

FOURTH QUARTER 2016 IN REVIEW

MARKETS & ECONOMY INFLUENCED BY ELECTION OUTCOME

- U.S. economic growth remained restrained in Q4 after acceleration in Q3.** Based on data received through December 2016, fourth quarter 2016 real gross domestic product (GDP) growth is tracking to between 2% and 2.5%, following 3.5% growth in the third quarter of 2016, 1.4% growth in the second quarter, and 0.8% growth in the first quarter. Uncertainty around the United Kingdom’s (U.K.) impending exit from the European Union (EU), tepid international growth, and policy uncertainty in Washington D.C. may all be contributing to some caution among consumers and businesses. Manufacturing has been stabilizing but continues to experience only a slow recovery from the impact of falling oil prices and a strengthening dollar. As the year ended, optimism surrounding potential fiscal policy stimulus was building, indicating economic momentum may have picked up some in December.
- Improving U.S. economy and election a strong combination for stocks.** The S&P 500 posted a 3.8% total return during the fourth quarter, bringing the full year 2016 return to a solid 12%. The quarter’s gains were driven by improving economic conditions and optimism surrounding potential pro-growth policies under a Trump presidency with one-party control of Congress. Financials and small caps, in particular, benefited from prospects for tax reform, deregulation, and higher interest rates that were at least partly

1 Q4 2016 AT A GLANCE

	Q4 2016
GDP*	2.2%
S&P 500 Index	3.8%
Barclays Aggregate Bond Index	-3.0%
Bloomberg Commodity Index	-2.7%

Please note: All return figures are as of December 31, 2016, unless otherwise stated.

Past performance is not indicative of future results.

The economic forecasts set forth in the presentation may not develop as predicted.

Stock investing entails risk including loss of principal.

Source: LPL Research, Bloomberg, FactSet 12/31/16

*Bloomberg consensus as of December 31, 2016.

Figures for S&P 500, Barclays Aggregate Bond Index, and Bloomberg Commodity Index are total returns from 9/30/16–12/31/17 (Q4).

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.

attributable to the president-elect's policy plans. Both developed foreign and emerging markets (EM) equities lagged U.S. benchmarks for the quarter and in 2016, though EM lagged only modestly for the year. In the quarter, political uncertainty weighed on U.K. stocks, although Italian stocks shrugged off that country's leadership transition in posting solid gains. Yen weakness hurt Japan's dollar-based returns, while EM was hurt by trade protectionism concerns, in China in particular.

- Rates soar as markets digest implications of Trump presidency.** The yield curve steepened and Treasury yields soared as fixed income markets priced in implications of President-elect Trump's policies. Anticipation of higher levels of growth and inflation drove longer-term yields higher. The Federal Reserve's decision to hike interest rates in December, in addition to their raising guidance of the pace of future rate hikes, drove shorter-term yields higher. The Bloomberg Barclays Aggregate Bond Index returned -3.0%. Economically sensitive, lower-credit quality sectors continued to rally, with high-yield returning 1.8% (Bloomberg Barclays U.S. Corporate High Yield Index) and bank loans gaining 2.2% (Bloomberg Barclays U.S. High Yield Loan Index). A meaningful pickup in inflation expectations was a tailwind for TIPS, which returned -2.4% (U.S. Treasury Inflation Protected Notes Index) during the quarter, outperforming Treasuries, which returned -3.8% (Barclays U.S. Treasury Index). Emerging markets debt returned -4.2% (JP Morgan Emerging Markets Bond Index) amid concerns over protectionist U.S. trade policies.

The dollar's 7.1% surge during the quarter hurt unhedged foreign bonds, which returned -10.8% (Citigroup Non-US World Gov. Bond Unhedged Index) amid globally rising rates.

- Distressed debt strategies continued to perform.** The HFRX Distressed Debt Index increased 5.4% during the fourth quarter, for an annual gain of 19.6%. Commodity sector strength continued to support portfolios. In the managed futures space, the increase in Treasury yields earlier in the quarter weighed on quarterly performance, as the industry was broadly positioned with long exposure. Further, short emerging market currency positioning against the U.S. Dollar detracted from performance. For the quarter, the HFRX Systematic Diversified declined 3.5%. While quarterly returns were positive, on a risk-adjusted basis, long/short equity managers (HFRX Equity Hedge Index +0.8%) underperformed the S&P 500's 3.8% gain. The industry's financial sector underweight made it difficult to keep pace with broader markets, as financial related securities swiftly climbed following the election results.
- Oil prices surge late in quarter on OPEC production cut.** The story of the quarter in commodities was an agreement between OPEC and certain non-OPEC members to cut production. This led to surging oil prices late in the quarter and resulted in a quarterly return for WTI crude of 11.4%. The Bloomberg Commodity Index returned 2.6% in the fourth quarter led by energy and industrial metals. The U.S. dollar trade-weighted index was up 7.1% as the Federal Reserve hiked rates and growth expectations increased in the U.S. ■

Bonds are subject to market and interest rate risk if sold prior to maturity.

Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

Alternative strategies may not be suitable for all investors. The management of alternative investments may accelerate the velocity of potential losses.

A LOOK FORWARD

We expect mid-single-digit returns for the S&P 500 in 2017 supported by further earnings acceleration and improved U.S. economic growth, as laid out in our [Outlook 2017: Gauging Market Milestones](#) publication.* Concerns about trade, an aging business cycle, and political uncertainty may still lead to bouts of volatility. Rising growth

and inflation expectations may be a headwind for bonds, but much of the impact is likely already priced in and low yields overseas may restrain how high domestic yields can push. As a result, interest rates may be range bound in 2017, allowing the potential for interest income to support positive returns for bonds.

*As noted in our *Outlook 2017* publication, 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.

MARKET INSIGHT QUARTERLY & MARKET INSIGHT MONTHLY

The updated quarterly edition of *Market Insight* provides a high-level overview of what occurred in the economy, stock and bond markets, commodities, and alternative strategies during the previous quarter. For more detailed performance data and commentary, we provide a monthly review in the *Market Insight Monthly* publication.

Access past issues of the *Market Insight Monthly* on the Resource Center, or here:

- [October 2016 in Review](#)
- [November 2016 in Review](#)
- [December 2016 in Review](#)



2 FINANCIALS BENEFITED FROM OPTIMISM SURROUNDING POTENTIAL POLICY CHANGES IN Q4

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

Sector	Q4 2016
Financials	21.1%
Energy	7.3%
Industrials	7.2%
Telecom	4.8%
Materials	4.7%
S&P 500	3.8%
Consumer Discretionary	2.3%
Technology	1.2%
Utilities	0.1%
Consumer Staples	-2.0%
Healthcare	-4.0%
Real Estate	-4.7%

3 FOREIGN ASSET CLASSES UNDERPERFORMED IN Q4

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

Asset Class	Q4 2016
U.S. Small Value	14.1%
U.S. Large Value	6.7%
U.S. Mid Value	5.5%
U.S. Small Growth	3.6%
U.S. Large Growth	1.0%
U.S. Mid Growth	0.5%
Large Foreign	-0.7%
Emerging Markets	-4.1%

Sources: LPL Research, FactSet 12/31/16

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.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

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.

4 RALLY IN ECONOMICALLY SENSITIVE FIXED INCOME SECTORS CONTINUED IN Q4

Bond Market Performance, Ranked by Fourth Quarter Returns

Sector	Q4 2016
Bank Loans	2.2%
High-Yield Bonds	1.8%
Mortgage-Backed Securities	-2.0%
Foreign Bonds (Hedged)	-2.2%
TIPS	-2.4%
Investment-Grade Corporates	-3.0%
Barclays U.S. Aggregate	-3.0%
Municipal Bonds	-3.6%
U.S. Treasuries	-3.8%
Emerging Market Debt	-4.2%
Preferred Securities	-4.6%
Municipal High-Yield	-6.8%
Foreign Bonds (Unhedged)	-10.8%

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 – Barclays U.S. Treasury Index; Mortgage-Backed Securities – Barclays U.S. MBS Index; Investment-Grade Corporate – Barclays U.S. Corporate Bond Index; Municipal – Barclays Municipal Bond Index; Municipal High-Yield – Barclays Municipal High Yield Index; TIPS – Barclays Treasury Inflation-Protected Securities Index; Bank Loans – Barclays U.S. High Yield Loan Index; High-Yield – 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)

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 reference is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly.

General Stock & Debt Equity Risks

Stock investing may involve risk including loss of principal.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

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.

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

Long/short equity funds are subject to normal alternative investment risks, including potentially higher fees; while there is additional management risk, as the manager is attempting to accurately anticipate the likely movement of both their long and short holdings. There is also the risk of "beta-mismatch," in which long positions could lose more than short positions during falling markets.

Distressed Debt is an investment in companies in or near bankruptcy. The investment is often made to gain control of the company with the goal of either improving the operations of the company or disposing of assets. The risks associated with distressed investing arise from several factors including: limited diversification, the use of leverage, limited liquidity, and the possibility that investors may be required to accept cash or securities with a value less than their original investment and/or may be required to accept payment over an extended period of time.

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.

Index Definitions

The Barclays U.S. Corporate High Yield Index measures the market of USD-denominated, noninvestment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging markets debt.

The Barclays U.S. High Yield Loan Index tracks the market for dollar-denominated floating-rate leveraged loans. Instead of individual securities, the U.S. High-Yield Loan Index is composed of loan tranches that may contain multiple contracts at the borrower level.

The 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 Barclays U.S. Corporate Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market.

The Barclays U.S. Treasury Index is an unmanaged index of public debt obligations of the U.S. Treasury with a remaining maturity of one year or more. The index does not include T-bills (due to the maturity constraint), zero coupon bonds (strips), or Treasury Inflation-Protected Securities (TIPS).

The Barclays U.S. Mortgage Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

The Barclays U.S. Treasury TIPS Index is a rules-based, market value-weighted index that tracks inflation-protected securities issued by the U.S. Treasury.

The BofA Merrill Lynch Preferred Stock Hybrid Securities Index is an unmanaged index consisting of a set of investment-grade, exchange-traded preferred stocks with outstanding market values of at least \$50 million that are covered by Merrill Lynch Fixed Income Research.

The Bloomberg Commodity Index is calculated on an excess return basis and composed of futures contracts on 22 physical commodities. It reflects the return of underlying commodity futures price movements.

The HFRX Distressed Restructuring Index strategies employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings. Managers are typically actively involved with the management of these companies, frequently involved on creditors' committees in negotiating the exchange of securities for alternative obligations, either swaps of debt, equity or hybrid securities. Managers employ fundamental credit processes focused on valuation and asset coverage of securities of distressed firms; in most cases portfolio exposures are concentrated in instruments which are publicly traded, in some cases actively and in others under reduced liquidity but in general for which a reasonable public market exists. In contrast to Special Situations, Distressed Strategies employ primarily debt (greater than 60%) but also may maintain related equity exposure.

The HFRX Equity Market Neutral Index strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. These can include both factor-based and statistical arbitrage/trading strategies. Factor-based investment strategies include strategies in which the investment thesis is predicated on the systematic analysis of common relationships between securities. In many but not all cases, portfolios are constructed to be neutral to one or multiple variables, such as broader equity markets in dollar or beta terms, and leverage is frequently employed to enhance the return profile of the positions identified. Statistical arbitrage/trading strategies consist of strategies in which the investment thesis is predicated on exploiting pricing anomalies that may occur as a function of expected mean reversion inherent in security prices; high frequency techniques may be employed and trading strategies may also be employed on the basis on technical analysis or opportunistically to exploit new information the investment manager believes has not been fully, completely, or accurately discounted into current security prices. Equity market neutral strategies typically maintain characteristic net equity market exposure no greater than 10% long or short.

The JP Morgan Emerging Markets Bond Index is a benchmark index for measuring the total return performance of international government bonds issued by emerging markets countries that are considered sovereign (issued in something other than local currency) and that meet specific liquidity and structural requirements.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market.

The Russell Midcap Index offers investors access to the mid cap segment of the U.S. equity universe. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid cap segment and is completely reconstituted annually to ensure that larger stocks do not distort the performance and characteristics of the true mid cap opportunity set. The Russell Midcap Index includes the smallest 800 securities in the Russell 1000.

The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indexes that represent developed markets outside of North America: Europe, Australasia, and the Far East.

The MSCI Emerging Markets Index captures large and mid cap representation across 23 emerging markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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 Barclays U.S. Municipal Index covers the USD-denominated, long-term, tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

The Barclays Municipal High Yield Bond Index is comprised of bonds with maturities greater than one-year, having a par value of at least \$3 million issued as part of a transaction size greater than \$20 million, and rated no higher than 'BB+' or equivalent by any of the three principal rating agencies.

The Citigroup Non-U.S. World Government Bond Hedged Index measures the performance of fixed-rate, local currency, investment grade sovereign bonds. This index is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 25 years of history available. It provides a broad benchmark for the global sovereign fixed income market, excluding the U.S., with currencies hedged against the U.S. dollar.

The USD Index measures the performance of the U.S. dollar against a basket of foreign currencies: EUR, JPY, GBP, CAD, CHF and SEK. The U.S. Dollar Index goes up when the dollar gains "strength" compared to other currencies.

This research material has been prepared by LPL Financial LLC.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial LLC is not an affiliate of and makes no representation with respect to such entity.

Not FDIC or NCUA/NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Guaranteed by Any Government Agency | Not a Bank/Credit Union Deposit

RES 5742 0117 | Tracking #1-570459 (Exp. 05/17)