

Lincoln Variable Insurance Products Trust
President's Letter

Dear Fellow Investors,

When the Tax Cuts and Jobs Act was signed into law on December 22, 2017, market sentiment heading into 2018 turned decidedly positive as most of the investment community expected both accelerating economic growth and improvement in corporate earnings. This was evident as returns in US and non-US equities were robust in the first month of the year. However, as the year progressed, volatility in the equity markets increased to more normal levels from the historically low volatility experienced in 2017 due to Federal Reserve (the "Fed") monetary policy's uncertain impact on domestic economic growth, the escalation of trade disputes between the US and its trade partners (principally China), and dampening earnings growth expectations for 2019 and beyond. Trade concerns were particularly impactful on non-US equities. These uncertainties, and volatility, peaked in the fourth quarter, particularly in December, as both US and non-US equity markets realized meaningful negative returns for the quarter. Ultimately, despite the strong start, equity returns ended 2018 in negative territory.



As expected, the Fed continued its path toward normalization of interest rates, with four 25-basis point interest rate increases during 2018 that brought the target Fed Funds rate to 2.25% - 2.50%. As a result, the yield curve ended 2018 markedly flatter than 2017 as longer-term interest rates moved much less, as evidenced by the fact that the 10-year Treasury yield increased only 28 basis points in 2018 to 2.69%, while short-term interest rates increased by 100 basis points. This was also a year when investment grade and high yield spreads widened. Nonetheless, the major investment grade fixed income indexes registered flat returns, while high yield returns were negative. Importantly, both outperformed equity markets.

For the full year, there continued to be dispersion in performance across investment styles and market caps. Similar to 2017, growth stocks continued to outperform value across most asset classes. Additionally, large caps also outperformed small caps. There was also meaningful divergence between the performance of US equities and non-US equities as US equities materially outperformed.

Other noteworthy take-aways from the year included:

- Volatility, as measured by the CBOE SPX Volatility Index ("VIX"), increased materially in 2018, experiencing its largest daily change of 115.6% on February 5th before closing the year at 25.42.
- Despite posting 19 record highs during the year, the S&P 500 index ended the year with its worst annual performance since 2008 as it lost 4.4%.
- International equity markets experienced more significant headwinds, with emerging markets posting their worst annual performance since 2015 as the MSCI EM index declined -14.4%.
- Labor markets continued to strengthen as the U.S. unemployment rate reached its lowest level in nearly five decades and we experienced our eighth year with greater than two million new jobs created.

December 31, 2018

- Inflation ticked up modestly but stabilized near target levels as evidenced by the Core Consumer Price Index ("CPI") closing the year at 2.2%.
- Commodity prices rose steadily throughout the year before experiencing steep declines during the fourth quarter as West Texas Intermediate ("WTI") crude oil fell from a recent high of nearly \$76 in October to close the year at \$45 a barrel.

As we move into 2019, it is an important time to evaluate the risks in your portfolio with your financial advisor to ensure you are properly diversified based on your time horizon, financial goals and risk tolerance.

We hope you find the materials included in this annual report helpful as you evaluate your investments with us. Thank you for your continued trust in Lincoln Financial Group, and we wish you a healthy and prosperous 2019.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jayson', with a stylized, flowing script.

Jayson R. Bronchetti, CFA, CAIA

President, Lincoln Variable Insurance Products Trust