LPL FINANCIAL RESEARCH PRESENTS

OUTLOOK 2016

EMBRACE THE ROUTINE

LPL Research's **Outlook 2016: Embrace the Routine** will help investors stick to their routines in the face of many developments throughout the year.

Key Themes for 2016

Fed Tightening Cycle

In December 2015, the Federal Reserve (Fed) raised interest rates for the first time in nine years. We expect the pace of additional rate hikes may be gradual.

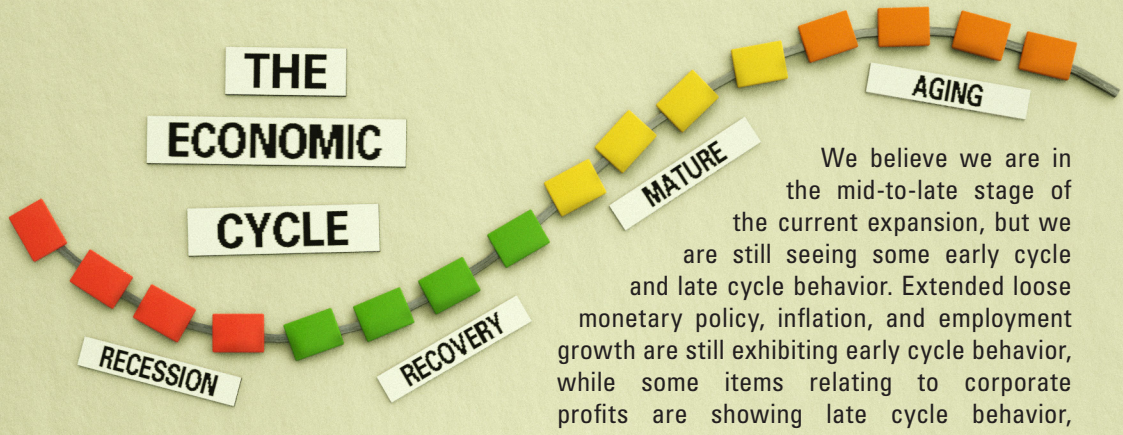
Stabilizing Oil Prices

We believe that oil prices may begin to stabilize in 2016 with a bias to the upside as supply and demand continue to move into balance.

Earnings Rebound

As the headwinds that have restrained earnings begin to subside, including falling oil prices, a strong U.S. dollar, manufacturing weakness, and slowing growth in China, we believe earnings growth will accelerate.

THE ECONOMIC CYCLE



We believe we are in the mid-to-late stage of the current expansion, but we are still seeing some early cycle and late cycle behavior. Extended loose monetary policy, inflation, and employment growth are still exhibiting early cycle behavior, while some items relating to corporate profits are showing late cycle behavior, although they may be reset if profits improve.

ECONOMY

2.5–3% Real GDP Growth*

U.S. ECONOMIC GROWTH:
Manufacturing, business capital spending, and net exports are expected to take larger roles in U.S. economic growth, with continued support from consumer spending.

GLOBAL ECONOMIC GROWTH:
We believe that economic growth outside the U.S., in both developed and emerging markets, is likely to accelerate modestly in 2015, with the role of commodities a key differentiator.

STOCKS

Mid-Single-Digit Returns**

EARNINGS RAMP-UP:
Supported by improved global economic growth and stable profit margins.

VOLATILITY:
But even in positive returning years, the average peak-to-trough decline for the S&P 500 is 11%—making sticking to your long-term plan even more important.

ENERGY:
This sector is poised for a rebound as the gradual oil supply adjustment process continues and demand remains steady.

BONDS

Flat Returns

HIGH VALUATIONS:
We believe bonds may remain expensive by historical comparison.

STEADY ECONOMIC GROWTH:
We do not envision a recession developing, which we believe is ultimately needed for bond prices to move higher.

FED RATE HIKES:
Expectations on the pace of rate hikes imply a much more gradual pace compared to Fed forecasts.

NEW!

Embrace "The New Routine"

- ✓ Brace for lower stock returns
- ✓ Volatility on the rise
- ✓ Turn down the noise
- ✓ Be more opportunistic
- ✓ Bonds still work as a diversifier
- ✓ Alternative strategies are a tool, not a solution

*Our forecast for GDP growth of between 2.5–3% is based on the historical mid-cycle growth rate 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.

**Historically since WWII, the average annual gain on stocks has been 7–9%. Thus, our forecast is in-line with average stock market growth. We forecast a mid-single-digit gain, including dividends, for U.S. stocks in 2016 as measured by the S&P 500. This gain is derived from earnings per share (EPS) for S&P 500 companies assuming mid- to high-single-digit earnings gains, and a largely stable price-to-earnings ratio (PE). Earnings gains are supported by our expectation of improved global economic growth and stable profit margins in 2016.

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, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

Indexes are unmanaged and cannot be invested into directly.

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

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.

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