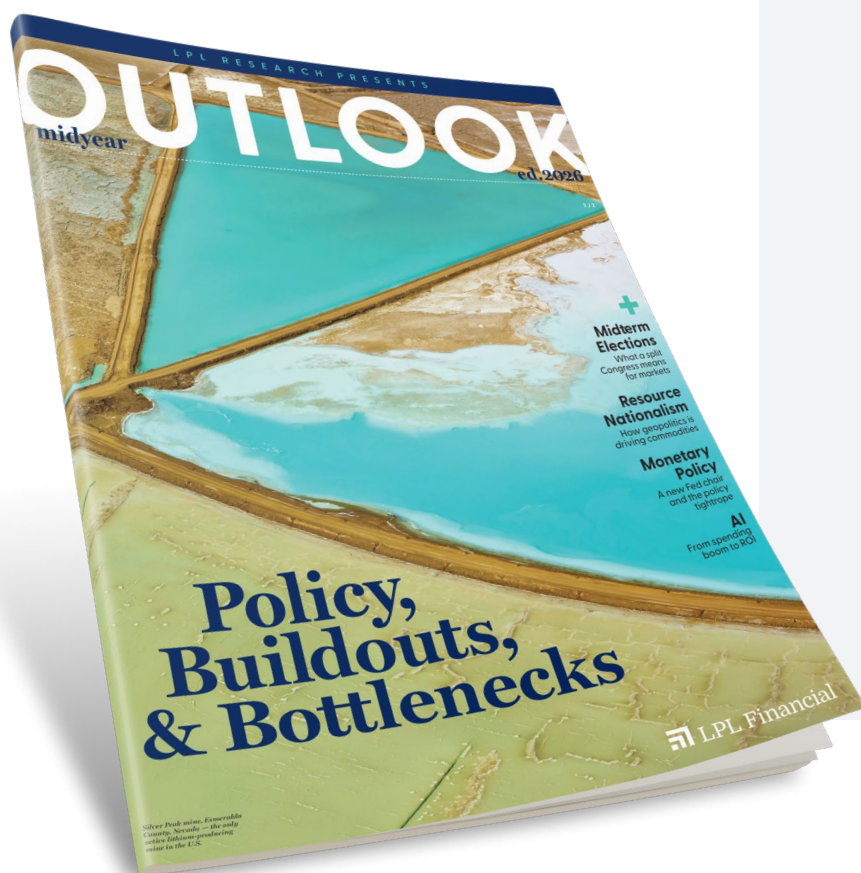


Policy, Buildouts, & Bottlenecks

Looking back at the first half of 2026, markets faced some challenges expected by investors, and some that were unexpected. A new Federal Reserve (Fed) chair stepped into one of the most difficult monetary policy environments in years. Conflict in the Middle East pushed oil prices sharply higher and sent ripples through global markets. And a technology spending boom, unlike anything seen before, began reshaping the corporate landscape in ways that are still playing out. Through it all, stocks climbed, the economy kept growing, and corporate profits surprised meaningfully to the upside.

As we turn our attention to the second half, we remain constructively optimistic. Optimistic because the fundamental drivers of this bull market, including real earnings growth, artificial intelligence (AI) execution, and a resilient economy, remain intact. Cautiously constructive because we recognize that markets have already priced in a great deal of good news, and that the months ahead will bring their own set of tests, from a new Fed chair navigating a tricky inflation environment to the approach of midterm elections in November. LPL Research created this report so you and your financial advisor can apply these insights to your goals and aid in finding the right balance for your portfolio.



The Economy:

Slowing Down, Not Stopping

Think of the economy like a long-distance runner who has been pushing hard for miles and is finding a more sustainable pace. Growth is expected to moderate through the second half of 2026, but a recession is not our base case. Strong business investment in technology and infrastructure continues to act as a cushion against weakness in housing and other more rate-sensitive areas of the economy.

Inflation has ticked higher recently, reaching 4.2% earlier this year, driven largely by rising energy prices tied to the conflict in the Middle East. The good news is that the underlying trend in inflation has remained more contained, and we expect prices to cool toward 2.9% by year-end if geopolitical pressures meaningfully ease. American households are also in better financial shape than many headlines suggest, with net worth relative to income sitting above pre-pandemic levels. That is an important buffer as the economy navigates this period of uncertainty.

KEY ECONOMIC THEMES

- Growth slows but stays positive; no recession expected.
- Inflation easing toward 2.9% by year-end, helped by calmer energy markets.
- Business investment in AI and infrastructure continues to support growth.
- Housing remains a weak spot due to high mortgage rates.
- Unemployment edges higher but stays historically low.

The Stock Market:

A Bull Market Finding Its Footing

After a healthy first half, the stock market is expected to deliver continued but measured gains in the second half. Corporate earnings have been the real story, with first quarter profit growth near 30%, and a strong follow-up is expected when second quarter results arrive. Those gains have been built on genuine business performance, not just investor enthusiasm, which puts the market on firmer ground.

LPL Research's updated year-end target for the S&P 500 is 7,650 to 7,750. However, midterm election years have historically brought more volatility, and there are real variables at play around energy prices, AI investment returns, and the direction of Fed policy. If volatility brings short-term pullbacks, history suggests that staying invested through those periods, or even considering adding to your portfolio during them, has typically rewarded patient investors.

KEY STOCK MARKET THEMES

- Bull market expected to continue; S&P 500 year-end target of 7,650–7,750.
- S&P 500 earnings growth on pace to exceed 20% in 2026.
- Technology sector leads earnings growth, but may need a rest after a huge first-half run.
- Energy and industrials are the recommended overweight sectors.
- Consumer discretionary is the recommended underweight.
- Favor diversification across the AI theme and rotation beneficiaries.

The Bond Market:

Income Is the Opportunity

The Fed is expected to hold interest rates steady for most of the remainder of 2026, with at most one rate cut possible before year-end. That backdrop means bond investors should shift their thinking away from expecting meaningful price gains and toward the income that bonds are generating right now, which remains historically attractive.

The yield on the 10-year Treasury bond is expected to remain between 4.00% and 4.50% through year-end. For most bond investors, the opportunity may lie in short-to-intermediate range maturities and bonds tied to inflation protection rather than long-dated bonds, which face more headwinds from government borrowing needs, sticky inflation, and higher developed market yields.

KEY BOND THEMES

- The Fed is expected to hold rates steady, cutting rates at most one time this year, but potentially not until 2027.
- The 10-year Treasury yield is expected to finish the year between 4.00% and 4.50%.
- Bond returns will be income-driven, not price appreciation-driven.
- TIPS (Treasury Inflation-Protected Securities) are preferred over nominal Treasuries given ongoing inflation uncertainty.
- Shorter maturities are worth considering to manage interest rate risk.



Federal Reserve Chair Kevin Warsh delivers remarks at his swearing-in ceremony, May 22, 2026.

Alternative Investments:

Looking Beyond Market Beta

Markets are increasingly defined by dispersion, structural change, and complexity. Stock prices are increasingly driven by a small number of large technology companies. Bonds aren't providing the cushion they once did when stocks fall. And volatility is more frequent and sudden.

In this environment, we believe a well-diversified portfolio may benefit from investments that don't move in lockstep with the stock and bond markets.

Alternative investment strategies such as equity-market neutral strategies aimed at stability in both rising and falling markets, real assets like infrastructure and private credit, can help reduce risk and improve consistency of returns over time. They're not for everyone, and they come with their own considerations, but they're worth understanding.

KEY ALTERNATIVE INVESTMENT THEMES

- Strategies designed to profit from both rising and falling markets are well-positioned, in our view.
- Infrastructure offers stable, inflation-linked income driven by real demand.
- Private credit presents potentially attractive opportunities with improved quality.
- Market neutral strategies can benefit from the growing gap between winners and losers.
- Global macro strategies are benefiting from diverging monetary policies around the world.

Infrastructure stands out as a cornerstone allocation, offering stable cash flows supported by strong pricing power. ▼



Commodities and the Dollar:

What's Moving Beneath the Surface

Governments around the world are asserting greater control over natural resources, treating energy, metals, and critical minerals as national security priorities rather than simply as commodities. This trend is tightening supply and supporting prices in energy and materials markets. For investors maintaining broad, diversified portfolios, exposure to these areas remains a small, but important, part of investment strategies.

Oil prices remain elevated, with global oil inventories on track to hit their lowest levels since 2003, according to the U.S. Energy Information Administration. Industrial metals, copper, aluminum, and lithium are seeing strong demand driven by both AI infrastructure and the broader energy transition, even as supply remains constrained. Gold's long-term fundamentals remain favorable, despite a weaker technical set-up following recent losses.

KEY COMMODITY & CURRENCY THEMES

- Energy prices remain elevated due to geopolitical tensions; oil inventories hitting decades-long lows.
- Industrial metals benefiting from AI infrastructure demand and constrained supply.
- Gold's structural tailwinds remain intact, despite recent weakness.
- U.S. dollar remains range-bound amid significant macro crosscurrents.
- Modest commodity exposure within diversified portfolios remains important.

LPL Research's Expectations:

Action Steps to Consider

Modest stock market gains in the second half, with an updated year-end S&P 500 target of 7,650 to 7,750. Stay invested at long-term target levels. Be prepared for more volatility and consider viewing pullbacks as opportunities rather than reasons to exit.

Bull market supported by strong earnings growth and continued AI investment. Favor broad diversification across sectors rather than concentrating in a single theme. Balance exposure between AI-related companies and sectors positioned to benefit from a wider rotation.

Bond market returns driven primarily by income as yields stay range-bound. Focus on income generation in shorter-to-intermediate maturity bonds. Consider Treasury Inflation-Protected Securities as a hedge against any unexpected pickup in inflation.

Rising resource nationalism and geopolitical uncertainty creating new investment dynamics. Maintain

diversified exposure across geographies and sectors. Commodities and real assets have become more relevant components of a well-rounded portfolio.

Midterm elections and a new Fed chair introducing policy uncertainty. Stay close to long-term portfolio targets and resist the urge to make large tactical shifts based on short-term headlines.

As we embark on the second half of 2026, the investment environment rewards balance above all else. We believe staying engaged with the opportunities in stocks, collecting income from bonds, and maintaining the flexibility that a diversified portfolio provides is the right posture for navigating both the promise and the uncertainty that lies ahead. Your financial advisor can help you ensure your portfolio reflects your goals, your time horizon, and your comfort with risk as markets continue to evolve.

Inspired by insights?

Get in touch with your financial advisor
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Investing involves risk including the potential loss of principal. Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

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

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

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

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Precious metal investing involves greater fluctuation and potential for losses.

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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.

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