LPL Financial

75 State Street, 22nd Floor
Boston, MA 02109

4707 Executive Drive
San Diego, CA 92121

1055 LPL Way
Fort Mill, SC 29715

October 4, 2018

Dear Valued Investor:

The first day of fall may be in September, but the beginning of October is when that autumn feeling really kicks in. Whether you're mourning the end of long summer days or embracing the return of pumpkin spice at your local coffee shop, October also signals that we'll soon be closing the books on another year. And while the start of the fourth quarter may trigger a look back on the year so far, it doesn't mean things are slowing down.

The third quarter of 2018 was the best quarter for stocks in nearly five years. These market gains were driven by a strong U.S. economy, supported by robust manufacturing activity and job growth. Corporate profits were also a key driver, with corporate America on track for another quarter of 20% growth in the third quarter (based on Thomson Reuters' estimates). Another positive sign is that both consumers and business owners continue to exhibit high levels of confidence.

The strong stock gains in the third quarter came despite several potential obstacles—pockets of stress in emerging markets, continued trade tensions, another Federal Reserve (Fed) interest rate increase, and uncertainty surrounding the midterm elections. In addition, although the overwhelming majority of recent data reflects a solid backdrop, the housing and auto markets have cooled, tariffs have started to curb some business investment, and growth in Europe is slowing. In our view, the positives still outweigh the negatives, but it's always prudent to keep the full picture in mind—particularly as we begin what historically has been a volatile month.

October is known for its volatility because it has seen some of the most dramatic stock market drops (including 1987 and 2008). However, the other side of the story is that October has been one of the best performing months for stocks in recent decades, especially during a midterm election year.

The upcoming midterms have been dominating media headlines. The outcome may put the future of certain policies in question; e.g., a Democratic Congress could seek to roll back some of the recently enacted tax cuts next year. Yet, the important takeaway for investors right now is that it's often the uncertainty leading up to the elections that causes more market volatility. Regardless of the results, investors may respond well once we have some political clarity post-election.

Factors like the midterms, trade negotiations, emerging market performance, and additional Fed rate hikes do have the potential to impact stocks, and they capture our attention. So we'll continue to watch all of these developments closely, including how they may influence the economy and markets in the coming months. When we look at the drivers of recent positive performance, however, we see reason to believe this momentum could carry us through the end of the year and into 2019—which will be here before we know it. Speaking of 2019, please stay tuned for the latest forecasts and investment insights out of LPL Research in our upcoming *Outlook 2019* publication, due out in early December.

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

Sincerely,

John Lynch

John Lynch
EVP, Chief Investment Strategist
LPL Research

LPL Financial

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. 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. Indexes are unmanaged and cannot be invested into directly. 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.

This research material has been prepared by LPL Financial LLC.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial LLC is not an affiliate of and makes no representation with respect to such entity.

Not FDIC/NCUA Insured | Not Bank/Credit Union Guaranteed | May Lose Value
Not Guaranteed by Any Government Agency | Not a Bank/Credit Union Deposit