MIDYEAR

OUTLOOK

2018

THE PLOT THICKENS

CHART BOOK

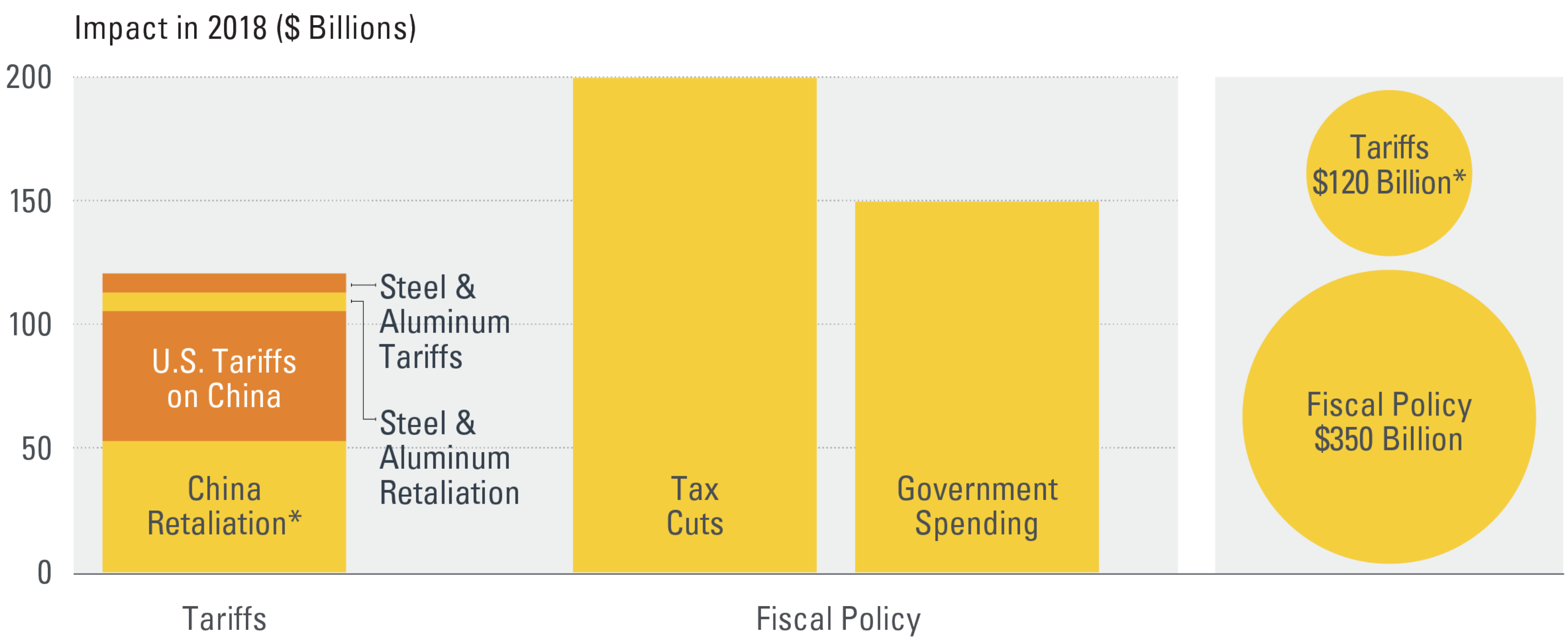
AN **LPL RESEARCH** ORIGINAL

★★★★★ 2018 **CA**-CLIENT APPROVED

LPL Financial

TOP OF THE LIST Investment ideas we can't stop talking about	RECOMMENDED FOR YOU They may not be grabbing all the buzz, but these ideas could be a solid addition to your queue	SAVE FOR LATER These investments may not be at the top of your list this year, but don't count them out
Small Caps: Beneficiaries of lower corporate tax rate, and their U.S. emphasis.	**U.S. Stocks:** Accelerating growth and fiscal stimulus provide an edge.	**Developed International Bonds:** Accelerating growth and very low yields create little margin for error.
Value: Relatively attractive valuations, and rate environment should help financials.	**Mortgage-Backed Securities:** Yield relative to rate sensitivity is attractive, but slowing Fed purchases limit upside.	**Developed International Stocks:** European growth may have peaked, while structural concerns remain.
Cyclical Stocks: Accelerating growth may support economically sensitive sectors.	**High-Yield Corporates:** Yields are attractive despite full valuations.	**Long-Term High-Quality Bonds:** Offer inadequate compensation for added rate sensitivity.
Emerging Markets: Strong growth and attractive valuations offset tighter monetary policy.		**U.S. Defensive Stocks:** Economic growth and rising rates decrease attractiveness.
Bank Loans: Floating rates may benefit holders if short-term rates rise further.		
Investment-Grade Corporates: Added yield versus Treasuries is attractive; we favor intermediate maturities.		

Benefits of Fiscal Policy Should Far Outweigh the Impact of Tariffs



Source: Source: LPL Research, Strategas Research Partners 06/18/18

* Estimates

Steady Global Growth Expected for 2018

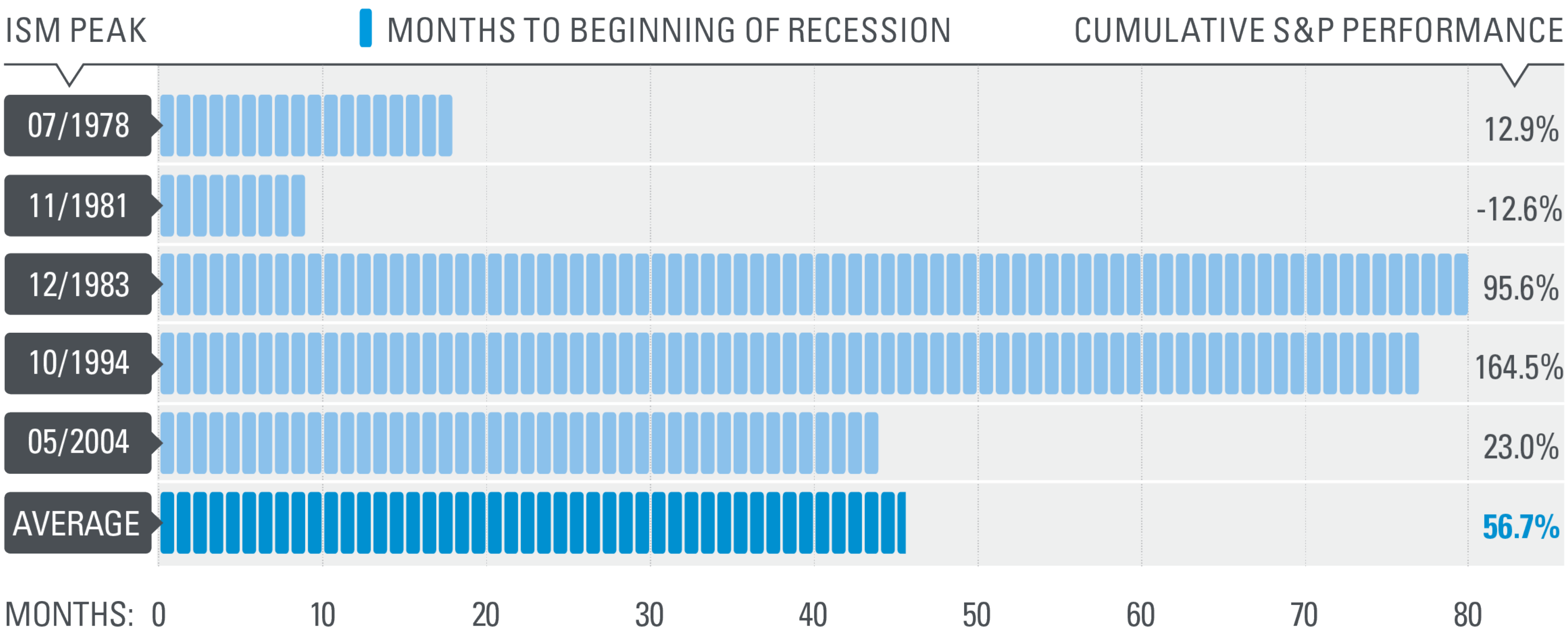
	2016	2017	2018 (LPL Est.)
REAL GDP, YEAR OVER YEAR (YoY, %)			
U.S.	1.5%	2.3%	**Up to 3%**
Developed ex-U.S.	1.1%	2.3%	**2.1%**
Emerging Markets	4.4%	5.0%	**4.8%**
Global	3.2%	3.8%	**3.8%**
U.S. ECONOMIC DATA			
Inflation (YoY%)	1.3%	2.1%	**2.25–2.5%**
Unemployment	4.9%	4.4%	**3.6%**

Source: LPL Research, Bloomberg 06/15/18

2018 estimates are LPL Research projections.

Inflation is measured by the Consumer Price Index.

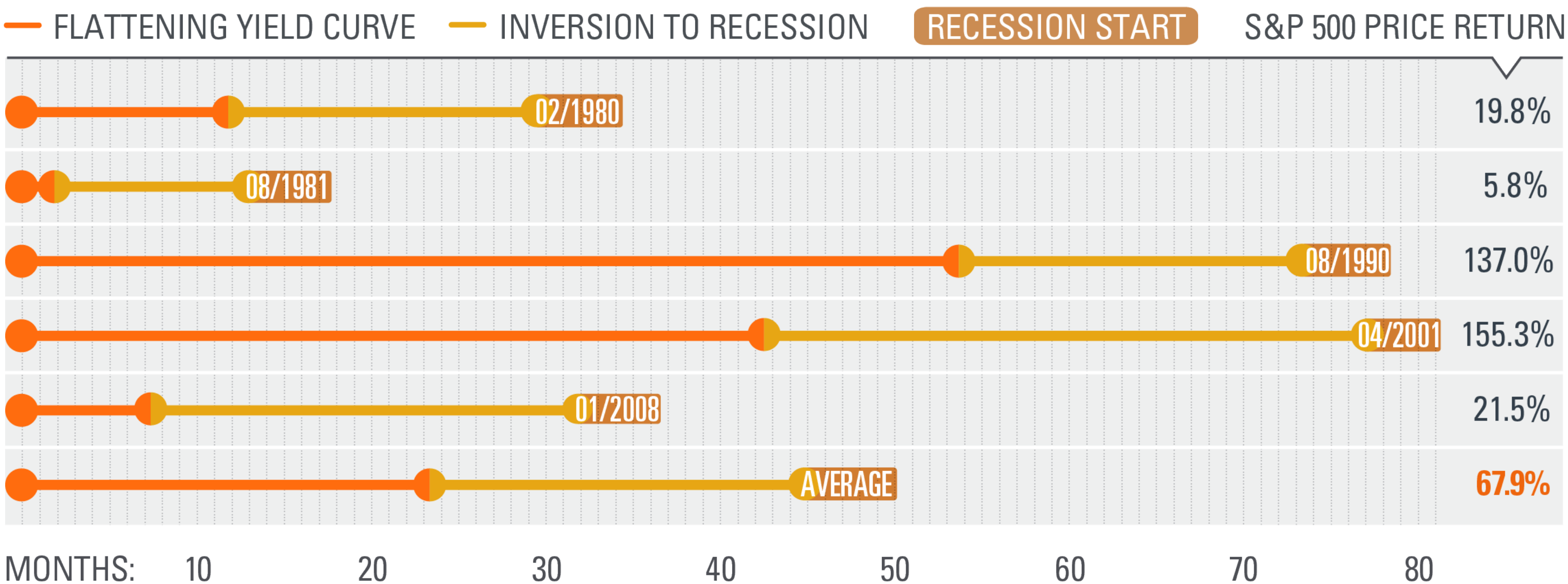
A Peak in Manufacturing Doesn’t Mean Stock Market Gains Are Over



Source: LPL Research, Bloomberg 06/15/18

’Cumulative S&P Performance’ is S&P 500 index data.

A Flatter Yield Curve Doesn't Necessarily Mean a Recession Is Around the Corner

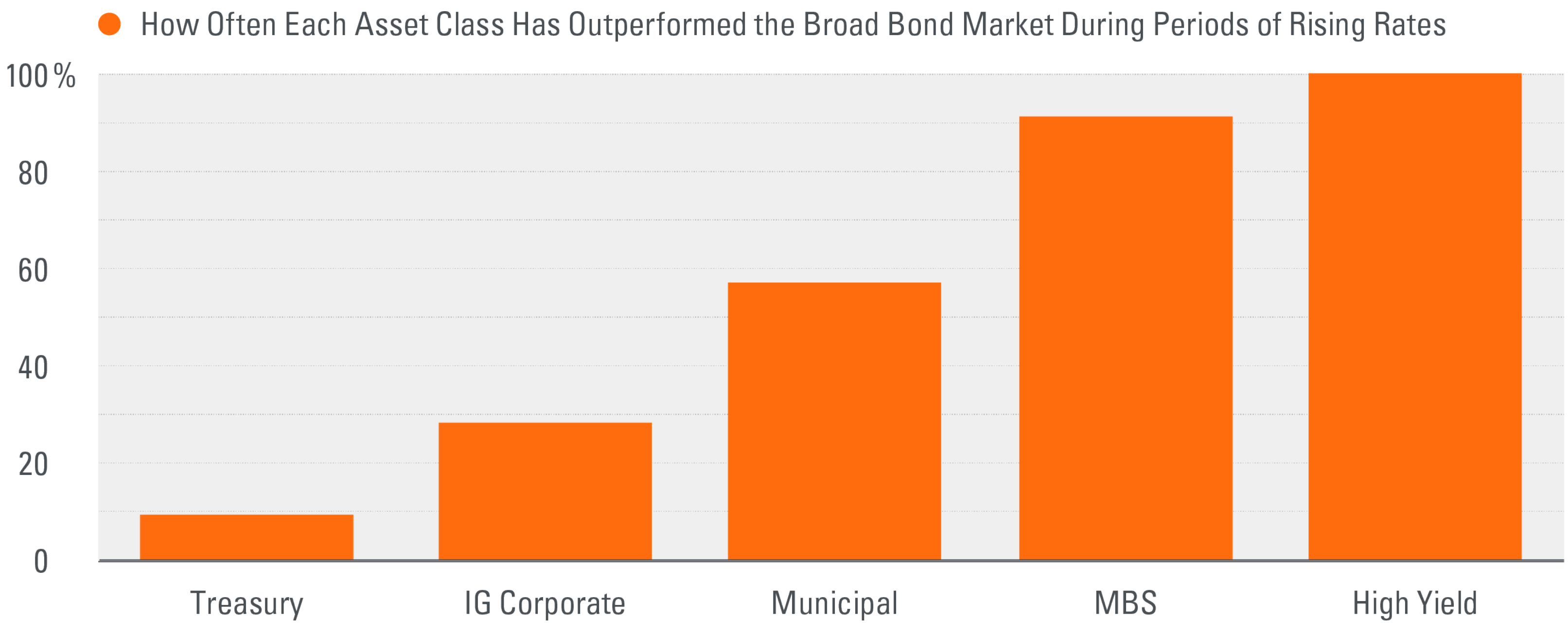


Source: LPL Research, FactSet 06/15/18

Yield curve steepness in this chart reflects the difference between the 10-year and 2-year Treasury yield.

Flattening yield curve is represented by a 0.5–0% spread between short- and long-term rates.

Lower Quality and Less Interest Rate Sensitivity Reign amid Rising Rates



Source: LPL Research, Bloomberg 06/15/18

The broad bond market is measured by the Bloomberg Barclay's Aggregate Bond Index.

Indexes used: Treasuries: Bloomberg Barclays U.S. Agg Govt; Mortgage-Backed Securities (MBS): Bloomberg Barclays U.S. Agg Securitized; Investment-Grade (IG) Corporate: Bloomberg Barclays U.S. Agg Corporate; High Yield: Bloomberg Barclays U.S. High Yield; Municipals: Bloomberg Barclays Municipal.

Rising rate periods analyzed are those shown on the next slide.

Bond Market Segments Vary in Performance During Rising Rate Periods

RELATIVE TO THE BROAD BOND MARKET: OUTPERFORMANCE UNDERPERFORMANCE EQUAL PERFORMANCE

Rising Rates Start Date	Rising Rates End Date	Length (Months)	10-Year Treasury Yield Change	Broad Bond Market Return	Sector				
					Treasury	IG Corporate	Municipal	MBS	High Yield
09/30/1993	11/30/1994	14	2.5%	-3.5%	-4.3%	-4.9%	-5.9%	-1.5%	2.0%
01/31/1996	08/30/1996	7	1.4%	-1.8%	-2.4%	-2.9%	-0.3%	0.0%	3.2%
11/29/1996	03/31/1997	4	0.9%	-1.5%	-1.9%	-2.4%	-0.7%	-0.4%	1.8%
10/05/1998	01/21/2000	16	2.6%	-2.3%	-4.5%	-3.8%	-2.6%	1.5%	3.7%
11/07/2001	04/01/2002	5	1.2%	-2.4%	-4.8%	-2.8%	-1.5%	-0.5%	4.7%
06/13/2003	09/03/2003	3	1.5%	-4.5%	-6.5%	-6.0%	-4.5%	-1.7%	1.1%
03/16/2004	06/14/2004	3	1.2%	-4.3%	-5.2%	-5.4%	-4.6%	-3.0%	-1.9%
06/01/2005	06/28/2006	13	1.4%	-1.3%	-2.2%	-2.7%	1.0%	-0.1%	5.5%
03/05/2007	06/12/2007	3	0.8%	-1.8%	-2.0%	-2.9%	-1.8%	-1.4%	1.6%
03/17/2008	06/16/2008	3	1.0%	-2.2%	-4.5%	-1.1%	1.0%	-2.3%	6.2%
12/30/2008	06/10/2009	5	1.9%	-0.5%	-7.0%	4.7%	6.2%	1.5%	32.2%

Source: LPL Research, Bloomberg 06/15/18

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					Treasury	IG Corporate	Municipal	MBS	High Yield
11/30/2009	04/05/2010	4	0.8%	-0.5%	-2.3%	0.8%	1.6%	-0.6%	8.3%
10/08/2010	02/08/2011	4	1.3%	-3.1%	-4.7%	-3.4%	-5.5%	-1.7%	5.0%
09/22/2011	10/27/2011	1	0.7%	-1.7%	-2.8%	-1.1%	-1.2%	-1.1%	3.7%
01/31/2012	03/19/2012	2	0.6%	-1.2%	-2.5%	-0.9%	-1.0%	-0.2%	2.3%
07/24/2012	09/14/2012	2	0.5%	-0.7%	-1.8%	-0.5%	-0.4%	0.2%	4.0%
12/06/2012	03/11/2013	3	0.5%	-1.0%	-1.5%	-1.2%	-1.1%	-0.3%	3.2%
05/02/2013	09/05/2013	4	1.4%	-4.9%	-4.5%	-6.4%	-6.8%	-4.0%	-2.4%
04/17/2015	06/26/2015	2	0.6%	-2.8%	-2.6%	-4.2%	-1.2%	-1.6%	-0.7%
07/08/2016	11/25/2016	5	1.0%	-3.6%	-4.7%	-3.9%	-4.5%	-1.8%	3.7%
09/07/2017	05/17/2018	8	1.0%	-3.3%	-3.9%	-2.6%	-1.0%	-1.2%	-3.4%

Source: LPL Research, Bloomberg 06/15/18

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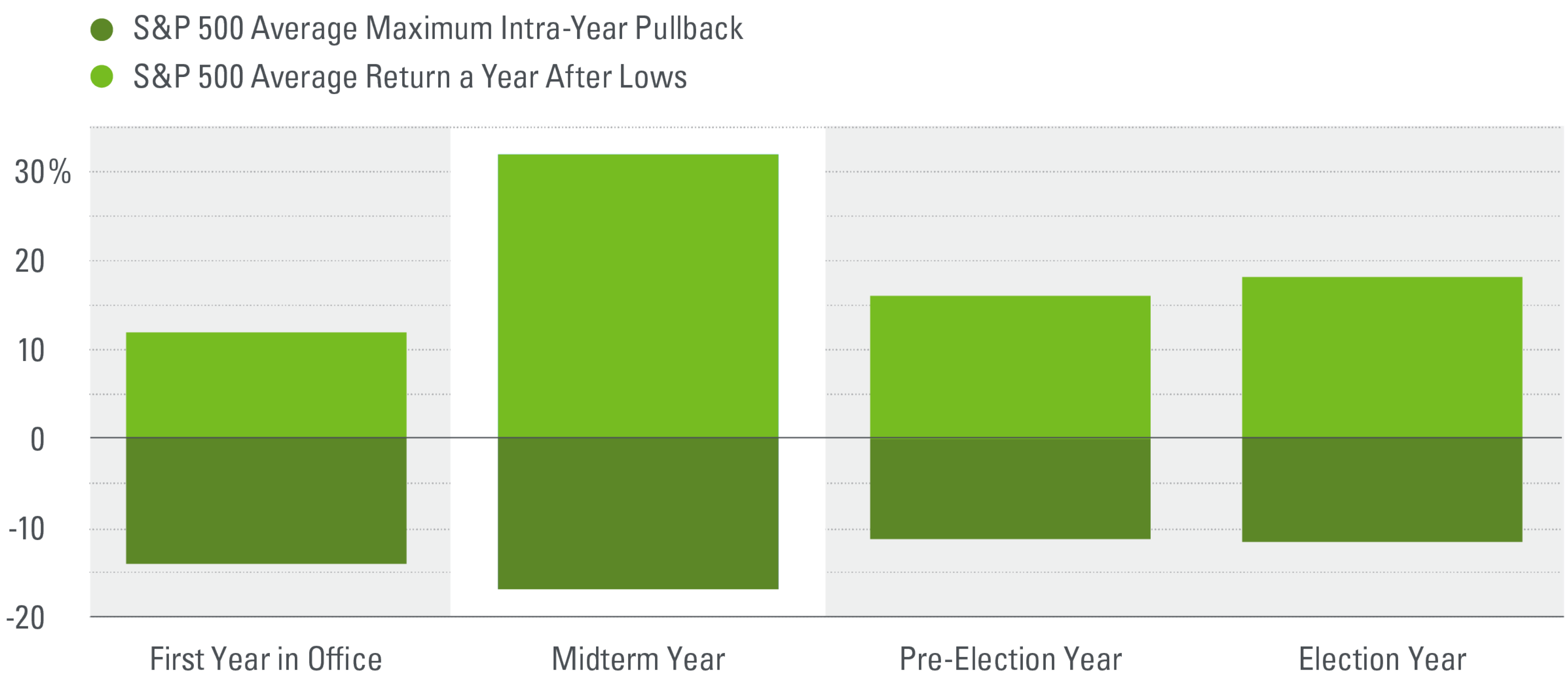
Midterm Years Can Be More Volatile



Source: LPL Research, FactSet 06/15/18

Data are from 1950–2017.

Earnings Growth Peaks Are Not Typically Soon Followed by Recessions

Earnings Growth Peaks	Next Recession Start Date	Peak to Recession (Months)	S&P 500 Gain/Loss
September 1953	August 1957	**47**	105.2%
September 1959	April 1960	**7**	-2.7%
September 1962	December 1969	**87**	66.7%
December 1968	December 1969	**12**	-9.7%
December 1973	January 1980	**73**	10.7%
December 1976	January 1980	**37**	0.4%
September 1981	July 1990	**106**	208.2%
June 1984	July 1990	**73**	133.8%
June 1988	July 1990	**25**	30.9%
March 1995	March 2001	**72**	147.6%
June 2000	March 2001	**9**	-14.8%
June 2004	December 2007	**42**	29.8%
March 2018?	?	?	?
	Average	**49**	**58.9%**
	Median	**45**	**30.4%**

Source: LPL Research, Thomson Reuters, FactSet, National Bureau of Economic Research 06/15/18

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. Economic forecasts set forth may not develop as predicted.

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.

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 nondiversified portfolio. Diversification does not ensure against market risk.

Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

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. The prices of small cap stocks are generally more volatile than large cap stocks. Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

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.

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.

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.

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.

International debt securities involve special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. These risks are often heightened for investments in emerging markets.

Mortgage backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial is not an affiliate of and makes no representation with respect to such entity.

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

DEFINITIONS

Credit risk is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship. Such changes usually affect securities inversely and can be reduced by diversifying (investing in fixed-income securities with different durations) or hedging (e.g. through an interest rate swap).

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.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

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.

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 modern design of the S&P 500 stock index was first launched in 1957. All performance back to 1928 incorporates the performance of predecessor index, the S&P 90.

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).