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TIME FOR APRIL SHOWERS?

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KEY TAKEAWAYS

April will include several significant events that have the potential to be market movers.

As first quarter earnings season officially begins, we anticipate it will again show a strong corporate backdrop.

Inflation will continue to be closely watched for clues on future policy.

After such a calm 2017, it was reasonable to expect higher volatility in 2018, and February and March certainly delivered. As the quarter came to a close, the S&P 500 Index finally snapped a nine-quarter win streak, but we think the bull market still has legs. As we turn the calendar to April, plenty of rain will be in the forecast, however the future might not be so cloudy with earnings season underway and fresh economic data for investors to assess.

We've created this quick guide outlining key events on the April 2018 market calendar to help investors get ready for the new month.

APRIL 11

CPI

Inflation has been a key concern for markets after wage growth accelerated 2.9% year over year in the January employment report (released in February). This was the highest reported wage growth since 2009. With the February employment report, the good news—at least for Federal Reserve (Fed) watchers—was the January number was revised lower to 2.8% and the February number came in at a more manageable 2.6%.

Both the core Consumer Price Index (CPI) and the core Producer Price Index (PPI) have been trending higher over the past six months, which suggests that the Fed has made at least some recent progress in efforts to spur a pickup in inflation. With all of this in mind, the March CPI report, due out on April 11, will once again be looked at for clues about what the Fed might do with policy.

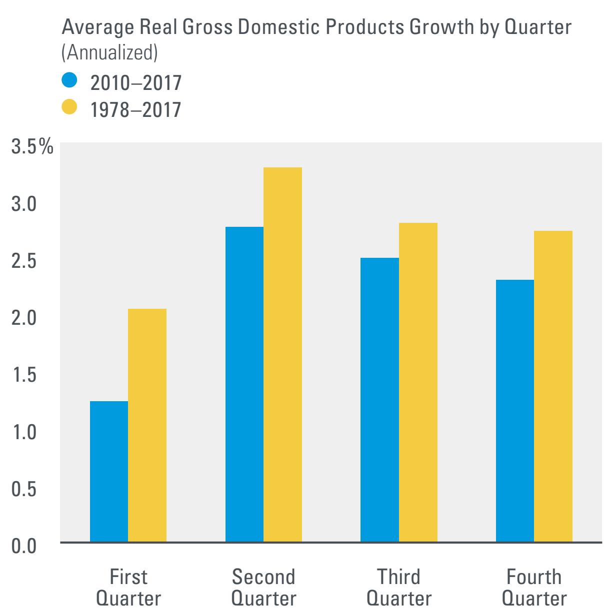
Continued job growth in an already tight labor market, combined with the recent addition of fiscal stimulus in the form of tax cuts, may help the higher overall trend continue in the near term. However, remember that the Fed's favorite measure of inflation is the personal consumption expenditure (PCE), and the core PCE in February came in at only 1.6% year over year, well beneath the Fed's target inflation rate of 2.0%. The bottom line is that inflation, thus far, has shown few signs that it will increase enough to warrant a significantly more aggressive Fed in the near term.

APRIL 13
EARNINGS SEASON BEGINS

First quarter earnings season may be another good one. The first earnings season of 2018 kicks into gear on April 13 when several large banks report. With consensus estimates currently reflecting an 18% year-over-year overall increase in S&P 500 earnings for the quarter, a 20% increase may be in the cards. Several factors suggest corporate America will produce some upside:

- The new tax law will have substantial impact, including the lower corporate rate, individual tax cuts, repatriation, and 100% capital expensing.
- Manufacturing surveys indicate strong earnings, with the Institute for Supply Management (ISM) Manufacturing Index near expansion highs.
- The U.S. dollar fell significantly from the first quarter of 2017 through the first quarter of 2018, which will prop up results for U.S.-based multinationals.

1 FIRST QUARTER GROWTH HAS SHOWN HISTORICAL WEAKNESS



Source: LPL Research, Bureau of Economic Analysis 03/28/18

Performance is historical, and no guarantee of future results.

- Oil prices have been rising and are significantly above year-ago levels, which may drive energy sector earnings up 70% year over year and buoy industrials.
- The ratio of company pre-announcements (positive to negative) has been favorable, suggesting companies may produce a solid beat rate relative to estimates.

Factors pushing in the opposite direction include the potential weather-driven first quarter dip in gross domestic product (GDP), and more broadly, the slower pace of positive economic surprises. Other factors to consider include slightly higher borrowing costs resulting from higher interest rates and the early emergence of wage pressures. Tariffs and trade risk may creep into guidance, but should not influence first quarter results. Look for more from us on earnings in an upcoming *Weekly Market Commentary*.

APRIL 27
FIRST QUARTER GDP

The first GDP estimate for the first quarter of 2018 will be released on April 27. Expectations for the quarter remain relatively upbeat based on data received so far, with the median forecast of Bloomberg-surveyed economists sitting at 2.5%; that is higher than the 2.3% growth rate for all of 2017 and the post-recession average of 2.2%, but lower than the median expectation of 2.8% for all of 2018. Economic models by the Atlanta and New York Fed banks project an average of 2.3% growth in the first quarter between them, largely in line with consensus forecast.

Weakness in the first quarter compared to the rest of the year would not be a surprise, given a consistent pattern of first quarter underperformance over the last 40 years [Figure 1], a puzzle that economists at the Bureau of Economic Analysis have been studying. Over that period, first quarter growth has been almost a full percentage point lower than the average of the other three quarters combined despite seasonal adjustment of the data. The same pattern has appeared in the current expansion [Figure 1]. We believe it may appear again in 2018 as fiscal stimulus promotes business investment and consumer spending against a positive backdrop of a strong labor market and coordinated global growth.

CONCLUSION

Earnings drive stock over time, and once again we expect a solid earnings season for the first quarter of 2018. Coupled with the fact that April historically has been one of the best months of the year for equities, bulls could have something to smile about after a rough few months. However, it's important to note that trade policy risks remain. Inflation data, including the CPI report, will remain vital for possible future monetary policy implications. As always, LPL Research will be here to guide you through any potential market-moving events. ■

Please see the next page for our April calendar.

LPL RESEARCH APRIL 2018 PREVIEW

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1 Easter	2 ISM: Mfg.	3	4 ADP Employment Auto Sales Factory Orders ISM: Services	5	6 Employment Report	7
8	9	10 PPI	11 CPI FOMC Minutes	12	13 JOLTS	14
15	16 Retails Sales	17 Housing Starts Taxes Due	18 Beige Book	19 Leading Indicators	20	21
22	23 Existing Home Sales	24 S&P/Case-Shiller Consumer Confidence New Home Sales	25	26 Durable Goods	27 Q1 GDP	28
29	30 PCE Personal Income Pending Home Sales	1	2	3	4	5

Source: LPL Research 04/02/18

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 referenced is historical and is no guarantee of future results.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

All investing involves risk including loss of principal.

DEFINITIONS

Personal consumption expenditures (PCE) is a measure of price changes in consumer goods and services. Personal consumption expenditures consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, nondurables, and services. It is essentially a measure of goods and services targeted toward individuals and consumed by individuals.

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.

INDEX DESCRIPTIONS

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.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The Institute for Supply Management (ISM) Index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

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