but ultimately fell roughly 0.15%. We think the 10-year will trade between 4.0–4.5% throughout the rest of the year. To get Treasury yields much lower though, economic data will need to show further deterioration. Technically, 10-year yields have broken down from a consolidation range and violated the 200-day moving average, leaving 4.00% and 3.86% as the next major areas of downside support. |
| | **Mortgage-Backed Securities** | · ● · · · | Positive | We remain constructive on agency MBS. Yields and spreads remain near multi-year highs, so we think MBS remain an attractive investment opportunity, particularly relative to lower-rated corporates. 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** | · · · ● · | Positive | 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, but valuations are stretched. |
| | **TIPS** | · · ● · · | Positive | Treasury Inflation-Protected Securities (TIPS) outperformed nominals in August, and real yields remain near the highest levels in 20 years. 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** | · · ● · · | Positive | Valuations/spreads are back to historical averages, so no longer as attractive for tactical models, but all-in yields remain attractive for income-oriented investors. Recent Fed stress tests continue to show large, money-center bank fundamentals are generally sound, but the environment favors active management. |
| | **High-Yield Corporates** | · · ● · · | Positive | Spreads have largely reversed the widening that took place in April and are back near secular tights. Yields for high-yield bonds are only around historical averages, and we think spreads are at risk for further widening due to tariff/trade war uncertainty. The asset class is better suited for income-oriented investors. |
| | **Bank Loans** | · · ● · · | No Trend | 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** | · · ● · · | No Trend | Yields have moved higher recently but are still generally lower than U.S. markets. Currency volatility is a risk. The asset class is more attractive for U.S. dollar hedged investors. |
| | **EM Debt** | · · ● · · | Positive | Valuations are relatively attractive, but idiosyncratic risks remain, and ongoing trade wars could negatively impact smaller emerging countries. |

# Commodities and Currencies

### Commodities Turn Green as the Greenback Turns Red

The Bloomberg Roll Select Commodity Total Return Index (BCOMRST), an index developed to address the issue of negative roll yields, rallied 2.2% last month. Excluding energy, buying pressure was broad-based across the commodities complex. From a technical perspective, BCOMRST recently confirmed support off the rising 200-day moving average (dma) but continues to struggle with resistance from prior highs registered earlier this year (685–695 range).

Regarding performance, coffee topped the commodity sector leaderboard with a 47% rally. Oversold conditions at the start of the month, weather-induced supply constraints, and new tariffs on large suppliers, such as Brazil and Vietnam, underpinned the outsized rally. Cocoa lagged after dropping over 10%. The pullback left prices at key support levels stemming from the July lows; a break below 7,200 would indicate additional downside risk to 6,425. Energy was lower across the board, with West Texas Intermediate (WTI) oil falling 7.5%.

Precious metals remained a bright spot as gold, silver, and platinum continued to climb. Rising rate cut expectations, falling real yields, a weaker dollar, accelerating physical-gold ETF demand, and concerns over Fed independence contributed to the rally in gold.

The U.S. Dollar Index stumbled 2.2% last month before finding support around the 50-dma. Softer jobs data has fueled rate cut bets, pulling the dollar lower into September. Volatility in the greenback remains historically low amid mostly rangebound price action. Risk for mean reversion to more normalized volatility appears high, with key inflation data and a looming Fed rate decision due later this month.

**Color Key:** Positive Neutral Negative

| Sector | Overall View | Overall Trend | Rationale |
|---|---|---|---|
| **Energy** | Neutral | Neutral | Energy markets continued to struggle in August. WTI oil slid 7.5% and failed to hold support near $65, leaving the $59.75 and $55 as the next areas of downside support. Signs of slowing economic activity and increased OPEC+ supply remain an overhang for the market. Natural gas fell 3.5% last month but subsequently rebounded at the start of September, importantly recapturing key support at $2.85. Lower production and cooler temps forecasted across most of the U.S. sparked the relief rally. **We maintain our neutral view on the energy commodity sector.** |
| **Precious Metals** | Positive | Positive | Gold rose 4.8% and broke out from a multi-month consolidation range. Based on the size of the prior range, a minimum technical-based price objective sets up near $3,780. Silver surged 8.2% and topped resistance off the 2011 highs, while platinum added over 6%. Use pullbacks from overbought levels in the precious metals space as buying opportunities. **We maintain our positive view on precious metals.** |
| **Industrial Metals** | Neutral | Neutral | Industrial metals rose across the board last month. Copper climbed 3.8% after bouncing off support/oversold levels induced by tariff volatility at the start of the month. Support near $433 is key for copper to hold to avoid a retest of the April lows. Zinc rose over 2% and continued to progress out from a bottom. **We maintain our neutral view on the industrial metals group.** |
| **Agriculture (Ag) & Livestock** | Neutral | Neutral | Ag was mostly higher last month, with softs outperforming on the back of a surge in coffee prices. Coffee futures rallied 47% and broke out from a short-term double bottom. Grains were led higher by a 7.8% surge in soybeans. However, upside momentum faded into month-end, leaving prices back below their 200-dma. Corn advanced 1.0% and reversed a short-term downtrend; a continuation of the relief rally toward the 200-dma appears likely from here. Live cattle and lean hogs continue to trend higher; use pullbacks as buying opportunities. **We maintain our neutral view on the ag & livestock space.** |
| **U.S. Dollar** | Neutral | Neutral | The U.S. Dollar Index fell 2.2% in August, finding support near its 50-dma. Softer jobs data have boosted rate cut expectations, pressuring the greenback. While bearish dollar sentiment is crowded, the macro backdrop could keep selling pressure intact. A break below 96 would threaten the dollar's secular uptrend. |

The Bloomberg Commodity Index (BCOM) is made up of 24 exchange-traded futures on physical commodities, representing 22 commodities which are weighted to account for economic significance and market liquidity

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

## Balanced Sub-Strategy Performance

Alternative investment strategies performed well during August, with all major sub-strategies in positive territory during a month were equity and bond markets also generated strong returns. The HFRX Macro: Systematic Diversified CTA Index led monthly returns with a gain of 2.8%, trimming year to date losses to -4.2%. Long equity, U.S. bonds, and gold exposure were the main contributors to returns, while short coffee exposure detracted from performance. Trend-followers remain in a drawdown following the shift in market sentiment beginning in April, however, exposure is currently more balanced across the four main asset classes that most managers trade.

The HFRX Event Driven: Merger Arbitrage Index is the best performing sub-strategy for the year with a gain of 7.8%. Overall, deal volume has steadily increased from the low levels of prior years, while existing deals have benefitted from the equity markets continued move higher. This has led to tighter deal spreads and the ability for managers to recycle capital into the growing deal flow.

The rise in market dispersion and move away from a concentrated group of growth names leading the market was beneficial for long/short and market-neutral stock pickers, as the HFRX Equity Hedge and HFRX Equity Market Neutral Index gained 1.3% and 1.1%, respectively. Performance was in excess of their beta profile, as their role of delivering attractive risk adjusted returns continues.

Overall, with economic and policy uncertainty likely to continue through year end, we remain positive on alternative investment strategies, as we believe they can help strengthen portfolio stability during periods of volatility. Our preferred approaches include equity market-neutral, nimble discretionary global macro, and a range of managed futures strategies.

In private markets, infrastructure, secondary private equity investments, and private credit remain our preferred strategies. Secondary private equity investments have seen strong momentum in deal volumes and a pickup in the number of participants. With more limited partners, including pensions and endowments, looking to monetize some of their holdings and rebalance their portfolios, as well as general partners looking to create continuation funds, the space has become more liquid and efficient, making it a more viable standalone strategy.

**Color Key:** Positive Neutral Negative

| | Sector | Overall View | Rationale |
|---|---|---|---|
| Fundamental | **Long/Short Equity** | Positive | A rise in volatility and stock market dispersion may create good trading opportunities for market-neutral stock pickers. For more long-biased managers, international equities could provide attractive opportunities. |
| | **Event Driven** | Neutral | Mergers and acquisitions (M&A) and initial public offerings (IPO) have improved relative to the low levels of prior years. Distressed debt opportunities remain limited as credit spreads continue to tighten. |
| Tactical | **Global Macro** | Positive | Agile discretionary macro managers should continue to capitalize on economic and policy shifts, along with intermittent spikes in market volatility. |
| | **Managed Futures** | Positive | We continue to favor holding a diversified mix of sub-strategies, including but not limited to, short-term momentum, volatility breakout, pattern recognition, and trend following. Diversification within trend following in terms of markets and time frame is encouraged as well. |
| Multi-Strategy | **Multi-PM Single Funds** | Positive | Multi-strategy funds should continue to benefit from the ability to dynamically invest across alternative investment strategies. |
| | **Specialty Strategies** | Positive | Volatility arbitrage and cross-asset tail risk strategies with minimal carrying cost may be good additional diversifiers in portfolios. |

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

# Supplemental Mid Cap Reference Guide

## Rationale for Large and Mid Cap Aggregation

The STAAC's decision to aggregate mid cap equities with large caps is driven by a desire to construct asset allocation models using distinct and efficient building blocks that either a) materially enhance expected returns, or b) materially reduce expected risk relative to our benchmark. We believe that a four-box framework, segmented by size and style, provides the most impactful differentiation for our investment decision making. Additionally, this is most aligned with our investment universe, given most active large cap managers benchmark to the Russell 1000 (which has significant overlap with the Russell Midcap Index, 800 stocks representing over 25% of market cap).

We also believe that reducing the number of style boxes improves capital efficiency and lowers trading costs and turnover. By streamlining these classifications, we can avoid such inefficiencies.

## Disaggregated U.S. Mid Cap and Large Cap Tactical Asset Allocation as of 09/01/2025

*The 75% Large Cap / 25% Mid Cap decomposition provided below is intended as a general reference for advisors who prefer to maintain a distinct mid cap allocation. The exact percentage mix may fluctuate moderately throughout the year based on the relative market cap weights of each component within the Russell 1000. The STAAC's official position is to treat large and mid caps as a combined category within the TAA as shown on page 3.*

**Investment Objective**

| | Aggressive Growth | | | Growth | | | Growth with Income | | | Income with Moderate Growth | | | Income with Capital Preservation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Asset Class | TAA | Benchmark | Difference | TAA | Benchmark | Difference | TAA | Benchmark | Difference | TAA | Benchmark | Difference | TAA | Benchmark | Difference |
| Large Growth | 24.000% | 21.375% | 2.625% | 20.250% | 18.000% | 2.250% | 15.375% | 13.500% | 1.875% | 10.500% | 9.000% | 1.500% | 5.250% | 4.500% | 0.750% |
| Mid Growth | 8.000% | 7.125% | 0.875% | 6.750% | 6.000% | 0.750% | 5.125% | 4.500% | 0.625% | 3.500% | 3.000% | 0.500% | 1.750% | 1.500% | 0.250% |
| Large Value | 22.125% | 21.375% | 0.750% | 18.750% | 18.000% | 0.750% | 13.875% | 13.500% | 0.375% | 9.000% | 9.000% | 0.000% | 4.500% | 4.500% | 0.000% |
| Mid Value | 7.375% | 7.125% | 0.250% | 6.250% | 6.000% | 0.250% | 4.625% | 4.500% | 0.125% | 3.000% | 3.000% | 0.000% | 1.500% | 1.500% | 0.000% |

# Important Disclosures

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

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

## Asset Class Disclosures

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

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

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

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

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

Floating rate bank loans are loans issues by below investment grade companies for short term funding purposes with higher yield than short term debt and involve risk.

Credit Quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. Credit ratings are published rankings based on detailed financial analyses by a credit bureau specifically as it relates to the bond issue's ability to meet debt obligations. The highest rating is AAA, and the lowest is D. Securities with credit ratings of BBB and above are considered investment grade. Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. It is expressed as a number of years.

Preferred stock dividends are paid at the discretion of the issuing company. Preferred stocks are subject to interest rate and credit risk. As interest rates rise, the price of the preferred falls (and vice versa). They may be subject to a call feature with changing interest rates or credit ratings.

Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses. Alternative investments are include non-traditional asset classes. This may include hedge funds, private equity/debt/credit, etc. This may also include Business Development Companies (BCDs) and Opportunity Zone investments. These are not registered securities and there may be significant restrictions on purchase and suitability requirements. Please contact your advisor for any further information.

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

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

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

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

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

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

Precious metal investing involves greater fluctuation and potential for losses.

# Important Disclosures

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

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

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

All index data from FactSet.

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

This research material has been prepared by LPL Financial, LLC.