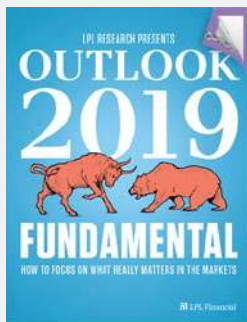


December 2018

OUTLOOK 2019

EXECUTIVE SUMMARY

Read the full
[Outlook 2019:
FUNDAMENTAL:
How to Focus on
What Really
Matters in
the Markets](#)



After nearly 10 years of witnessing the U.S. economy and stock market recover and thrive, many investors are starting to wonder if we've seen all this expansion and bull market have to offer. Despite the market weakness we saw at the end of 2018, at LPL Research we expect the U.S. economy to grow in 2019 and support gains for stocks; however, it is a good time to start thinking about what the next phase for the economy and markets may look like.

KEY THEMES

Fiscal Policy

With the uncertainty of the midterm elections behind us and a split Congress convening in January, we expect "gridlock" to provide a better sense of political balance, possibly leading to an infrastructure spending deal and progress on trade. The ongoing impacts of fiscal stimulus and fiscal policy should continue to play a role in supporting economic and profit growth. We expect the Federal Reserve (Fed) to slow its pace of interest rate hikes in 2019. Trade will likely continue to make headlines and uncertainty in trade policy remains a risk, although we are seeing progress toward an eventual resolution.

Market Volatility

Market volatility will likely persist in 2019, as investors digest the many forces impacting the economy, interest rates, and corporate profits. We believe any bouts of market volatility should be embraced—not feared—by suitable investors as an opportunity to rebalance portfolios toward targeted allocations. Focusing on the fundamentals and remembering the importance of diversification will be key to navigating any volatile times. Although we are in the later stages of the economic cycle, we don't see a recession in the near term.

Solid Business Spending

Despite periodic slowdowns, business spending was solid in 2018, and according to surveys, it's expected to grow at a rate of about 7% in 2019.* We believe the combination of positive factors such as lower individual and business tax rates, immediate expensing provisions, repatriation, reduced regulation, and increased government spending may help maintain both business and consumer spending levels, and should more than compensate for slower global growth, flat housing growth, and uncertainty from trade and budget deficits. Business spending initiated by fiscal stimulus remains a key factor supporting economic growth in 2019.

*Per the Institute for Supply Management's manufacturing Purchasing Managers' Index.

ECONOMY

U.S. GDP Growth of 2.5–2.75%

The U.S. economy grew at an average of 3.3% over the first three quarters of 2018, and we continue to expect the ongoing impact of fiscal stimulus will be readily apparent into 2019. Although consumers are supported by full employment, job growth may start to moderate, and we're keeping an eye on wage growth. With wage growth trending near 3.0% annually, we think there's still plenty of time before inflation adds to the end of this cycle. We are looking for gross domestic product (GDP) growth of 2.5–2.75% in 2019, supported by consumer spending, business investment, and government spending.

3.7% Global GDP Growth

We look for the global economy, measured by GDP, to expand at a healthy rate of about 3.7% in 2019, led by growth in the U.S. and emerging markets (EM), while developed markets in Europe and Japan may continue to lag. Consequently, we think it will be important to distinguish among emerging Asia, emerging Europe, and Latin America. Always a major factor in EM growth, China's growth has slowed recently, in part due to the uncertainties surrounding tariff disputes with the U.S. We expect Europe to wrestle with several large issues that may weigh on growth, including Brexit, Italian budget concerns, and a rise in populism, leading us to believe Europe may have difficulty exceeding 2.0% GDP growth in 2019. The economic growth trajectory for Japan may peak by midyear, but Latin America (excepting Argentina and Venezuela) is likely to experience improved momentum coming from Brazil and Mexico.

STOCKS

8–10% Returns

We expect 2019 to be a good year for stocks, with returns of 8–10% for the S&P 500 Index, and the S&P 500 fairly valued in the range of 3,000. Although we expect corporate profits and a steady economy to support stocks in 2019, we'll watch for scenarios that could negatively impact stocks, such as sharply increased margin pressures, escalation in trade risk, a larger than expected slowdown in the global economy, or a significant slowing in business and consumer spending. Market volatility will likely persist, as investors digest the many forces impacting the economy, interest rates, and corporate profits. We also believe that during volatile periods, investors must focus on the fundamentals supporting earnings, interest rates, valuations, income, and remember the importance of diversification.

BONDS

Flat Returns

We expect interest rates to continue to rise at a moderate pace in 2019, but more slowly than in recent years, leading to near flat returns for the Bloomberg Barclays Aggregate Bond Index. We'll most likely see a flat yield curve, too, but in the context of solid economic growth and modest inflation, we don't think it signals rising recession risk. Higher quality bonds will become more attractive as rates rise, but we still emphasize above-benchmark credit risk and below-benchmark rate sensitivity. Investment-grade corporate bonds can add some credit risk and incremental yield, while mortgage-backed securities (MBS) can add some yield as well as diversification. We will look toward fixed income investments that may perform better in an environment of rising rates, dollar strength, and fiscal stimulus.

For more investment insights, read the full [Outlook 2019: FUNDAMENTAL: How to Focus on What Really Matters in the Markets.](#)

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.

Our recommendations are subject to change at any time based on market and other conditions. Economic forecasts set forth 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 information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy.

RISK DISCLOSURES

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.

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. Bond yields are subject to change. Certain call or special redemption features may exist, which could impact yield.

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

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.

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

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.

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.

DEFINITIONS

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory.

INDEX DEFINITIONS

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.

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 adjustable-rate mortgage [ARM] pass-throughs), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS) (agency and non-agency).

Additional descriptions and disclosures are available in the [Outlook 2019: FUNDAMENTAL: How to Focus on What Really Matters in the Markets](#) publication.

This research material has been prepared by LPL Financial LLC.

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