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Dear Valued Investor:

Happy Birthday, United States of America! As we celebrate our nation's birthday, U.S. leadership on the world stage remains in focus. We received good news on the global trade front from the recent G20 Summit in Japan. President Trump and China's President Xi agreed to a trade truce, clearing the way for the two nations to resume negotiations—and helping the stock market add to its impressive first half of 2019. In signs of thawing tensions, the next round of U.S. tariffs have been suspended indefinitely, and U.S. companies were cleared to sell certain products to Chinese telecom giant Huawei.

At the same time, we have no indications that the sticking points that caused talks to derail in May are any closer to being resolved, and existing tariffs remain in place. We still think a broader agreement can be reached this year—hopefully by the fall—but we may have to endure more economic upheaval until that occurs.

Closer to home, the Federal Reserve (Fed) has sent signals that it may cut the fed funds rate by .25% in July, thereby reversing its December 2018 rate hike. We see a potential rate cut as insurance against further slowing of the economy, and we still believe the odds of near-term recession remain low.

We also appreciate the Fed's willingness to adjust its policy in ways that may help prolong the current economic expansion, which at 121 months is now the longest ever recorded. Despite its record-setting length, we think this cycle has more room to run given its gradual growth trajectory in the United States and the lack of excesses building up since the 2007–2008 financial crisis. Fiscal stimulus put in place over the past two years by the Tax Cuts and Jobs Act of 2017 also helps.

Second quarter ended June 30, and earnings season, when most publicly traded companies release their quarterly earnings reports, is fast approaching. We believe the favorable fundamental backdrop for the U.S. economy may provide support for further corporate earnings growth in the second half of this year and into 2020. We also expect better than expected earnings to help drive stock market gains in the second half of 2019, although the pace of earnings growth may be modest as we continue to deal with tariffs and trade uncertainty.

We believe underlying economic fundamentals, along with a supportive Fed and progress on global trade, will enable the U.S. economy to continue to grow steadily through the end of 2019 and beyond. However, as we noted in our recently published LPL Research *Midyear Outlook 2019: Fundamental: How to Focus on What Really Matters in the Markets,* we may have to tolerate more market volatility while trade details are ironed out, and some pullbacks in the markets should be expected. We encourage all investors to be prepared to weather some volatility and for suitable investors to use it as an opportunity to rebalance portfolios to align with long-term objectives.

We encourage you to contact your financial advisor with questions, and we wish you a happy Fourth of July.

Sincerely,

John Lynch
EVP, Chief Investment Strategist
LPL Research

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