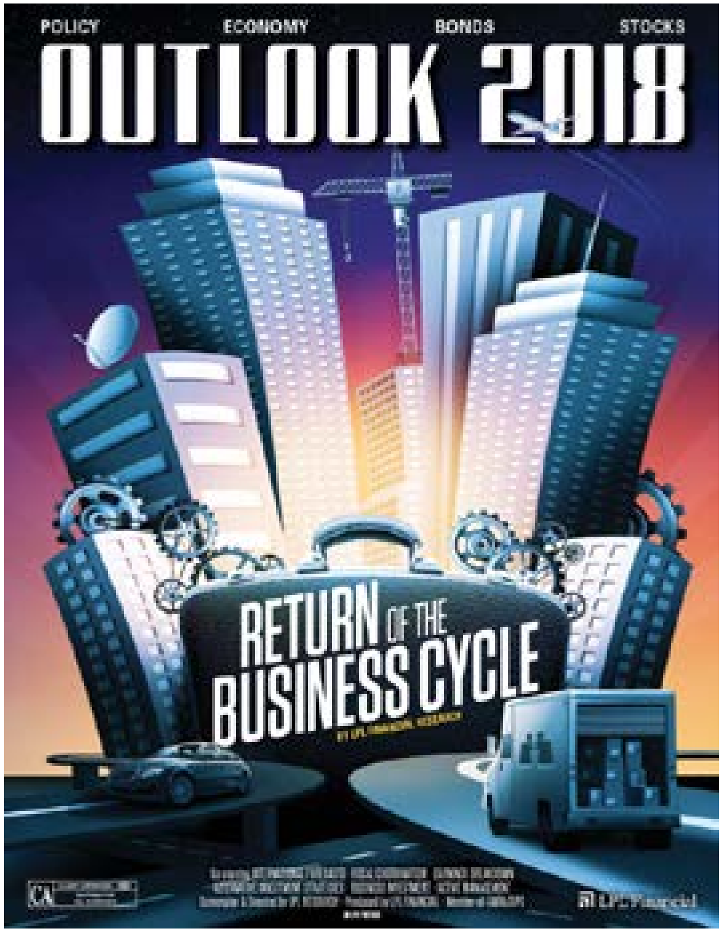
OUTLOOK 2018 CHART BOOK

OUTLOOK 2018
Return of the Business Cycle

We expect to return to an environment in which investors may be rewarded for their ability to focus on business fundamentals, as markets respond to the shift from monetary to fiscal support and greater incentives for entrepreneurial risk-taking.

- **Fiscal coordination.** The next step for the U.S. economy will involve some combination of infrastructure spending, tax reform, and regulatory relief.
- **Business investment.** To remain successful at this point in the cycle, businesses will need to invest in property, plants, and equipment.
- **Earnings growth.** Better global growth, a pickup in business spending, and lower corporate taxes should all support better earnings.
- **Active management.** A return to fundamental investing—where investors can determine winners and losers based on earnings, sales, cash flow, etc.—should lead to continued momentum for active management in 2018.
- **Bonds as risk diversifiers**. Bonds should remain an important part of well-balanced, diversified portfolios and can help mitigate portfolio risk should we experience any equity market pullbacks.



LPL Financial

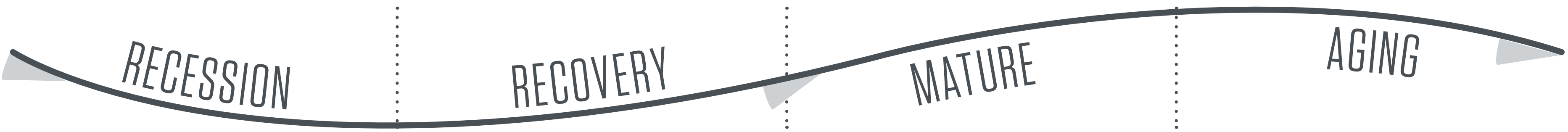
Business Cycle Drivers: The Original vs. The Sequel

We are looking to the forces that have historically supported economic and market growth, before we entered this recent period of accommodative monetary policy. This fundamental shift will have an impact on businesses and investment returns.

Unusual Cycle Drivers		Back to Business
Monetary: Low or near zero interest rates	►	Fiscal: Structural reforms, deregulation
Monetary: Quantitative easing	►	Fiscal: Infrastructure investment
Use debt for buybacks and dividends	►	Use debt for capital spending
Muddling through	►	Confidence in economy and markets
Take on financial market risk	►	Take on entrepreneurial risk
Stocks highly correlated	►	Stock behavior differentiated

Economic Cycle: Parts I, II, III & V

The stories of economic cycles are told in four distinct stages. Our current cycle has been unusual, often displaying elements of multiple stages at the same time. Right now, we're solidly in the mature phase but still experiencing some areas of recovery.



ECONOMY SHRINKS	ECONOMIC OUTPUT ACCELERATES	MODERATE GDP GROWTH	SLOWING ECONOMY
JOBS ARE LOST	LOST JOBS RECOUPED	SLOW RETURN OF INFLATION	ABOVE-TREND INFLATION
PROFITS CONTRACT	MARKETS REBOUND	INTEREST RATES BEGIN TO RISE	FED AGGRESSIVELY HIKES RATES
STOCKS FALL	FED STIMULUS	DOUBLE-DIGIT GAINS FOR STOCKS	PROFITS SLUMP
INTEREST RATES FALL	CREDIT EXPANDS	HEIGHTENED VOLATILITY	INVERTED YIELD CURVE

■ Lingering Aspects of Recovery ■ Current State

Our Forecasts

ECONOMY **2.5%+ GDP GROWTH**

GDP growth should pick up momentum thanks to fiscal support, with additional help from a pickup in business spending, while a strong labor market should continue to support consumer spending.

STOCKS **8–10% S&P 500 RETURNS**

Earnings growth is key to our double-digit stock forecast. The S&P 500 Index may be well positioned to generate strong earnings, thanks to better global growth and potentially lower corporate tax rates.

BONDS **FLAT TO LOW-SINGLE-DIGIT RETURNS**

Given our expectations for a gradual pickup in interest rates across the yield curve, we expect flat to low-single-digit returns for the Bloomberg Barclays U.S. Aggregate Bond Index.

Economy: As noted in our *Outlook 2018: Return of the Business Cycle*, LPL Research projects real gross domestic product (GDP) growth of around 2.5% in 2018. This is in line with historical mid-cycle growth of the last 50 years. Economic growth is affected by changes to inputs such as business and consumer spending, housing, net exports, capital investments, and government spending.

Stocks: As noted in our *Outlook 2018: Return of the Business Cycle*, LPL Research's S&P 500 Index total return forecast of 8–10% (including dividends), is supported by a largely stable price-to-earnings ratio (PE) of 19 and our earnings growth forecast of 8–10%. Earnings gains are supported by our expectations of better economic growth, with potential added benefit from lower corporate tax rates.

Bonds: As noted in our *Outlook 2018: Return of the Business Cycle*, LPL Research forecasts flat to low-single-digit returns for the Bloomberg Barclays U.S. Aggregate Bond Index, based on our expectations for a gradual pickup in interest rates across the yield curve. We also expect the 10-year Treasury yield to end 2018 in the 2.75–3.25% range, based on our expectations for a modest pickup in growth and inflation.

What Are Our Recommendations?

✓ THE HEROES **Investment ideas we think may carry portfolios in 2018**	— THE SIDEKICKS **They may not get the glory, but you don't want to be without them**	✗ THE EXPENDABLES **These investments may offer limited assistance in 2018**
SMALL CAPS: Strong beneficiaries of lower corporate tax rate.	**U.S. STOCKS:** Accelerating growth, fiscal stimulus provide an edge.	**DEVELOPED FOREIGN BONDS:** Accelerating growth and very low yields create little margin of error.
VALUE: Rising rates support financials; relative valuations becoming attractive.	**GROWTH:** We favor value, but business spending may support tech sector.	**DEVELOPED INTERNATIONAL STOCKS:** European growth may have peaked while structural concerns remain.
CYCLICAL STOCKS: Accelerating growth may support economically sensitive sectors.	**MORTGAGE-BACKED SECURITIES:** Yield relative to rate sensitivity attractive, but slowing Fed purchases limit upside.	**LONG-TERM HIGH-QUALITY BONDS:** Inadequate compensation for added rate sensitivity.
EMERGING MARKETS: Strong growth, attractive valuations offset tighter global monetary policy.	**HIGH-YIELD CORPORATES AND BANK LOANS:** Yields attractive despite full valuations.	**U.S. DEFENSIVE STOCKS:** Economic growth, rising rates decrease attractiveness.
INVESTMENT-GRADE CORPORATES: Added yield versus Treasuries is attractive.		

Copper/Gold Ratio Sending a Positive Economic Growth Signal

Source: LPL Research, Bloomberg 10/31/17

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

The copper/gold ratio is the relative price of the copper commodity versus the gold commodity, and a common indicator of demand for industrial metals over previous.

Global Growth Expected to Accelerate in 2018

Real GDP, Year-over-Year (YoY%)	2016	2017 (Est.)	2018 (LPL Est.)
U.S.	1.5%	2.2%	**2.5%**
Developed ex-U.S.	1.1%	1.6%	**1.8%**
Emerging Markets	4.4%	4.5%	**4.8%**
Global	3.2%	3.5%	**3.7%**

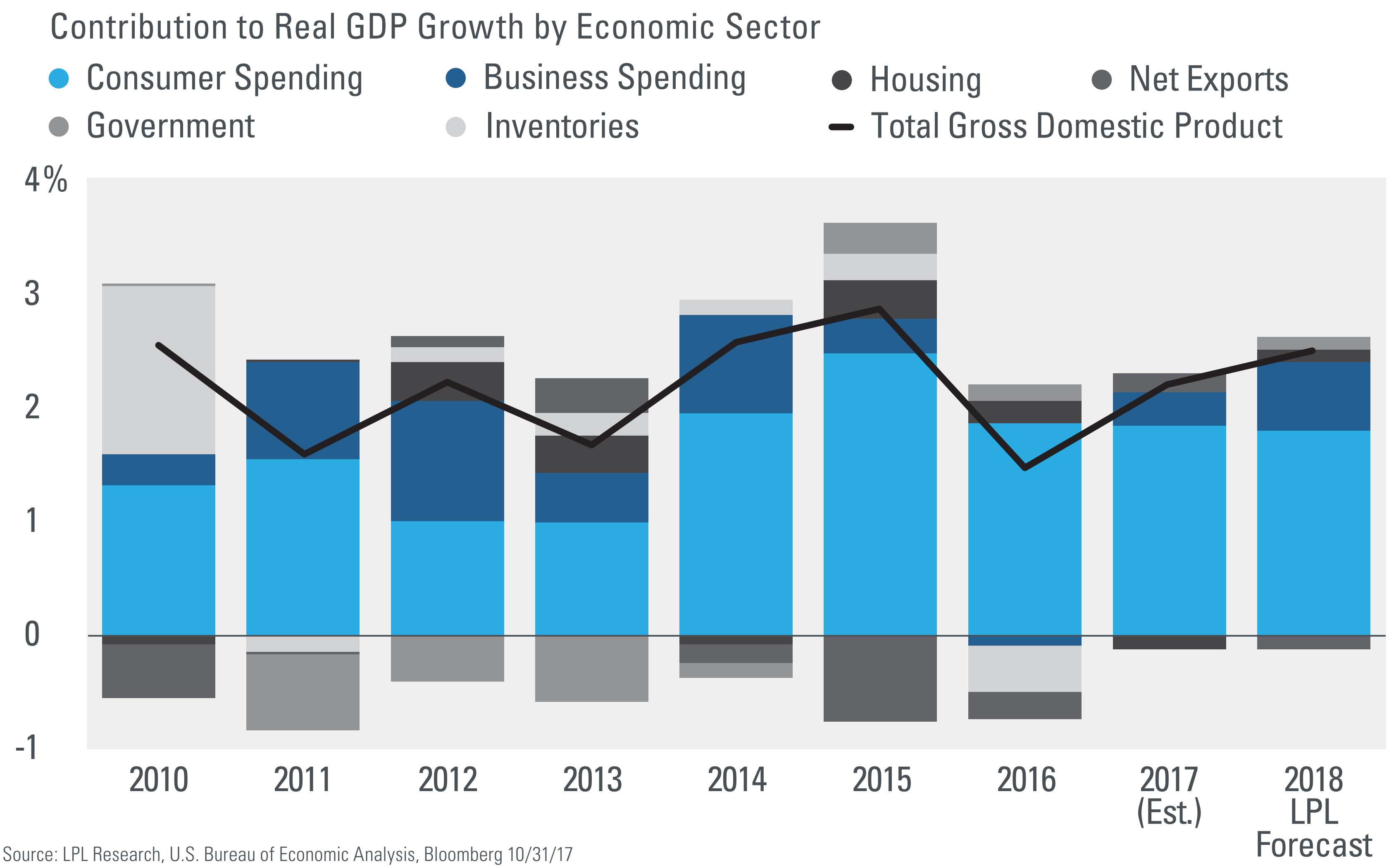
U.S. Economic Data	2016	2017 (Est.)	2018 (LPL Est.)
Consumer Price Index (YoY%)	1.3%	2.1%	**2.0%**
Unemployment	4.9%	4.4%	**4.2%**

Source: LPL Research, Bloomberg 10/31/17

2017 estimates are based on Bloomberg-surveyed economist consensus given year-to-date data. 2018 estimates are LPL Research projections.

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.

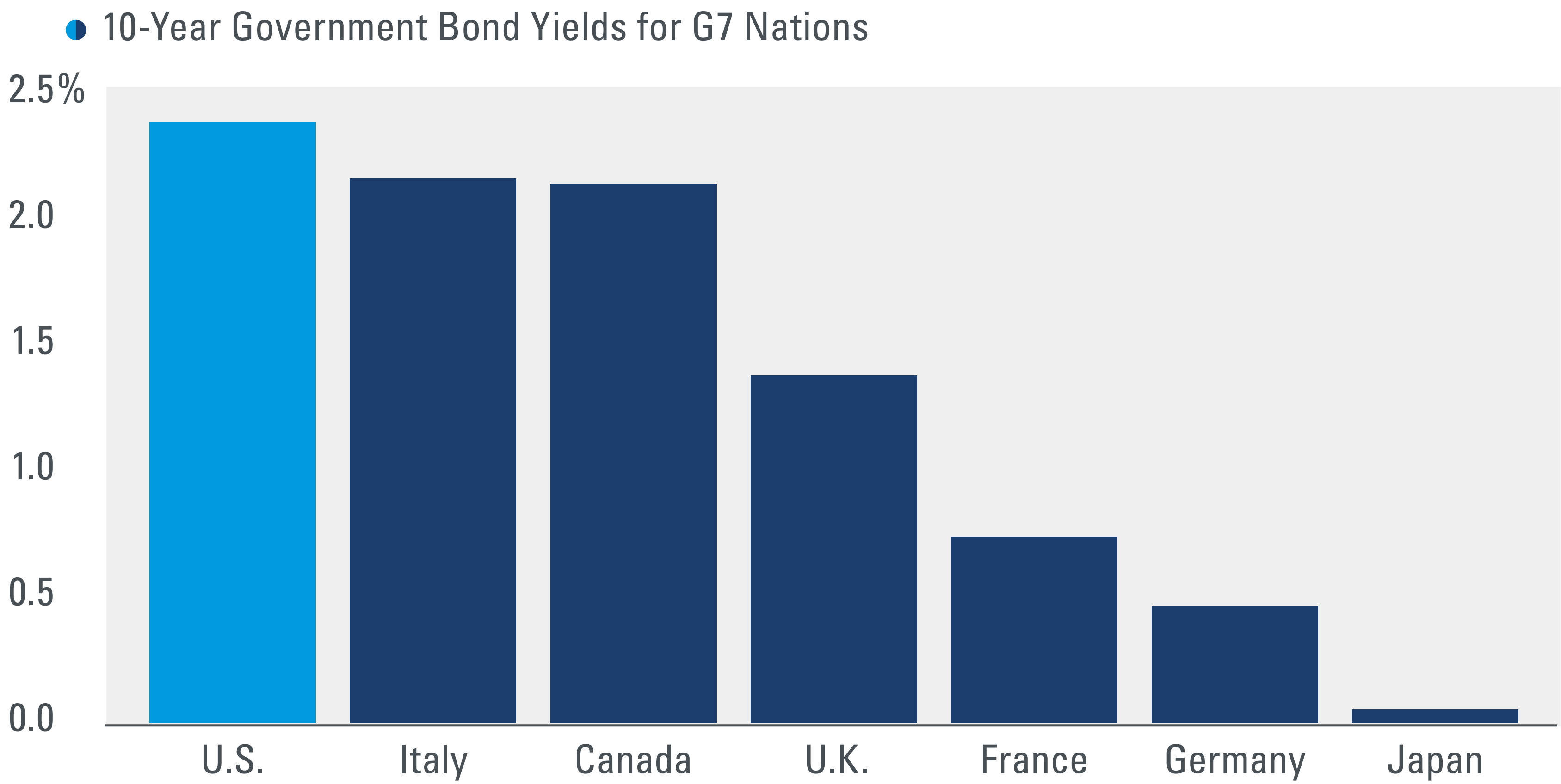
Better Growth, Improved Business Spending Expected in 2018



Source: LPL Research, U.S. Bureau of Economic Analysis, Bloomberg 10/31/17

For GDP growth, 2017 estimate based on year-to-date data through the third quarter, Bloomberg-surveyed economist consensus for the fourth quarter. For sector contributions, 2017 estimates based on year-to-date data through third quarter and LPL estimates for fourth quarter. Estimates may not develop as predicted.

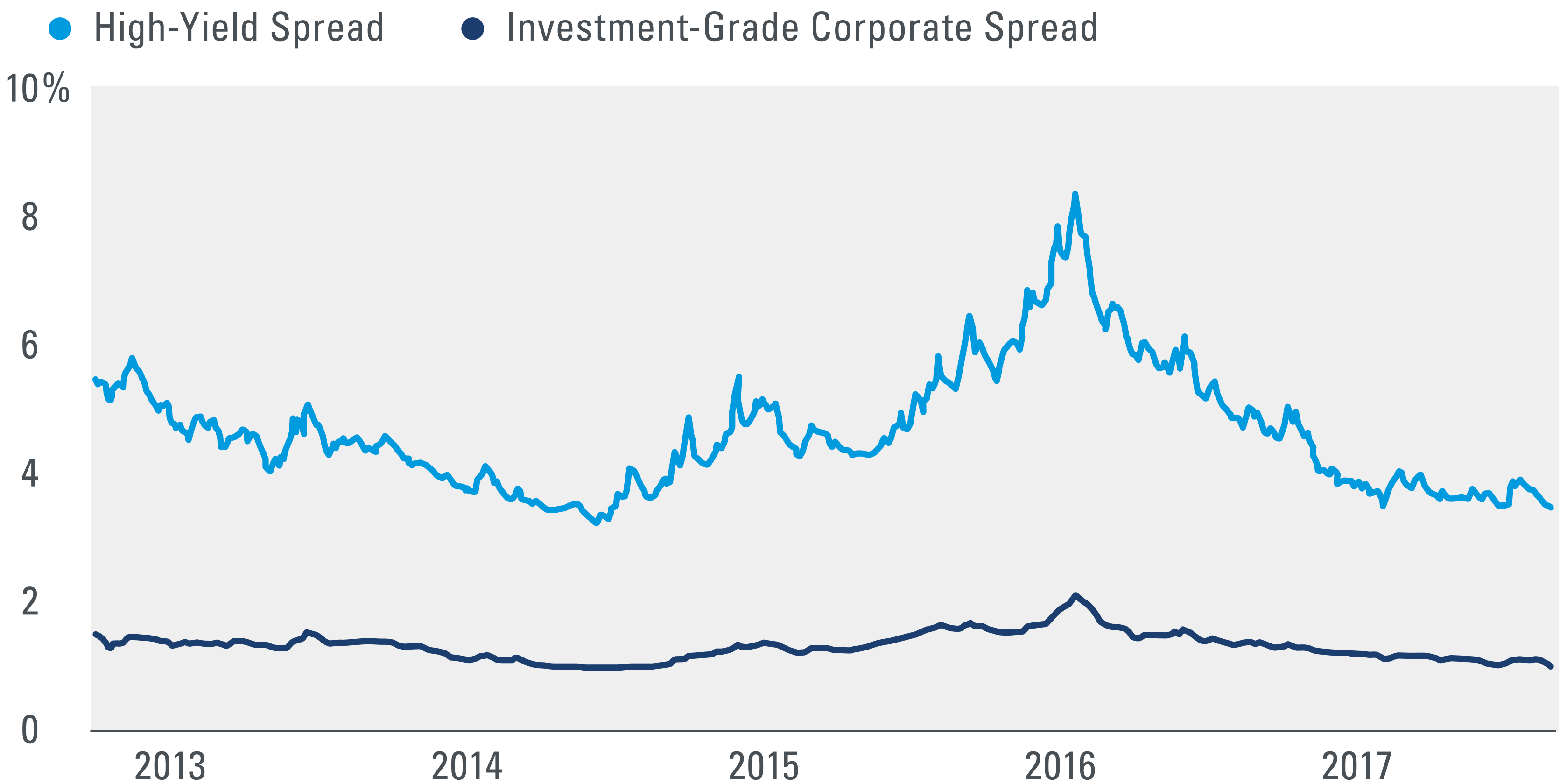
Treasury Yields Still High from a Global Perspective



Source: LPL Research, Bloomberg 10/31/17

Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards.

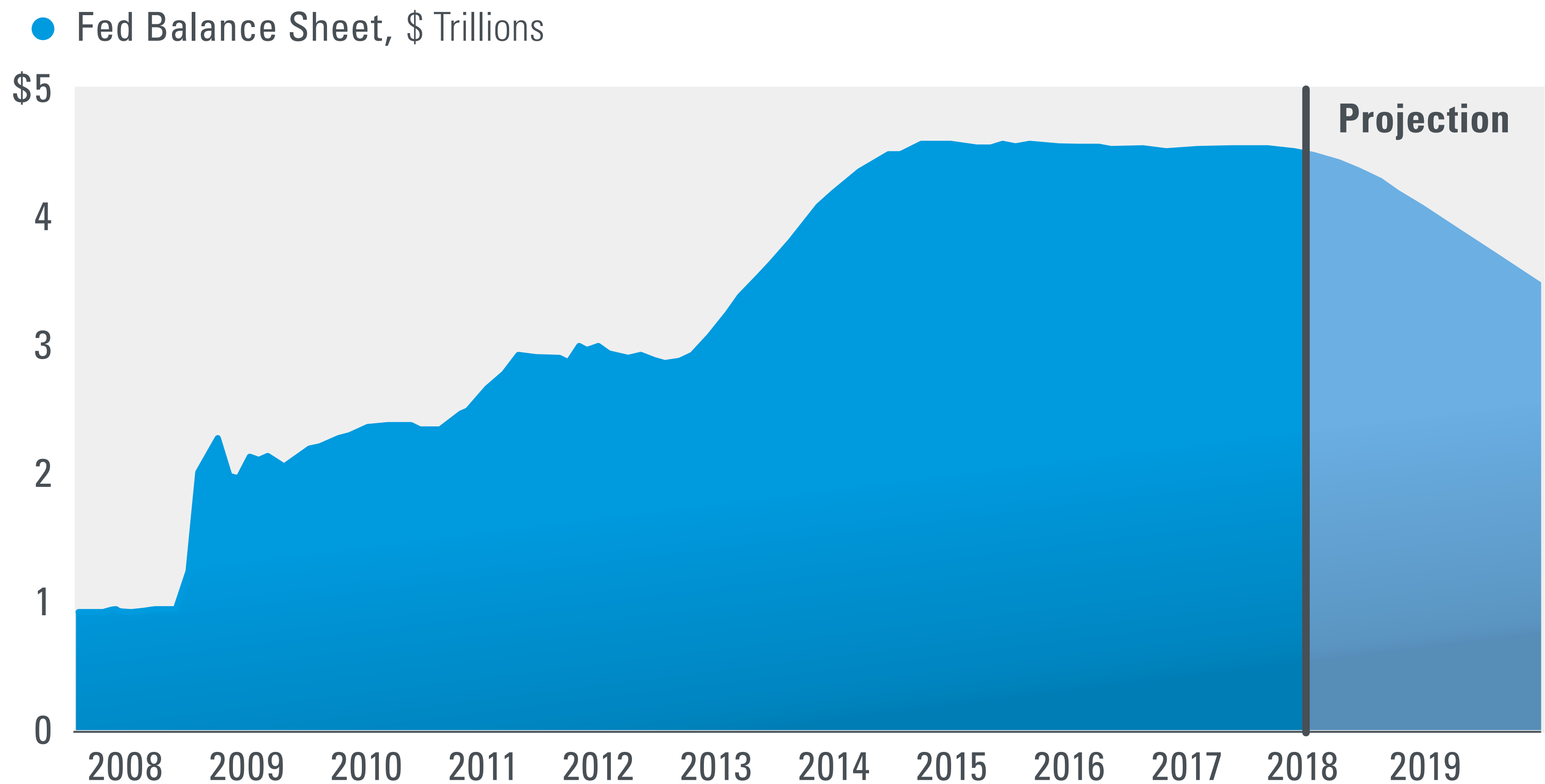
Credit Markets Still Showing Confidence, Little Stress



Source: LPL Research, Bloomberg 10/31/17

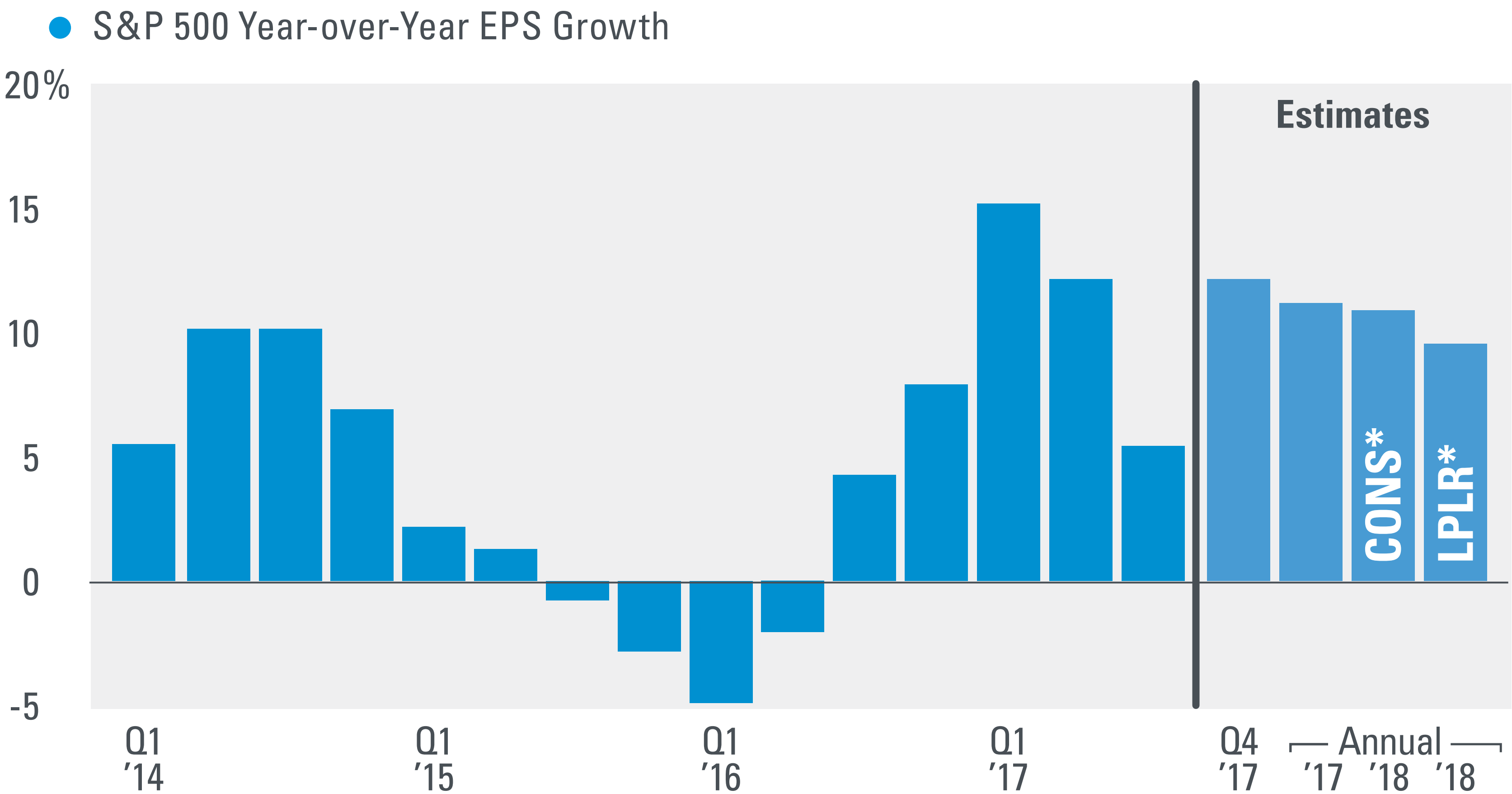
Option-adjusted spread for Bloomberg Barclays U.S. Corporate Bond Index. Option-adjusted spread for Bloomberg Barclays U.S. Corporate High Yield Bond Index. Yield of each index over comparable maturity Treasuries.

Latest Move By the Fed: Reduce the Balance Sheet



Source: LPL Research, Bloomberg 10/31/17

Strong Earnings Growth Expected to Continue



Source: LPL Research, Thomson Reuters 10/31/17

*CONS = Consensus estimate; LPLR = LPL Research forecast, where 5% is attributed to upside potential from tax reform.

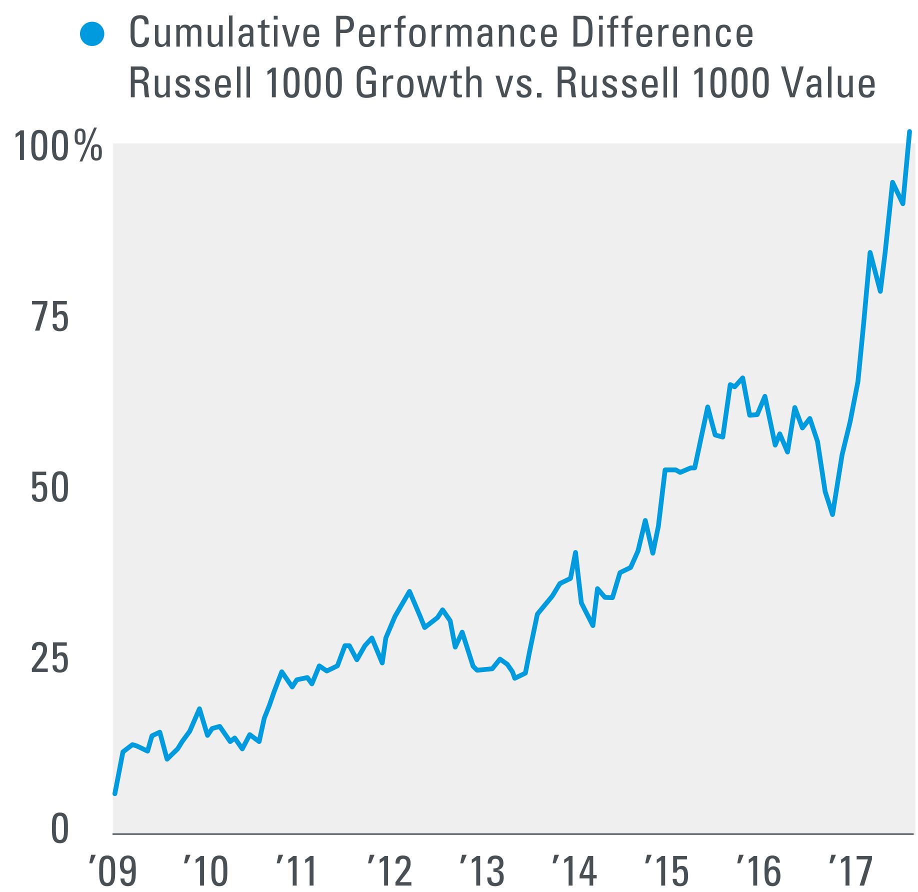
Estimates may not develop as predicted.

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. EPS 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 PE valuation ratio.

More Favorable Factors for Small Caps Than Large

	Small Cap	Large Cap
Tax Policy	X	
Lower Corporate Tax Rate	X	
Repatriation		X
Stock Market Sensitivity	X	
Cyclical Sector Leadership	X	
Rising Interest Rates		X
U.S. Dollar	X	
Valuations		X

Has the Growth Run Become Overextended?



Source: LPL Research, Bloomberg 10/31/17

Investing in foreign and emerging markets 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.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual security. To determine which investments may be appropriate for you, consult your financial advisor prior to investing. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. All performance referenced is historical and is no guarantee of future results. Estimates may not develop as predicted.

Economic forecasts set forth may not develop as predicted, and there can be no guarantee that strategies promoted will be successful.

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.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond and bond mutual fund values and yields 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. However, the value of fund shares is not guaranteed and will fluctuate.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy.

Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. Investing in foreign and emerging markets 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.

Active management involves risk as it attempts to outperform a benchmark index by predicting market activity, and assumes considerable risk should managers incorrectly anticipate changing conditions.

High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

Mortgage-backed securities are subject to credit, default, prepayment (that acts much like call risk when you get your principal back sooner than the stated maturity), extension (the opposite of prepayment), market, and interest rate risk.

DEFINITIONS

Credit ratings are published rankings based on detailed financial analyses by a credit bureau specifically as it relates 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.

Small cap is a term used to classify companies with a relatively small market capitalization. The definition of small cap can vary, but it is generally a company with a market capitalization of between $300 million and $2 billion. The prices of small cap stocks are generally more volatile than large cap stocks.

Large cap refers to a company with a market capitalization value of more than $10 billion.Yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the 3-month, 2-year, 5-year, and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.

Yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the 3-month, 2-year, 5-year, and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.

Option-adjusted spreads (OAS) represent the difference between the index yield and the yield of a comparable maturity Treasury. The OAS can be used to measure the risk levels markets are placing on high-yield bonds. As spreads widen, investors demand a higher yield relative to lower-risk Treasuries, meaning risk levels have increased.

INDEX DEFINITIONS

The S&P 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 Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

The Bloomberg Barclays U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

The Bloomberg Barclays U.S. Corporate High Yield Bond Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000 companies considered undervalued relative to comparable companies.

RES 2377 1117 | Tracking #1-672730 (Exp. 11/18)