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Dear Valued Investor:

Most of the country might still be in the throes of the winter, but after extreme cold throughout many parts of the United States, thankfully the weather has warmed up. Stocks followed a similar path, warming up in January after a chilling December. Since the lows in December, the market is up more than 16% (as of Feb. 6, 2019). Some recent reports have been encouraging and point to a steadily expanding economy. Meanwhile, market participants have become more comfortable with the Federal Reserve's (Fed) message. While these are positive developments, we do acknowledge that the likelihood for further volatility persists. We encourage investors to remain focused on the fundamentals that support our positive outlook for continued economic growth and stock market gains in 2019.

Recent economic data have pointed to a U.S. economy that remains on sound footing. The latest reports on U.S. manufacturing came in better than expected, reversing December's disappointing data and signaling continued expansion in the manufacturing sector. In addition, more than 300,000 jobs were created in January, while inflation remains contained. These data points signal a growing U.S. economy.

The Fed and the market haven't seen eye to eye on policy over the past year, but that may be changing. At its last policy meeting, the Fed announced it would be much more patient with future rate hikes, which could remove one of the big uncertainties for investors. The Fed reinforced its stance that the U.S. economy remains solid, and cited factors such as slowing growth in China and Europe, trade risk, elevated uncertainty, and deteriorating investor sentiment as influencing its recent shift. Because of these crosswinds, the central bank has chosen a wait-and-see approach, and will likely hold off on policy moves until there is greater clarity on global economic conditions. The stock market responded positively to the Fed's message that interest rates would be lower than had been initially anticipated, with its first gain on a Fed announcement day since Jerome Powell took over as Fed chair.

With stocks up strongly since late December, the next move higher may be tougher to achieve. However, in addition to the solid economic backdrop, we see several factors working in stocks' favor that we think may send stocks higher from here. Stocks are less expensive than bonds. Earnings growth has been solid. A potential U.S.-China trade agreement still appears likely. And finally, a broad and diverse mix of stocks has been rising, a symptom of a healthy market advance. Key risks working against stocks include slowing growth overseas and budding earnings headwinds—although a slowdown in earnings growth is very different from a contraction.

We maintain our forecasts presented in the LPL Research *Outlook 2019: FUNDAMENTAL: How to Focus on What Really Matter in the Markets*, including our expectations for continued economic growth and strong corporate profits, which support the potential for solid stock market gains.

In closing, although we should remain prepared to weather any further market volatility, these signs are encouraging—much like early signs of spring peeking through the snow. We encourage investors to stay focused on the fundamentals supporting the economy and corporate profits.

If you have any questions, or would like to read our *Outlook 2019*, please contact your trusted financial advisor.

Sincerely,

John Lynch

John Lynch
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LPL Research