Stock markets, bond markets, the economy, policy — some years they push and pull on each other lightly as markets follow their own path; in others, one influence, such as monetary policy, dominates. But sometimes, often following a period of change, understanding the pushes and pulls and how they interact becomes a key to reassessing market dynamics for the next year and beyond.

2016 was a milestone year, a year of important changes for markets, the economy, and certainly politics. S&P 500 corporate earnings turned positive reversing more than a year of declines. After a one-year hiatus, the Federal Reserve raised rates for the second time in the current cycle, in what might finally be the start of a more regular path to interest rate normalization. Fears of deflation shifted to talk of “reflation.” Oil ended a multi-year decline that saw prices fall from over $110/barrel in 2011 to a low of just over $26 in February 2016. And most dramatically, the American electorate rebuked the political establishment by choosing the ... as important milestones, if it leads to nations shifting away from a decades-long trend toward increased globalization.

We have already seen a number of changes taking place as markets try to assess the dynamic new environment. Heading into the New Year, interest rates have moved ... and market drivers have been hoisted and repositioned. Being prepared for 2017 is about gauging these market milestones, understanding their significance, and responding without overreacting. The way to assess the new environment is not to ... may be similar. Read the gauges and make adjustments, while staying strategic and maintaining a long-term view.

With a likely pickup in the pace of economic growth as rising business investment and fiscal stimulus complement steady consumer spending, here are some key themes we’ll be watching:

- **Smoother path to policy changes.** A Republican president working with a Republican Congress should smooth the path for implementing policy changes. Both the ... actual details on issues such as fiscal stimulus, tax reform, deregulation, and trade will help set the market direction.

- **Earnings growth returns.** With the earnings recession at an end, in 2017 we expect mid- to high-single-digit earnings growth potentially supported by an accelerating U.S. economy, rebounding energy sector profits as oil prices stabilize, and steady profit margins.

- **Fed in play.** Fed policy is driven by the dual mandate of keeping inflation low and the economy near maximum employment. Both sides of the mandate may look different in 2017, as the labor market approaches full employment and inflationary pressures increase.

Gauging the market milestones as they impact 2017 will require a good plan and the right attitude. It’s about smart, not fast; patience, not impulsiveness; judicious adaptation, not careless return-chasing. After a momentous year, use LPL Research’s Outlook 2017: Gauging Market Milestones to help keep a firm but responsive touch on the controls and eyes on the right gauges as you pursue your financial goals.

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**Policy drivers**
- Emphasis on small cap friendly policy likely to be well-received early in the year.

**Cycle drivers**
- Cycle favors large caps, but policy influence may continue.

**Policy pending:** corporate tax reform may benefit small caps; cash repatriation may benefit large caps.

**Economic growth, reflation** may benefit cyclicals.

**Defensive**
- Rate sensitivity, lower growth potential may limit gains.

**Leading indicators** show low odds of recession.

**Balanced**
- Earnings growth, yield curve may put cyclically-oriented value on par with growth.

**Unbalanced**
- Cyclicals versus defensives likely to be more important than value versus growth.

**Technology and healthcare** may re-emerge with reassurance on policy risks.

**U.S.**
- Supportive economic backdrop with good prospects for earnings growth.

**Developed international**
- Elections, Brexit follow-through may limit upside.

**Risks have increased for emerging markets, but fundamentals remain strong.**

**Intermediate-term bonds**
- Below-benchmark duration may be able to weather a modest rise in rates.

**Long maturity**
- Higher sensitivity to rate changes.

**Investment-grade corporates’** modest credit risk may help offset typically longer maturities.

**Moderate credit sensitivity**
- Valuations richer, but economic growth would be supportive.

**High quality**
- Can be an important diversifier, but lower return opportunity.

**Bank loans’** adjustable rate lowers interest rate sensitivity.

**Credit risk** may be low if economic growth improves.

---

**Power Up**
- Consider activating these investment ideas in portfolios in 2017.

**Power Down**
- Investment ideas that may be running out of juice in 2017.

**Standby Mode**
- Within a supportive environment, monitor these potential opportunities.
used to denote the percentage change in a financial instrument.

*Basis points (bps) refer to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, and is

part of the current expansion and are separated to highlight the recent economic environment.
The overall commodities basket as well as weather, geopolitical events, and regulatory developments.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. It is calculated by the Bureau of Labor Statistics and published monthly. The Shaded area indicates recession.

Source: LPL Research, Bureau of Labor Statistics, Haver Analytics 11/30/16

(a correlation co-efficient of +1) implies that as one security moves, either up or down, the other security will move in the same direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random.

Source: Bloomberg, FactSet 11/30/16

The second half of an economic cycle usually sees increased financial market volatility, and we believe the current cycle will continue in the near term. An improved backdrop for corporate America that will help support equities while creating a mild headwind for bonds.

The market is that less slack in the labor market leads to wage pressures. Wages represent around two-thirds of business costs and, over time, higher wages lead to higher prices. In the aftermath of the Great Recession, inflation expectations have swung between concerns over hyper-inflation in the early recovery and deflation in late 2015. The latest reading of the March 2017 core Consumer Price Index (CPI) was 2.4% year-over-year, the highest reading since June 2008.

For most of 2015 and 2016, as headline CPI was held down by falling oil prices, inflation in the service sector (which are less liquid than the underlying instruments or measures, and their value may be affected by the performance of the US dollar) has provided the lift from better growth. The ‘Shaded area’ indicates a recession.

Headline Service Sector Goods CPI, Year-over-Year % Change

The unemployment rate at 4.5% by the end of 2017, just a modest improvement from current levels. Fed Chair Janet Yellen has often noted that the Fed watches a “broad range of labor market indicators” to gauge the health of the labor market. One of the reasons the Fed cares about the labor market is that less slack in the labor market leads to wage pressures. Wages represent around two-thirds of business costs and, over time, higher wages lead to higher prices. In the aftermath of the Great Recession, inflation expectations have swung between concerns over hyper-inflation in the early recovery and deflation in late 2015, as the impact of sharply lower oil prices and plenty of available labor and production resources, and the globalization of product and labor markets have all acted as disinflationary forces. By the second half of 2016, in the U.S. at least, the unemployment rate has dropped from nearly 10% to the most recent reading of 4.6%, a new cycle low. In its most recent set of economic projections (released in mid-December 2016), the Fed’s policy arm, the Federal Open Market Committee (FOMC), projected that by the end of 2017, the unemployment rate will be 4.5%. For years, the Fed has talked about projecting the unemployment rate lower, but the center of gravity of the Fed probably sees that number closer to 100,000 – 125,000. As we look ahead to 2017, we continue to expect a slowdown in job creation as the recovery matures, but in our view it would take a slowdown to around 25,000 – 50,000 jobs before the negative consequences of higher rates have returned to their pre-Great Recession levels. When rates are still relatively low, rising rates usually indicate improving growth prospects, while the risk that the economy will soon overheat tends to remain low. At higher interest rates, the unemployment rate is likely to remain below 4.5%.

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Inflation Bubbles Up, But Doesn’t Boil Over

Inflation Bubbles Up, But Doesn’t Boil Over

Inflation Bubbles Up, But Doesn’t Boil Over

Pressure Increases on Labor Market

The disconnect between the Fed and the market regarding the path of interest rates will likely narrow further in 2017; however, the disconnect between the Fed and the market on the labor market will likely widen. The market may view a potential slowdown in the pace of job creation over the next year as a recession signal, while the Fed may acknowledge that unconventional Fed policy, an easing (QE) in 2009 to concerns about deflation in late 2015, as the impact of sharply lower oil prices and plenty of available labor and production resources, and the globalization of product and labor markets have all acted as disinflationary forces. By the second half of 2016, in the U.S. at least, the unemployment rate has dropped from nearly 10% to the most recent reading of 4.6%, a new cycle low. In its most recent set of economic projections (released in mid-December 2016), the Fed’s policy arm, the Federal Open Market Committee (FOMC), projected that by the end of 2017, the unemployment rate will be 4.5%. For years, the Fed has talked about projecting the unemployment rate lower, but the center of gravity of the Fed probably sees that number closer to 100,000 – 125,000. As we look ahead to 2017, we continue to expect a slowdown in job creation as the recovery matures, but in our view it would take a slowdown to around 25,000 – 50,000 jobs before the negative consequences of higher rates have returned to their pre-Great Recession levels. When rates are still relatively low, rising rates usually indicate improving growth prospects, while the risk that the economy will soon overheat tends to remain low. At higher interest rates, the unemployment rate is likely to remain below 4.5%.

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Over the course of 2014, Fed Chair Janet Yellen mentioned several labor market indexes that she and other Federal Open Market Committee (FOMC) members were watching closely to assess the effectiveness of monetary policy. In May 2014, Fed staffers released a white paper introducing the Labor Market Conditions Index (LMCI). This paper received a great deal of attention from market participants who believed it may contain clues to the timing of interest rate hikes. Several of these labor market indexes — which have been referred to as the “Yellen indicators” — are being closely monitored by the Fed chair and the FOMC. This infographic details the progress of these indicators over the last two years. In our view, movement toward maximum employment keeps the Fed on track to raise rates twice in 2017, with three more likely than one.

### Labor Market Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Prerecession</th>
<th>Current Reading</th>
<th>Change From 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>UR</td>
<td>Unemployment rate: % of labor force</td>
<td>4.40% – 10.00%</td>
<td>4.6%</td>
<td>23%</td>
</tr>
<tr>
<td>LFPR</td>
<td>Labor force participation rate: year-over-year change, % of unemployed</td>
<td>0.4% – -1.1%</td>
<td>0.2%</td>
<td>13%</td>
</tr>
<tr>
<td>PTER</td>
<td>Part-time employment for economic reasons: % of labor force</td>
<td>2.7% – 6.7%</td>
<td>3.7%</td>
<td>27%</td>
</tr>
<tr>
<td>LTU</td>
<td>Long-term unemployed: 27 weeks or more, % of unemployed</td>
<td>15.9% – 45.3%</td>
<td>24.8%</td>
<td>24%</td>
</tr>
<tr>
<td>DU</td>
<td>Duration of unemployment: weeks</td>
<td>7.3 – 251</td>
<td>10.1</td>
<td>20%</td>
</tr>
<tr>
<td>PPE</td>
<td>Private payroll employment: millions of workers</td>
<td>116.0 – 107.2</td>
<td>122.9</td>
<td>58%</td>
</tr>
<tr>
<td>GPE</td>
<td>Government payroll employment: millions of workers</td>
<td>22.6 – 21.8</td>
<td>22.2</td>
<td>43%</td>
</tr>
<tr>
<td>THE</td>
<td>Temporary help employment: millions of workers</td>
<td>2.7 – 1.7</td>
<td>3.0</td>
<td>8%</td>
</tr>
<tr>
<td>AWH</td>
<td>Average weekly hours (jobs): hours</td>
<td>33.9 – 33.0</td>
<td>33.6</td>
<td>-22%</td>
</tr>
<tr>
<td>AWHPW</td>
<td>Average weekly hours of persons at work: hours</td>
<td>39.7 – 36.2</td>
<td>38.3</td>
<td>-11%</td>
</tr>
<tr>
<td>WR</td>
<td>Wage rates: average hourly earnings, year-over-year % change</td>
<td>4.2% – 1.3%</td>
<td>2.4%</td>
<td>5%</td>
</tr>
<tr>
<td>HW</td>
<td>Composite help-wanted: index</td>
<td>4250 – 2750</td>
<td>4723</td>
<td>-23%</td>
</tr>
<tr>
<td>HR</td>
<td>Hiring rate: % of payroll employment</td>
<td>4.5% – 3.2%</td>
<td>3.5%</td>
<td>-31%</td>
</tr>
<tr>
<td>TRUE</td>
<td>Transition rate from unemployment to employment : % of unemployment</td>
<td>29.6% – 15.9%</td>
<td>25.3%</td>
<td>13%</td>
</tr>
<tr>
<td>JPHG</td>
<td>Jobs plentiful vs. hard to get: diffusion index</td>
<td>11.4% – -46.1%</td>
<td>4.89%</td>
<td></td>
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<tr>
<td>HP</td>
<td>Hiring plans: diffusion index</td>
<td>19% – -10%</td>
<td>15%</td>
<td>17%</td>
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<tr>
<td>JHF</td>
<td>Jobs hard to fill: %</td>
<td>31% – 8%</td>
<td>31%</td>
<td>30%</td>
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<tr>
<td>IUR</td>
<td>Insured unemployment rate: % of covered employment</td>
<td>1.9% – 5.0%</td>
<td>1.5%</td>
<td>10%</td>
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<tr>
<td>JLOS</td>
<td>Job losers unemployed less than 5 weeks: % of employment</td>
<td>45.4% – 14.7%</td>
<td>36.3%</td>
<td>31%</td>
</tr>
<tr>
<td>QR</td>
<td>Quit rate: % of payroll employment</td>
<td>60% – 39%</td>
<td>61%</td>
<td>15%</td>
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<tr>
<td>JLEA</td>
<td>Job leavers unemployed less than 5 weeks: % of employment</td>
<td>48.8% – 17.5%</td>
<td>34.0%</td>
<td>5%</td>
</tr>
</tbody>
</table>


The time frame for all data is the last 12 years: 2004–2016.
Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations in foreign currencies, they can be exposed to currency risk.

Source: LPL Research, Bloomberg   11/30/16

The European Union (EU) is a group of 28 countries that have many common policies in areas such as trade, agriculture, and monetary policy. However, not all of the countries in the EU use the euro as their currency. These countries are referred to as the Eurozone.

After a multi-year downtrend, the U.S. dollar is testing the top of its recent 18-month range. Breakout potential deeper threat to both the euro and the EU itself.

The impact of the changing global policy environment and the outcome of presidential elections in Austria and France will be in Europe. Over the next year, Europe will continue to be in a state of flux, with the U.K. leaving the EU, and political wrangling around the structure and timing of the U.K.’s exit from the EU. An Italian referendum vote in December 2016 continued the trend of populist victories, perhaps even a rejection of the euro, are at issue in Europe.

Despite improved fundamentals and attractive valuations, especially in emerging markets, we would want to see some further evidence of dollar stability before adding any additional positions in those markets.

How to Invest

Letting Off Steam: The Carry Trade

The dollar has been appreciating (such as the U.S. dollar). This “unwinding” of the carry trade has exacerbated the benefits of international diversification looking beyond 2017 in the absence of any major destabilizing event.

Despite the possibility of some dollar gains in 2017, we have long held that the dollar will only strengthen the recommendation under the right conditions. We will watch these economic and political events closely to determine if and when an additional adjustment ahead: Caution remains amid political uncertainty.
Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's performance.

**1982 - 2017**

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Estimates</th>
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<tbody>
<tr>
<td>1982</td>
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**Consensus Predictions**

- **Q1 - Q4 2017**: Predicted earnings growth of 4% to 6%.
- **Q1 - Q4 2018**: Predicted earnings growth of 6% to 8%

**S&P 500 Year-over-Year Earnings per Share (EPS) Growth**

- **Mid-Cycle Years Highlighted**
  - 1975
  - 1982
  - 1989
  - 1996
  - 2003

**Impact From U.S. Dollar**

- **Mid-Cycle Years**
  - 1975
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**Mid-Cycle Years Key Points**

- **Steady Valuations**: The S&P 500 again went from a multi-year valuation low to a multi-year valuation high.
- **Revenue Growth**: Revenue in the S&P 500 increased by 5-7%.
- **EPS Growth**: EPS increased by 7-9%
- **Stock Market Gains**: The S&P 500 gained 15-17%
- **Mid-Cycle Economies**: Stock market gains tend to accompany mid-cycle economies.

**Late Cycle Key Points**

- **Steady Valuations**: Continued valuation compression in the S&P 500.
- **Revenue Growth**: Revenue in the S&P 500 increased by 2-4%
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**Late Cycle Key Points**

- **Steady Valuations**: Continued valuation compression in the S&P 500.
- **Revenue Growth**: Revenue in the S&P 500 increased by 2-4%
- **EPS Growth**: EPS increased by 4-6%
- **Stock Market Gains**: The S&P 500 gained 6-8%
- **Mid-Cycle Economies**: Stock market gains tend to accompany mid-cycle economies.
1. An indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

2. Financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income.

3. Data are from 1970 to the present. The S&P 500 is an unmanaged index which cannot be invested into directly. Past performance does not guarantee future results.

4. Source: LPL Research, FactSet, Thomson Reuters 11/30/16

5. Including master limited partnerships, remains positive. Years of high prices until 2015 spurred successful exploration but positive scenario for precious metals involves a surge in inflation that may increase investor interest in gold.

6. Reduced regulatory barriers and potentially higher oil prices support master limited partnerships, though rising interest rates carry risk.

7. We see precious metal prospects as limited due to expectations of additional Fed rate increases and the potential for further U.S. dollar appreciation. Higher Treasury rates, but positive scenario for precious metals involves a surge in inflation that may increase investor interest in gold.

8. Technology valuations reflect overly pessimistic expectations based on assumed policy impact, and may present an attractive opportunity.

9. Healthcare may benefit from a more positive healthcare environment. The election outcome has put upward pressure on interest rates and steepened the yield curve (the difference between short- and long-term interest rates). The election outcome has put upward pressure on interest rates and steepened the yield curve, but positive scenario for precious metals involves a surge in inflation that may increase investor interest in gold.

10. Power Factor: Trump and Markets

11. Trump has promised to ease regulations on energy production, boosting the profitability of the companies involved. Trump will likely be positive for fossil fuels.

12. Economies and reduced regulatory environment may increase oil supply, limiting its potential price appreciation.

13. Elevated stock market valuations are another risk to our forecast, but one we believe is only relevant in a scenario in which the earnings and two-year growth rate is above the long-term average of 15.2 going back to 1950, and even above the higher post-1980 average of 16.4.

14. We see similar performance between growth and value, with accelerating economic growth and improved financial sector performance.

15. Other sectors to consider:

   - Industrials may benefit from increased infrastructure spending.
   - Energy: Trump has promised less regulation on drilling, along with expansion of drilling areas. Should oil and natural gas prices hold up, some pipelines may get built that would not have been built otherwise.
   - Healthcare: Trump has put the possibility of supportive policies and expanding bank capital through the Affordable Care Act (ACA), which is positive for healthcare.
   - Technology: The election outcome has put upward pressure on interest rates and steepened the yield curve, but positive scenario for precious metals involves a surge in inflation that may increase investor interest in gold.

16. Trade rules suggest the earnings risk from trade in 2017 would be manageable. There are several politically sensitive sectors that may compete for prioritization, and the time involved in rewriting the Affordable Care Act (ACA), which is positive for small caps. More bank lending is also positive because small caps do not benefit as much as large caps if tax repatriation occurs, since larger companies have more cash parked overseas.

17. Figure 7

18. Future oil prices will be in part determined by fiscal stimulus, specifically infrastructure spending that may boost prospects for metals, such as copper. Policy uncertainty remains high, but our bias is positive.
All performance referenced is historical and is no guarantee of future results. Source: LPL Research, Bloomberg, Standard & Poor's, Barclays 11/30/16

Average-11.0%1.6%12.6%

higher return opportunities related to economic growth and inflation (which eats away at real returns). The "term premium" is a return investors demand for holding bonds that carry a longer maturity—"long bonds"—as opposed to "short bonds." The "term premium" reflects the market's expectation for "interest rate levels" and risk from equities and other higher risk asset classes.

During equity market pullbacks since 2010, the S&P 500 shock to the global economy could push rates lower and bond prices higher; however, prices on high-quality fixed income securities are more likely to be under pressure from several major sources in 2017. The onset of a U.S. recession or a major unexpected risk from equities and other higher risk asset classes.

The more Trump's plans are known and understood by markets, the lower this additional yield compensation may need to be. Trump's policies are likely to be pro-

Increasing risk premiums due to political uncertainty.

Despite our expectation for muted bond market performance in 2017, we continue to believe fixed income plays a vital role in the portfolio. Even in a low return, low-yield environment, high-quality bonds serve as an important diversifier, helping to manage uncertainty. The second rate hike at the December 2016 FOMC meeting may be the marker for the Fed to start gradually
do see the potential for the 10-year Treasury yield to

Raising interest rates further will also give the Fed more tools at their disposal should the economic recovery sputter. Our bias is toward the upper end of the range, and we

majority of their total returns driven by coupon income.

If Treasury yields

R in 2017. After achieving interest rate liftoff at December 2015's FOMC meeting, the Fed was on hold for a year as slow

Ongoing Fed rate hikes.

Gauging Gradual Progress

End of 2017 should include 0.25% - 1.00% additional yields from default and pre-pay losses due to rising yields. A 0.25% increase in intermediate-term Treasury yields could...

Our expectation is that the Consumer Price Index (CPI) and the Producer Price Index (PPI) will rise at a moderate pace in 2017. The Energy Sector has lagged other sectors, and we expect an increase in oil prices to lead to a moderate level of inflation for the year. We also expect that the Federal Reserve may start raising rates at an increased frequency, which would put upward pressure on long-term Treasury yields.

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Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk. Expensive Municipal More considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses. Investment trusts (REIT) and utilities. We continue to favor intermediate-term bonds for 2017, with an emphasis on investment-grade corporates and ... view on equities. Therefore, a small allocation to high-yield and/or bank loans may make sense for some investors. While longer-term Treasury rates are largely driven by expectations of future U.S. economic growth and inflation, short-term Treasury yields are more sensitive to Fed policy. With the prospects of additional Fed rate hikes and a more balanced crude oil market. These factors are a number of investment strategies that fall under traditional asset class that may be poised to deliver ... and 2016, helping to remove some of the weaker industry players. With oil oscillating in the $40 – 50 range throughout the majority of 2016, high-yield valuations increased throughout the latter half of the year as default prospects market condition.

High-yield bonds and bank loans could be two ways to help some investors increase yield in their fixed income portfolios, in what is still a historically low-rate market. Extra return may come with additional risks, such as ... market in 2017, but this is another area where the impact cannot be fully evaluated until we have greater policy clarity. High-yield spread is the yield differential between the average yield of high-quality bonds and the average yield of comparable maturity Treasury bonds. Shaded area indicates recession. Source: LPL Research, Bloomberg 11/30/16

High-Yield Option-Adjusted Spread

Alternative investments have been challenged over the past. We may be entering a period of lower returns for both bonds and stocks. Alternative investment managers with flexibility in their mandates may be able to find sources of additional return not available through traditional asset classes and strategies. This ability to find sources of additional return not available through traditional asset classes and strategies is especially important for investors who seek yield while simultaneously mitigating interest rate risk. Bank loans are also less sensitive to the energy sector, which only represents approximately 3% of the bank loan market. Because of this, the sector remains a solid option for income for investors who understand their risks, in our view. However, we do expect high-yield valuations to richen from credit rating services. While this is good news for the high-yield bond market, much of that improvement is already factored into the price of high-yield bonds. If oil prices do not falter, and move modestly higher in 2017 as we expect, the theme of improving fundamentals is poised to continue into 2017, as default levels for high-yield bonds are projected to decline from 4.5% at the end of 2016 to roughly 3 – 3.5% in 2017, based on estimates from credit rating services. However, the future is not destined to mirror the past. We may be entering a period of lower returns for both bonds and stocks. Alternative investment managers with flexibility in their mandates may be able to find sources of additional return not available through traditional asset classes and strategies. This ability to find sources of additional return not available through traditional asset classes and strategies is especially important for investors who seek yield while simultaneously mitigating interest rate risk.
There is capacity for further monetary or fiscal support if needed, both may have reached levels of diminishing returns ...

A longer timeline does also increase the chance that ... that move more slowly, but can change the landscape. Here are the key strategic trends we’ll be monitoring in 2017.

Although there are frictional forces that move more slowly, but can change the landscape, the multi-decade trend in global deficit spending and the loose monetary policy still in place across much of the globe.

On balance, we believe the stabilizers will continue to support economic growth. The ratio of the nonworking age population to the working age population is expected to continue to rise in every major developed economy over the next 20 years, putting pressure on other areas of the economy and likely to weigh on growth.

Wild card for markets. Declining tensions may open markets and create a “peace dividend,” whereas rising tensions can restrict economic growth.

The ratio of the nonworking age population to the working age population is expected to continue to rise in every major developed economy over the next 20 years, putting pressure on other areas of the economy and likely to weigh on growth.

A major change in these factors could meaningfully shift return expectations over the next 10 – 20 years, positively or negatively, and could shift the landscape for equity returns, contributing to the likelihood that stocks will continue to rise and outperform bonds over the next 10 – 20 years.

The strategic view that covers a calendar year is an important perspective. In order to capture 60% of rolling 20-year returns over the same period, you would need to have forecasted a total return forecast of a sound, long-term strategy. Given the year-to-year volatility of equity markets, even a good tactical record in one calendar year could easily be passed off as mismeasurement. Productivity gains would have to play a key role in improving the growth trajectory of the economy and should remain under careful watch.

The trend may slow, but its resiliency demonstrates the dynamic role of free markets that incentivize corporate innovation in the long run. The pace of future innovation can’t be known in advance, but based on the waves of innovation over the last 50 years and the infrastructure in place for future advances, we remain confident that technological advances will continue to support economic growth.

The ratio of the nonworking age population to the working age population is expected to continue to rise in every major developed economy over the next 20 years, putting pressure on other areas of the economy and likely to weigh on growth.

Productivity growth slowed considerably following the Great Recession, and there are no signs that it is likely to return to its pre-Great Recession levels. The reason is something that must be built over time. Strategic investments gain momentum slowly, but can change the landscape.

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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. All investments involve risk, including possible loss of principal. Investing in foreign and emerging market securities involves special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk of illiquidity.

INDEX DEFINITIONS

The MSCI EAFE Index is a free float-adjusted, market-capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada.

The MSCI Emerging Markets Index is a free float-adjusted, market capitalization index that is designed to measure equity market performance of emerging markets.

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 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).

Quantitative easing (QE) is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Qualitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

The U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar. The DXY Index does this by averaging the exchange rates between the US dollar and ten other major currencies, including the euro, yen, pound sterling, and Canadian dollar.

The Purchasing Managers Indexes are economic indicators derived from monthly surveys of private sector companies, and are intended to show the economic health of the U.S. manufacturing sector. A PMI of more than 50 indicates expansion in the manufacturing sector, a reading below 50 indicates contraction, and a reading of 50 indicates no change. The two principal producers of PMIs are Markit Group, which conducts PMIs for over 30 countries worldwide, and the Institute for Supply Management.

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The U.S. Institute for Supply Managers (ISM) manufacturing index is an economic indicator derived from monthly surveys of private sector companies, and is intended to show the economic health of the U.S. manufacturing sector. A PMI of more than 50 indicates expansion in the manufacturing sector, a reading below 50 indicates contraction, and a reading of 50 indicates no change. The two principal producers of PMIs are Markit Group, which conducts PMIs for over 30 countries worldwide, and the Institute for Supply Management.

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

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

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.

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 prepayment risk. High-yield bonds are also subject to increased risk of default and price volatility.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objective of the REIT will be achieved.

Investing in MLPs involves additional risks as compared with the risks of investing in common stock, including risks related to cash flow, dilution, and voting rights. Additional management fees and other expenses are associated with investing in MLP funds. MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling.

The significance of some of these milestones are only recognized looking down the road, but the real significance lies in the memories that come with reaching them. The milestones are a guidepost to how far along the journey you've come, and a benchmark for how far you still have to go.

Economic forecasts set forth may not develop as predicted, and there can be no guarantee that strategies promoted will be successful.

It is important to remember that past performance does not guarantee future results. Economic forecasts set forth may not develop as predicted, and there can be no guarantee that strategies promoted will be successful.

Career milestones can be anything from a promotion, to a new position, to a career accomplishment, major purchases, and many smaller milestones that represent personal achievements. When it comes to retirement milestones, some of the most important ones are saving for retirement, creating a retirement savings plan, and making the first retirement withdrawal.

Individuals also have their own milestones: life events, educational and professional achievements, major purchases, and many smaller milestones that represent personal achievements.

In order to keep on course for reaching the milestones that are important to you, it is important to have a long-term financial plan in place. This plan should include saving, investing, and budgeting for retirement, as well as creating a retirement savings plan.

It is also important to remember that the planning process is not a one-time event, but rather an ongoing process that requires ongoing monitoring and adjustment as your financial situation changes.