January 9 2016

JANUARY GAME PLAN

John J. Canally, Jr., CFA *Chief Economic Strategist, LPL Financial*
Ryan Detrick, CMT *Senior Market Strategist, LPL Financial*

KEY TAKEAWAYS

We will be monitoring many significant events this month, including fourth quarter earnings, Chinese New Year, and the first FOMC meeting of 2017.

We'll know quickly how the economy is looking and if the earnings recovery that started last quarter is real, or was a short-lived bounce.

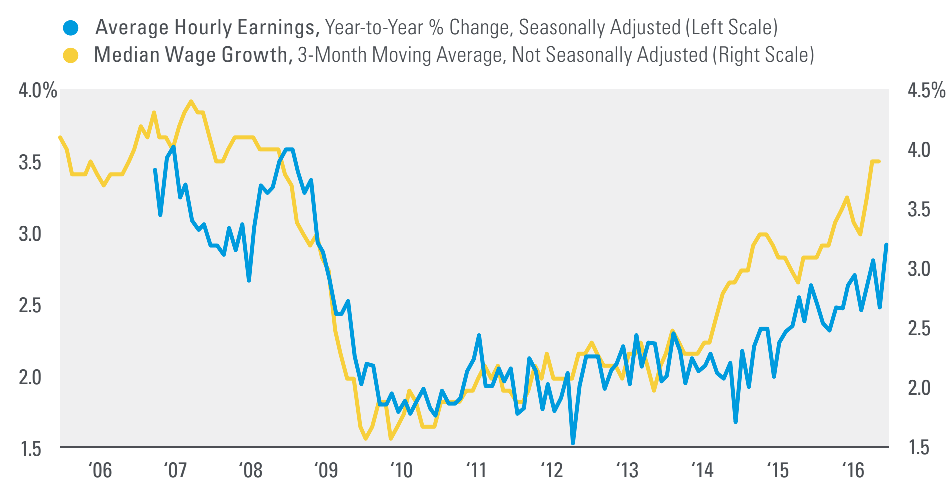
The new year is underway and there are several economic and potentially market moving events to monitor. While 2016 was a year no one will soon forget, as it opened with global turmoil in equity, credit, and energy markets; surprising results from the Brexit vote and the divisive U.S. presidential campaign and election; and finished with the end of the earnings recession, the highest consumer confidence in 15 years, and record highs on major indexes. As we turn the page to 2017, it is important to stay on top of the significant happenings coming up. To help, we've created this guide to the January 2017 market calendar, providing an overview of key events.

JANUARY 6

December Employment Report Review

The initial reaction to the December 2016 nonfarm payrolls was disappointment, as it came in at 156k, shy of the consensus of 175k. Yet, after closer examination there were some positives; November payrolls were revised up to 204k from 178k, and average hourly earnings increased 2.9% year over year, the highest annual rate since April 2009. Manufacturing data has been strong recently, with the Institute for Supply Management (ISM) manufacturing survey index for

1 ACCELERATING WAGE INFLATION HELPS TO RESOLVE DISCONNECT BETWEEN FED AND MARKET ON JOBS



Source: LPL Research, Bureau of Labor Statistics, Federal Reserve Board of Atlanta 01/06/17
Earnings and wage figures are historical and no guarantee of future results.

December 2016 coming in at 54.7, a fresh new two-year high; and this was confirmed by 17k jobs added in the manufacturing sector last month, the most since January 2016. Also initial jobless claims came in near a 43-year low.

We continue to think that job creation will decelerate, as we said in 2016. In fact, looking at last year, the U.S. economy averaged "only" 180k new jobs per month, after averaging 230k per month in 2015. Taking a closer look at 2016, monthly job creation averaged around 200k in the first quarter of 2016 and slowed to just 165k per month by the fourth quarter of the year.

Many market participants have been skeptical that decelerating jobs growth could still foster a tightening labor force and rising wages. Well, with the December 2016 wage growth up 2.9% year over year, improving wages and other key measures of wages may finally heal the disconnect between the market and the Federal Reserve (Fed) on the labor market [Figure 1].

JANUARY 9–13

Fourth Quarter Earnings Season Begins

The third quarter marked the end of the year-long earnings recession, as S&P 500 earnings posted a 4% year-over-year gain, nearly 5% above estimates. The third quarter also marked the end of the revenue recession, as revenue grew for the first time since the fourth quarter of 2014. Financials and technology, the two largest components of the S&P 500, led the way with strong results.

Turning to the fourth quarter, Thomson-tracked consensus estimates are looking for a 6.1% year-over-year increase. Assuming we get an average upside surprise of 4%, we think double-digit earnings growth is within the realm of possibility. Reasons for optimism include a favorable pre-announcement ratio and the return of earnings growth to the energy sector. With energy being a big reason for the earnings recession, it will be a major tailwind for the group to finally show some growth.

Uncertainty this earnings season circles around a strong U.S. dollar, suggesting a modest drag to earnings. Also, concern regarding the U.S. election could have pushed back spending and investment decisions until later in 2017 in some cases.

For much more on our thoughts about the upcoming earnings season, be sure to read this week's *Weekly Market Commentary*.

JANUARY 28

Chinese New Year

China and many other Asian countries (including Hong Kong, Taiwan, and Singapore) will celebrate the New Year on January 28. Markets will be closed for several days after the holiday, varying by country. In mainland China most economic activity stops as people return to their native provinces and spend time with families. Chinese central bankers are usually busy before and during the holiday, as people withdraw cash in order to travel. There are frequent media stories that confuse the government's desire to have ATM machines properly filled with meaningful changes in monetary policy. The fact that the timing of the New Year holiday changes each year also can make some economic data, particularly areas like retail sales, difficult to evaluate comparing one year to the next.

Some also like to examine the Chinese zodiac for clues regarding the economy, or corporate and economic policy for the new year. The rooster is associated with pride and overt shows of power and authority. Some Chinese astrologers have been predicting that 2017 will be a year of increased criticism of public officials. This is consistent with Chinese President Xi Jinping's consolidation of power and anti-corruption campaign. One need not accept the cause and effect of Chinese astrology on a global power to see how old cultural beliefs can still be seen as relevant to modern times.

JANUARY 31 – FEBRUARY 1

Federal Reserve (Fed) Meeting

The Federal Open Market Committee (FOMC), the policymaking arm of the Fed, will hold the first of its eight policy meetings of 2017 on January 31 – February 1, 2017. Although we (and most market participants) do expect the Fed to raise rates two to three times (by 0.25% each) over the course of 2017, we (and the market) don't expect a hike at this meeting. As of January 6, 2017, the fed funds futures market suggests that there is just a 12.4% chance of a hike at the January 31 – February 1, 2017 meeting.

As 2017 begins, Fed Chair Janet Yellen starts the final year of her four-year term (ending in January 2018), and she has expressed interest in serving out her term under the first year of the Trump administration. As the year progresses, markets will begin to more seriously discuss potential replacements for Yellen, if as many expect today, President-elect Donald Trump doesn't reappoint her for another four-year term. Yellen won't be asked about that at this meeting, as there is no press conference nor a new set of economic forecasts or dot plots released at the conclusion of the meeting. All markets will have to react to is the FOMC statement.

CONCLUSION

January is an important month, and with it comes many hopes for improved changes and a better year. We have a glimpse into how the economy ended the year with the jobs report in the books. Now we turn our attention to the Fed, earnings season, and China to help tell us where markets may go from here. Whatever happens in January and the rest of 2017, know that we'll be here for you to share what we see.

Most importantly, we wish each of you a great year, filled with success both personally and professionally. ■

Thank you to Matthew Peterson and Jeff Buchbinder for their contributions to this report, *and please see the next page for our January calendar.*

LPL RESEARCH JANUARY 2017 PREVIEW

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2	3	4	5	6 December Employment Report	7
8	9	10	11 4th Quarter Earnings Season Begins	12 Yellen addresses Town Hall with Educators	13 Retail Sales for December	14
15	16	17	18 Yellen speaks in San Francisco CPI for December	19 Yellen speaks at Stanford	20	21
22	23	24	25	26	27	28 Chinese New Year
29	30	31 Fed Meeting Consumer Confidence for January	1 Fed Meeting Fed decision on Interst Rates	2	3	4

Source: LPL Research 01/09/16

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 referenced is historical and is no guarantee of future results.

Any economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market.

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

All investing involves risk including loss of principal.

INDEX DESCRIPTIONS

The U.S. Institute for Supply Managers (ISM) Purchasing Managers' Index (PMI) is an economic indicator derived from monthly surveys of private sector companies, and is intended to show the economic health of the U.S. manufacturing sector. A PMI of more than 50 indicates expansion in the manufacturing sector, a reading below 50 indicates contraction, and a reading of 50 indicates no change.

The Standard & Poor's 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 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.

RES 5740 0117 | Tracking #1-570177 (Exp. 01/18)