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Dear Valued Investor:

Heading into the New Year, we are mindful of market milestones that have come together to influence the investment landscape: a new president and administration, the stabilization of oil prices, and the end of an earnings recession. Being prepared for 2017 is about gauging these and other milestones, understanding their significance, and responding without overreacting. In the year ahead, we will be reading the gauges and making adjustments, while staying strategic and maintaining a long-term view. As we tackle the investment environment together, we are excited to introduce our LPL Research *Outlook 2017: Gauging Market Milestones*, with financial market forecasts, economic insights, and investment guidance for the year ahead. Some of our expectations for the upcoming year include:

- **Accelerating U.S. economic growth.*** We expect the U.S. economy — as measured by real gross domestic product — may grow modestly to near 2.5% in 2017, after spending most of the seven-plus years of the expansion averaging just over 2.1%. The potential growth lift is based upon expectations that rising business investment and fiscal stimulus may complement steady consumer spending. The details and timing of the passage of President-elect Donald Trump's proposals on taxes and infrastructure, and the speed of implementation will be important growth impact factors in 2017.
- **Mid-single-digit returns for the S&P 500.**** We forecast mid-single-digit returns for the S&P 500 in 2017, consistent with historical mid-to-late economic cycle performance. Gains will likely be driven by mid- to high-single-digit earnings growth and stable valuations (a stable price-to-earnings ratio of 18 – 19). We also expect the current bull market to reach its eighth year. However, we expect gains will likely come with increased volatility as the economic cycle ages further and interest rates may rise (bond prices fall), increasing borrowing costs and making bonds a more competitive alternative to stocks.
- **Limited bond return environment.** We expect the 10-year Treasury yield to end 2017 in its current range of 2.25 – 2.75%, with a potential for 3%. Scenario analysis based on this potential interest rate range and the duration of the index indicates low- to-mid-single-digit returns for the Barclays Aggregate Bond Index. The recent rate hike shows the Federal Reserve may start gradually normalizing interest rates in earnest. Importantly, rising interest rates, along with a pickup in the pace of economic growth and inflation, will limit return potential.

*Our forecast for GDP growth of 2.5+% is based on the historical mid-cycle growth rate of the last 50 years. Economic growth is affected by changes to inputs such as business and consumer spending, housing, net exports, capital investments, and government spending.

**Historically since WWII, the average annual gain on stocks has been 7 – 9%. Thus, our forecast is in-line with average stock market growth. We forecast a mid-single-digit gain, including dividends, for U.S. stocks in 2017 as measured by the S&P 500. This gain is derived from earnings per share (EPS) for S&P 500 companies assuming mid- to high-single-digit earnings gains, and a largely stable price-to-earnings ratio (PE). Earnings gains are supported by our expectation of improved global economic growth and stable profit margins in 2017.

Looking ahead, your advisor can help you read the gauges on a possible mid-to-late cycle growth rebound, a new presidential cycle, and the efforts of corporate America to continue delivering profit growth. With conflict-free advice in hand from LPL Research's *Outlook 2017: Gauging Market Milestones*, you'll be able to calibrate your long-term financial plan to keep on course for reaching the milestones that are important to you.

As always, if you have questions, I encourage you to contact your financial advisor.

Sincerely,

John Canally, CFA
SVP, Chief Economic Strategist
LPL Research