LPL RESEARCH

WEEKLY ECONOMIC COMMENTARY

April 3 2017

APRIL PREVIEW

Matthew E. Peterson *Chief Wealth Strategist, LPL Financial*
Ryan Detrick, CMT *Senior Market Strategist, LPL Financial*

KEY TAKEAWAYS

April brings several significant events with the potential to move markets.

Earnings season, the French elections, and the spending bill deadline are some of the key events we'll be watching.

April is a historically strong month for the S&P 500. In fact, over the past 20 years no month has produced a higher average return.

April 2017 is a busy month, with several potentially market-moving global events to monitor closely. 2017 has seen global equity prices soar to new highs, with the S&P 500 Index up 5.5% in the first quarter, the best performance to start a year since 2013. Additionally, it has been one of the least volatile quarters ever across most asset classes as measured by daily standard deviation of returns; but as we've seen over the past few years, this can change quickly. As we turn the page to April, it is important to stay on top of the significant happenings coming up. To help, we've created this guide to the April 2017 market calendar, providing an overview of key events.

APRIL 10:
EARNINGS SEASON BEGINS

First quarter 2017 earnings season begins next week and starts in earnest on Thursday, April 13, with several big banks slated to report. Following a strong showing in the fourth quarter when S&P 500 earnings rose 8% year over year, consensus for first quarter earnings growth is a very solid 10.2%, according to Thomson Reuters data. We would not be surprised to see earnings growth potentially in the 12–14% range when all results are in. This is based on the strength of U.S. and foreign economic data in recent months and the historical pattern that companies tend to beat consensus estimates by around 3% each quarter. Financials, technology, and energy are expected to be the biggest contributors to overall earnings growth. The U.S. dollar, which has weighed on earnings over the last year, should only present a modest headwind.

Market participants will again be focused on Washington, D.C. policy this earnings season. We do not believe current estimates reflect much direct policy impact; therefore, the fact that little progress has been made on corporate tax reform, the healthcare overhaul, infrastructure, or deregulation, may not lead to earnings shortfalls. That being said, it is possible that a challenging path to policy implementation may be more evident in management guidance. Consensus S&P 500 estimates for full-year 2017 are calling for a 10% increase over 2016, a forecast that we believe has some policy optimism built in and may see modest downward revisions in the months ahead. Our 2017 S&P 500 earnings growth forecast remains high-single digits.* Look for our earnings preview in next week's *Weekly Market Commentary*.

*As noted in our *Outlook 2017: Gauging Market Milestones*, we expect mid-single-digit returns for the S&P 500 in 2017 and the continuation of the nearly eight-year-old bull market, consistent with historical mid-to-late economic cycle performance. We expect S&P 500 gains to be driven by: 1) a pickup in U.S. economic growth partly due to fiscal stimulus; 2) mid- to high-single-digit earnings gains; 3) an expansion in bank lending; and 4) a stable price-to-earnings ratio (PE) of 18 – 19. Gains will likely come with increased volatility as the economic cycle ages.

APRIL 23:
FRENCH ELECTIONS

The next major global political hurdle is the French elections, where the focus has been on the National Front (FN) Party of Marine Le Pen. The FN will almost certainly be one of the two biggest recipients of votes during the first round of the elections held on April 23. The top two vote getters will move on to a second round of elections on May 7. The FN will likely be excluded from any government coalition by whichever party is the eventual winner in the second round of elections, lacking sufficient allies in other parties.

We think too much of the focus in the French elections has been on the wrong place. The important matter is the relative performance of the more traditional parties, the more moderate En Marche (EN) party of Emmanual Marcon or the more conservative Republican Party of Francois Fillon. Of the two, Fillon has been pulled more to the right by Le Pen, echoing her policies on immigration and border security. However, unlike Le Pen, Fillon continues to support France's membership in the European Union and its adoption of the euro.

Both Fillon and Marcon have a similar ideological bent and would agree on the basics of policy changes, though each leader emphasizes different things. Fillon has focused on cutting state spending and reducing the size of the government. He has also called for much tighter immigration controls and increasing anti-terrorism efforts. Marcon has concentrated his rhetoric on improving France's highly restrictive labor market by abandoning the 35-hour work week and other employment rules.

We believe the populism shown by the FN, and its pull on traditional French political parties and French voters, may have been a hindrance to the euro and to French stocks. Provided that there is a clear victory for either party, one that minimizes the impact of the FN with respect to the French government and French politics going forward, both the euro and French stocks could potentially rally in the short term. Should the FN poll well enough to force its way into government, or become a more permanent part of the political scene, that would likely spell weakness for the euro.

APRIL 28:
SPENDING BILL EXPIRES

On April 28, the current temporary spending bill to fund the government expires, creating the prospect of a government shutdown. In order to avert a shutdown, Congress will have to pass a new continuing resolution to extend funding. The simplest continuing resolutions extend government funding at current levels, but continuing resolutions can also include modifications or added provisions that can lead to potential conflict.

Government shutdowns aren't uncommon but are usually very brief as partisan brinksmanship quickly yields to a reluctant pragmatism. Odds of a shutdown are low this time around, with Republicans likely to avoid a legislative path that can easily be framed as an inability to govern given their setback in replacing the Affordable Care Act (ACA). Nevertheless, there may be maneuvering in the House as the deadline approaches to create and control spin around such hot-button issues as funding President Trump's border wall, increasing defense spending without an accompanying increase (or even a decrease) in non-defense spending, or an attempt to defund Planned Parenthood. Even with a shutdown unlikely (and probably short lived if it occurs), escalating political theater could rattle markets given the already uncertain policy environment; but without further catalysts, any market retreat is likely to quickly reverse as tensions settle.

Notably, April 29, will mark the president's 100th day in office, which could add to the drama as all sides try to shape the message around this milestone.

APRIL 30:
APRIL SEASONALITY

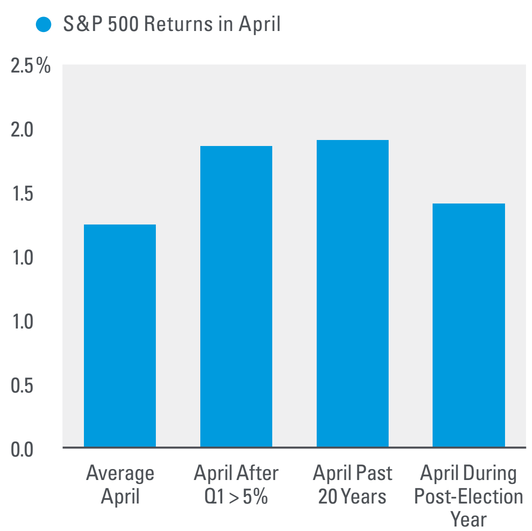
The S&P 500 might have fractionally missed a five-month winning streak with a 0.04% loss in March (though adding dividends may push total return on the index into positive), but history tends to side with the stock market bulls during April. In fact, going back 20 years, the S&P 500 has averaged a 2.0% gain during the month, best out of all 12 months. Going back to 1950, the S&P 500 has been up 1.5% on average during April, behind only November and December. Performance during a post-election year has been slightly better than average, up 1.6% on average.

Where things get interesting is after a big first quarter, performance has become even better. In fact, since 1950, the S&P 500 has gained more than 5% in the first quarter 24 previous times (excluding first quarter of 2017), with April higher by an average of 2.0% during those years [Figure 1].

CONCLUSION

There is a lot going on in April besides the usual beginning of the annual earnings cycle and overall positive seasonality to the month, especially after a strong Q1. Looking at the calendar [see April 2017 Preview], we see more that could support our current positioning and our generally constructive view of the equity markets. We are always mindful of those events which may cause us to modify our market views. However, even potentially destabilizing events, like elections, may support market rallies if the results are market friendly.

1 APRIL IS HISTORICALLY STRONG FOR EQUITIES



Source: LPL Research, FactSet 04/02/17

Data are from 1950 to 2016.

The S&P 500 is an unmanaged index which cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

LPL RESEARCH APRIL 2017 PREVIEW

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
26	27	28	29	30	31	1
2	3 ISM: Mfg.	4	5 ISM: Services FOMC Minutes	6	7 Jobs Report	8
9	10 Earnings Season Begins	11	12	13	14 CPI Retail Sales Good Friday (NYSE Closed)	15
16 Easter	17	18 ☆ Tax Day Housing Starts	19 Beige Book	20 Leading Indicators	21	22
23 French Election	24	25 Consumer Confidence	26	27	28 Q1 GDP ☆ Spending Bill Deadline	29 Trump's 100th Day as President
30	1	2	3	4	5	6

Source: LPL Research 04/03/17

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 reference is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly.

The economic forecasts set forth in the presentation may not develop as predicted.

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.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

DEFINITIONS

The S&P 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 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.

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 Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis.

The Federal Open Market Committee (FOMC) is the branch of the Federal Reserve Board that determines the direction of monetary policy. The eleven-person FOMC is composed of the seven-member board of governors, and the five Federal Reserve Bank presidents.

RES 5834 0417 | Tracking #1-596254 (Exp. 04/18)