

FIRST QUARTER 2018 IN REVIEW

SOLID ECONOMY OVERSHADOWED BY ESCALATING TRADE TENSIONS

- Data pointed to a U.S. economy that has slowed slightly but continued to grow at a steady pace during the first quarter.** Real gross domestic product (GDP) growth increased at an annual rate of 2.9% in the fourth quarter of 2017, above the average for the economic expansion at just over 2%. As of quarter end, Bloomberg economists' consensus forecast for first quarter GDP stood at 2.5%, while leading economic indicators pointed to continued solid growth, due in part to the new tax law. A modest slowdown in expectations for first quarter GDP was driven mostly by a dip in consumer spending, which was impacted by weather, and general seasonal weakness that has depressed first quarter GDP in recent years. Still, the backdrop for consumer spending remains healthy, with steady job gains, rising wages, and high consumer confidence readings. The manufacturing sector remains quite strong, with the Institute for Supply Management (ISM) Manufacturing Index near expansion highs. Incentives in the new tax law may help stimulate increasing capital investment. A slight pickup in inflation pressures evident in January data eased over the balance of the quarter, generally keeping the market's expectations at three Federal Reserve (Fed) rate hikes in 2018, in line with the central bank's guidance.

1 Q1 2018 AT A GLANCE

| | Q1 2018 |
|--|---------|
| GDP* | 2.5% |
| S&P 500 Index | -0.76% |
| Bloomberg Barclays U.S. Aggregate Bond Index | -1.46% |
| Bloomberg Commodity Index | -0.40% |

Please note: All return figures are as of March 31, 2018, unless otherwise stated.

Past performance is not indicative of future results.

The economic forecasts set forth in the presentation may not develop as predicted.

Stock investing entails risk including loss of principal.

Source: LPL Research, Bloomberg, FactSet 03/31/18

*Bloomberg consensus as of March 31, 2018.

Figures for S&P 500 Index, Bloomberg Barclays U.S. Aggregate Bond Index, and Bloomberg Commodity Index are total returns from 12/31/17–03/31/18 (Q1).

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment.

- U.S. stocks returned -0.8% during the first quarter.** This was the first quarterly loss for the S&P 500 Index since the third quarter of 2015. After a strong January, the index suffered its first 10% correction in about two years. In late January, concerns about an overly aggressive Fed amid rising inflation spooked markets, while later in the quarter, protectionist U.S. trade policy and escalating trade tensions with China drove an increase in stock market volatility. Growth equities outperformed their value counterparts for the fifth straight quarter on strength in the technology and consumer discretionary sectors. Cyclical sectors generally performed better than the defensives, as the consumer staples, real estate, telecommunications, and utilities sectors all underperformed the broad equities index. Small caps outpaced large caps, helped by their domestic focus and benefits from the new tax law. Emerging market (EM) equities, supported by strong economic growth and relatively low valuations, outperformed both developed international and U.S. equities despite trade tensions with China. The MSCI EM Index returned 1.2% during the quarter, while the MSCI EAFE Index lost 1.6%.
- In a volatile quarter, rates rose across the maturity spectrum, leading to losses for almost all segments of fixed income.** At shorter maturities, a deluge of Treasury supply pressed rates higher, as did increasing expectations for Fed rate hikes. Rising growth and inflation expectations pushed longer-maturity yields higher throughout the quarter, with the 10-year yield reaching 2.95% on February 21, 2018, its highest level since January 2014. Long-term rates have subsided from recent highs amid equity market weakness.

The Bloomberg Barclays Aggregate Bond Index returned -1.5%, while Treasuries and mortgage-backed securities each returned -1.2%. Investment-grade corporates performed the worst in the quarter, returning -2.2% (Bloomberg Barclays Corporate Index). Pent-up investment-grade supply was released into the market that had been on hold since late 2017 due to uncertainty surrounding the new tax plan. Since the passage of the tax plan, supply has increased, and credit spreads have widened.

Economically sensitive, lower credit quality sectors were hurt by equity market volatility, with high yield returning -0.9% (Bloomberg Barclays High Yield Index). EM debt fell -1.8% (Bloomberg Barclays EM USD Aggregate Index), as fear of a trade war was an additional headwind for the asset class. Rapidly rising short-term rates were a tailwind for bank loans, the best performer of the quarter, returning 1.4%.

- Long/short equity strategies led quarterly returns, as the HFRX Equity Hedge Index gained 1.2% during the quarter, outperforming the S&P 500 by 2.0%.** This marked the first quarter of outperformance since the third quarter of 2015 and the best quarter of relative performance since the third quarter of 2011.

Performance for the HFRX Systematic Diversified Index was extremely volatile, with returns of 5.7%, -7.4%, and -0.2%, as the industry began the year with large exposure to equity markets, which largely drove quarterly performance.

The HFRX Distressed Debt Index declined 5.4%, with steep losses in the industrial and energy sectors during March.

Bonds are subject to market and interest rate risk if sold prior to maturity.

Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Alternative strategies may not be suitable for all investors. The management of alternative investments may accelerate the velocity of potential losses.

- **Commodities, as measured by the Bloomberg Commodity Index, lost 0.8% during the first quarter despite a weaker U.S. dollar, which tends to support commodity prices.** Gains in agriculture and energy commodities helped offset weakness in livestock and industrial metals during the quarter. Grains had their best quarter since June 2017, advancing more than 7% on rallies in corn, soybeans, and wheat. Energy commodities rose

1.8%, led by crude oil (+7.5%) amid growing global demand, ongoing production limits overseas, and a falling U.S. dollar. Detractors from performance included industrial metals, which fell 6.2% on weakness in copper and aluminum, and livestock, which tumbled 10% during the quarter. Precious metals were mixed, but gold benefited from the weaker dollar and the increase in market volatility. ■

A LOOK FORWARD

The “return to the business cycle”, as discussed in our [Outlook 2018](#), remains our major theme for the year. Although volatility has picked up due to concerns of a potential trade war with China, we remain optimistic that fiscal policy and earnings will be the key drivers to support an ongoing long-term bullish trend for equities. From an economic perspective, we believe that tax reform legislation could add anywhere from 0.25–0.50% to our original 2018 forecast of 2.5% in U.S. real GDP growth.

A reduction of the corporate tax rate combined with businesses’ ability to fully expense their capital expenditures for the next five years continue to be powerful tailwinds for profits. We look for business investment and further gains in corporate earnings per share to power

the economy and equity markets. Our recently raised 2018 operating earnings forecast for S&P 500 companies is \$152.50. Assuming a trailing 12-month price-to-earnings ratio of 19.5, we believe the S&P 500 would be fairly valued in the range of 2950–3000 by year-end 2018.

Given our outlook for the economy, Fed policy, and the potential for fiscal stimulus, as well as our expectations for a gradual pickup in interest rates across the yield curve, we expect low, single-digit returns for the Bloomberg Barclays U.S. Aggregate Bond Index in 2018. Still moderate GDP growth and rising inflation may lead to gradually higher interest rates, limiting bond returns. We expect the 10-year Treasury yield to end 2018 in the 2.75–3.25% range. ■

Please see our [Outlook 2018: Return of the Business Cycle](#) publication for additional descriptions and disclosures.

2 TECHNOLOGY LED MARKETS IN FIRST QUARTER 2018

S&P 500 Sector Performance, Ranked by First Quarter Returns

| Sector | Q1 2018 |
|------------------------|--------------|
| Telecom | -7.5% |
| Consumer Staples | -7.1% |
| Energy | -5.9% |
| Materials | -5.5% |
| Real Estate | -5.3% |
| Utilities | -3.3% |
| Industrials | -1.6% |
| Healthcare | -1.2% |
| Financials | -1.0% |
| S&P 500 | -0.8% |
| Consumer Discretionary | 3.1% |
| Technology | 3.5% |

3 GROWTH DROVE MARKETS IN FIRST QUARTER 2018

Domestic & International Asset Class Performance, Ranked by First Quarter Returns

| Asset Class | Q1 2018 |
|-------------------|---------|
| U.S. Large Value | -2.8% |
| U.S. Small Value | -2.6% |
| U.S. Mid Value | -2.5% |
| Large Foreign | -1.6% |
| Emerging Markets | 1.3% |
| U.S. Large Growth | 1.4% |
| U.S. Mid Growth | 2.2% |
| U.S. Small Growth | 2.3% |

Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index so these are not actual results an investor would achieve.

Sources: LPL Research, FactSet 03/31/18

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

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

The sectors are represented by the 10 S&P 500 Global Industry Classification Standard (GICS) indexes.

Asset classes based on Russell 1000, Russell 3000 Growth and Value Indexes, Russell 2000, Russell Midcap Index, MSCI EAFE, MSCI Emerging Markets Index.

4 RISING YIELDS PRESSURED FIXED INCOME DURING Q1

Bond Market Performance, Ranked by First Quarter Returns

| Sector | Q1 2018 |
|--|--------------|
| Investment-Grade Corporates | -2.13 |
| EM Debt | -1.78 |
| Bloomberg Barclays U.S. Aggregate | -1.46 |
| MBS | -1.19 |
| U.S. Treasuries | -1.18 |
| Munis | -1.11 |
| High-Yield Corporates | -0.86 |
| TIPS | -0.79 |
| Preferred Stocks | -0.51 |
| High-Yield Munis | 0.58 |
| Bank Loans | 1.38 |
| Foreign Bonds (Hedged) | 1.49 |
| Foreign Bonds (Unhedged) | 4.42 |

Bond Market Asset Class Indexes: Foreign Bonds (hedged) – Citigroup Non-U.S. World Government Bond Index Hedged for Currency; Preferred Securities – Merrill Lynch Preferred Stock Hybrid Securities Index; Treasury – Bloomberg Barclays U.S. Treasury Index; Mortgage-Backed Securities – Bloomberg Barclays U.S. MBS Index; Investment-Grade Corporate – Bloomberg Barclays U.S. Corporate Bond Index; Municipal – Bloomberg Barclays Municipal Bond Index; Municipal High-Yield – Bloomberg Barclays Municipal High Yield Index; TIPS – Bloomberg Barclays Treasury Inflation-Protected Securities Index; Bank Loans – Bloomberg Barclays U.S. High Yield Loan Index; High-Yield – Bloomberg Barclays U.S. Corporate High Yield Index; Emerging Market Debt – JP Morgan Emerging Markets Global Index; Foreign Bonds (unhedged) – Citigroup Non-U.S. World Government Bond Index (unhedged)

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. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

General Stock & Debt Equity Risks

Stock investing may involve risk including loss of principal.

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.

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

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Precious metal investing involves greater fluctuation and potential for losses.

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

Long/short equity funds are subject to normal alternative investment risks, including potentially higher fees; while there is additional management risk, as the manager is attempting to accurately anticipate the likely movement of both their long and short holdings. There is also the risk of "beta-mismatch," in which long positions could lose more than short positions during falling markets.

Distressed Debt is an investment in companies in or near bankruptcy. The investment is often made to gain control of the company with the goal of either improving the operations of the company or disposing of assets. The risks associated with distressed investing arise from several factors including: limited diversification, the use of leverage, limited liquidity, and the possibility that investors may be required to accept cash or securities with a value less than their original investment and/or may be required to accept payment over an extended period of time.

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.

Trailing PE is the sum of a company's price-to-earnings (PE), calculated by taking the current stock price and dividing it by the trailing earnings per share for the past 12 months. This measure differs from forward PE, which uses earnings estimates for the next four quarters.

Yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.

Small cap is a term used to classify companies with a relatively small market capitalization. The definition of small cap can vary, but it is generally a company with a market capitalization of between \$300 million and \$2 billion. The prices of small cap stocks are generally more volatile than large cap stocks.

Index Definitions

The Bloomberg Barclays U.S. High Yield Loan Index tracks the market for dollar-denominated floating-rate leveraged loans. Instead of individual securities, the U.S. High-Yield Loan Index is composed of loan tranches that may contain multiple contracts at the borrower level.

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).

The Bloomberg Barclays U.S. Corporate Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market.

The Bloomberg Barclays U.S. Treasury Index is an unmanaged index of public debt obligations of the U.S. Treasury with a remaining maturity of one year or more. The index does not include T-bills (due to the maturity constraint), zero coupon bonds (strips), or Treasury Inflation-Protected Securities (TIPS).

The Bloomberg Commodity Index is calculated on an excess return basis and composed of futures contracts on 22 physical commodities. It reflects the return of underlying commodity futures price movements.

The Citigroup Economic Surprise Index (CESI) measures the variation in the gap between the expectations and the real economic data.

The HFRX Equity Hedge Index, also known as long/short equity, combines core long holdings of equities with short sales of stock or stock index options. Equity hedge portfolios may be anywhere from net long to net short, depending on market conditions. Equity hedge managers generally increase net long exposure in bull markets and decrease net long exposure (or even are net short) in a bear market. Generally, the short exposure is intended to generate an ongoing positive return in addition to acting as a hedge against a general stock market decline. Stock index put options are also often used as a hedge against market risk. Profits are made when long positions appreciate and stocks sold short depreciate. Conversely, losses are incurred when long positions depreciate or the value of stocks sold short appreciates. Equity hedge managers' source of return is similar to that of traditional stock pickers on the upside, but they use short selling and hedging to attempt to outperform the market on the downside.

The HFRX Event Driven Index managers maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event Driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company specific developments. Investment theses are typically predicated on fundamental characteristics (as opposed to quantitative), with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.

The HFRX Macro: Systematic Diversified CTA Index strategies have investment processes typically as function of mathematical, algorithmic and technical models, with little or no influence of individuals over the portfolio positioning. Strategies which employ an investment process designed to identify opportunities in markets exhibiting trending or momentum characteristics across individual instruments or asset classes. Strategies typically employ quantitative process which focus on statistically robust or technical patterns in the return series of the asset, and typically focus on highly liquid instruments and maintain shorter holding periods than either discretionary or mean reverting strategies. Although some strategies seek to employ counter trend models, strategies benefit most from an environment characterized by persistent, discernible trending behavior. Systematic Diversified strategies typically would expect to have no greater than 35% of portfolio in either dedicated currency or commodity exposures over a given market cycle.

The MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indexes that represent developed markets outside of North America: Europe, Australasia, and the Far East.

The MSCI Emerging Markets Index captures large and mid cap representation across 23 emerging markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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 S&P/LSTA U.S. Leveraged Loan 100 index is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market. The index consists of 100 loan facilities drawn from a larger benchmark - the S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index (LLI).

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