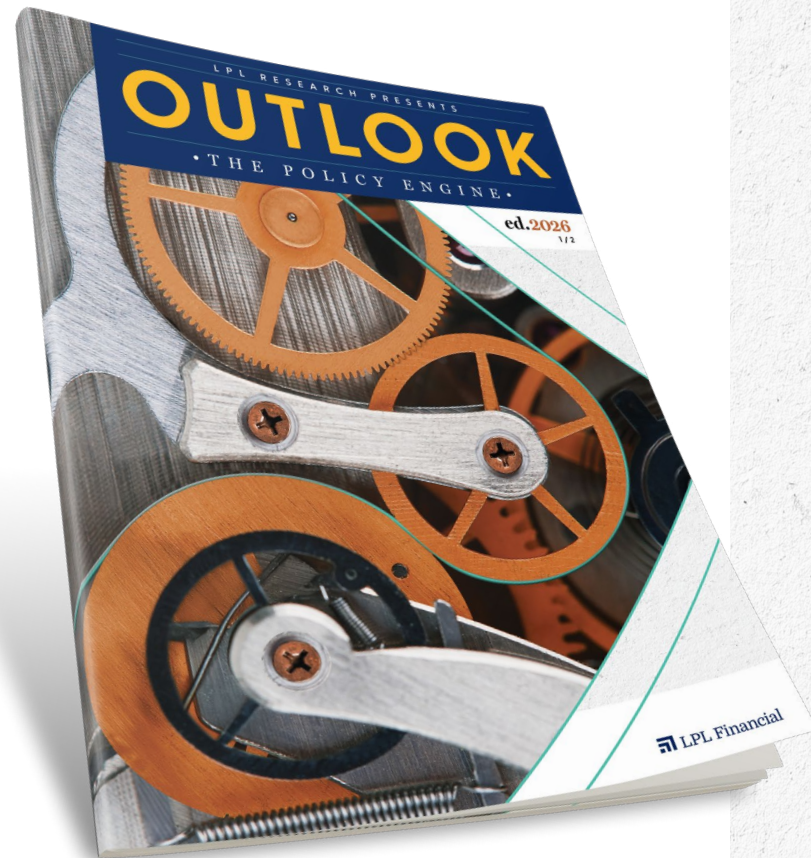


The Policy Engine

Considerations to discuss with your financial advisor

As we move into 2026, we expect a continuation of many of the key themes that defined 2025 – a fragmented economic landscape plus a resilient stock market that's prone to bouts of volatility. At the center of it all is policy, which has significantly influenced market direction and sentiment.

From the unfolding effects of higher tariffs to companies' infusion of money into AI – and the impressive stock market performance driven by a handful of large technology companies – there's a lot to balance. That's why LPL Research created this report. Full of insights, considerations, and potential action steps, it's a resource on what may lie ahead, to help you and your financial advisor plan for 2026 as it relates to your goals.



Economy

The U.S. economy is expected to experience a modest slowdown in early 2026 before rebounding later in the year. AI-driven investment and fiscal spending from the One Big Beautiful Bill Act (OBBBA) should help offset a softer job market and steer the economy clear of recession. We anticipate the Federal Reserve (Fed) will continue with rate cuts gradually in 2026, balancing inflation concerns with the cooling job market.

“ As fundamentals have taken the back seat, policy decisions have emerged as one of the most impactful forces driving market direction.

– Marc Zabicki
Chief Investment Officer,
LPL Research

LPL Research Expectations	Action Steps to Consider
Slower economic growth, particularly in Q1, with a rebound later in the year	Stay focused on your long-term investment strategy
Weakening job market	Enhance stability by diversifying across asset classes, market segments, and global regions
Lingering but improving inflation	
Decreasing mortgage rates, potentially into the upper 5s by year-end	Refinancing/purchasing a home



The demand for intellectual property (IP) will be a pillar of growth – we expect it will capture an increasing slice of the economy.

2026 OUTLOOK

Investor Report

Stock Market

The stock market could look a lot like 2025 as many of the same drivers will continue into 2026. With support from AI investment and the rate-cutting cycle, this stock market advance should continue – as most do at this stage, though past performance does not guarantee future results. But given rich valuations and the propensity for higher volatility in midterm election years, a lot will need to go right for stocks to undergo a year as rewarding as 2025.

EARNINGS GROWTH POTENTIAL

\$520B

AI investment could drive double-digit earnings growth

LPL Research Expectations	Action Steps to Consider
Occasional bouts of market volatility	Maintain full benchmark exposure levels, given plenty of potential positive catalysts (e.g., OBBBA, AI investment, rate cuts)
Modest gains given already high valuations, S&P 500 will end the year between 7,300 – 7,400	Utilize market pullbacks as an opportunity to selectively increase stock exposure
Sector opportunities	<ul style="list-style-type: none">• Communication services, industrials as 2026 progresses• Healthcare if the equity market advance shows signs of broadening out

Bonds

Markets expect the Fed to cut short-term interest rates to 3.0%. If that scenario plays out, we believe the 10-year Treasury will remain rangebound, trading between 3.75% and 4.25% throughout the year. Given higher starting yields, investors should look to bonds for income-generation capability and overall portfolio protection.

TREASURY EXPECTATIONS

3.75% - 4.25%

2026 10-year yield target range

LPL Research Expectations	Action Steps to Consider
Bond yields are likely to remain rangebound but with greater potential for a downside surprise	Examine these investments and strategies to help generate income: <ul style="list-style-type: none">• Securitized markets – residential mortgage-backed securities (MBS), asset-backed securities, and select commercial MBS – remain attractive• High-quality bonds with maturities up to five years are favored for income-oriented investors
Rates on cash accounts will continue to decrease as the Fed continues to cuts rates	Replace some cash holdings with bonds to lock in higher yields and help mitigate risk in portfolios

Currencies and Commodities

2025 was challenging for the U.S. dollar, primarily due to tariffs and de-dollarization (when countries reduce their reliance on it). Despite its decline, it remains in a long-term uptrend, which could stay intact thanks to the rebound in big tech leadership and pro-growth stimulus from the OBBBA.

On the commodities front, the broader market remained relatively stable in 2025, though there was significant volatility across some individual commodities. In 2026, several catalysts could support commodity prices generally:

- Potential rate cuts and lower Treasury yields – especially under new Fed leadership – may weaken the dollar, providing a tailwind for commodities.
- Stimulus from the OBBBA.
- Possible recovery in China, the world's largest commodity importer, that could further boost demand.
- Investment in AI infrastructure is also expected to drive sustained demand for several commodities (e.g., copper).

Collectively, these factors could help push commodities into a supercycle, a period of broad, synchronized strength – but headwinds remain.

Within the broader commodities landscape, we continue to favor precious metals, supported by our view that many of the same factors that drove outperformance in 2025 will continue next year.

Alternative Investments

“Alts” is a category of investments that goes beyond traditional investments like stocks and bonds. Investing in private companies, and trading in futures contracts to capitalize on trends in commodities, interest rates and currencies (managed futures), are examples of strategies that fall under the alts umbrella. Alternative investments diversify a portfolio, helping to manage risk, plus they have the potential for compelling returns compared to traditional investments, especially in times of market volatility. Given the likelihood for continued bouts of volatility:

- Alts are worth considering to further diversify and potentially enhance portfolio stability.
- Preferred approaches include equity market-neutral, discretionary global macro, as well as merger arbitrage and private equity strategies due to renewed momentum in corporate dealmaking.



Precious metals surged in 2025. Silver rallied to its highest levels since 2011, supported by supply deficits, industrial demand, and geopolitical uncertainty.

2026 OUTLOOK

Investor Report

Inspired by insights?

Get in touch with your financial advisor
or get in-depth commentary and analysis at
go.lpl.com/outlook

DISCLOSURES

The opinions, statements and forecasts presented herein are general information only and are not intended to provide specific investment advice or recommendations. There is no assurance that the strategies or techniques discussed are suitable for all investors or will be successful.

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.

GENERAL RISK DISCLOSURES

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 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.

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.

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.

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.

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.

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.

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.

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.

This material was prepared by LPL Financial, LLC.

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