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Dear Valued Investor:

We are pleased to announce the release of the *LPL Research Midyear Outlook 2018: The Plot Thickens*, with investment insights and market guidance to take you through the rest of the year. So far this year, the return of the business cycle has brought the fiscal policy changes that were expected to propel economic activity and the financial markets higher in 2018.

Policy remains a key theme to watch. Tax cuts, a more business-friendly regulatory environment, and increased government spending should support consumer spending, business investment, and corporate profits—key drivers of our economic and stock forecasts. The biggest risk to investor confidence this year has been around trade, including new tariffs. When we compare the fiscal measures with the potential impact of increased tariffs, however, the benefits appear to outweigh the costs. With these factors in mind, we maintain that policy changes should have a positive influence on the economy and markets.

Another theme that may garner more attention this year is that certain economic and market indicators may have peaked, and that we may have seen the best out of this expansion. However, the context is critically important here. Reaching these points with a strong economic backdrop is expected and indicates the potential for continued growth; in addition, historically, we've seen an average of four more years of stock gains after triggering these market signals. So, although we are in the later stages of the economic cycle, we don't believe a recession is looming.

Against this backdrop, we maintain the forecasts we set forth at the beginning of 2018, following the passage of the new tax law. We expect up to 3% gross domestic product growth for the U.S. economy, with tax cuts, government spending, and deregulation measures providing support. As expected, accelerating economic growth and rising interest rates continue to pressure bonds. We maintain our forecast of flat to low-single-digit returns for bonds (as measured by the Bloomberg Barclays U.S. Aggregate Bond Index), but believe high-quality bonds may provide diversification benefits for investors' portfolios.

We expect strong earnings to remain the key driver of stock gains, thanks to the benefits of the new tax law. 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 may be ahead. But it's important to remember that experiencing these ups and downs is a normal aspect of our market environment. Also, within the context of steady economic growth and strong corporate profits, we see the potential for stock gains of 10% or more (as measured by the S&P 500 Index).

Overall, we expect to see continued economic and market growth in 2018 and beyond, and the *LPL Research Midyear Outlook 2018* is here to provide insightful commentary to help you navigate the year ahead. If you have any questions, please reach out to your trusted financial advisor.

Sincerely,

John Lynch

John Lynch
EVP, Chief Investment Strategist
LPL Research

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).

Additional descriptions and disclosures are available in the *Midyear Outlook 2018: The Plot Thickens* publication.

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