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# MARCH PREVIEW

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## KEY TAKEAWAYS

March brings several significant events that have the potential to be market movers.

ECB and Fed meetings, election in the Netherlands, and more Brexit-related votes are some of the events we'll be watching.

March is a historically strong month for the S&P 500. In fact, in the past 10 years no month has sported a higher average return.

**March 2017 is one of the busiest months in a long while with multiple potential market-moving events to monitor.** 2017 has started with a bang, as equity markets have soared to new highs and overall economic data continue to show improvement. Additionally, there has been very little volatility in most major asset classes, but as we were reminded at the beginning of 2016, there are ebbs and flows to everything and more volatility likely lies ahead. As we turn the page to March, it is important to stay on top of the significant happenings coming up. To help, we've created this guide to the March 2017 market calendar, providing an overview of the key events.

## MARCH 5: CHINA NATIONAL PEOPLE'S CONGRESS MEETING BEGINS

Economic growth goals will likely be announced at this meeting. We expected official growth targets will be reduced from 2016's 6.7% goal. Additional policy announcements will likely include commitments to reduce coal to improve the air quality in Beijing and other major cities. We also will be looking for announcements regarding improvements to transportation infrastructure as part of China's "One Belt, One Road" policy.

## MARCH 7 – 9: U.K. HOUSE OF LORDS DEBATE BREXIT AND EUROPEAN COUNCIL MEETING

This three-day period will likely mark the end of the first stage of the U.K.'s withdrawal from the European Union (EU). On March 7, the U.K. House of Lords (similar to the U.S. Senate) will commence final debate on Brexit. It is assumed that the House of Lords will pass the Brexit bill. The failure of the unelected body to follow the will of the people would probably result in a constitutional and political crisis in the U.K. However, the Lords could make amendments to the bill, which would require another vote in the House of Commons and delay the process.

The European Council is scheduled to meet on March 9. It is possible that the U.K. will formally announce its intention to withdraw from the EU at this meeting, though the official announcement is more likely to occur at the March 25 meeting.

## EUROPEAN COUNCIL

The European Council is the EU institution that defines the general political direction and priorities of the European Union. It consists of the heads of state or government of the member states, together with its President and the President of the Commission.

### MARCH 9: ECB MEETING

No changes are expected at the European Central Bank (ECB) meeting since it is quite close to Dutch and French elections, as well as the Brexit vote. Inflation is currently ticking up in Europe, so while we may get some soothing words about potentially higher inflation, we expect no policy change.

### MARCH 10: FEBRUARY EMPLOYMENT REPORT PREVIEW

The initial reaction to the January 2017 nonfarm payrolls (released in early February 2017) was excitement, as it came in at 227,000 net new jobs in January, far above the consensus estimate of 180,000; also there were only minor revisions to prior months. But there were also some disappointments, as average hourly earnings—a timely but imperfect proxy for wage inflation—decelerated to a 2.5% year-over-year gain in January from 2.8% in December. This is still well above the 1.5% levels seen during the 2012 low, though. Initial claims also continue to come in near 43-year lows, showing additional job market strength.

The jobs data showed the economy is performing well enough to create lots of jobs, but not well enough to cause wages to rise, which could hurt

profit margins and prompt more immediate action from the Federal Reserve (Fed) (more on that later). Overall the mix was probably goldilocks-like “just right” for markets.

Despite the soft reading on wages, in the last 12 months, job growth has averaged a robust 195,000/month, nearly double what the Fed thinks is needed to tighten the labor market and push up wages. The jobs report for February will be released on Friday, March 10, 2017. Current expectations are for 175,000 jobs created. While this is less than last month, it is consistent with our expectations that job creation will decelerate over the year, as it did in 2016 when averaging “only” 186,000 new jobs/month after averaging 226,000/month in 2015. Even though the recent strength of the past few months will likely weaken, it is likely to remain strong enough to tighten the labor force, potentially pushing up wages.

### MARCH 14 – 15: FED MEETING

The Fed’s policymaking arm, the Federal Open Market Committee (FOMC) holds its second of eight meetings this year on March 14-15, 2017. At 2 p.m. ET on March 15 the FOMC will release its policy statement, a new set of members’ forecasts on the economy, labor market, and inflation, and a new set of “dot plots” (members’ forecasts of where they think the fed funds rate will be at the end of 2017, 2018, 2019, and in the “long run”). Fed Chair Janet Yellen will also hold the first of four post-FOMC meeting press conferences of the year at 2:30 p.m. ET on March 15.

As of Monday, February 27, 2017, the market—as measured by the fed funds futures market—is pricing in just a 40% chance of a 25 basis point (0.25%) Fed rate hike at the March 2017 meeting, but the odds are well over 50% for a hike at

the upcoming May (61%) and the June (75%) meetings. Our view—as expressed in *Outlook 2017*—remains that with the economy near full employment and inflation running at or above the Fed’s 2% target the Fed will raise rates two to three times in 2017.

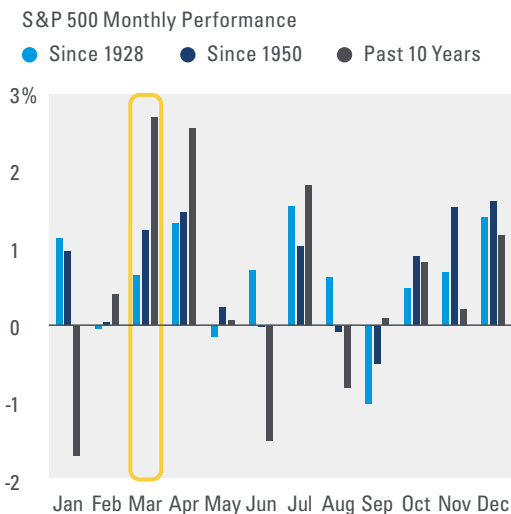
Between now and mid-March, Fed watchers have plenty of information to digest, which may change the odds of a hike in mid-March. On February 28, 2017, President Trump will deliver a speech to a joint session of Congress, where he will likely unveil his proposals for fiscal policy, which may play a crucial role in the Fed’s plans in 2017. On March 1, 2017, the Fed will release its Beige Book, a qualitative assessment of economic conditions in each of the 12 Fed districts. On March 3, 2017, Fed Chair Yellen and Vice Chair Stanley Fischer will deliver closely watched policy speeches. In addition, over the next two weeks markets will digest key reports on employment, manufacturing and service sector

activity, vehicle sales, retail sales, consumer prices, and small business sentiment. If the data continue to meet or exceed expectations, odds of a March hike would likely rise.

## MARCH 15: DUTCH ELECTIONS

On March 15, citizens of the Netherlands will go to the polls to elect the 150 members of their parliament. As is the case across Europe, a right wing/nationalist party has gained popularity. The Party for Freedom (PVV) currently has 12 seats in parliament. Current polls have it gaining seats, and perhaps even capturing a plurality. However, with over 20 parties running in the election, it seems almost impossible that the PVV could capture the 76 seats necessary to form a government on its own, and the mainstream political parties have signaled they will not form a coalition with the PVV. Even if the PVV cannot form a government, a significant gain in seats would be an important sign of growing strength among nationalist parties in Europe and could indicate a further weakening of the European Union.

### 1 MARCH IS THE STRONGEST MONTH THE PAST 10 YEARS



Source: LPL Research, FactSet 02/26/17

\*Please note: 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.

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

## MARCH 15: BEWARE THE IDES OF MARCH?

The Ides of March, or March 15, has become notorious as the date of Julius Caesar’s assassination, which marked a turning point in Roman history. Will the Ides mark a turning point for this equity bull market?

Going back in history, March has been one of the better months for the S&P 500, up 1.2% on average since 1950\*, which ranked 4<sup>th</sup> out of the 12 months. Over the past 10 years though, March has been up 2.7% on average—the best performance out of any month [Figure 1]. While we pay attention to these seasonal patterns, by no means do we follow them blindly, nor do they always work. For example, February during election years has been historically weak, but that wasn’t the case in 2017, as the

S&P 500 has soared to new highs. Still, it is worth knowing that March has been very strong lately. Last, since 1950, when the S&P 500 has been up in both January and February (like 2017 will be), March has done better than the average month and has been up 1.9% on average. So if you are looking for a turning point for markets, the Ides of March is probably not the signal.

## MARCH 25: EUROPEAN COUNCIL MEETING

The primary goal of this late March meeting is for the European Council to celebrate the 69<sup>th</sup> anniversary of the Treaty of Rome, the founding document of the European Union. It would therefore be the ultimate act of irony if the U.K.

were to use this occasion to formally invoke Article 50 of that same treaty and announce its intention to withdraw from the EU. Yet, that is a highly probable event. We believe the market is largely pricing this event in, though there could still be some disruption, probably through a weakening of the pound.

## CONCLUSION

March is one of the busier months for global events we've seen in a long while. From potential market-moving events in China, Europe, and the U.S., there is plenty to prepare for. With springtime in the air, it is important to remember that with so many big events packed close together to have a plan in place before the events unfold. ■

*Thank you to Matthew Peterson for his contribution to this report, and please see the next page for our March calendar.*

# LPL RESEARCH MARCH 2017 PREVIEW

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
26	27	28	1 Beige Book ISM: Manufacturing (Feb)	2	3 Yellen speaks in Chicago Fischer (Fed Vice Chair) speaks in New York ISM: Non-Manufacturing (Feb)	4
5 China National People's Congress Meeting Begins	6	7 U.K. House of Lords Debate Brexit	8	9 ECB Meeting European Council Meeting	10 Employment Report	11
Fed Quiet Period						
12	13	14	15 Ides of March Retail Sales (Feb) Dutch Elections ★ Debt Ceiling Expires	16	17 St. Patrick's Day Bank of England Meeting	18
← Fed Meeting →						
19	20 ☀️ 1st Day of Spring	21	22	23	24	25 European Council Meeting
26	27	28	29	30	31	1

Source: LPL Research 02/27/16

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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 illiquidity of the investment in a falling market.

#### INDEX DEFINITIONS

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.

#### DEFINITIONS

The Beige Book is a commonly used name for the Fed report called the Summary of Commentary on Current Economic Conditions by Federal Reserve District. It is published just before the FOMC meeting on interest rates and is used to inform the members on changes in the economy since the last meeting.

The U.S. Institute for Supply Managers (ISM) manufacturing index 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.

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