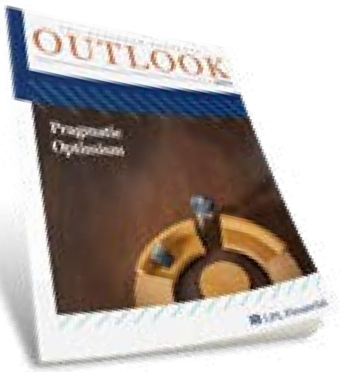

2025 Investor Report

Looking back on 2024, it clearly echoed many of the themes from 2023. There were some brief economic growth scares along the way, but by and large the broader economy continued to defy expectations and surprised once again to the upside. Stocks continued their strong performance as powerful trends in artificial intelligence and technology proceeded unabated and largely overshadowed other factors like election uncertainty, continued geopolitical tension, and some rich stock valuation levels. After the election, the anticipation of potentially market-friendly policies from the incoming administration also helped to bolster stocks. The bond market, in contrast, experienced another lackluster year. While the Federal Reserve (Fed) initiated a long-awaited easing cycle, policy ambiguity and uneasiness over rising debt levels led to increased volatility in bonds, but no clear directional trend.

As we look ahead to 2025, we remain cautiously optimistic. Cautious because we know that no market environment is ever permanent, and that change is always potentially around the corner. Optimistic because we recognize constructive long-term technology trends are in place. Plus, potential tax policy and deregulation efforts in 2025 could provide some semblance of a tailwind — particularly from an economic perspective. LPL Research has created this report so you and your financial advisor can apply these insights to your goals and strike the right balance.

Economy

Steady Progress but Complexities Remain

The economy will likely downshift throughout 2025, as consumer spending slows from recent breakneck speeds. The labor market has also shown signs of a shift. The quits rate fell as workers are less inclined to switch jobs and the average workweek for private payrolls has declined, suggesting weaker labor demand. The unemployment rate should stay relatively low but should inch up in the coming quarters. The strength of wealthier consumers keeps inflation stubbornly above the Fed's target, indicating the Fed will not likely cut as much as investors originally hoped.

Slower payroll growth and fewer hours worked imply the economy will slow at a measured pace, barring any exogenous shock. Positive signs from businesses about to release pent-up demand for capital expenditures plus favorable fiscal and monetary policy should partially offset softness in some areas of the economy. Economic bifurcation will likely continue in 2025 as those who have the means to spend will likely do so, crowding out others. Demographics will also be an interesting area to monitor as millennials are just entering their peak earnings and spending years.

LPL Research Expectations	Action Steps to Consider
Bifurcated economy	Stay diversified. Varying impacts of complexities and market shifts may make asset allocation more challenging.
Slow-down in consumer spending	Stay invested, but be prepared for bouts of volatility.
Inflationary pressures could re-emerge	Favor U.S. cyclical equity sectors and intermediate maturities within fixed income for potential strong U.S. dollar and elevated interest rates.

"We could see some upticks in the Fed's preferred inflation metric, the Personal Consumption Expenditure (PCE) price deflator, but overall inflation should remain contained."

Bond Market

Higher for Longer Continues?

Bond yields are expected to remain elevated, with the 10-year Treasury yield likely to remain in a range between 3.75% and 4.25% in 2025. Over the next 12 months, we see roughly equal upside and downside risks to yields as markets grapple with the true impacts of budget deficits, increasing Treasury supply and the scope of the Fed's current easing cycle. For fixed income investors, a focus on income generation and managing interest rate sensitivity is advised. We believe the most attractive opportunities lie in the five-year maturity range.

LPL Research Expectations	Action Steps to Consider
Range-bound yield environment	Identify strategies to generate income, such as mortgage securities and preferreds.
Rate uncertainty	Manage interest rate risk by focusing on intermediate-maturities five years out or less.

Stock Market

A Measured Approach to 2025

Expect modest stock market gains in 2025 supported by a stable economy, solid corporate profits, and a Fed that is no longer hawkish, and some potential deregulation tailwinds. With stocks pricing in a lot of good news, positive surprises may be tougher to come by, so a repeat of the strong market performance in 2024 is unlikely. With the bull market another year older, interest rate risk rising, valuations elevated, and still significant geopolitical threats, expect volatility to be more prevalent in 2025.

LPL Research estimates fair value on the S&P 500 at year-end 2025 at 6,275–6,375, based on a price-to-earnings (P/E) ratio of 23 times the LPL Research forecast for 2026 S&P 500 EPS of $275. Upside could potentially come from lower interest rates, productivity gains, or prospects for tax cuts in 2026.

LPL Research Expectations	Action Steps to Consider
Modest returns for equities with year-end S&P 500 fair value target range of 6,275–6,375	Stay invested at long-term target levels consistent with investor targets for equities and fixed income. Be prepared for more volatility.
Broadening earnings growth beyond mega-cap technology	Favor growth style equities in early in 2025 but watch for rotation to value later in the year.
Stay close to home due to Trump's America-first agenda	Favor U.S. equities in potential strong dollar environment, amid heightened risk for markets in China and Mexico.

Alternative Investments

Seizing Opportunities in a Changing Market

While the second half of 2024 was largely about policy shifts and a pick-up in volatility, 2025 is likely to be more about the impacts of lower rates and the changes in the political landscape. As the Fed has joined the rest of the world in cutting rates, the focus will now move to the size and length of the rate-cutting cycle. The difference between what the markets expect and what the Fed actually delivers, along with continued policy divergence across regions, should result in plenty of investment opportunities for alternative managers and strategies.

Lower interest rates and potential policy shifts will impact markets differently, creating both opportunities and risks. Equity market-neutral, global macro, and managed futures strategies are well-positioned to capitalize on increased volatility and market dispersion. In the private market space, private credit and infrastructure remain attractive, albeit with some moderation in expectations. While challenges persist in private equity, opportunities should exist in the secondary market. Investors should be prepared for a more dynamic market environment in 2025 and consider the use of alternative strategies to further diversify and enhance their portfolios.

Geopolitics

The International Chessboard

As we embark on 2025, geopolitical uncertainty remains elevated. The conflict in Ukraine is approaching its three-year anniversary and continues to gradually escalate. Tensions in the Middle East remain high but have so far avoided a full-scale regional escalation. The recent political shift in the U.S. also introduces a new dynamic to the global stage, with important potential implications for trade relations and geopolitical alliances.

- In 2024, the U.S. and NATO provided and authorized the use of advanced weapons in Ukraine to deter Russian aggression, but Russia has seen these actions as a direct threat and an escalation of the conflict. Russia's response has been to deploy advanced weaponry of its own in the battlefield and strengthen alliances with North Korea, Iran, and China. This could complicate diplomatic efforts in 2025, as Putin faces increasing internal pressure with the continued military buildup.
- The conflict between Iran and Israel in the Middle East has escalated from proxy attacks to direct military exchanges, with Iran seeking to destabilize the region and challenge U.S. influence. A potential U.S.-Saudi military pact could intensify tensions, but a broader diplomatic solution, possibly led by the new U.S. administration, offers hope for de-escalation. The threat of a nuclear-armed Iran remains a critical concern, and Israel's restraint in avoiding strikes on Iranian nuclear sites has prevented a broader conflict, though the situation remains fluid.
- U.S. trade policy is likely to emerge as an important geopolitical tool under the incoming administration, given its intent to use tariff policy more widely. While these tariffs may only be used as leverage in trade and diplomatic negotiations, they could also trigger retaliatory actions from affected nations, and investors should be prepared for heightened volatility in relation to global trade in the year ahead.

"We remain positive on global macro and managed futures, which tend to perform well in higher volatility environments and can often deliver uncorrelated returns in times of uncertainty."

Commodities

Due for an Uptick or Supercycle?

After China's COVID-19 lockdowns, there was hope for a renewed commodities supercycle driven by demand for electric vehicles and other high-value items, but this did not materialize due to China's slow economic recovery and global economic stagnation. While China will continue to play a significant role in the commodities market, the growing global demand for data centers may emerge as a new driver for commodities, potentially offering a more stable source of growth independent of China's economy or geopolitical events. Copper and a host of other commodities look poised to benefit from this new trend.

Gold has been a strong performer in 2024, gaining over 20% due to central bank purchases, political uncertainty, and geopolitical tensions, but it may face challenges in 2025 due to a "higher for longer" interest rate environment, a firmer dollar, and a slowdown in central bank buying. Crude oil struggled in 2024 as geopolitical tensions failed to disrupt production and China's economic struggles dampened demand, but in 2025, global dynamics and U.S. energy policies will remain key factors influencing the market. Despite efforts to boost U.S. energy production, oil prices may surprise markets by moving higher in 2025 due to low inventories and potential efforts to replenish them.

Currencies

King Dollar Continues to Reign

The dollar continues to reign across global currency markets. Solid economic growth, especially compared to other developed countries, has been a major driver of strength and stability in the greenback. Developing uncertainty over the trajectory of inflation, expectations for gradual easing from the Fed, and positive interest rate differentials have further supported the dollar. President-elect Trump's proposed tariffs could elevate currency market volatility and stoke inflation fears, putting additional upward pressure on the dollar. Based on this backdrop, we believe the dollar will be well-supported in 2025. We expect limited downside risk, while meaningful upside could be capped by the gravitational pull of a less hawkish Fed.

Copper remains at the top of the list for data center construction, and forecasts suggest that demand for copper will rise 3% annually through 2035 in North America. Morenci open-pit copper mine, Greenlee County, Arizona.

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Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

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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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