



MARKET WATCH

A Candid Look into the Current State of the Markets

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Dear Valued Investor:

The recently released ***LPL Research Outlook 2018: Return of the Business Cycle*** publication contains the investment insights and market guidance for the year ahead. Traditional business cycle drivers are expected to take a larger role in spurring further economic and market growth in 2018, as we have experienced a fundamental shift in the forces behind this continued economic expansion. LPL Research's Outlook 2018 highlights some of the ways this economic expansion has been unusual thus far, and what we may expect moving forward.

The return of the business cycle is not about where the economy is in the cycle, but about what's driving the cycle and what it might mean for investors. For the majority of this economic cycle, accommodative monetary policy has supported growth and the markets have relied on central bank intervention to keep the expansion going. There has already been directional change by the Federal Reserve (Fed), coupled with companies' increased need to focus on growth, resulting in a new dynamic for business leaders and investors.

Given this shift, LPL Research believes the return of the business cycle will be characterized by:

- **Fiscal coordination**, with some combination of infrastructure spending, tax reform, and regulatory relief. Given recent progress on the policy front, corporate tax cuts could be a primary contributor to economic activity in 2018.
- **Business investment** in property, plants, and equipment. Companies are using cash differently now, focusing on increasing productivity and attaining greater market share.
- **Earnings growth**, supported by better global growth, a pickup in business spending, and potentially lower corporate taxes.
- **Active management**, which should see continued momentum thanks to a return to fundamental investing, where investors can determine winners and losers based on earnings, sales, cash flow, and so on.

Against this backdrop, the U.S. economy--as measured by gross domestic product (GDP)--is expected to grow at a rate of 2.5%, thanks to fiscal support, a pickup in business spending, and steady consumer spending. LPL Research forecasts returns of 8-10% for the broad stock market (as measured by the S&P 500 Index), with earnings growth the primary driver. And given expectations for a gradual increase in interest rates, bonds may see flat to low-single-digit returns, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index. However, bonds can play an important role in a well-diversified portfolio, particularly in the event of stock market pullbacks.

This return to the business cycle has the potential for success, where investors may be rewarded for their ability to focus on business fundamentals. However, an aging expansion and a leadership transition at the Fed may increase the likelihood that stock market volatility picks up in 2018. As always, we must strive to maintain a long-term perspective and well-balanced portfolios.

The *LPL Research Outlook 2018: Return of the Business Cycle* provides insightful commentary to help you navigate the year ahead. As always, if you have any questions, I encourage you to contact me.

Important Information

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly.

Economic forecasts set forth may not develop as predicted.

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.

All market indexes discussed are unmanaged and are not illustrative of any particular investment.

Indexes do not incur management fees, costs and expenses, and cannot be invested into directly.

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).

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.

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

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.

Additional descriptions and disclosures are available in the Outlook 2018: Return of the Business Cycle publication.

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