

August 2, 2018

Dear Valued Investor,

As we look back on the month of July, the standout stories for the summer so far have been strong U.S. economic growth and surging corporate profits. Although tariffs continue to grab headlines and may raise investor concern, we don't believe they will have a meaningful impact on second quarter earnings season and, despite more volatility, we continue to see further stock market gains over the balance of 2018.

Corporate profits are a key element of LPL Research's stock forecast, so we naturally keep a close eye on the quarterly earnings reports. In addition, one of the big earnings stories so far in 2018 has been whether earnings have "peaked" and if we've seen the best results of this bull market. Although this may be true, what's important to remember here is that earnings growth is still very strong.

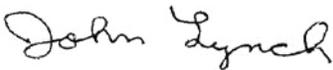
Heading into this season, consensus estimates were calling for another quarter of 20% or higher growth—which would also mark the eighth straight quarterly increase for earnings. Factors such as tax cuts, strong manufacturing activity, higher oil prices (supporting energy), and a lower U.S. dollar (compared with the year-ago quarter) are also supportive of earnings growth. The primary watch-out for corporate profits is the ongoing tension surrounding trade; although some companies are more affected by tariffs, we don't expect this to impact overall results.

Turning to the U.S. economy, the Federal Reserve (Fed) summed it up well after its two-day policy meeting this week (July 31–August 1). "Economic activity has been rising at a strong rate," the Fed's statement said, thanks to strong consumer spending and business investment. The U.S. economy grew 4.1% in the second quarter to post its strongest quarter since the third quarter of 2014, with fiscal stimulus having a clear impact on consumer and business spending. As expected, the Fed also opted not to raise interest rates at its recent meeting, with the market anticipating the next meeting in September will result in a rate increase.

The reports we've seen in the last month continue to support LPL Research's expectations for continued economic growth and stock market gains. Fundamentals are solid and we do not see signs of a recession on the immediate horizon. We do expect a pickup in market volatility may be ahead, due to the ongoing trade negotiations, upcoming midterm elections, and possibly even the Fed; but we continue to emphasize a focus on the fundamental factors that are driving this business cycle forward.

As always, if you have any questions, I encourage you to contact your financial advisor.

Sincerely,



John Lynch
EVP, Chief Investment Strategist
LPL Research

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