LPL Financial

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LPL Research Publishes Investment Outlook 2018

LPL Research Reports an Expected Return of the Business Cycle in 2018

CHARLOTTE, N.C., Nov. 27, 2017 (GLOBE NEWSWIRE) -- Leading retail investment advisory firm and independent broker/dealer **LPL Financial LLC**, a wholly owned subsidiary of LPL Financial Holdings Inc. (NASDAQ:LPLA), announced today its research publication, "*Outlook 2018: Return of the Business Cycle*," is available for download. *"Outlook 2018"* contains investment insights and market guidance for full-year 2018 from LPL Financial's Research department ("LPL Research").

LPL Research reports a "return of the business cycle" in 2018, as improving business fundamentals, rather than central bank intervention, will potentially spur further growth in the economy and drive gains for stocks. It also reports that fiscal policy in the form of government spending and tax cuts carry the potential for an added boost.

The LPL Research report states that the return of the business cycle will be characterized by five drivers:

- **Fiscal coordination.** The next step for the U.S. economy will involve some combination of infrastructure spending, tax reform and regulatory relief. There has been some progress on the policy front, and, at a minimum, corporate tax cuts are expected to be a primary driver of economic activity in 2018.
- **Business investment.** Early in the expansion, business investment slowed and productivity suffered. Now, companies are using cash differently, focusing on increasing productivity and attaining greater market share. To remain successful, *"Outlook"* reports that businesses will need to invest in property, plants and equipment.
- **Corporate profits.** Given the transition from monetary to fiscal policy, LPL Research finds that additional price-to-earnings expansion should not be expected. Instead, better global growth, a pickup in business spending, and lower corporate taxes should all combine to support earnings growth.
- **Active management.** The dynamics that have supported passive strategies in recent years have begun to fade. 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.** Although the fixed income market may be under pressure due to higher interest rates, bonds—especially high-quality—should remain an important part of well-balanced, diversified portfolios. Bonds can help mitigate portfolio risk and may provide income, liquidity and an ability to help smooth out volatility in portfolios should there be any equity market pullbacks.

Against this backdrop, the LPL Research report forecasts the following:

- **Economy: Gross domestic product (GDP) growth near 2.5%.** LPL Research projects real GDP growth of around 2.5% attributed to fiscal support with additional help from a pickup in business spending, while a strong labor market should continue to support consumer spending.
- **International: GDP growth near 3.7%.** Looking overseas, LPL Research forecasts GDP growth of approximately 3.7% as elected officials and monetary policy makers look for a set of policies that may also turn international developed economies to more traditional business cycle drivers.
- **Stocks: 8—10% total returns.** LPL Research expects a favorable macroeconomic backdrop to support 8—10% earnings gains and similar returns for stocks in the next year, consistent with long-term trends. The forecast for S&P 500 earnings per share (EPS) for 2018 of $142—143 does not include any direct impact from the tax bill.
- **Bonds: Essential diversifiers.** LPL Research expects two to three additional Federal Reserve rate hikes will likely pressure short-term interest rates higher, while increasing levels of growth and inflation will push long-term interest rates higher. Given the continued, albeit modest, pickup in growth and inflation, LPL Research expects the 10-year U.S. Department of Treasury yield to end 2018 in the 2.75—3.25% range.*

"We expect to return to an environment in which investors are 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," said LPL Financial Executive Vice President and Chief Investment Strategist John Lynch. "LPL Research's *"Outlook 2018"* reminds investors where we have been, what we have accomplished and why the return of these market forces may bring new opportunities for market participants."

"With this guidance and investment insight, investors will be able to embrace this market environment in their search for long-term success," said LPL Financial Managing Director and Chief Investment Officer Burt White. "LPL is proud to have the unique ability to offer this in-depth, objective market analysis as a valuable resource to support our advisors as they help their clients toward their financial goals."

About LPL Research

LPL Financial's Research department ("LPL Research"), led by Managing Director and Chief Investment Officer Burt White, provides strategic, objective investment insights to advisors who leverage LPL Financial's Research platforms. The group's mission is to be a trusted partner to LPL Financial's advisors, who in turn provide investors with choices to help meet their financial goals. The team provides those advisors with market, investment management, portfolio construction, and due diligence advice. LPL Research's Outlook publications, produced semiannually, serve as the backdrop for all the team's investment recommendations and communications efforts for the year ahead.

About LPL Financial

LPL Financial LLC, a wholly owned subsidiary of LPL Financial Holdings Inc. (NASDAQ:LPLA), is a leader in the retail financial advice market and provided service to approximately $566 billion in brokerage and advisory assets as of Oct. 31, 2017. LPL is one of the fastest growing RIA custodians and the nation's largest independent broker-dealer (based on total revenues, Financial Planning magazine, June 1996-2017), and the firm and its financial advisors were ranked No. 1 in net customer loyalty in a 2016 Cogent Reports™ study. The Company provides proprietary technology, comprehensive clearing and compliance services, practice management programs and training, and independent research to more than 14,000 financial advisors and over 700 financial institutions, enabling them to provide a range of financial services including wealth management, retirement planning, financial planning and other investment services to help their clients turn life's aspirations into financial realities. As of Sept. 30, 2017, financial advisors associated with LPL served more than 4 million client accounts across the U.S. as well as an estimated 41,000 retirement plans with an estimated $137 billion in retirement plan assets. Additionally, LPL supports approximately 3,700 financial advisors licensed and affiliated with insurance companies with customized clearing, advisory platforms, and technology solutions. LPL Financial and its affiliates have more than 3,500 employees with primary offices in Boston, Charlotte, and San Diego. For more information, visit www.lpl.com.

Securities and Advisory Services offered through LPL Financial. A registered investment advisor, Member FINRA/SIPC.

Important Disclosures

Economy: As noted in *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 *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 LPL Research's earnings growth forecast of 8—10%. Earnings gains are supported by LPL Research's expectations of better economic growth, with potential added benefit from lower corporate tax rates.

Bonds: As noted in *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 its expectations for a gradual pickup in interest rates across the yield curve. LPL Research also expects the 10-year Treasury yield to end 2018 in the 2.75—3.25% range, based on its expectations for a modest pickup in growth and inflation.

Please see the *Outlook 2018: Return of the Business Cycle* publication for additional description and disclosure.

*The yields for the 10-year are 2.33% on 9/29 (quarter end) and 2.37% as of (11/20).
The opinions set forth in this press release and *Outlook 2018: Return of the Business Cycle* 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.
Any economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
All performance referenced is historical and is no guarantee of future results.
All investing involves risk including loss of principal. No strategy assures success or protects against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All information is believed to be from reliable sources; however LPL Financial makes no representation as to its completeness or accuracy.

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