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SECOND QUARTER 2018 IN REVIEW

STOCKS ROSE AS ECONOMIC GROWTH OUTWEIGHED TRADE TENSIONS

- **U.S. economic growth poised to rebound from a slow first quarter, but trade tensions present risk to business confidence.** The final revision to first quarter data showed that real gross domestic product (GDP) grew 2.0%, below consensus estimates and slower than the 2.9% growth in the fourth quarter of 2017. While the report was below expectations, slower growth was expected, as first quarter readings are typically seasonally weaker. For the second quarter, the consensus of Bloomberg economists estimate GDP growth rebounded to 3.4% (as of June 30), which would be the fastest pace of growth since 2014.

  Data released during the second quarter reinforced expectations for robust growth. Non-farm payrolls pointed to a solid job market, while both business and consumer spending picked up, supported by tax cuts. The Institute for Supply Management's (ISM) gauge of manufacturing orders rose in June to its second-highest reading since 2004. Inflation crept higher, but overall, inflationary pressures remain contained, supporting the Federal Reserve's (Fed) stated gradual path of interest rate increases. Leading indicators pointed to low odds of a recession over the next 12 months, despite the risk that new tariffs may negatively impact business confidence.

1 Q2 2018 AT A GLANCE

	Q2 2018
GDP*	3.4%
S&P 500 Index	3.4%
Bloomberg Barclays Aggregate Bond Index	-0.16%
Bloomberg Commodity Index	-0.10%

Source: LPL Research, Bloomberg, FactSet 06/30/18

*Bloomberg consensus as of June 30, 2018.

Figures for S&P 500 Index, Bloomberg Barclays Aggregate Bond Index, and Bloomberg Commodity Index are total returns from 03/31/18–06/30/18 (Q2).

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.

Please note: All return figures are as of June 30, 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.

- **U.S. stocks returned 3.4% during the second quarter, as the S&P 500 Index recouped its first quarter loss to bring its first half return to 2.7%.** After a flat April, the index moved higher during May and, despite a late-month sell-off, eked out a positive return in June. Escalating trade tensions drove an increase in market volatility, but a pickup in economic growth in the U.S. and strong earnings growth helped power U.S. stocks to solid quarterly gains.

  Growth stocks outperformed their value counterparts for the sixth straight quarter on strength in the technology and consumer discretionary sectors. Cyclical sectors generally performed better than defensives during the quarter, led by energy's 13.5% return, though the tide started to turn in June and financials and industrials both lagged. Small caps handily outpaced large caps, as the Russell 2000 Index returned nearly 8%, helped by their domestic focus and corporate tax cuts. Escalating trade tensions, tightening financial conditions, and currency weakness led to losses in emerging market (EM) equities, as the MSCI Emerging Markets Index slumped -7.9% during the quarter. The developed international equity benchmark, the MSCI EAFE Index, dipped -1.0%.

- **Yield increases lose steam as trade tensions mount.** Rates rose meaningfully intra-quarter, with the 10-year yield reaching a high of 3.11% during mid-May, its highest level since mid-2011. However, trade-related tensions slowed that rise, leaving yields only marginally higher over the course of the quarter. The 2-year Treasury yield rose by 26 basis points (0.26%), while the 10- and 30-year rose by 12 and 2 basis points (0.12% and 0.02%), respectively.

  The net result was a further flattening of the Treasury yield curve. Rates moving gradually higher was a modest pressure on high-quality fixed income, and shorter-duration and lower credit quality segments tended to outperform.

  The Bloomberg Barclays Aggregate Bond Index returned -0.2%, Treasuries returned 0.1% and mortgage-backed securities 0.2%. Investment-grade corporates underperformed, returning -0.9%, continuing their difficult stretch of performance year to date. An increase in expected mergers and acquisitions activity and related bond issuance led to technical pressure and further weakness in the asset class.

  Economically sensitive, lower credit quality sectors were boosted by strong equity market performance, with high-yield returning 1.0% and bank loans 0.4%. Emerging market debt fell -3.5%, as escalating trade tensions and a stronger dollar weighed on investor sentiment of the asset class. Unhedged foreign bonds were the worst performer, returning -5.1%, as pronounced dollar strength was a headwind on returns.

- **The HFRX Merger Arbitrage Index led quarterly alternative investment returns, with a 0.6% return.** Strength within the broader equity market supported merger arbitrage spreads, as the share price of many target firms climbed higher and closer to their respective deal prices. We continue to closely watch the ongoing global trade rhetoric and subsequent impact on deal flow.

  Returns within the long/short equity space were disappointing, as the HFRX Equity Hedge Index declined -0.9% during the quarter. Long holdings were in positive territory, but still underperformed benchmarks; while short positioning in defensive sectors detracted from overall performance.

See page 4 for list of indexes used to represent the referenced asset classes.

- **Commodities, as measured by the Bloomberg Commodity Index, ended largely flat during the second quarter, as the stronger U.S. dollar and tariffs on agriculture exports created headwinds to commodity prices.** Rising energy commodity prices, including double-digit gains in WTI and Brent Crude, helped offset weakness in agriculture and precious metals. Oil got a boost from a smaller than expected increase in global production from OPEC and Russia, as well as Venezuelan supply disruptions, Iran sanctions, solid global demand, and tightening U.S. inventories. The Bloomberg Agriculture Subindex fell -9.1% as soybean prices tumbled -18%. A stronger dollar weighed on precious metals, as the Bloomberg Precious Metals Subindex lost -4.5% during the quarter. ■

A LOOK FORWARD

With fiscal incentives in place, and monetary policy support fading into the background, we expect steady economic growth and stock market gains may continue throughout 2018 and beyond. We forecast 3.8% GDP growth for the world economy in 2018, thanks to new fiscal policies and improved business vitality. We expect the U.S. economy to remain a primary driver, while Europe and Japan may lag. We acknowledge the potential for increased volatility along the way, as we are in the later stages of the economic cycle and factors such as trade tensions, geopolitical uncertainty, and upcoming midterm elections can raise investors' concerns.

U.S. stock market fundamentals remain positive, in our view, which is particularly important during volatile periods. Corporate profit growth remains strong, and we have slightly upgraded our operating earnings forecast from $152.50 to $155.00 per share for the S&P 500 in 2018, representing 17% year-over-year growth.

Periods of stock market volatility have resulted in temporary "flights to quality" where investors seek safe-haven assets like U.S. Treasury bonds,* highlighting the diversification benefits of high-quality fixed income within a well-balanced portfolio. However, we continue to believe the long-term fundamental drivers including economic growth, deficit spending, rising inflationary pressures, and expectations of future Fed rate hikes may push bond yields higher as the year progresses. ■

* U.S. Treasuries may be considered "safe haven" investments but do carry some degree of risk including interest rate, credit, and market risk. They 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.

Please see our *Midyear Outlook 2018: The Plot Thickens* publication for additional descriptions and disclosures.

2 ENERGY TOPPED SECOND QUARTER SECTOR RANKINGS

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

Sector	Q2 2018
Energy	13.5
Consumer Discretionary	8.2
Technology	7.1
Real Estate	6.3
Utilities	3.7
S&P 500	3.4
Healthcare	3.1
Materials	2.6
Telecommunications	-0.9
Consumer Staples	-1.5
Financials	-3.2
Industrials	-3.2

3 SMALL CAP STOCKS HANDILY BEAT LARGE CAPS

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

Asset Class	Q2 2018
U.S. Small Value	8.3
U.S. Small Growth	7.2
U.S. Large Growth	5.8
U.S. Mid Growth	3.2
U.S. Mid Value	2.4
U.S. Large Value	1.2
Large Foreign	-1.0
Emerging Markets	-7.9

4 ECONOMICALLY SENSITIVE BOND SECTORS OUTPERFORMED

Bond Market Performance, Ranked by Second Quarter Returns

Sector	Q2 2018
High-Yield Munis	3.06
Preferred Stocks	1.10
High-Yield Corporates	1.03
Munis	0.87
TIPS	0.77
Bank Loans	0.40
MBS	0.24
Foreign Bonds (Hedged)	0.23
U.S. Treasuries	0.10
Bloomberg Barclays U.S. Aggregate	-0.16
Investment-Grade Corporates	-0.88
EM Debt	-3.51
Foreign Bonds (Unhedged)	-5.11

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.

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)

Sources: LPL Research, FactSet 06/30/18

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.

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.

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 referenced is historical and is no guarantee of future results.

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

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.

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.

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.

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.

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