

# OUTLOOK

• T H E P O L I C Y E N G I N E •

ed. **2026**

## Overview

THE YEAR 2025 was a good example of the prevailing regime. That is, we are witnessing markets that are driven less by fundamentals and traditional business-cycle dynamics and more by fiscal and monetary policy influence. As fundamentals have taken the back seat, policy decisions have emerged as one of the most impactful forces driving market direction.

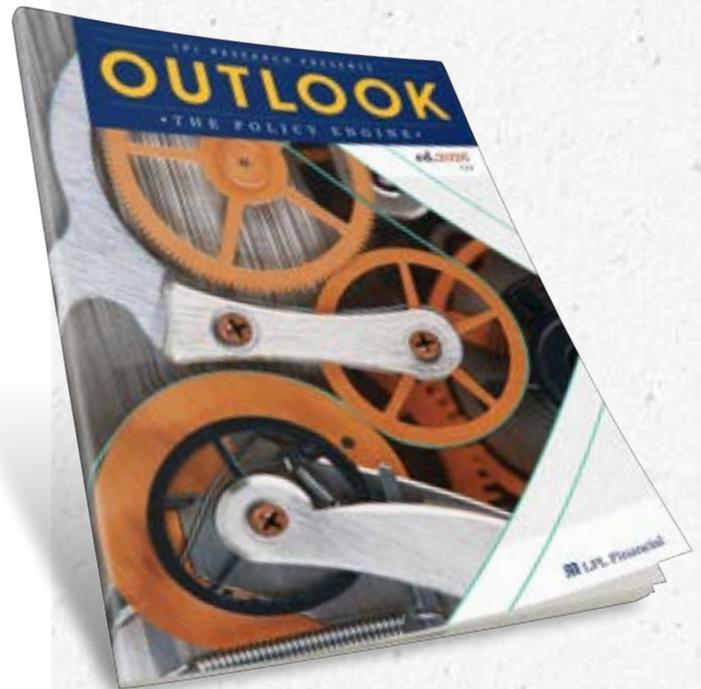
What does that mean for 2026? In an environment where policy shifts and market momentum increasingly outweigh fundamentals and valuations, we believe investors should remain patient and avoid overreacting to short-term sentiment swings – as policy and momentum-driven markets cause severe fluctuations in price, which can then challenge behavioral biases. We saw this in 2025, when stock prices swung wildly from policy-induced lows to momentum-driven highs, and we expect this pattern of higher volatility to persist.

The good news is that we expect policy to be a tailwind for markets. We believe monetary decision-makers will continue easing policy as economic conditions downshift and inflation remains contained. Corporate earnings may help, though there will be little room for error. Core bonds will quietly offer some value, which should be aided by a more dovish Federal Reserve (Fed). In this policy and momentum-driven market, we strongly encourage investors to look at non-correlated alternative investments.

As you explore the 2026 Outlook, please know that the LPL Research team continuously monitors for these market regime shifts. We use a multitude of tools that allows us to analyze momentum, policy inputs, sentiment, fundamentals, and more to plot a course under any conditions. The market has become more complex, so we invite you to increasingly lean on us. Thank you for the trust and confidence you place in our team.

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– Marc Zabicki  
Chief Investment Officer,  
LPL Research

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#### Economy

The U.S. economy is expected to experience a modest slowdown in early 2026 before rebounding later in the year. Underlying resilience from AI-driven investment and fiscal spending should help offset weaker household activity and steer the economy clear of a recession. A cooling labor market and softer consumer demand will help ease inflation, though price pressures are expected to linger. We anticipate the Fed will proceed with rate cuts gradually in 2026, balancing inflation concerns with a softening labor market.



#### Bonds and Cash

Bonds continue to offer compelling income opportunities, with starting yields still elevated relative to historical norms. With 10-year Treasury yields anticipated to remain between 3.75–4.25% in 2026, investors should focus on income generation rather than price appreciation. As the Fed lowers short-term interest rates, returns on cash will continue to decline, making high-quality bonds with intermediate-term maturities more attractive for long-term investors.



#### Stocks

The bull market appears poised to extend its run in 2026, fueled by ongoing enthusiasm around artificial intelligence (AI) and further easing of monetary policy from the Fed. However, with valuations running high and mid-cycle years often bringing more volatility, gains may be more tempered in 2026. Maintain current allocations and stay patient for pullbacks to selectively increase equity exposures. Our S&P 500 fair value target range for 2026 is 7,300 to 7,400.



#### Currencies

We remain respectful of the dollar's long-term uptrend. The rebound in big tech leadership, pro-growth stimulus coming from the One Big Beautiful Bill Act, growing carry trade appeal in the dollar, and potential upside to economic and earnings expectations could keep the trend intact. However, the likelihood of additional monetary policy easing amid a slowing labor market, lingering trade policy uncertainty, and ongoing concerns over the sustainability of the deficit could limit upside to the upper end of the dollar's consolidation range (107.50–110 area).



#### Alternative Investments

Given the evolving market dynamics, we continue to favor strategies that offer enhanced diversification, downside risk mitigation, and the potential for excess returns less reliant on broad market direction – specifically equity market-neutral and discretionary macro approaches. We are also more positive on merger arbitrage and private equity, which could benefit from the recent pickup in corporate dealmaking. Within private markets, we remain constructive on infrastructure and secondaries, both of which have demonstrated resilience and steady growth throughout the year.



#### Commodities

We maintain a constructive view on commodities, while recognizing heightened uncertainty around global trade dynamics, monetary policy shifts, economic growth trajectories, and the durability of AI-driven infrastructure investment. We continue to favor precious metals, supported by our view that many of the same catalysts that drove outperformance in 2025 will continue. The administration's shift to securing supply chains among a growing list of critical minerals should also be supportive of the broader metals market, especially for domestic producers.

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#### GENERAL DISCLOSURES

The opinions, statements and forecasts presented herein are general information only and are not intended to provide specific investment advice or recommendations for any individual. It does not take into account the specific investment objectives, tax and financial condition, or particular needs of any specific person. There is no assurance that the strategies or techniques discussed are suitable for all investors or will be successful. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing.

Any forward-looking statements including the economic forecasts herein may not develop as predicted and are subject to change based on future market and other conditions. All performance referenced is historical and is no guarantee of future results.

References to markets, asset classes, and sectors are generally regarding the corresponding market index. Indexes are unmanaged statistical composites and cannot be invested into directly. Index performance is not indicative of the performance of any investment and does not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

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.

Hedge funds are private investment partnerships that pool funds. Hedge funds use varied and complex proprietary strategies and invest or trade in complex products, including listed and unlisted derivatives. 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. Private credit is non-publicly traded debt instruments created by non-bank entities, such as private credit funds or business development companies (BDCs), to fund private businesses.

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.

Precious metal investing involves greater fluctuation and potential for losses.

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. LPL Financial doesn't provide research on individual equities.

All index data from FactSet.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

#### GENERAL RISK DISCLOSURES

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Investing in foreign and emerging markets debt or 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.

#### GENERAL DEFINITIONS

**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.

**The PE ratio** (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

**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.

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

**The Bloomberg U.S. Aggregate Bond Index** is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

A company's market capitalization is the market value of its outstanding shares. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share. Classifications such as large-cap, mid-cap and small-cap are only approximations and may change over time.

#### EQUITY RISK

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

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### EQUITY DEFINITIONS

**Cyclical stocks** typically relate to equity securities of companies whose price is affected by ups and downs in the overall economy and that sell discretionary items that consumers may buy more of during an economic expansion but cut back on during a recession. Counter-cyclical stocks tend to move in the opposite direction from the overall economy and with consumer staples which people continue to demand even during a downturn.

**Growth stocks** are shares in a company that is anticipated to grow at a rate significantly above the average for the market due to capital appreciation. A value stock is anticipated to grow above the average for the market due to trading at a lower price relative to its fundamentals, such as dividends, earnings, or sales.

**Value stocks** are anticipated to grow above the average for the market due to trading at a lower price relative to its fundamentals, such as dividends, earnings, or sales.

**Large cap stocks** are issued by corporations with a market capitalization of \$10 billion or more, and small cap stocks are issued by corporations with a market capitalization between \$250 million and \$2 billion.

### FIXED INCOME RISKS

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

### FIXED INCOME DEFINITIONS

**Credit Quality** is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default. 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. The credit spread is the yield the corporate bonds less the yield on comparable maturity Treasury debt. This is a market-based estimate of the amount of fear in the bond market. Base-rated bonds are the lowest quality bonds that are considered investment-grade, rather than high-yield. They best reflect the stresses across the quality spectrum.

**Bloomberg U.S. Aggregate Bond Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**Mortgaged-backed Securities (MBS)** A mortgage-backed security (MBS) is security that is secured by a collection of mortgages, referred to as a pool. The mortgages are "securitized", or packaged, together and can be sold to investors. In this structure interest and principal payments from the borrower pass through to the MBS securities holder. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

**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.

**Preferred Stock** 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.

**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.

**Commodities** include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors. The fast price swings in commodities will result in significant volatility in an investor's holdings.

**Alternative Investments** may not be suitable for all investors and involve special risks such as leveraging the investment, potential adverse market forces, regulatory changes and potentially illiquidity. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

This research material has been prepared by LPL Financial LLC.

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