5 Themes for 2018

New England Investment & Retirement Group, Inc.

Our mission is to help our clients pursue financial independence by providing unbiased objective guidance. We bring value through communication, education, and exceptional service.

2017 VS 2018: A COMPARISON OF THEMES

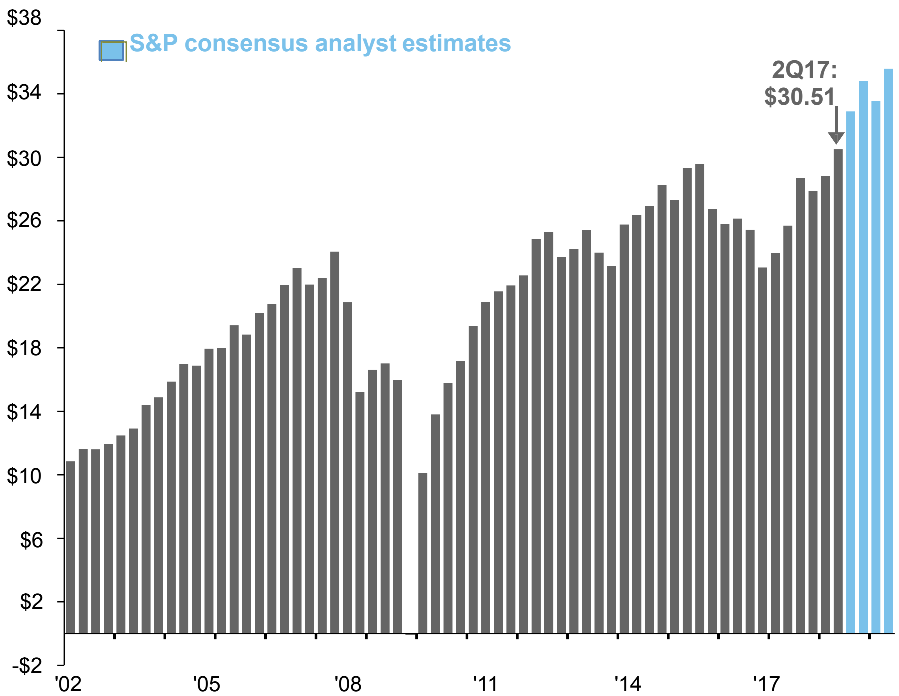
2017 Themes	Outcome	2018 Themes
Pro-Growth Agenda *While growth improved YoY in the U.S., most of the growth was not driven by legislative changes as largely forecasted (infrastructure spending, tax cuts, regulatory reform, etc.).*	***Neutral***	**Continued Focus on Growth** *Tax reform in the U.S., coupled with a pick-up in capital expenditures may set the stage for an additional boost to economic output / activity in 2018.*
Keep an Eye on Inflation *Hurricane-related disruptions, unexpected declines in energy prices and a weaker dollar dampened inflation expectations in 2017.*	***Negative***	**Keep an Eye on Inflation** *Tighter labor markets in the U.S. and other advanced economies are likely to lift wage growth and translate to a gradual inflation uplift.*
Beware of the Macro *Unexpected events included North Korea's nuclear program, missile launches, European elections and armed conflicts in the middle east.*	***Positive***	**Expect the Unexpected** *Continued uncertainty surrounding North Korea, trading relationships, negotiations between the UK and EU, and threats to scrap NAFTA could negatively impact markets and global growth.*
Bond Volatility Ahead *The global search for yield has driven many fixed income investors into unfamiliar territory. Many embraced more credit risk, spurred by negative rates in many DM economies and low yields on perceived safe haven assets.*	***Positive***	**Policy Divergence Ahead** *After a decade of unprecedented monetary stimulus, developed markets are expected to the follow the U.S.'s lead and begin tightening monetary policies to varying degrees, setting the stage for potential volatility and opportunities across fixed income markets.*
Emerging Markets *EM equities had a stellar year in 2017.*	***Positive***	**International & Emerging Markets** *The global economy has been in a synchronized expansion, driving steady earnings growth in international and emerging markets. Despite recent gains, valuations continue to appear reasonable relative to more expensive domestic markets.*

CONTINUED FOCUS ON GROWTH

PORTFOLIO IMPACT

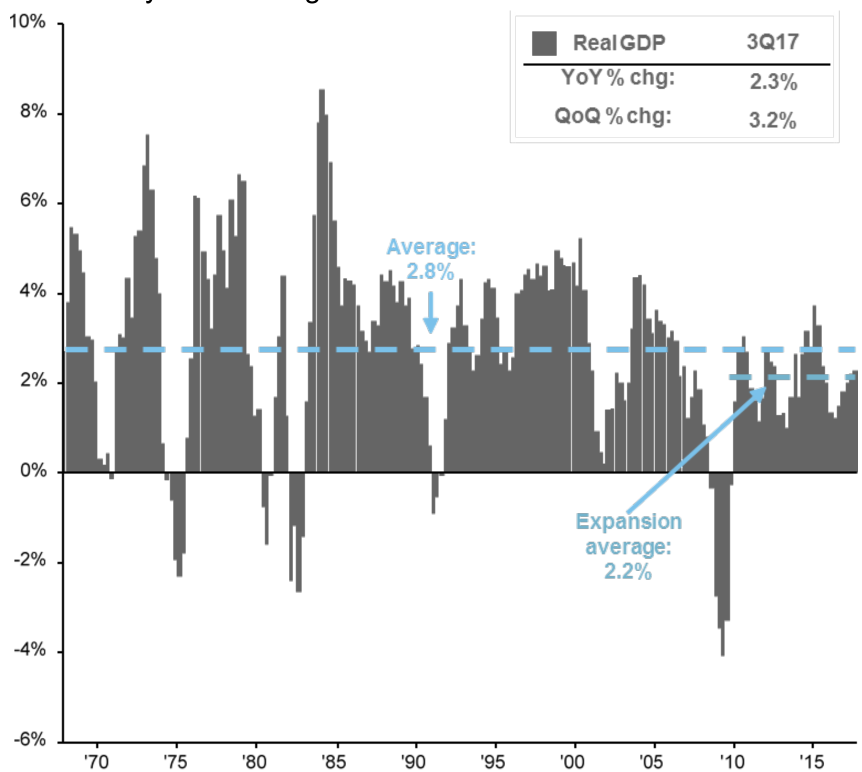
It is worth noting as of March 2018, the current bull market will turn 9 years old. At that point it will be the third longest bull market run since 1900. Factoring in larger-than-expected tax cuts and higher federal spending (potential for infrastructure spending), we could see a short-term boost to GDP growth, though, with elevated valuations, much of the equity returns are likely to be driven by strong earnings growth and record corporate profits. Our positive outlook is tampered by the fact that we think the easy money has already been made and we remain vigilant about the risks we seen in portfolios today.

S&P 500 earnings per share
Index quarterly operating earnings



Source: J.P. Morgan Guide to the Markets, Q1 2018

Real GDP
Year-over-year % change



KEEP AN EYE ON INFLATION

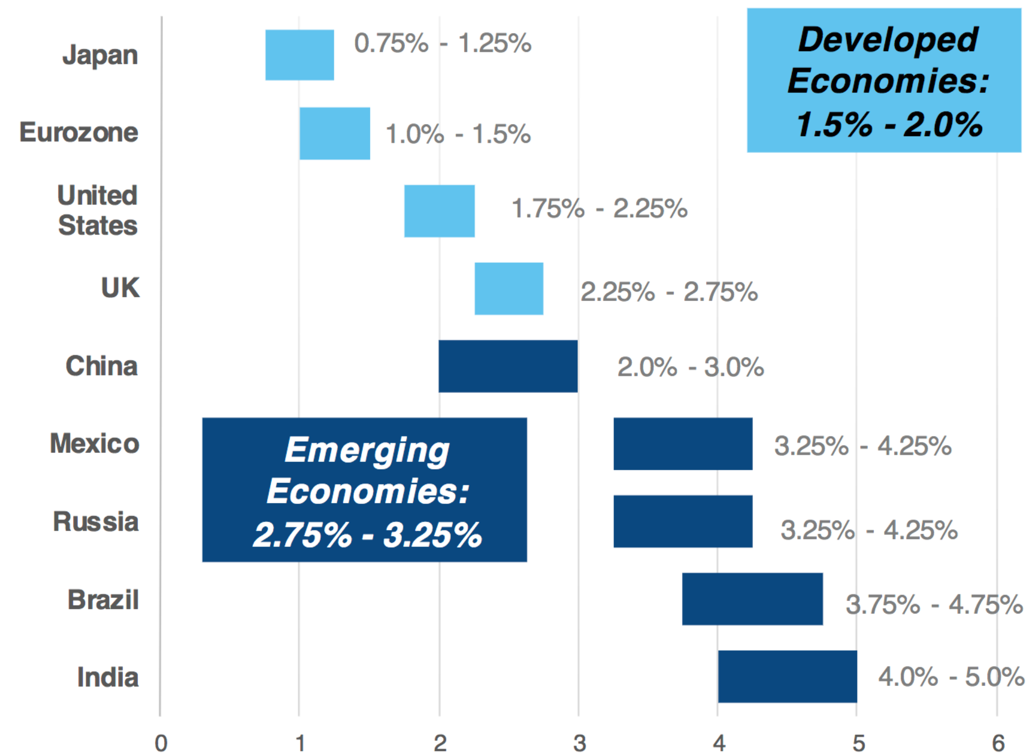
PORTFOLIO IMPACT

After a meaningful increase in 2017, our inflation expectation is relatively unchanged for 2018. Assets respond differently to inflation; some poorly, others favorably. In anticipation of the potential for inflation we are favoring assets with the ability to fight-off rising inflation (such as Treasury Inflation Bonds, Commodities, Real Estate and MLPs).

U.S. Headline and Core CPI

	50-yr. avg.	Nov. 2017
Headline CPI	4.1%	2.2%
Core CPI	4.0%	1.7%
Food CPI	4.1%	1.4%
Energy CPI	4.4%	9.5%

2018 CPI Inflation Forecasts (%YOY)



Source: PIMCO's Cyclical Outlook, September 2017, JP Morgan Asset Management, December, 2017
Note: Headline inflation are year-over-year (YOY) percentage changes

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EXPECT THE UNEXPECTED

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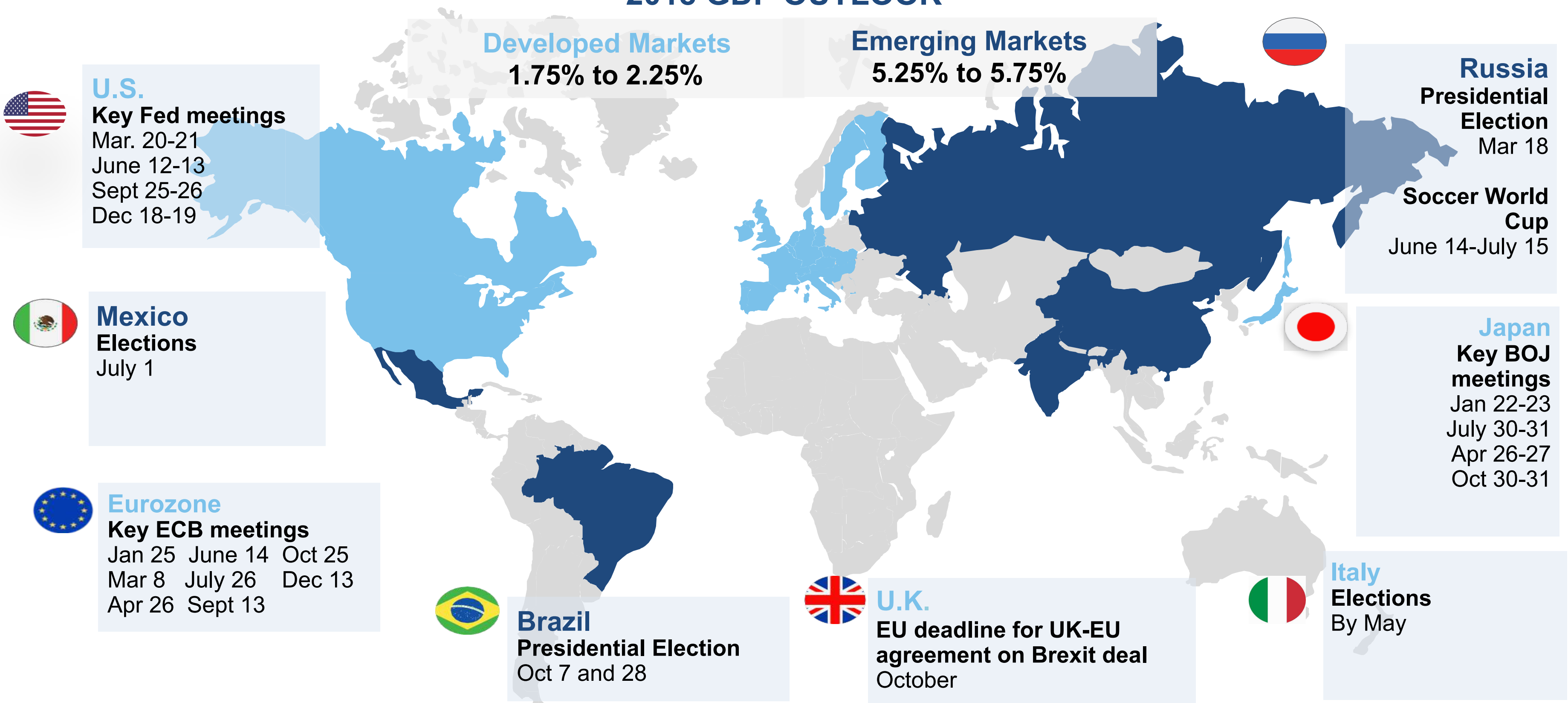
Vigilance in diversification will be important to weather any storm that comes from these unpredictable events. As we saw in 2016 – 2017, we believe it is a losing bet to invest based on the potential of election results and other unpredictable binary outcomes. Selecting the outcome of an election, or any geopolitical event for that matter, is just as difficult as then subsequently judging the resulting reaction of the markets. A thoughtfully diversified portfolio helps remove the emotion from these events and is as important now as ever.

2018 GDP OUTLOOK



Source: GDP Outlook: PIMCO's Cyclical Outlook, IMF 2018 World Economic Outlook, Calendar: Blackrock Global Investment Outlook 2018

POLICY DIVERGENCE AHEAD

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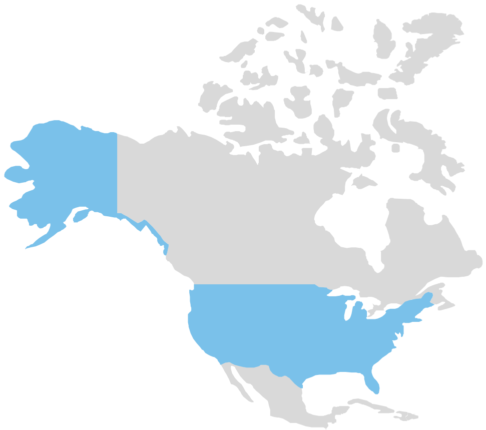
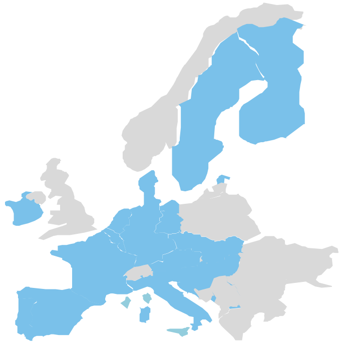
While a tightening move by one central bank in isolation is likely not much of a concern, a number of central banks doing so at the same time is a different proposition. Synchronized tightening in this environment may be disruptive, though given that central banks are likely to adopt a cautious approach, liquidity will likely remain intact in the near-term. Casting a wide net with diversified fixed income holdings (Treasury Bonds, U.S., Foreign, High Yield, Emerging) can help mitigate risk amid the uncertainly of central bank monetary policies going forward.



U.S.
The new Fed Chair, Jerome Powell, has signaled his intention to follow the path set by his predecessors. The Federal Reserve is expected to raise rates three times in 2018, taking the fed funds rate range to 2%–2.25% by year-end. The Fed's balance sheet will shrink on autopilot at a pace that will accelerate quarterly in 2018.



Eurozone
The European Central Bank (ECB) remains accommodative and signaled its intention to begin tapering its bond purchase program next year, but has not signaled a likelihood to raise interest rates in the near-term.

China
Following the 19th National People's Congress in October, the Chinese authorities are expected to ramp up their efforts to reform China's state-owned enterprises and reduce corporate debt, potentially slowing the Chinese economy in 2018.

Japan
Consensus on when the Bank of Japan (BOJ) will seek to shift away from its accommodative monetary policy remains less certain. Should the BoJ declare the end of deflation, it is likely to announce changes to its overall yield curve control policy, raise the target to the 10-year yield above 0% and reduce its exchange traded fund purchases.

Source: T Rowe Price 2018 Global Outlook

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INTERNATIONAL EQUITIES

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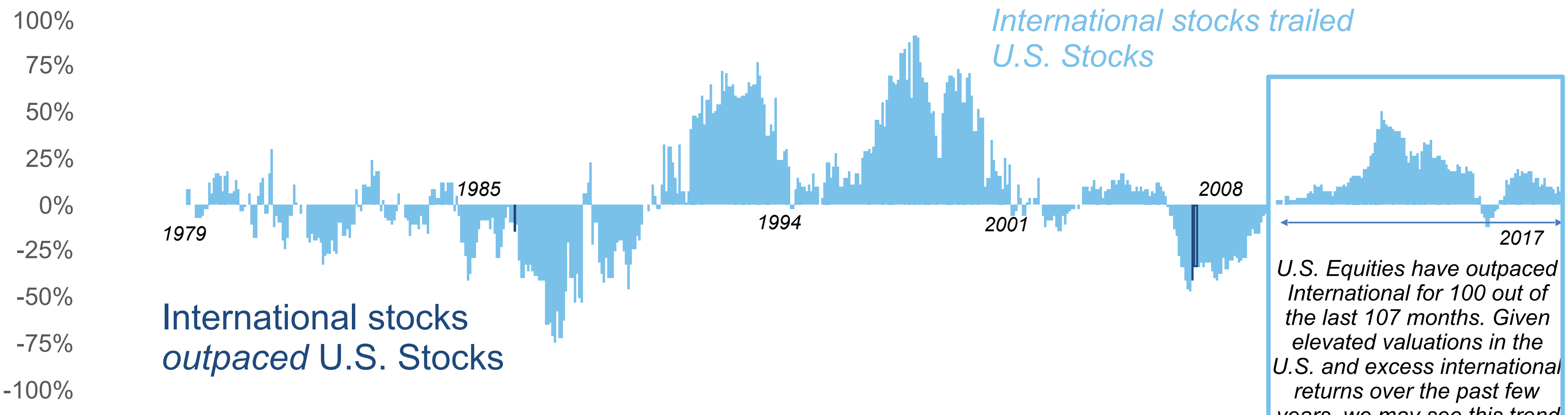
2017 was a strong year for all major developed economies with the potential for the momentum to carry into 2018. With GDP growth in the 19-member euro zone accelerating, an uptick in global manufacturing and improvements to Japan's economy (ex. unemployment at a 23-year low), signs are starting to appear that growth may finally be turning a corner and may become more self-sustaining for International markets. Given elevated valuations in the U.S., international markets appear to be relatively attractive, with higher dividend yields and earnings growth potential when compared to domestic markets. Rightsizing allocations is important as risks remain with upcoming negotiations to trade agreements and fluid geopolitical events (ex. Venezuela, Catalonian Elections, Iran unrest, North Korea, etc.) may dampen those growth prospects.

Rolling 3-year Returns for U.S Equities Compared with International Equities

Monthly performance data from 1979 - 2017



U.S. Equities have outpaced International for 100 out of the last 107 months. Given elevated valuations in the U.S. and excess international returns over the past few years, we may see this trend to mean-revert sometime in the future.

Sources: Chart: Capital Group. Data: MSCI and S&P 500. Data represents rolling three-year returns in local currency of MSCI EAFE Index vs. the S&P 500 Index through 8/31/17.

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