

November 2017

OUTLOOK 2018

EXECUTIVE SUMMARY

For more investment insights, read the full publication: [Outlook 2018: Return of the Business Cycle.](#)

The return of the business cycle means a return to traditional forces that have historically propelled the economy and markets. Instead of relying on accommodative monetary policy and central bank intervention, fiscal policy and improving business fundamentals are expected to spur further economic and market growth in 2018.

KEY THEMES

Fiscal Coordination

Expect some combination of infrastructure spending, tax reform, and regulatory relief. Given recent progress on the policy front, corporate tax cuts could be a primary contributor to economic activity in 2018.

Business Investment

Companies are using cash differently now, focusing on increasing productivity and attaining greater market share. To remain successful, businesses will need to invest in property, plants, and equipment.

Earnings Growth

For stocks to produce attractive returns, earnings growth will be a key factor. Better global growth, a pickup in business spending, and potentially lower corporate taxes should all support earnings.

Active Management

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.

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.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

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.

Active management involves risk as it attempts to outperform a benchmark index by predicting market activity, and assumes considerable risk should managers incorrectly anticipate changing conditions.

ECONOMY

2.5% GDP Growth

As monetary tailwinds give way to fiscal support, the U.S. economy is expected to grow at a rate of 2.5% in 2018, as measured by gross domestic product (GDP). Though consumer spending will likely remain the largest component of GDP, business spending may have the fastest growth trajectory in 2018. The next step for the U.S. economy involves fiscal coordination, and a likely key contributor to economic activity in 2018 will come from changes in corporate taxes.

3.7% International GDP Growth

Global GDP is expected to expand to about 3.7% in 2018. In international developed economies, which have also relied on accommodative monetary policy, fiscal coordination will be needed to spur growth and extend the expansion. Meanwhile, emerging economies may be supported by advantageous demographics, stable commodity prices, and early cycle acceleration.

STOCKS

8–10% Returns

LPL Research forecasts returns of 8–10% for the S&P 500 Index (including dividends), with earnings growth the primary driver. The S&P 500 may be well positioned to generate earnings growth at or near double-digits in 2018 thanks to a combination of better economic growth and potentially lower corporate tax rates, despite some possible downward pressure on profit margins from higher wages. Risks to our stock market forecast include Congress failing to pass a tax agreement, a potential policy mistake by a central bank, and political uncertainty around the midterm elections.

BONDS

Flat to Low-Single-Digit Returns

We expect the fixed income market to be under pressure in the coming year, as moderate GDP growth and rising inflation may lead to gradually higher interest rates. We expect flat to low-single-digit returns, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index. Given the continued, albeit modest, pickup in growth and inflation, we would expect the 10-year Treasury yield to end 2018 in the 2.75–3.25% range. Bonds do remain an important element of a well-balanced portfolio, serving to provide risk mitigation should we experience equity market pullbacks.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly.

Additional descriptions and disclosures are available in the *Outlook 2018: Return of the Business Cycle* publication.

Economic forecasts set forth may not develop as predicted.

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).

This research material has been prepared by LPL Financial LLC.

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