LPL RESEARCH
OUTLOOK
2018

For more investment insights, read the full publication: *Outlook 2018: Return of the Business Cycle*.

November 2017

OUTLOOK 2018
EXECUTIVE SUMMARY

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.

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.

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