MIDYEAR

OUTLOOK

2018

AN **LPL RESEARCH** ORIGINAL

THE PLOT THICKENS

★★★★★ 2018 **CA**-CLIENT APPROVED

For the second half of 2018, continued economic growth and market gains may bring the heightened drama of increased volatility. So while there may be some twists and turns ahead, at LPL Research we expect the positive fundamentals may prevail.

PLAY

MORE INFO

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LPL Financial

orld of Rising Volatility, pportunities Emerge?

HEN WE AS INVESTORS began 2018, we were tuned in to the recent fiscal policy changes that were expected to propel economic activity and the financial markets higher in the coming year. The handoff in leadership from monetary policy to fiscal policy was well underway as a driver of consumer spending, business investment, and corporate profits. Instead of depending on the Federal Reserve (Fed) to move this expansion forward, fiscal for continued growth, ng the lead.

ssive change without a l thus we expected this n stock market volatility latility would be normal, at market forces were ecting the economy and stomed support from the o the backdrop. oadly played out in gh with its own twists cal policy leadership, x code, deregulation, and increased government spending, were initially well received by markets. Then, as is often the case, investors grew concerned about the costs of these benefits, namely, Fed tightening, higher deficit spending, and the potential impact on inflation. As a result, early in the year we saw the S&P 500 Index's first decline of over 10% since the Brexit vote in June 2016.

The stock market has been recovering since then. Although we believe the benefits of a return to the business cycle may further support markets and reward patient investors, navigating the volatility of a normal business cycle environment is something we haven't seen in some time. This adds a layer of complexity to our current late cycle environment and the challenges we're facing, such as trade tensions and upcoming midterm elections.

There's also the potential for greater market sensitivity due to the late cycle concerns that can emerge when the economy is doing well. Peaks in manufacturing and earnings, along with higher short-term interest rates, all reflect a healthy economy, but they can also lead investors to wonder if that means this is as good as it gets.

So indeed, the plot has thickened. But that doesn't mean we've taken a turn for the worse. The underlying forces are still forging ahead and this expansion and bull market have not been defeated. And, when we think about these potential obstacles, we should try to remember that challenges can be overcome and they may not signal the end of the story. Volatility means ups and downs. So it doesn't need to be the villain we fear; instead, we should embrace it and strategize accordingly.

It's also important to think of the big picture. Right now, there are many positive fundamentals, like business investment and corporate profits, supporting economic growth and potential market gains. With that backdrop, periods of weakness can be used as opportunities. Employing more active portfolio strategies, focusing on the beneficiaries of the shift from monetary to fiscal leadership, and positioning well-balanced portfolios for the long term are several potential ways to do this.

The *LPL Research Midyear Outlook 2018: The Plot Thickens* presents guidance on how the return of the business cycle may unfold during the remainder of 2018 and beyond, along with the investment insights to help investors navigate the twists and turns.

This season:

Policy p.5

Economy p.7

Bonds p.11

Stocks p.14

Continue watching

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PEAKS

We are starting to see peaks in several economic and market indicators, but that doesn't mean a recession is necessarily around the corner. Specifically, we may have seen peaks in manufacturing growth and earnings, while short-term interest rates are rising faster than long-term rates. However, growth can still be steady after a peak. The context is also critically important here—reaching these points in a positive growth environment is expected and not necessarily a warning sign. So although we are in the later stages of the economic cycle, we don't see a recession in the near term.

VOLATILITY

Given that we are in the later stages of this economic cycle, with factors such as increased trade tensions and geopolitical uncertainty at play, we do expect greater volatility in 2018. But it's important to remember that volatility isn't defined simply as market declines, and experiencing these ups and downs is a normal aspect of our market environment. If we try to embrace volatility, instead of fearing it, we have the potential to create opportunities.

ECONOMY: UP TO 3%

Early this year we slightly upgraded our gross domestic product (GDP) forecast, as tax cuts should improve both personal and business spending. We expect the combination of tax cuts, a new government spending package, and financial deregulation to support continued growth.

STOCKS: 10%+

We expect strong earnings to remain the key driver of stock gains, thanks to the benefits of the new tax law. Although we do expect volatility to increase, in the context of steady economic growth and strong corporate profits, we see the potential for further stock gains in the second half of 2018.

★★★★★

BINGE WORTHY

INVESTMENT IDEAS WE CAN'T STOP WATCHING OR TALKING ABOUT

- ***Small Caps:*** Beneficiaries of lower corporate tax rate, and their U.S. emphasis.
- ***Value:*** Relatively attractive valuations, and rate environment should help financials.
- ***Cyclical Stocks:*** Accelerating growth may support economically sensitive sectors.
- ***Emerging Markets:*** Strong growth and attractive valuations offset tighter monetary policy.
- ***Bank Loans:*** Floating rates may benefit holders if short-term rates rise further.

★★½☆☆

RECOMMENDED FOR YOU

THEY MAY NOT BE GRABBING ALL THE BUZZ, BUT THESE IDEAS COULD BE A SOLID ADDITION TO YOUR QUEUE

- ***U.S. Stocks:*** Accelerating growth and fiscal stimulus provide an edge.
- ***Mortgage-Backed Securities:*** Yield relative to rate sensitivity is attractive, but slowing Fed purchases limit upside.
- ***High-Yield Corporates:*** Yields are attractive despite full valuations.

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as premised on policy
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r income. The $1.5 trillion
the end of 2017 has
have a big impact on
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. Lower corporate tax rates
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ed a larger than expected
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her spending.
tes, the new law includes
esses that could further
th. These tax advantages
nvest in capital projects
ensing) and bring their

A FRIENDLIER SETTING

The tax law may be the new star, but that's not the only policy action in town. Other measures that may be supportive of economic and profit growth include an ongoing reduction in regulatory hurdles for energy infrastructure and financial institutions, as well as a new federal budget. Passed in March 2018, the new budget includes a total of $300 billion in additional government spending over the next two years.

Both Congress and the Fed have also taken action to create a more business-friendly regulatory environment. Congress recently passed a law reducing the number of banks deemed systemically important financial institutions (SIFI), while the Fed has announced plans to ease up on the severity of bank stress testing. As a result of these measures, banks have more lending capacity, which is a positive for the economy.

Under the leadership of new Chair Jerome Powell, the Fed has also remained consistent in its intentions

a total of three times in 2018 (so one more additional hike), the possibility exists for a fourth; we maintain our confidence that this gradual approach is unlikely to result in a policy mistake.

COULD THERE BE A TWIST?

Yet, as is often the case, policy tailwinds confront headwinds, and the costs are weighed against the benefits. Of course, this usually occurs after decisions are made and laws are signed. To be sure, the costs of the tax cuts and additional government spending plans have resulted in increased deficit spending and Treasury issuance at a time when the Fed is no longer supporting the market for government debt by purchasing bonds. This has contributed to bond investors demanding higher yields to offset these risks. And, fortunately, market interest rates have been heading higher, with improved growth expectations and an accompanying manageable pickup in inflation serving as the main drivers.

The biggest risk to investor confidence has been around trade, including new tariffs and trade negotiations. President Trump's call to increase tariffs has weighed on sentiment, with the tax-related market gains tempered by the potential for higher trade costs. Some of what's occurring is likely part of a negotiating tactic; nonetheless, the threat of a trade war is real and disturbing to investors and businesses.

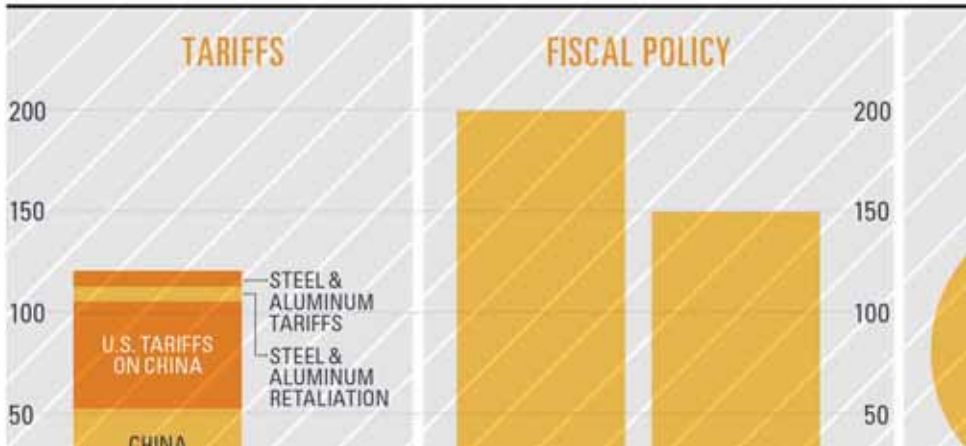
NEW BUSINESS
POLICIES MAY
BOOST FOR THE

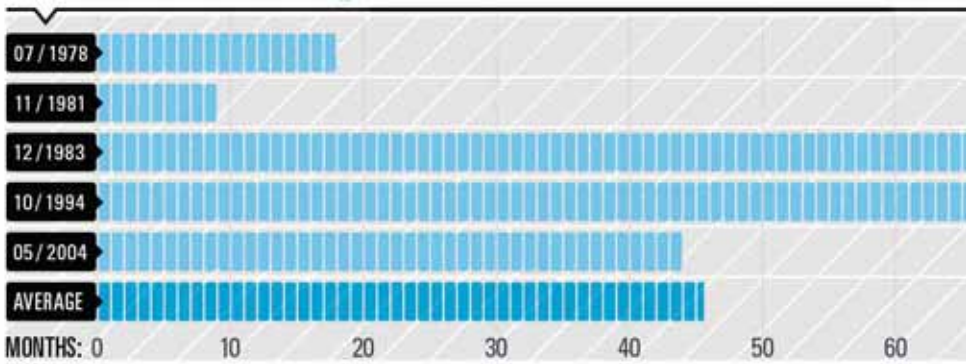
We do believe that some
when considering trade risk
stimulus from tax cuts and i
spending should far outweig
import duties. Between the
projected retaliation, in parti
estimated at approximately
year (on top of the $15 billio
tariffs already announced), y
tailwinds amount to $350 bi
is also the potential added i
bringing home foreign profit
subject to revisions as nego
the tax law is permanent an
growing impact on individua

So we think the good sho
bad, thanks to the benefits
a potentially greater impact
currently anticipated.

FIGURE 1: BENEFITS OF FISCAL POLICY SHOULD FAR OUTWEIGH THE IMPACT OF TARIFF

IMPACT IN 2018 ($ BILLIONS)





Source: LPL Research, Bloomberg 06/15/18

GLOBAL GROWTH STORY

expectation of 3.8% GDP
economy, thanks to new
roved business vitality
the U.S. economy to remain
by the anticipated higher
merging markets, while
lag. Primary risks include
inflation, a substantial
on, or a policy mistake.

ED FOR 2018

2017	2018 (LPL EST.)
2.3%	**Up to 3%**
2.3%	**2.1%**
5.0%	**4.8%**
3.8%	**3.8%**

LAST TIME, ON THE U.S. ECONOMY

The U.S. economy grew at a rate of 2.2% in the first quarter, which was better than the consensus estimate of 2.0% but a slowdown from the near 3% growth of the prior three quarters. First quarter averages are historically lower, so this type of seasonal dip is not unusual. In addition, although the supportive fiscal measures had been enacted, it was a little early for them to affect growth in the first quarter.

FISCAL STIMULUS DRIVES THE STORY

While the threat of tariffs and increased oil prices may weigh on consumption and investment decisions, we believe the positive impacts of fiscal stimulus will prevail for the remainder of the year. The individual tax cuts should improve consumer spending, an important driver of economic growth, while the influence on business spending may be even more impactful. As companies experience higher profitability, this should trickle down to other elements of the economy, with profits helping to drive growth in employment, wages, consumption, and investment. Add the government spending package signed earlier this year and the benefits of increased lending capacity (from recent financial deregulation), and we're looking at significant fiscal tailwinds. We continue to believe that the combination of these forces will result in GDP growth of up to 3% for the U.S. in 2018.

ARE SIGNS POINTING TO A CLIMACTIC MOMENT?

We're continuing to see a healthy labor market, with unemployment at its lowest level in 18 years (at 3.8% as of May). Underemployment (includes those who are employed part time but would like to work full time), at 7.6%, is also near previous cycle lows. A tighter labor market is often viewed as a precursor to higher wage growth and ultimately higher inflation, but sustaining inflation above the Fed's comfort range has been elusive so far. Wages and prices, as well as market interest rates, have climbed recently, though wage growth at current levels of about 2.8% on a year-over-year basis is still well below the 4.0% pace that has typically concerned central bankers. As a result, we continue to look for inflation to climb gradually, with the Consumer Price Index finishing the year in the 2.25–2.5% range.

Manufacturing doesn't have the clout it once did in the economy as a whole, but the financial performance of manufacturing firms still has a major impact on S&P 500 Index earnings. In addition, the Institute for Supply Management (ISM) manufacturing index, which measures whether manufacturing as a whole is expanding or contracting in the U.S., hit its strongest level in over a dozen years in February 2018.

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economy, but even when yo
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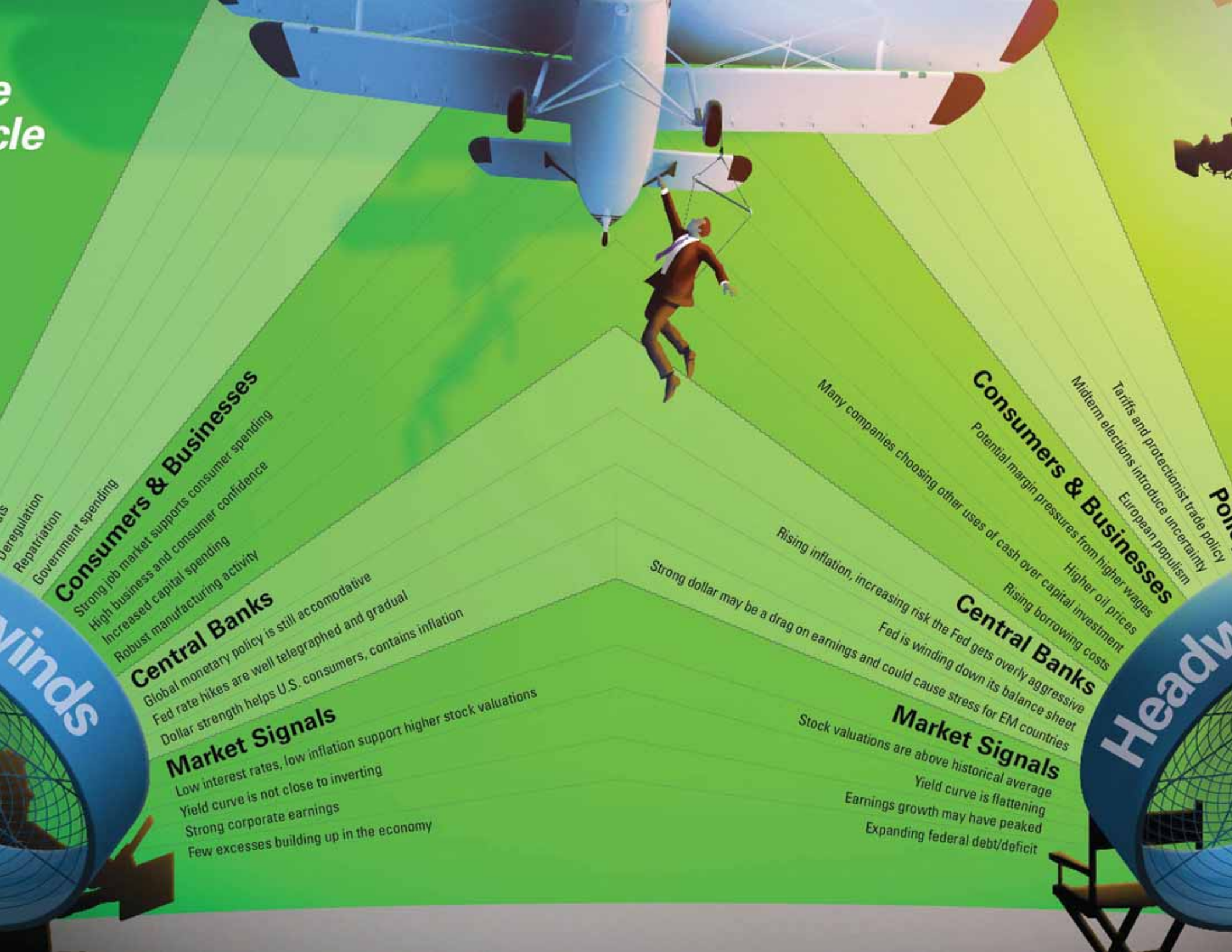
over the last five economic
continued for nearly four yea
manufacturing peak, during
cumulatively gained an aver

EMERGING MARKETS' KE

Looking at developed intern
expectations for European g
though we suspect forecast
ahead of themselves as Eur
have been coming in below
in recent months. We still b
Japan will see growth in 20
of 2.1% growth for develop
below consensus expectati

From our perspective, the
still appear to have a more s
trajectory. Though tariffs and
war with China have weighe
and could take a toll on eme
expect these factors to dera
We continue to believe that
successfully navigate trade
reach an agreement, particu
intellectual property policy is

Despite these challenges,
powerful demand trajectory
emerging market consumer


e
cle
ts
Deregulation
Repatriation
Government spending
Consumers & Businesses
Strong job market supports consumer spending
High business and consumer confidence
Increased capital spending
Robust manufacturing activity
Central Banks
Global monetary policy is still accomodative
Fed rate hikes are well telegraphed and gradual
Dollar strength helps U.S. consumers, contains inflation
Market Signals
Low interest rates, low inflation support higher stock valuations
Yield curve is not close to inverting
Strong corporate earnings
Few excesses building up in the economy
winds
Many companies choosing other uses of cash over capital investment
Potential margin pressures from higher wages
Higher oil prices
Rising borrowing costs
Consumers & Businesses
Rising inflation, increasing risk the Fed gets overly aggressive
Fed is winding down its balance sheet
Strong dollar may be a drag on earnings and could cause stress for EM countries
Central Banks
Stock valuations are above historical average
Yield curve is flattening
Earnings growth may have peaked
Expanding federal debt/deficit
Market Signals
Tariffs and protectionist trade policy
Midterm elections introduce uncertainty
European populism
Pol
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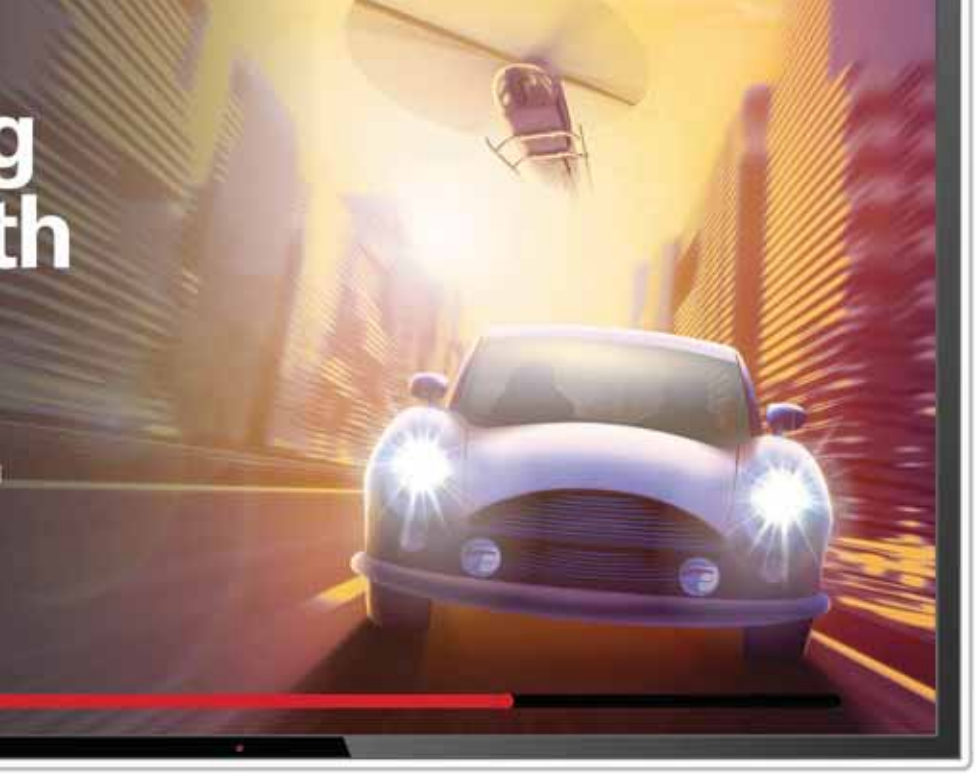


RN OF THE BUSINESS

economic growth that combined to push market e first half of the year. olatility have resulted uality" where investors e U.S. Treasury bonds, and highlighting the high-quality fixed income r, we continue to believe al drivers, including spending, rising inflationary ns of future Fed rate ds marginally higher as the is back-and-forth volatility ve encourage suitable active strategies within os going forward.

D CURVE SIGNAL

faster than long-term rates. This may eventually lead to an inverted yield curve where short-term rates are above long-term rates. Historically, this has been a negative signal for the U.S. economy, often providing an early warning of an eventual recession. Yet in this circumstance, we believe that the curve flattening with interest rates rising (rather than falling) is a market signal pointing toward future growth.

Moreover, a look at the last five cycles shows that the average time it takes from a flattening yield curve (represented by a 0.50% spread between short- and long-term rates) to a recession has been almost four years, with stock prices climbing by an average of 67.9% during that time frame **[FIGURE 4]**. Outliers have skewed the average, but a median return of 21.5% is a helpful reminder of the need for investors to maintain a long-term outlook.

U.S. Treasuries may be considered "safe haven" investments but do

approach to bonds, it is important to identify how different types of fixed income securities have performed in rising interest rate environments **[FIGURES 5, 6]**. As a reminder, we expect yields to grind gradually higher with periodic bouts of volatility, and we maintain our year-end forecast of 2.75–3.25% for the 10-year Treasury. Risks to our forecast include a meaningful upside surprise in inflation or growth, which could pressure rates higher.

U.S. TREASURIES: Within the sub-asset classes for bonds, U.S. Treasuries tend to have the most interest rate sensitivity, and historically have performed poorly during Fed tightening cycles. Though increased Treasury issuance to fund federal deficit spending will accentuate this trend, an attractive valuation compared to other sovereign debt may support buying, which should help contain yields.

INVESTMENT-GRADE CORPORATES: Though investment-grade (IG) corporate bonds are also sensitive to a more aggressive Fed, better economic growth is helping to contain the interest rate differentials (spreads) to Treasuries, suggesting investor confidence in their ability to service their debt. Also, to boost this confidence, corporations have gone to great lengths to maintain healthy balance sheets and tighten their income statements these past several years, evidenced by still low debt-to-earnings ratios. Perhaps more important, the contained spreads collectively indicate a lack of stress in credit markets.

MUNIS: Higher-quality municipal securities tend to hold up better than Treasuries in rising rate periods, as their tax-exempt status historically attracts investor assets.

MBS: While higher-quality mortgage-backed securities (MBS) have performed well in previous rising rate

WE BELIEVE A F CURVE WHEN I ARE RISING IS A SIGNAL FOR FU

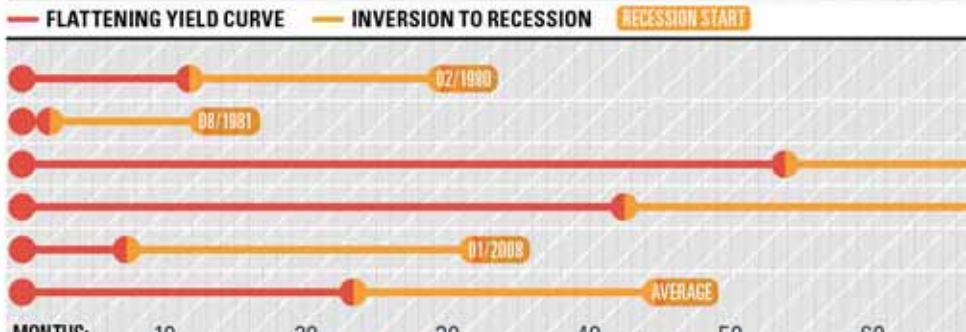
environments, they are not If rates move significantly hi refinance their mortgages a leaving MBS investors with expected, essentially locking

HIGH-YIELD: For suitable inve may enhance yield within di including bank loans and high to rising rates, we believe hig bonds remain attractive give income potential and reduce solid economic growth prosp we encourage investors not by the higher yields, which c fundamental deficiencies for

DON'T SPEED TOWARD IN

Global bonds present a mixe and risks. U.S. Treasuries re when compared with other 10-year Treasury yielding nea

FIGURE 4: A FLATTER YIELD CURVE DOESN'T NECESSARILY MEAN A RECESSION IS AROUN



an 0.05%. Currency
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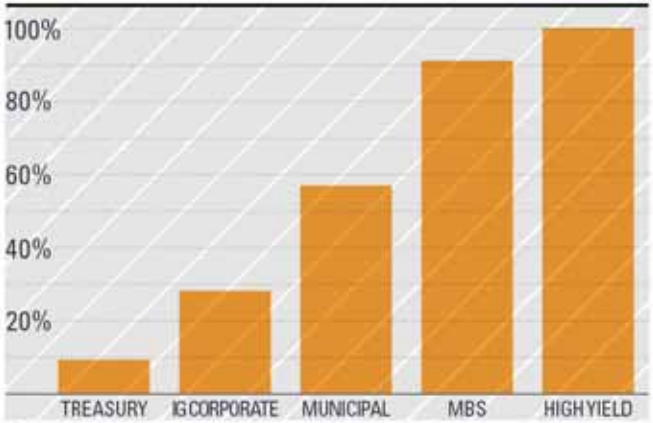
HOW OFTEN EACH ASSET CLASS HAS OUTPERFORMED THE BROAD BOND MARKET DURING PERIODS OF RISING RATES



Source: LPL Research, Bloomberg 06/15/18. See below for indexes used. Rising rate periods analyzed are those shown in Figure 6.

N PERFORMANCE DURING RISING RATE PERIODS

RFORMANCE UNDERPERFORMANCE EQUAL PERFORMANCE

10-Year asury Yield Change	Broad Bond Market Return	SECTOR				
		Treasury	IG Corporate	Municipal	MBS	High Yield
2.5%	-3.5%	-4.3%	-4.9%	-5.9%	-1.5%	2.0%
1.4%	-1.8%	-2.4%	-2.9%	-0.3%	0.0%	3.2%
0.9%	-1.5%	-1.9%	-2.4%	-0.7%	-0.4%	1.8%
2.6%	-2.3%	-4.5%	-3.8%	-2.6%	1.5%	3.7%
1.2%	-2.4%	-4.8%	-2.8%	-1.5%	-0.5%	4.7%
1.5%	-4.5%	-6.5%	-6.0%	-4.5%	-1.7%	1.1%
1.2%	-4.3%	-5.2%	-5.4%	-4.6%	-3.0%	-1.9%
1.4%	-1.3%	-2.2%	-2.7%	1.0%	-0.1%	5.5%
0.8%	-1.8%	-2.0%	-2.9%	-1.8%	-1.4%	1.6%
1.0%	-2.2%	-4.5%	-1.1%	1.0%	-2.3%	6.2%
1.9%	-0.5%	-7.0%	4.7%	6.2%	1.5%	32.2%
0.8%	-0.5%	-2.3%	0.8%	1.6%	-0.6%	8.3%
1.3%	-3.1%	-4.7%	-3.4%	-5.5%	-1.7%	5.0%
0.7%	-1.7%	-2.8%	-1.1%	-1.2%	-1.1%	3.7%
0.6%	-1.2%	-2.5%	-0.9%	-1.0%	-0.2%	2.3%
0.5%	-0.7%	-1.8%	-0.5%	-0.4%	0.2%	4.0%
0.5%	-1.0%	-1.5%	-1.2%	-1.1%	-0.3%	3.2%
1.4%	-4.9%	-4.5%	-6.4%	-6.8%	-4.0%	-2.4%
0.6%	-2.8%	-2.6%	-4.2%	-1.2%	-1.6%	-0.7%
1.0%	-3.6%	-4.7%	-3.9%	-4.5%	-1.8%	3.7%
1.0%	-3.3%	-3.9%	-2.6%	-1.0%	-1.2%	-3.4%

You're watching

Overcoming Obstacles with Stock Gains

Episode 4:

The current environment looks favorable for strong earnings and stock gains. We do expect volatility, but steady economic growth provides a strong backdrop and the potential for opportunity.

THE FIRST HALF OF 2018 SAW THE RETURN of equity volatility after the docile trading patterns of 2017. The surge in bond yields after the January jobs report, along with the initial trade concerns in late March, resulted in the first market corrections (a pullback of at least 10.0%) since the Brexit vote in June 2016. Though higher bond yields caused market disruptions, rising market interest rates (especially from relatively low levels) have typically been associated with an improving economy and higher stock prices. As a result, when viewing market volatility in the context of steady economic growth, it is not something to fear, in our opinion, but to embrace, as temporary market sell-offs may provide suitable investors with opportunities to rebalance portfolios toward long-term targets.

Given that the Fed is well on its way to unwinding accommodative measures, we encourage investors to focus on the fiscal tailwinds of favorable taxes,

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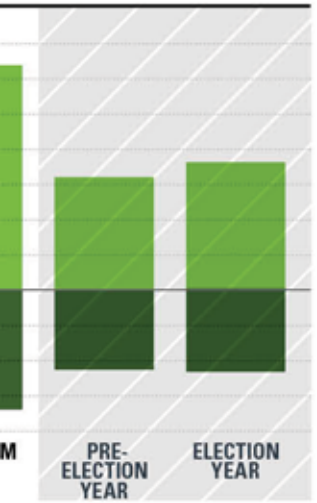
YEAR AFTER LOWS



18

SEVERE

g volatile periods, investors
undamentals like the
its. In the first quarter of
panies' earnings per share
of expectations. Given this
cided to slightly upgrade
ecast from $152.50 to
S&P 500, which would
7.0% year-over-year growth.
w consensus expectations
ve given the substantial
fiscal leadership. However,
o several ongoing factors

ld affect the EPS
ultinational companies.
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atively impact

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within the range of 2900–3000 by year-end, which at the midpoint represents an annual increase in excess of 10.0% for the index and a target price-to-earnings (PE) ratio of 19. A PE of 19 is slightly above its historical average; however, when put in the context of still relatively low interest rates and low inflation, we believe a PE at this level is justified.

EARNINGS HAVE CLIMBED TO THE TOP

Another concern for investors that has recently surfaced is whether the recent first quarter earnings season would prove to be "as good as it gets." Despite widespread discussion of "peak profits," the first quarter EPS growth of more than 25% year over year does not necessarily mean trouble is imminent—even if it were to be the percentage EPS growth peak in this cycle. In fact, a look back at six decades of earnings growth peaks suggests that it typically takes about four years from a profit growth peak before the economy slips into recession **[FIGURE 8]**. It is noteworthy that the S&P 500 gained an average of 59% during these periods between earnings growth peaks and the start of the next recession.

DEVELOPED INTERNATIONAL MAY BE THE WEAK LINK

The profit story remains a global one, although earnings growth expectations are not as strong in developed international markets. A combination of slower economic activity (Japan) and political disruptions (Europe) have weighed on investor sentiment. We also remain concerned about government debt levels, and the potential for continued political uncertainty has led us to prefer U.S. and emerging markets.

Though emerging markets have been pressured by a combination of rising interest rates, U.S. dollar strength, and fears of a trade war, we continue to believe that advantageous demographics, early cycle acceleration, and commodities gains will ultimately benefit the group. This positive economic outlook is translating to a strong earnings growth outlook, with consensus estimates showing an expectation of approximately 14.0% EPS growth, while valuations remain attractive. Trade remains

that investors take advantage of periodic weakness to invest excess cash or rebalance portfolios back toward targeted long-term allocations. The fundamentals supporting economic growth and corporate profits remain solid from our perspective, and we'll continue to position portfolios toward beneficiaries of the transition from monetary to fiscal leadership.

As a result, we continue to favor small caps over their large cap counterparts, primarily because of the new tax law, trade policy, and a potentially stronger U.S. dollar. Small cap companies generally had higher taxes, so they benefit more from the reduction in corporate rates. With less overseas revenue, small cap companies are not impacted as much by tariffs and the stronger dollar is less of a drag, compared with large caps.

Though the growth style of investing has maintained momentum, we continue to see attractive valuations on the value side and a fair amount of cyclical value stocks that we think will benefit from the return of the business cycle. Value stocks have historically performed better when economic growth accelerates, a condition that is in place today. We believe the financials sector is well positioned given lower taxes, deregulation, higher interest rates, and attractive valuations. Industrials

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momentum, which can be
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Finally, we continue to fa
stocks over developed inter
we described earlier. While
to persist, we also believe t
opportunity for investors as
profit cycle persists.

Overall, earnings growth
volatility may stay with us.
growth in the economy and
potentially carry stocks to f
second half of 2018.

FIGURE 8: EARNINGS GROWTH PEAKS ARE NOT TYPICALLY SOON FOLLOWED BY RECESSI

EARNINGS GROWTH PEAKS	NEXT RECESSION START DATE	PEAK TO RECESSION (MONTHS)
September 1953	August 1957	**47**
September 1959	April 1960	**7**
September 1962	December 1969	**87**
December 1968	December 1969	**12**
December 1973	January 1980	**73**
December 1976	January 1980	**37**
September 1981	July 1990	**106**
June 1984	July 1990	**73**
June 1988	July 1990	**25**
March 1995	March 2001	**72**
June 2000	March 2001	**9**
June 2004	December 2007	**42**
March 2018?	?	?

ING FORCES HAVE
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icy support fading
nd, we expect steady
and stock market
ue throughout 2018
ever, we would
cknowledge the
ased volatility
we are in the later
nomic cycle and
ade tensions and
tainty can raise
ns. We've suggested
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ecting volatility, we
ipped to manage it.
ket declines, or ups
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onal reactions. In
er that volatility does
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. In fact, volatility is a
a sign that traditional
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Keeping all of that in mind, as we prepare for the rest of 2018—and even further to 2019—we will be looking for opportunities to make the most out of any ups and downs in the markets. For suitable investors, market weakness can mean a chance to take advantage of lower stock prices, or to reallocate a portfolio so that it's more in line with long-term targets. Remembering those long-term goals during these periods is often helpful, particularly when trying to avoid reacting in the short term.

Another key theme that may gain attention this year is that certain economic and market indicators have peaked, and that we may have seen the best out of this expansion. Although we may not top first-half results from manufacturing and earnings reports, and short-term interest rates continue to rise, context is critical here. Reaching these milestones with a strong economic backdrop indicates the potential for continued, steady growth; while historically speaking, we've seen an average of four more years of stock gains after triggering these market signals.

With the shift in market leadership and continued uncertainty regarding trade and the upcoming midterm elections, as well as the heightened sensitivity of a late cycle market, there are many factors at play. So the plot has thickened, but that doesn't mean the story of this bull market is over. We continue to see the potential for economic and market growth in 2018 and beyond, and will strategize accordingly should volatility ramp up as we expect.

Armed with the investment insights of LPL Research's *Midyear Outlook 2018*, and supported by the guidance of a trusted financial advisor, we expect investors can remain optimistic that what's "up next" may be positive for their investment portfolios.

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.

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

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.

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.

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.

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.

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.

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.

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.

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

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

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.

There is no guarantee that a divers
or outperform a nondiversified por
against market risk.

DEFINITIONS

Credit risk is the risk of loss of pri
stemming from a borrower's failur
contractual obligation. Credit risk
to use future cash flows to pay a c
for assuming credit risk by way of
issuer of a debt obligation. Credit
of an investment, the most notabl
strongly to their perceived credit r

Interest rate risk is the risk that ar
a change in the absolute level of i
two rates, in the shape of the yiel
relationship. Such changes usually
reduced by diversifying (investing
durations) or hedging (e.g. through

The modern design of the S&P 500
All performance back to 1928 inco
index, the S&P 90.

Yield curve is a line that plots the
bonds having equal credit quality,
frequently reported yield curve co
30-year U.S. Treasury debt. This yi
debt in the market, such as mortga
is also used to predict changes in

The Consumer Price Index (CPI) is
time in the prices paid by urban co
goods and services.

Gross domestic product (GDP) is th
goods and services produced with
period, though GDP is usually calc
of private and public consumption
exports less imports that occur wi

INDEX DEFINITIONS

The S&P 500 Index is a capitalizat
to measure performance of the bro
the aggregate market value of 500

The Bloomberg Barclays U.S. Aggr
flagship benchmark that measures
denominated, fixed-rate taxable b
government-related and corporate
hybrid ARM pass-throughs), ABS,

The Bloomberg Barclays U.S. Corp
grade, fixed-rate, taxable corporat
denominated securities publicly is
utility and financial issuers.

The Bloomberg Barclays U.S. Corpo
the U.S. dollar-denominated, high y
Securities are classified as high yie
S&P is Ba1/BB+/BB+ or below. Bon
country of risk, based on Barclays E

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Not Guaranteed by Any Government Agency | Not a Bank/Credit Union Deposit

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