October 2 2017

OCTOBER PREVIEW
BEWARE THE VOLATILITY?

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KEY TAKEAWAYS

October is historically the most volatile month for equities.

An election in Japan and interest rate decisions from the BOJ and ECB are on tap this month, only adding to potential movement.

Initial third quarter GDP will be released, while third quarter earnings season begins.

*Please note: 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.

October 2017 ushers in shorter days and cooler weather, but the global bull market shows few signs of slowing down. The S&P 500 Index logged another gain last month, marking 6 consecutive monthly gains on a price basis and 11 in a row on a total return basis (including dividends). Incredibly, the S&P 500 has now finished green eight quarters in a row for only the fifth time ever. The global economy continues to expand, supporting the equity gains, but October is notorious for some of the largest moves in market history. Since 1950*, no month has sported more 1% daily changes than October. With earnings season starting, the initial third quarter gross domestic product (GDP) reading, an election in Japan, and both the European Central Bank (ECB) and Bank of Japan (BOJ) meeting, we could be in store for some future volatility.

To help, we've created this guide that looks at key events that are set to take place this October.

OCTOBER 6
SEPTEMBER EMPLOYMENT REPORT REVIEW

With only 156,000 jobs created, August employment was disappointing, but be aware that the initial reading in August is almost always revised higher due to distortions from late summer month transitions. Wage growth disappointed as well, rising only 0.1% month over month (2.5% year over year) and the unemployment rate ticked up from 4.3% to 4.4%.

While the 2017 average of 186,000 jobs added per month is slower than the 2014–2016 average of 221,000, such slowdowns are normal as we move later into the cycle; even growth of 150,000 jobs per month could be enough to slowly tighten the labor market.

Economists are looking for only 75,000 jobs created in September and unemployment to remain steady at 4.4%, with meaningful impact from hurricanes Harvey, Irma, and Maria. Markets are likely to dismiss a slowdown to this level as temporary, although a number closer to flat could raise concerns of a weakening economy.

OCTOBER 9–13
EARNINGS SEASON BEGINS

Third quarter earnings season begins the second week of October and will continue throughout November. Year-over-year gains of 15% and 12% during the first and second quarters will be tough to replicate, but given the overall earnings momentum and the resilience of estimates in recent months, we believe that a growth rate near 10% may be possible in the third quarter. Consensus estimates according to Thomson Reuters stand at +6%. The rebound in energy earnings is again a big story, but steady economic growth globally, recent U.S. dollar weakness, and resilient profit margins are also helping to give earnings a lift. Besides energy, which is expected to double its earnings from the year-ago period, technology is the only sector that consensus expects to produce a double-digit earnings increase. We will preview earnings in our *Weekly Market Commentary* on October 9.

OCTOBER 22

JAPAN SNAP ELECTION

Japanese Prime Minster Shinzō Abe recently called for a snap election, scheduled to be held on October 22. Abe and his Liberal Democratic Party are the overwhelming favorites, not just to win, but to strengthen their position. Unfortunately, they seem as stymied as everyone else regarding Japan's chronically low inflation rate and anemic economic growth. Granted, the Japanese economy did have six consecutive quarters of growth, however modest, but it is still well below potential GDP.

OCTOBER 26

EUROPEAN CENTRAL BANK MEETING

The ECB has probably waited as long as it can to inform the markets of its monetary policy intentions next year. The ECB's current policy of purchasing 60 billion euro of government and corporate bonds each month is slated to expire at the end of 2017. There are no general expectations for the ECB to stop buying bonds, but there are expectations that it will "taper" its purchases, perhaps continuing at the current 60 billion pace for a few months before reducing the monthly purchase to 40 billion, or maybe even lower. The market needs to know the details of its plans, and while technically speaking, the ECB could delay another month, most observers believe that it needs to provide the market guidance at this meeting. One somewhat pressing issue is that the ECB is running out of bonds to buy that meet its criteria for purchases, including not owning more than one third of the country's outstanding bonds. A monthly purchase reduction to even 40 billion euro would do a lot to give the ECB greater flexibility.

Recent statements by ECB President Mario Draghi have strongly defended the ECB's current policy and argued that it is too soon to meaningfully curtail it. We expect the statements from the ECB after the October 26 meeting to be in the same vein. The market generally regards these statements as fairly benign, but the euro has been rallying regardless.

OCTOBER 27

Q3 GDP FIRST ESTIMATE

The first or "advance" estimate of third quarter 2017 GDP will be released on October 27. While GDP is backward looking and the data may largely already be priced in by markets, it does provide the best overall picture of U.S. economic growth. Understanding the third quarter estimate will be complicated by the impact of hurricanes Harvey, Irma, and Maria.

Although the economic numbers fail to capture the true human impact of these events, it remains important to understand how they might be reflected in the data. Economists' estimates for real economic growth have generally come down 0.4–0.8% due to disruptions in commerce both during and after the hurricanes. (This range is based on a review of changes in individual forecasts—broad forecast averages may not be updated frequently enough to reflect the impact of the storms.)

We have seen similar adjustments in the New York and Atlanta Federal Reserve's (Fed) Nowcast models. The New York Fed model's estimate for third quarter growth has fallen 0.7% between September 1 and September 29 to forecast growth of 1.5%, while the Atlanta Fed's model has declined 0.9% to forecast growth of 2.3%. (Note that these models are purely data driven and reflect the economic shock from the hurricanes as already expressed in recent data; the changes do not directly reflect economists' judgment.)

The negative initial economic impact is expected to be offset in future quarters as the affected regions recover and rebuild. Estimates have declined across economic sectors in the Atlanta Fed's Nowcast model [Figure 1] except for inventories, which may see a temporary increase due to an unexpected decline in demand and the inability of finished goods to make it to market, and net exports, which have been helped by a weaker dollar independent of weather events and may also get some support from disruptions in the production of some U.S. goods. Anything between about 2.0 and 2.5% would generally fall within the expected range and would not be considered a meaningful deviation from the current run rate of economic growth after adjusting for the initial negative impact of the hurricanes.

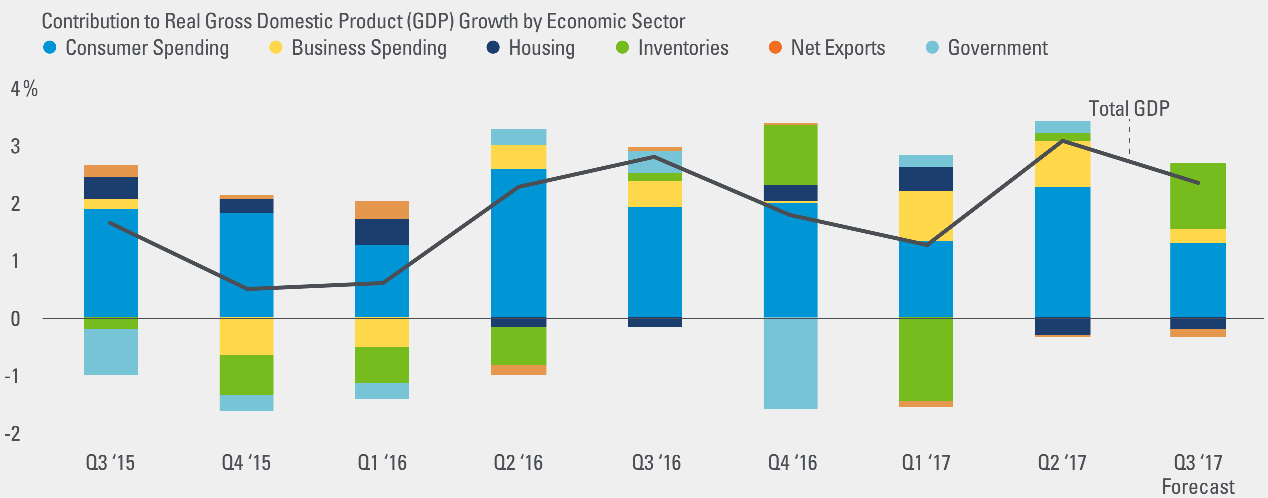
OCTOBER 30
BANK OF JAPAN MEETS

Minutes from the September meeting show that one board member advocated loosening monetary policy even farther. While this appears unlikely to happen, it demonstrates how stuck the Japanese economy is. We expect no meaningful change at the BOJ meeting, perhaps with some hope that a strengthened Abe can enact a fiscal policy and reform package that will be more successful than previous attempts.

CONCLUSION

October doesn't have as many big events as September did, but that doesn't mean we won't see some market volatility. September 2017 in some regards was one of the calmest Septembers ever, which makes the chances that volatility may break out in October higher, as markets rarely stay calm for long. From an election in Japan, to two major central bank decisions, to earnings season, and GDP data, the stage is set for movement. Factoring in that October is historically one of the most volatile months, the fourth quarter could start with more action than we've seen all year. ■

1 INVENTORIES MAY PROVIDE A LIFT, BUT GROWTH IS EXPECTED TO SLOW IN THE THIRD QUARTER



Source: LPL Research, U.S. Bureau of Economic Analysis, Federal Reserve Bank of Atlanta 09/29/17

Q3 '17 data are from the Federal Reserve Bank of Atlanta's GDPNow forecast estimate. Q3 '17 GDP forecast may not develop as predicted.

LPL RESEARCH OCTOBER 2017 PREVIEW

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2 ISM: Mfg.	3	4 ISM: Non-Mfg. ADP Employment Survey	5 Durable Goods	6 Nonfarm Payrolls	7
8	9 Columbus Day Q3 Earnings Season Begins	10 NFIB Small Business Index	11 FOMC Minutes	12 PPI	13 CPI Retail Sales	14
15	16 NY Fed Mfg. Report	17	18 Housing Starts Fed Beige Book	19 Leading Indicators	20 Existing Home Sales	21
22 Japan Snap Election	23	24	25 New Home Sales	26 Pending Home Sales ECB Meeting	27 Q3 GDP (First Estimate)	28
29	30 PCE Bank of Japan Meeting	31 Bank of Japan Meeting Halloween Consumer Confidence Fed Meeting	1 Fed Meeting	2	3	4

Source: LPL Research 10/02/17

IMPORTANT DISCLOSURES

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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.

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.

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.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

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. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory. Potential Gross Domestic Product is a measure of the maximum level of national production possible over the long term. This is a conceptual amount, however, as actual GDP may be lower or higher than the national potential. In a case where the country is producing at a higher rate than the long-term potential, the higher demand compared to available supply will cause price inflation.

RES-5480-0917 | Tracking #1-650413 (Exp. 10/18)