

May 2, 2019

Dear Valued Investor:

If it seems like the financial markets have been off to an unusually strong start to the year—you are correct. The S&P 500 Index has risen for four consecutive months, resulting in the strongest start to a year in more than 30 years! To be fair, the early gains included recovery from oversold market conditions in December, but a steady combination of monetary policy, economic performance, and corporate profitability have pushed the S&P 500 to record levels.

While we're pleased with the new highs, part of our job at LPL Research is to keep an eye on what could temporarily disrupt solid market performance. As such, we emphasize three key areas when making investment decisions: market fundamentals, technicals, and valuation. A review of each suggests to us that the market can continue to provide longer-term opportunity, but with the possibility for shorter-term volatility. In any event, we will continue to emphasize the importance of diversified portfolio strategies for suitable investors to best take advantage of market conditions.

We remain encouraged by market fundamentals. U.S. economic data have been steadily improving in recent months, with signs of stabilization in manufacturing and gains in employment, personal spending, and business investment. In addition, the Federal Reserve appears set on keeping interest rates at current levels for the near future, allowing market interest rates and fiscal tailwinds to help support domestic activity. This has been a healthy offset to concerns of slowing global growth, with a potential U.S.-China trade deal remaining the wild card.

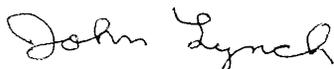
Market technicals, which include sentiment, pricing, and volume patterns, currently indicate solid momentum, while a variety of industry surveys suggests investors possess a healthy balance between appreciation and skepticism of the recent market gains. Although the S&P 500 recently hit a new high, it took more than six months to exceed its previous record set last September. Historically, when the S&P 500 has had at least a six-month "pause" between records, returns over the following 12 months were above average, which may indicate good news for summer markets.

Our third important criteria is market valuation. Rather than simply looking at the price-to-earnings ratio (P/E) when making equity investment decisions, we stress the importance of looking at the P/E relative to the current level of interest rates and inflation, which both remain well below historical averages. As a result, although the market may be trading at record levels, we don't think it is overvalued.

It's been quite a run for equity markets in the first four months of 2019. A quick review of market fundamentals, technicals, and valuation suggests a near-term pullback may be possible. However, suitable investors could use volatility as an opportunity to rebalance diversified portfolios or add to current positions to help work toward long-term investment goals.

We encourage you to contact your trusted financial advisor if you have any questions.

Sincerely,



John Lynch
EVP, Chief Investment Strategist
LPL Research

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Economic forecasts set forth may not develop as predicted.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

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