

# LPL RESEARCH ECONOMIC & MARKET OUTLOOK

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**John Lynch**

Chief Investment Strategist

Executive Vice President, LPL Financial

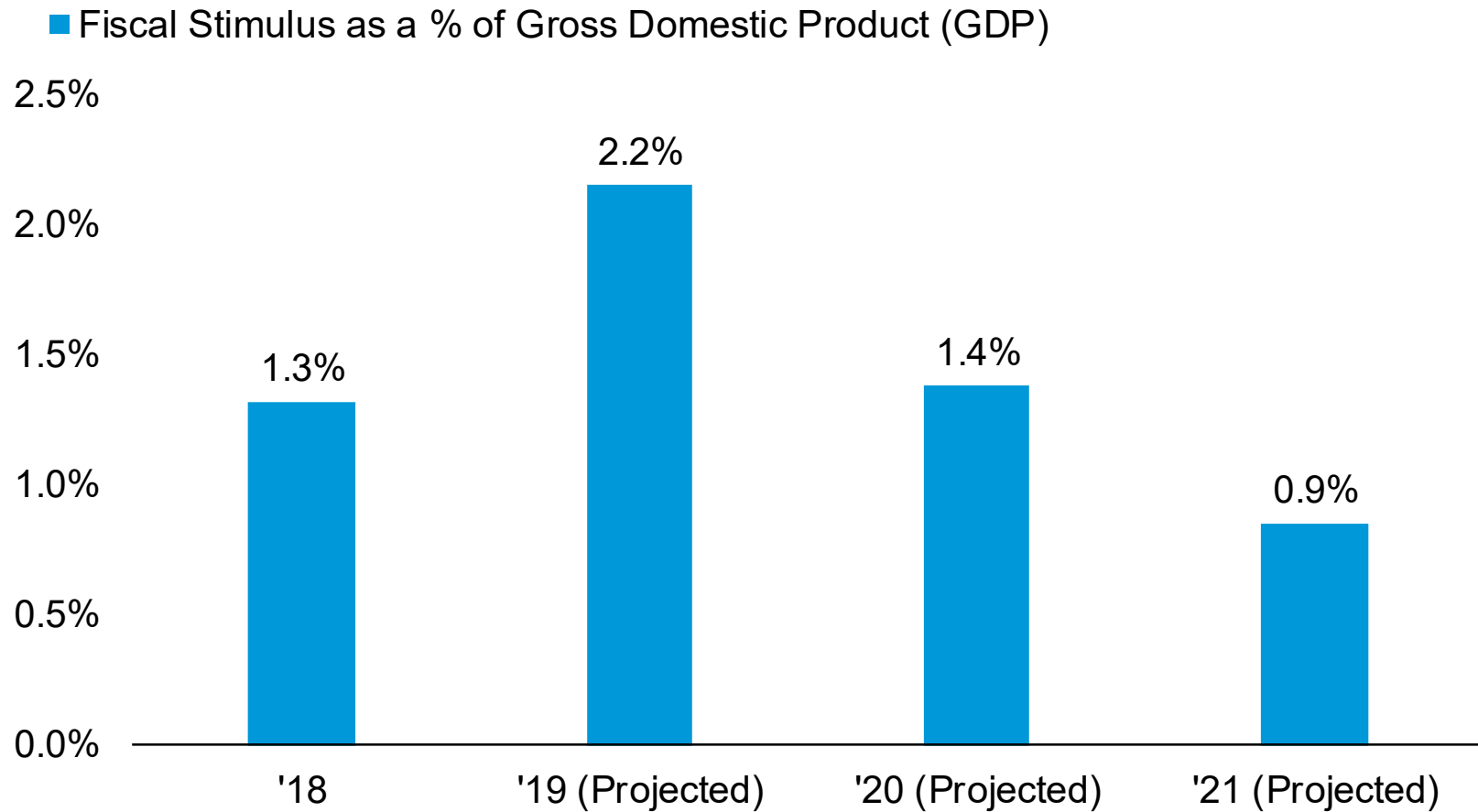
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# FOCUS ON THE FUNDAMENTALS

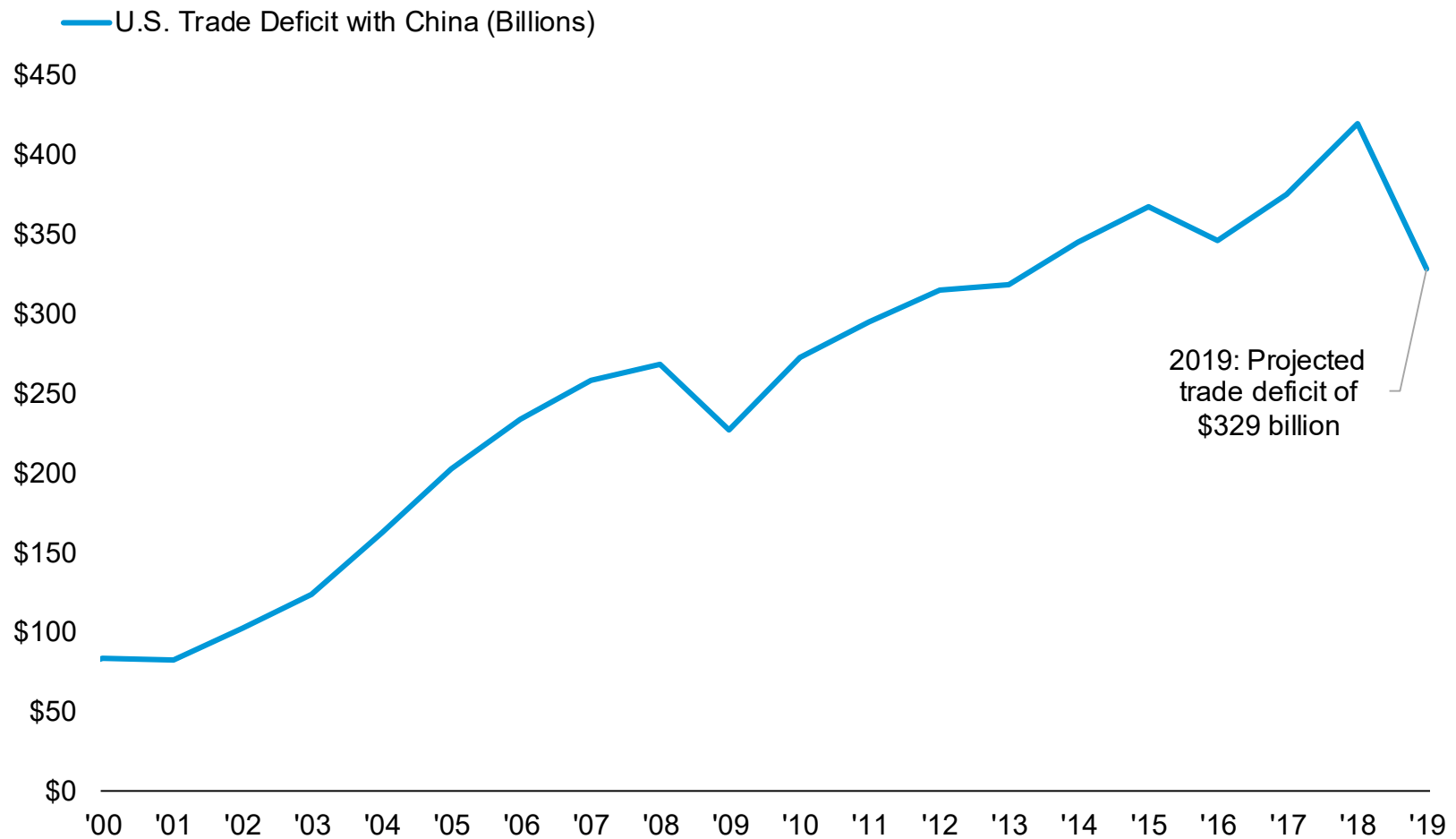
- Policy
- Economy
- Fixed Income
- Equities

## POLICY: 2019 FISCAL STIMULUS



Source: LPL Research, Strategas Research Partners, Congressional Budget Office, 6/30/19

# POLICY: U.S. TRADE DEFICIT WITH CHINA

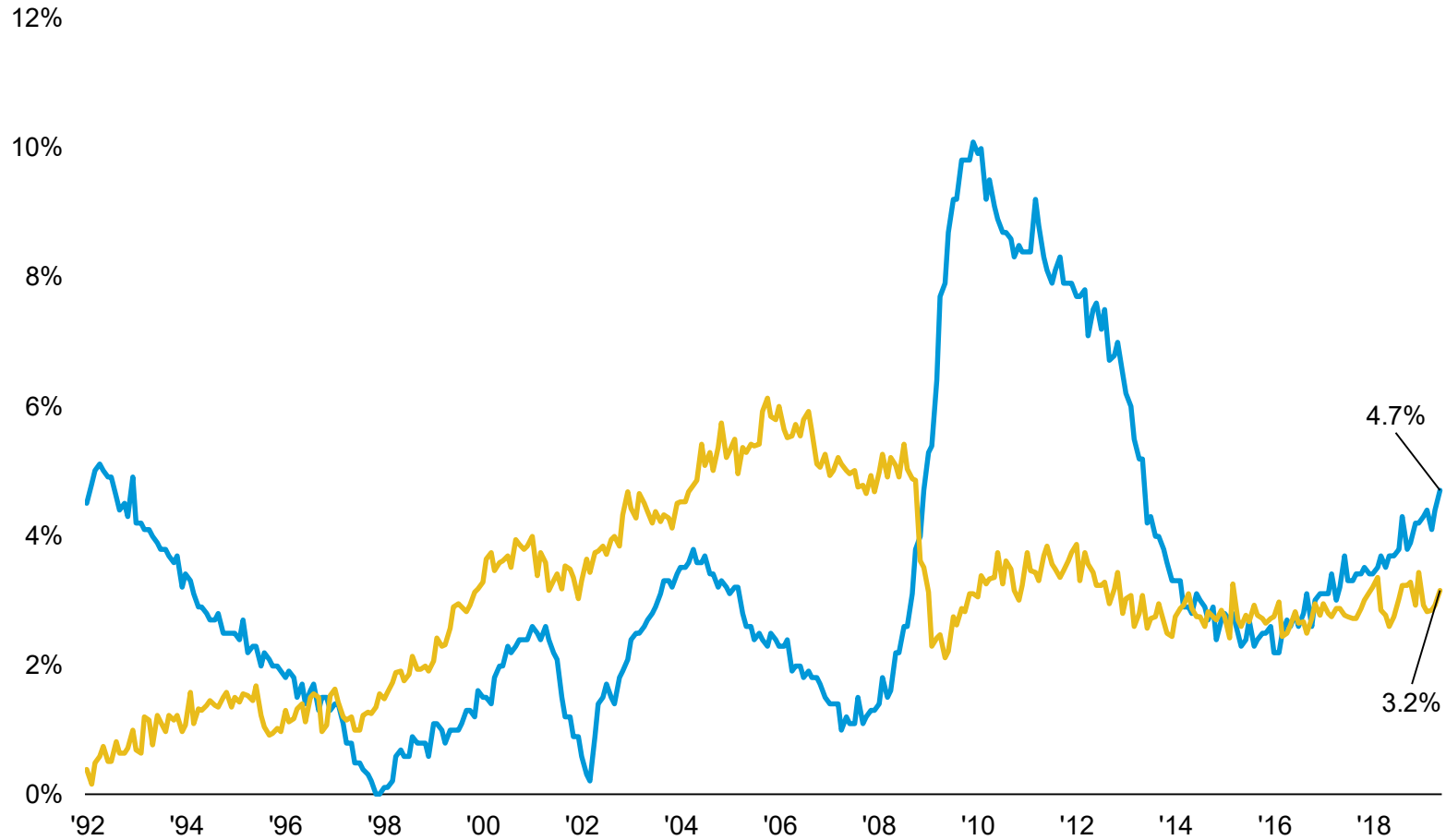


Source: LPL Research, Bloomberg, 6/30/19

The trade deficit is based on the trade balance, which is exports minus imports for the base country.

# POLICY: THE TWIN DEFICITS

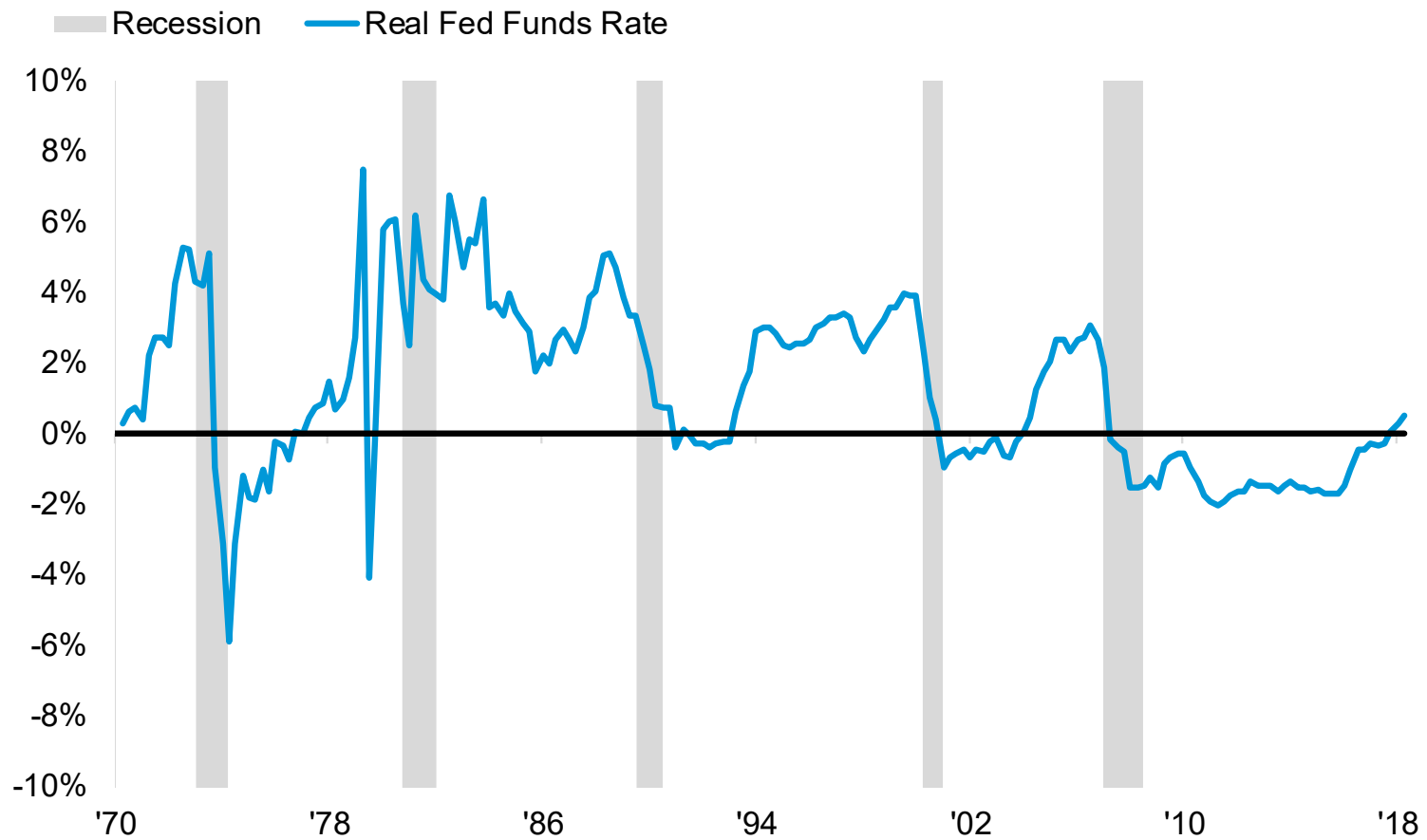
— Budget Deficit as a % of GDP — Trade Deficit as a % of GDP



Source: LPL Research, Bloomberg, 6/30/19

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# POLICY: INFLATION-ADJUSTED INTEREST RATES



Source: LPL Research, Bloomberg, 6/30/19

The real fed funds rate is defined as the upper-bound fed funds rate minus the year-over-year change in the Consumer Price Index.

# POLICY: U.S. DOLLAR INDEX



Source: LPL Research, Bloomberg, 8/27/19

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## ECONOMY: STEADY GLOBAL GROWTH

<b>REAL GDP (YoY%)</b>	<b>2018</b>	<b>2019 Est.</b>	<b>2020 Est.</b>
<b>United States</b>	2.9%	2.0%	1.8%
<b>Developed ex-U.S.</b>	1.8%	2.1%	1.9%
<b>Emerging Markets</b>	4.5%	4.4%	4.5%
<b>Global</b>	3.6%	3.5%	3.5%

<b>U.S. ECONOMIC DATA</b>	<b>2018</b>	<b>2019 Est.</b>	<b>2020 Est.</b>
<b>Inflation (YoY%)</b>	2.2%	2.0%	2.0%
<b>Unemployment</b>	3.9%	3.6%	3.8%

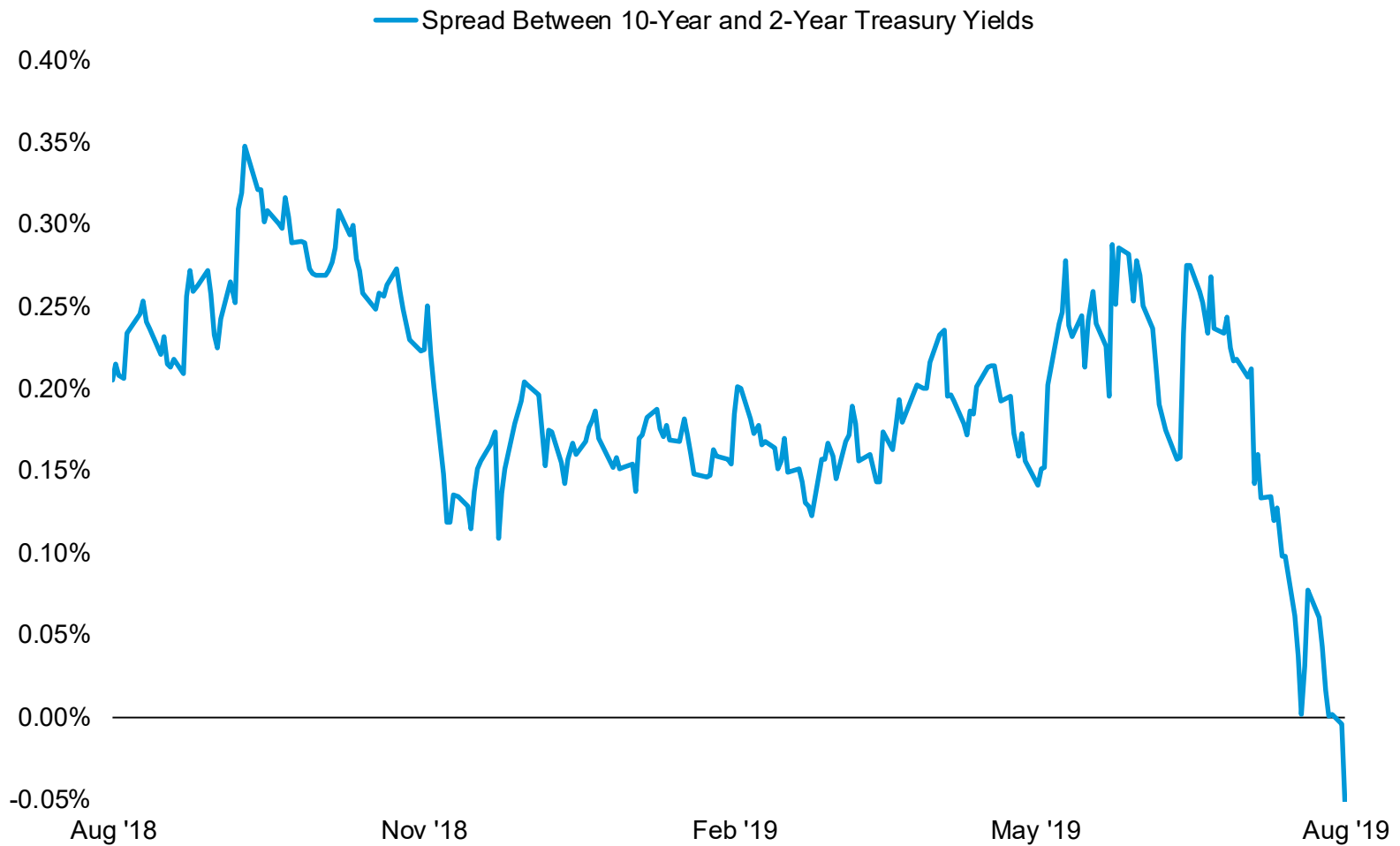
Source: LPL Research, Bloomberg, International Monetary Fund (IMF), 8/28/19

2019, 2020 U.S. economic data, U.S. GDP estimate, and global GDP estimate are LPL forecasts. Other GDP estimates are IMF projections.

Inflation is measured by the Consumer Price Index excluding food and energy prices.



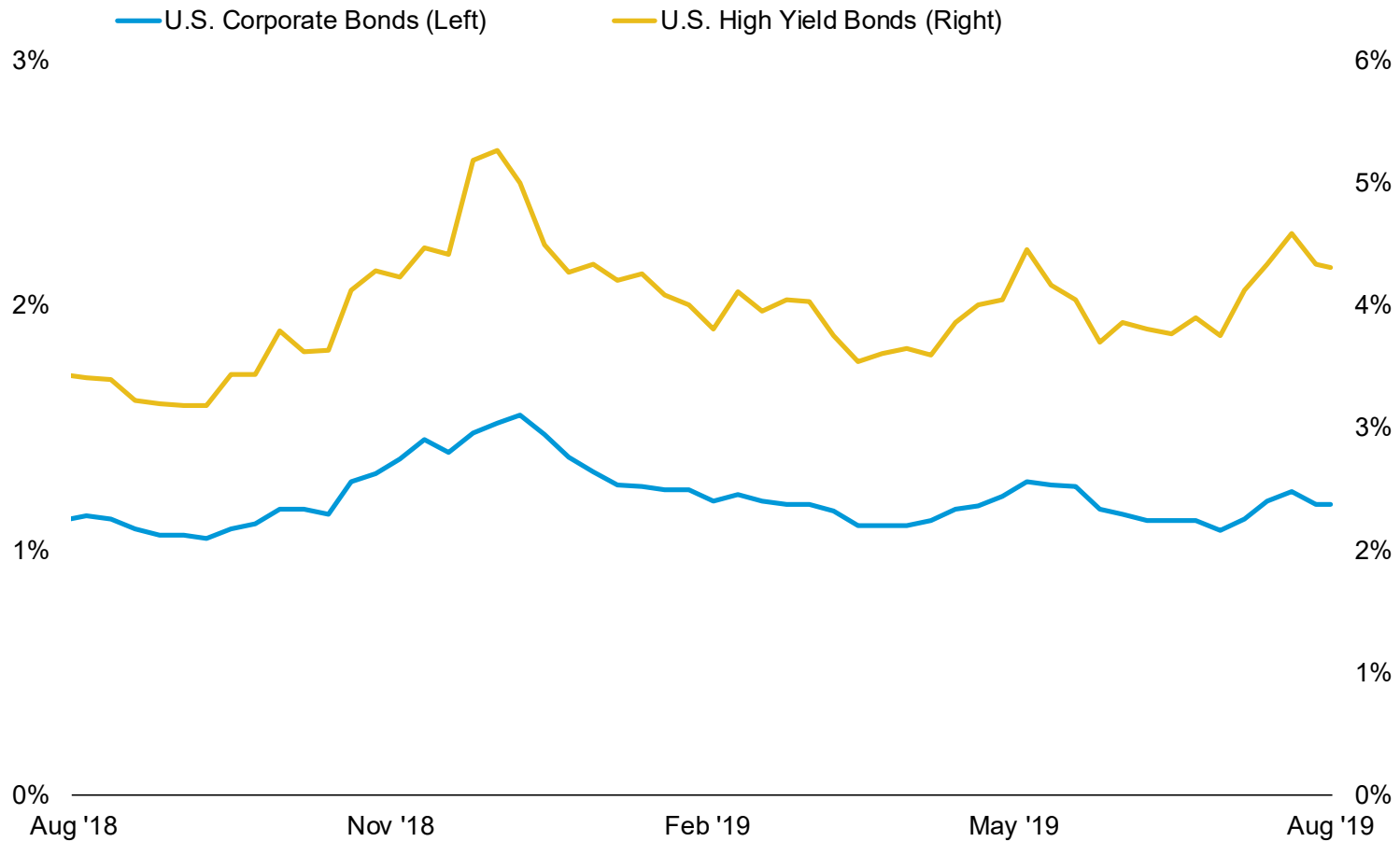
# FIXED INCOME: U.S. TREASURY YIELD CURVE



Source: LPL Research, Bloomberg, 8/27/19

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# FIXED INCOME: CORPORATE CREDIT SPREADS

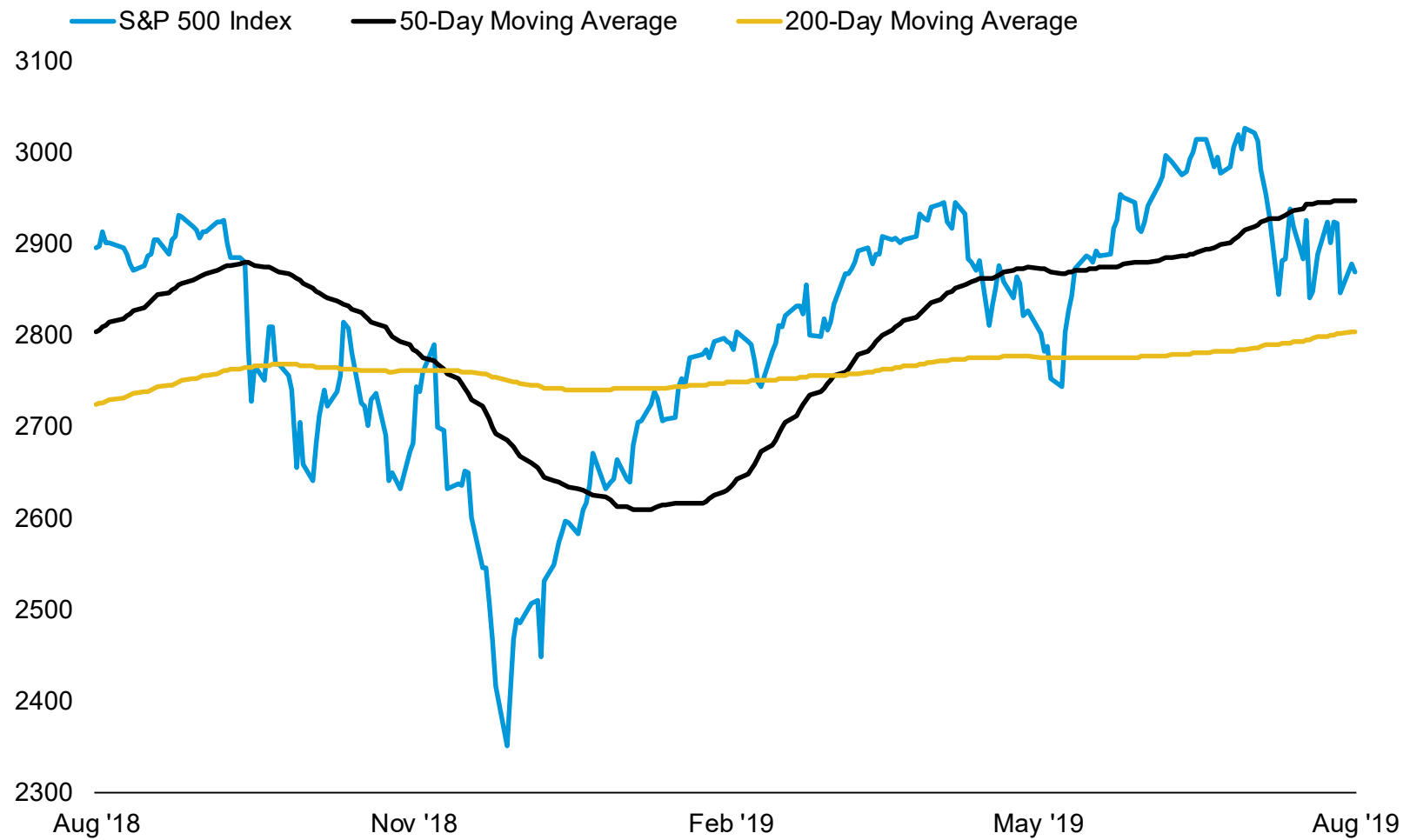


Source: LPL Research, Bloomberg, 8/27/19

U.S. Corporate Bonds (Bloomberg Barclays US Corporate Total Return Value Unhedged Index) and U.S. High Yield Bonds (the Bloomberg Barclays US Corporate High Yield Total Return Value Unhedged Index) against the 10-year Treasury Yield.

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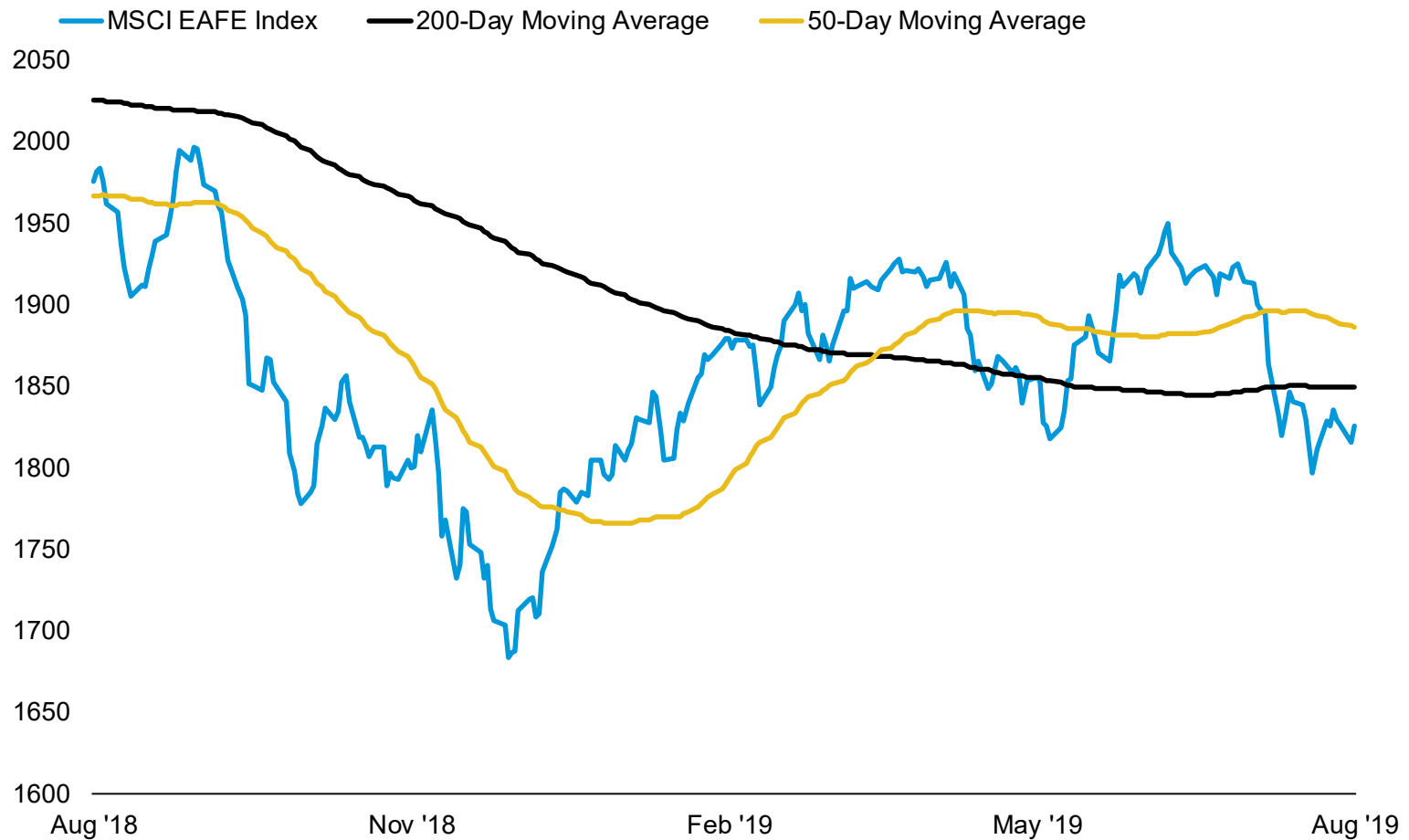
# EQUITIES: S&P 500 INDEX



Source: LPL Research, Bloomberg, 8/27/19

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# EQUITIES: DEVELOPED (EAFE)

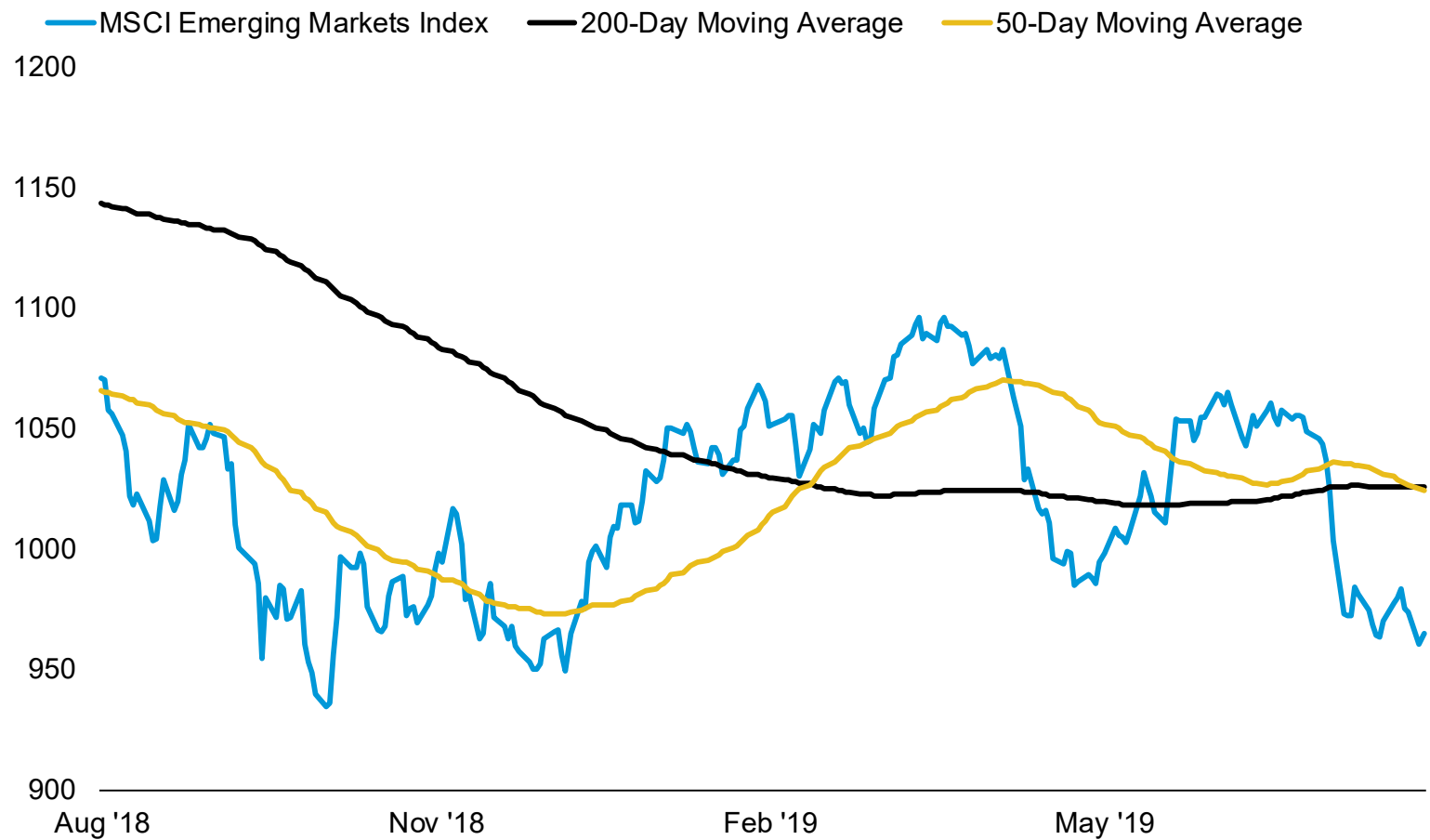


Source: LPL Research, Bloomberg, 8/27/19

Please see slide 16 for the following index definitions: MSCI EAFE Index and MSCI Emerging Markets Index.

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# EQUITIES: EMERGING MARKETS



Source: LPL Research, Bloomberg, 8/27/19

Please see slide 16 for the following index definitions: the MSCI EAFE Index and the MSCI Emerging Markets Index.

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All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. All performance referenced is historical and is no guarantee of future results.

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.

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

# DEFINITIONS

Credit risk is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship. Such changes usually affect securities inversely and can be reduced by diversifying (investing in fixed-income securities with different durations) or hedging (e.g. through an interest rate swap).

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 3-month, 2-year, 5-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.

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.

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.

Yield spread is the difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings, and risk.

## INDEX DEFINITIONS

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 modern design of the S&P 500 stock index was first launched in 1957. All performance back to 1928 incorporates the performance of predecessor index, the S&P 90.

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 MSCI EAFE Index is made up of approximately 1,045 equity securities issued by companies located in 19 countries and listed on the stock exchanges of Europe, Australia, and the Far East. All values are expressed in U.S. dollars. Past performance is no guarantee of future results.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.