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SEASONAL (TAIL)WINDS

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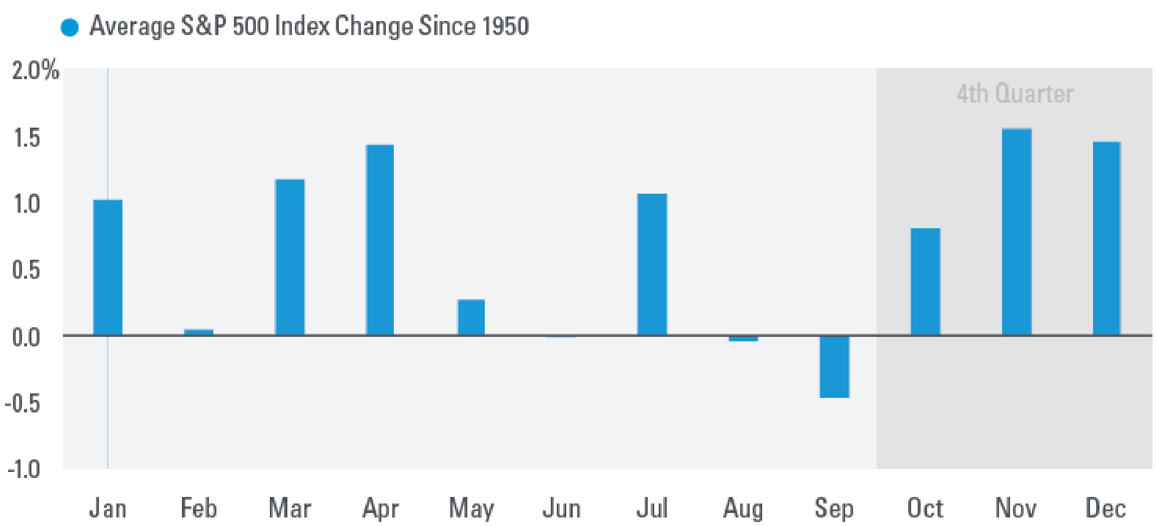
The stock market has started October on a bumpy path. Many global issues remain unresolved, but seasonal forces, sound fundamentals, and breakthroughs on the trade and geopolitical[1] fronts could help sustain the S&P 500 Index at record highs. Volatility can be uncomfortable, but we remain confident enough in domestic fundamentals that we would recommend suitable investors use any potential pullbacks to consider buying or rebalancing equity positions.

FOURTH QUARTER STRENGTH

October has had a bad reputation in the stock market. To be fair, it's somewhat warranted—some of the stock market's most spectacular crashes have happened in October, including the S&P 500's 27% slide in October 2008 at the height of the financial crisis. Thankfully, we haven't seen any moves of that magnitude this October,

1 FOURTH QUARTER HISTORICALLY HAS BEEN STRONG FOR STOCKS



Source: LPL Research, Bloomberg 10/15/19

All indexes are unmanaged and 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.

1 Geopolitical refers to a combination of political, economic, and geographic (regional or country-specific) factors.

but investors are still on edge after a bout of market swings to start the month. Some volatility is par for the course, however, at this point in the year. Since 1950, the S&P 500 has posted more 1% daily moves in October than any other month of the year.

Fortunately, the winds of fall (and seasonality) are starting to blow through the stock market. The fourth quarter historically has been the strongest period of the year for U.S. stocks. Since 1950, the S&P 500 has risen an average of 3.9% in the fourth quarter, its best performance of all quarters. November and December also have been the S&P 500's two best months over that same period **[Figure 1]**. Stocks generally benefited from increased management commentary on the upcoming year, end-of-year portfolio rebalancing, and a general optimism boost as the holidays approach. There's a reason we call it the "Santa Claus rally."

POSITIVE SEASONAL SIGNALS

While seasonality is a bullish factor to consider, it may not entirely dictate the path of the market. The fourth quarter of 2018 is a good example of stocks defying seasonal tailwinds. Last year, the S&P 500 fell as much as 19.6% on a closing basis from October to December 2018 amid the fear of a Federal Reserve (Fed) policy mistake, an escalating U.S.-China trade dispute, and a looming government shutdown over the federal budget. Elevated uncertainty was too much for investors to digest, spurring the S&P 500's worst sell-off since 2011. However, stocks have climbed many walls of worry in this bull market, and they scaled a particularly tall wall at that point, thanks to solid domestic fundamentals and the Fed's flexible monetary policy stance. (Monetary policy refers to decisions by the Federal Reserve and other central banks regarding interest rates and the money supply.)

Since then, the S&P 500 has recovered all of its December 2018 losses and made new record highs, even though investors are still facing some of the same issues. The United States and China have yet to reach a comprehensive agreement on trade, and the Fed is still figuring out the appropriate level of monetary policy given trade uncertainty. Other geopolitical issues, such as the United Kingdom's upcoming exit from the European Union (Brexit), are still weighing on global markets. We believe the year-to-date strength we've seen in U.S. stocks is a testament to how much easing monetary policy by the Fed and solid domestic fundamentals have driven long-term investor sentiment.

MAKING PROGRESS

Lately, however, we've seen progress on multiple fronts. The United States and China verbally agreed to a limited trade deal October 11. Even though this is a small step forward in the trade dispute, we think any potential thaw could continue to offer a significant market tailwind before the two sides meet again at the Asia-Pacific Economic Cooperation summit in November. The U.S. Treasury yield curve has found its way out of inversion territory (long-term yields have moved back above short-term yields) amid the increase in clarity on trade, soothing investors who saw bond market stress as a signal of recession.

Monetary policy is still on investors' sides. The Fed has committed to "acting as appropriate" to sustain the expansion in light of recent downside risks, a stance that could continue to calm investors and buoy stocks. That commitment has translated into two 25 basis point (0.25%) interest rate cuts so far this year, and we think one more could happen before the end of the year. We also expect policymakers to stick to more flexible commentary when talking about future policy, another dynamic that could support risk appetite.

To be clear, there are still several headwinds blowing, including elevated global geopolitical uncertainty, ongoing trade tensions, and stalled corporate earnings growth. We're certainly not discounting the risks, but we expect them to be temporary speedbumps for this ongoing bull market. We still see long-term opportunity in U.S. stocks, especially if the United States and China reach a trade deal, allowing U.S. companies to focus on growing profits through increased productivity and higher investment.

WEEKLY MARKET PERFORMANCE REPORT

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INDEX DESCRIPTIONS

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 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.

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