LPL Financial

75 State Street, 22nd Floor
Boston, MA 02109

4707 Executive Drive
San Diego, CA 92121

1055 LPL Way
Fort Mill, SC 29715

October 11, 2018

Dear Valued Investor:

The volatility that is often associated with the month of October has arrived with the market sell-off on Wednesday, October 10. Experiencing market declines and increased volatility can be unnerving for any investor, but if we can take a step back and see the big picture, that the market and economic environment remain positive, it can be easier to weather these challenging periods.

During market ups and downs, our message remains the same: Focus on the fundamentals. And right now, fundamentals are strong. The U.S. economy is in excellent shape. Consumer spending is growing solidly, consumer and business confidence is high, the job market is quite strong, manufacturing surveys are near record levels, and by historical standards, interest rates are still fairly low.

Of course, interest rates are dominating the headlines right now as a driving force in this current bout of market volatility. The positive economic backdrop, however, provides valuable context. When interest rates are rising because of better economic growth, stocks historically do well over time.* We believe that is the case now. When rates spike, as they have done recently, volatility picks up, and in our view, this spike was due to the recent positive economic data that have come in. Looking ahead, we don't expect rates to continue on this strong trajectory.

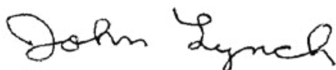
With much of the increase in interest rates potentially behind us, that should enable stocks to settle down. Also, much like the economy, the stock market is seeing continued support, particularly from strong corporate profits. Consensus estimates according to FactSet are calling for a third consecutive quarter of 20%-plus growth in earnings for S&P 500 companies, thanks to strong economic growth, tax cuts, and minimal impact from tariffs. In addition, although uncertainty leading up to midterm elections can make investors uneasy, stocks historically do very well following the midterms once there is clarity from the results.

Trade tensions are another factor capturing investor attention. Despite tough rhetoric from both sides, we are likely to reach a trade deal with China after the midterms, as both sides have too much to lose economically. The amount of fiscal stimulus (through tax cuts and government spending) still far outweighs the tariffs that have been implemented or threatened.

Even with rising rates, trade tensions, and midterm election concerns, it's also important to remember that pullbacks (5–10% drops) such as these are normal. Even though stocks tend to average a 7–8% gain each year, there tend to be about three pullbacks and at least one correction of 10% or more (data back to 1950). We experienced both earlier this year, in February and April, and we could have more before the end of the year. We are late in the business cycle, and although "late cycle" can last a long time, this period can mean there is greater short-term sensitivity from the markets. This context helps us avoid reacting too quickly.

We encourage you to stay calm during this latest bout of volatility and focus on the positive drivers that continue to support the markets and economy. Although the ups and downs may continue in the coming months, we still see the potential for a year-end rally. And as always, please contact your trusted financial advisor with any questions you may have.

Sincerely,



John Lynch
EVP, Chief Investment Strategist
LPL Research

* For more on stock performance during rising rates, see the Weekly Market Commentary from 09/24/18.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

All performance referenced is historical and is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Economic forecasts set forth may not develop as predicted.

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.

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

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/NCUA Insured | Not Bank/Credit Union Guaranteed | May Lose Value
Not Guaranteed by Any Government Agency | Not a Bank/Credit Union Deposit

Member FINRA/SIPC