



December 9, 2025

Dear Valued Investor,

LPL Research is pleased to present *Outlook 2026: The Policy Engine*. Our annual update offers a thorough analysis of the economy and markets, highlighting potential implications for you.

The year 2025 offered a clear illustration of today's prevailing market regime — one that has been shaped less by traditional fundamentals and business cycle dynamics and more by fiscal and monetary policy. While policy has always influenced markets, its role has increasingly grown. What does this mean as we look ahead to 2026?

In an environment where policy decisions are one of the most powerful forces steering market direction, we believe patience is essential. Avoid overreacting to short-term sentiment swings, as policy- and momentum-driven markets tend to produce sharp price fluctuations — which can challenge our behavioral biases. We saw this in 2025, when stock prices swung from policy-induced lows to momentum-driven highs.

The good news: We anticipate policy will remain a net tailwind for markets in 2026. Short term interest rates are likely to continue easing as economic growth moderates and inflation stays contained. Corporate earnings may provide support, while core bonds quietly offer value (and should benefit from a more dovish Federal Reserve). In addition, given correlations can spike in policy-driven markets, investors may want to consider non-correlated alternative investments as part of a diversified approach.

Several key themes will likely continue shaping the landscape in 2026. Equity markets should remain resilient but vulnerable to volatility, while a fragmented economic backdrop limits clear trends in bonds. Policy decisions in Washington will remain a dominant force, influencing sentiment. The post-pandemic cycle is still distorted, with growth steady yet uneven, inflation persistently above target, and labor markets gradually softening. Add to this the effects of massive fiscal spending, an AI-driven capital investment boom, and more, and the result is an environment that defies traditional patterns. In this setting, diversification and agility are critical.

These are just some of the insights you'll find in *Outlook 2026: The Policy Engine*. To get more, including considerations and potential action steps to discuss with your advisor, visit go.lpl.com/investoroutlook. The report, combined with guidance from your financial advisor, will help you navigate through market complexities and crosscurrents and continue to work toward pursuing your goals.

Wishing you a safe and enjoyable holiday season. As always, please reach out with questions.

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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 do not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

All data is provided as of December 9, 2025.

All index data from FactSet.

The Standard & Poor's 500 Index (S&P500) 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.

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.

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.

Past performance does not guarantee future results.

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

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