

OUTLOOK

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Overview

We're halfway through the year, and our newly released *Midyear Outlook 2026: Policy, Buildouts, & Bottlenecks* helps you cut through the noise and understand what's shaping the economic and market landscape right now. It also provides important context for what these developments could mean as conditions continue to evolve, building on the themes introduced in our *2026 Outlook* and bringing them forward with timely perspective.

In this edition, we examine the forces driving change, from policy decisions and global supply dynamics to continued investment in artificial intelligence (AI). These forces remain central to how markets are behaving today and are expected to continue influencing outcomes as the year progresses.

As we move into the second half of 2026, markets have already weathered quite a few moving pieces. A new Federal Reserve (Fed) chair, geopolitical shock in the Middle East that pushed oil prices and bond yields higher, and a technology spending boom are already reshaping entire corners of the market. Through all of it, stocks kept climbing and the economy kept growing. That resilience is the story.

Economic growth is expected to continue at a moderate pace, supported by business investment, while inflation and interest rates may remain unpredictable. Staying informed and maintaining a balanced, diversified approach will be key as markets may continue to experience periods of volatility and shifting leadership.

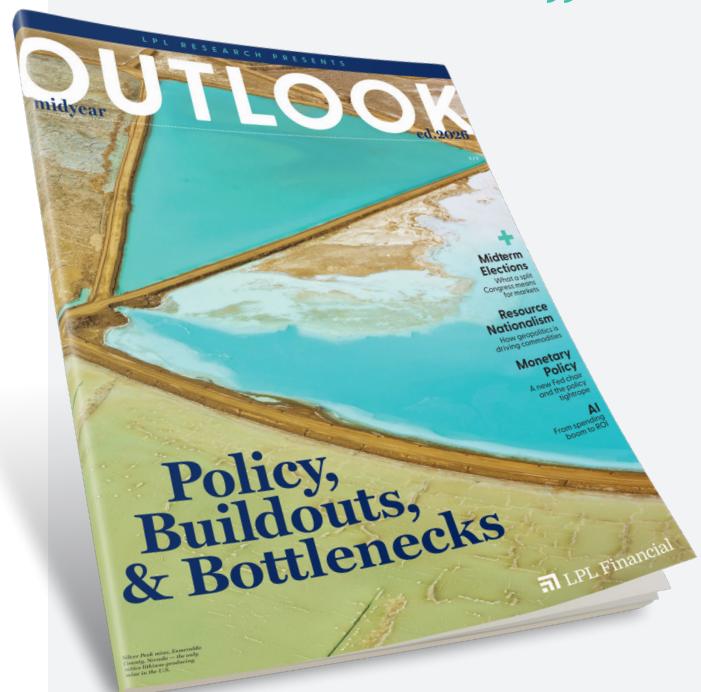
The question now is, can it continue? We believe the short answer is yes, but with more complexity. Four themes will define the months ahead and understanding them is the key to staying well positioned.

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With uncertainty expected to persist, we believe tactical portfolios should seek to carefully balance risk mitigation with proactive positioning for new opportunities.

– Marc Zabicki
Chief Investment Officer, LPL Research

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2026 MIDYEAR OUTLOOK

Executive Summary

The Economy: Still Growing, Just More Carefully

Think of the economy like a long-distance runner who has been pushing hard for miles and is now finding a more sustainable pace. Growth is expected to moderate throughout the rest of 2026. A recession is not in the forecast, but much depends on recent geopolitical events not spilling over negatively into the broader economy. Businesses continue to invest heavily in technology and infrastructure, which is helping offset weakness in housing and other areas sensitive to higher interest rates.

Inflation has ticked up, driven mainly by energy costs tied to the conflict in the Middle East. The good news is that the underlying trend in inflation has remained relatively contained. We expect inflation to cool toward 2.9% by year-end if geopolitical tensions meaningfully ease.

The Stock Market: Gains Expected to Continue, but Anticipate Turbulence

The bull market is expected to keep running in the second half. Corporate earnings have been genuinely compelling, with first quarter growth near 30% and more expected to follow. That earnings strength is a real foundation, not just enthusiasm.

Our updated year-end target for the S&P 500 is 7,650 to 7,750, but watch for bouts of volatility. Midterm election years are historically more volatile, and there are real uncertainties around AI spending returns and energy prices that could cause bumps along the way. Pullbacks, when they come, are a normal part of any healthy market and may be opportunities to add.

The Bond Market: Returns Will Still Be Income Driven

With the Fed expected to hold interest rates steady for most of the year, bond investors should set their expectations accordingly. Meaningful price gains are unlikely with rates expected to remain range-bound. The opportunity is in the income bonds are generating right now, which remains historically attractive.

We believe the Treasury yield curve will stay fairly flat as longer-term securities face headwinds from heavy issuance, sticky inflation, and higher developed market yields. Shorter-maturity bonds and Treasury Inflation-Protected Securities (TIPS) look like the sweet spot.

AI: Moving from Hype to Proof

AI has been the dominant story in markets for the past two years, and it is not expected to go away. But the conversation is shifting. The big technology companies are on track to spend more than \$750 billion building AI infrastructure in 2026 alone. The market is now starting to ask a harder question: is all that spending actually paying off?

We believe the AI theme survives this transition, but it becomes more selective. Companies that can show real earnings from their AI investments will be rewarded. Those that cannot will likely face pressure. This means broader diversification across sectors, not just a concentrated bet on technology, looks increasingly important.

The Bigger Picture: Multiple Forces Working at Once

In addition to AI, three other themes are shaping the second half. Governments around the world are asserting more control over energy, metals, and critical minerals, treating natural resources as a national security issue, not just a commodity. That supports prices in energy and materials markets, and energy-linked equities. The November midterm elections introduce another layer of uncertainty, with different congressional compositions leading to very different policy paths. And the transition to a new Fed chair may bring philosophical changes to how the central bank communicates and operates.

These forces do not work against each other. They reinforce a message that diversification across asset classes, sectors, and geographies matters more than ever.

The Bottom Line

The second half of 2026 will not be a one-way street higher, but the fundamentals remain supportive. Earnings are real, the economy remains on solid footing, and income in the bond market is genuinely attractive. Staying engaged, staying diversified, and maintaining some flexibility for volatility is exactly the right approach for clients with a long-term view.

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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.

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.

Asset allocation does not ensure a profit or protect against a loss.

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 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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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 issuer'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.

Mortgage-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 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.

This research material has been prepared by LPL Research.

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