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December 21, 2018

Dear Valued Investor:

After a mixed first half of the year and a solid third quarter, stock markets weakened considerably in the closing weeks of 2018. We understand that turmoil in the financial markets is never a pleasant experience for investors, and thus we strive to provide the helpful guidance and insight to help investors weather these times and prepare for what may lie ahead. Indeed, our *Outlook 2019: FUNDAMENTAL: How to Focus on What Really Matters in the Markets* provides investors with a guidebook for navigating a maturing economic and market cycle.

Several factors are weighing on investor sentiment right now, including policy uncertainty regarding trade, weaker oil prices, the path of interest rates, and the geopolitical environment. Despite these pressures, we continue to believe the fundamental backdrop supporting growth in the economy and corporate profits remains sound, suggesting that this market weakness may not lead to a recession in 2019. The U.S. economy remains solid and we expect continued growth to support solid potential stock gains in 2019.

Policy has been a prominent factor this past year, as the contribution from fiscal incentives including tax cuts, reduced regulation, and increased government spending helped boost growth. The combination of these trends propelled U.S. growth toward annual gains of approximately 3% (as measured by gross domestic product) and the stock market managed to achieve all-time highs during the third quarter. Policy uncertainty has increasingly weighed on investor sentiment, however, particularly surrounding the midterm elections and as trade tensions have continued to make headlines.

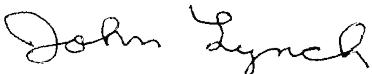
Anticipation was high for a tariff agreement between the U.S. and China at the G20 summit meeting. Although it concluded with a lengthier path toward progress than most had hoped for, we still expect continued progress in 2019. Oil prices remained weak after the announced OPEC production cut as investors debated whether weakness was due to slowing global growth. Rather than a demand problem, we maintain that oil is a supply issue and thus not indicative of a recession, particularly now that the U.S. is the world's leading producer.

Perhaps the biggest policy uncertainty weighing on the markets has been the Federal Reserve (Fed) and the future path for interest rates. The Fed's recent rate hike, coupled with reduced growth forecasts, added to investor concerns and further pressured stock prices. Considering our forecast of steady economic growth and lower than average inflation, we look for the Fed to keep interest rates lower in 2019 than the markets currently fear.

For all these reasons, LPL Research intentionally titled our *Outlook* publication, *FUNDAMENTAL: How to Focus on What Really Matters in the Markets*. We are mindful that market weakness can be alarming and cause investors to question their strategy. Yet the combination of high employment, solid consumer spending, improved trends for business investment, and mild inflation should result in a firm, fundamental foundation supporting growth in the economy and corporate profits in the year ahead.

As always, if you have any further questions, I encourage you to contact your trusted financial advisor.

Sincerely,



John Lynch
EVP, Chief Investment Strategist
LPL Research

For additional description and disclosures, please see the full *Outlook 2019* publication.

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