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SEPTEMBER PREVIEW

TIME FOR VOLATILITY?

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KEY TAKEAWAYS

September has historically been the weakest month for equities and one of the most volatile.

Interest rate decisions from the Federal Reserve, Bank of Japan, and European Central Bank are all on tap this month.

Washington, D.C. has to raise the debt ceiling and pass a budget or risk a potential government shutdown.

*Please note: The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

As the pace of life tends to pick up in September with kids back at school, the market is following suit with a month packed full of global events. The S&P 500 Index managed another gain in August, marking 10 consecutive months of gains on a total return basis. The global economy continues to improve and corporate earnings have been very strong across the globe, but how much longer can this calm continue? As we enter September, it is important to remember that no month has a worse average return for the S&P 500 (-1.0% going back to 1928*), and some of the most volatile moves ever have taken place this month. To help navigate the current environment, we've created this guide to the September 2017 market calendar, providing an overview of the key events.

SEPTEMBER 1

AUGUST EMPLOYMENT REPORT REVIEW

Job growth disappointed in a quirky statistical month, but was still solid. The U.S. economy added 156,000 jobs in August, missing expectations of 180,000, and decelerating from a downwardly revised 189,000 in July. Jobs growth has historically been difficult to predict in August due to late summer transitions, and has had a tendency to be revised higher. This revision trend will be difficult to track as economic data in the coming months will likely display the impact of Hurricane Harvey, which made its initial landfall in the U.S. on August 25, 2017. Wage growth disappointed, rising only 0.1% month over month (2.5% year over year), after more solid growth of 0.3% last month (2.6% year over year), while the unemployment rate ticked up from 4.3% to 4.4%. Though the 2017 average of 186,000 jobs added per month is slower than the 2014–2016 average of 221,000, such slowdowns are normal as the economic cycle ages; even growth of 150,000 jobs per month would be enough to slowly tighten the labor market. The report may lower the likelihood of an additional Federal Reserve (Fed) rate hike in 2017.

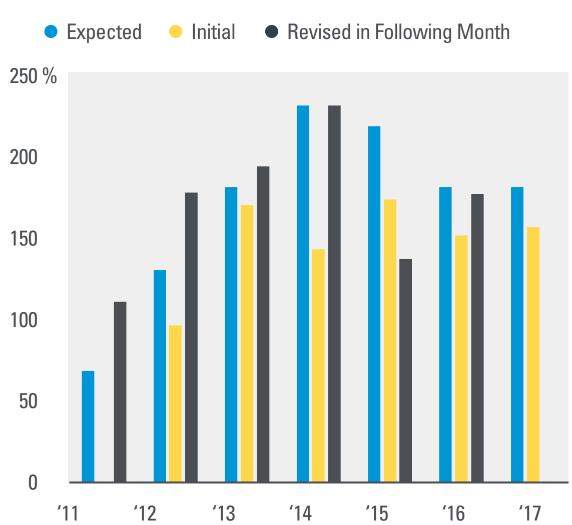
One caveat to the report is that there was again weakness in the education component as there has been every August since 2011 due to shifts in the start of school years over time. As Figure 1 shows, the August jobs number has now come in beneath the initial estimate for seven consecutive years. The good news is that five of the previous six years it has been revised higher the next month—so we must stay tuned.

SEPTEMBER 7
EUROPEAN CENTRAL BANK MEETING

The European Central Bank (ECB) has its next scheduled meeting on September 7, where it is expected to provide some clarity on quantitative easing (QE) policy. The current policy of purchasing 60 billion euro in bonds every month is slated to end this December. However, it is almost inconceivable that the ECB will completely stop buying bonds after this. The likely scenario is that it will continue to buy bonds with scheduled reductions in the monthly purchase in a process called "tapering." One reason to taper purchases is that they are literally running out of bonds to buy. The ECB has set limits for itself regarding how much of any one country's bonds it can purchase and at what interest rates it will buy them, and these criteria have made it difficult to find available bonds.

While we think the ECB will taper purchases, it is unlikely to announce a definitive end to QE. Inflation has been stubbornly low in Europe and boosting inflation to 2% is one of the ECB's stated goals. Politically speaking, it would be very difficult for the ECB to have to restart its QE policy should it stop buying bonds altogether. Though regardless of the details of their announcement, the ECB is a long way from beginning to normalize policy, at least until 2019 or more likely 2020.

1 AUGUST JOBS USUALLY MISS EXPECTATIONS, BUT ARE USUALLY REVISED HIGHER THE NEXT MONTH



Source: LPL Research, Bloomberg 09/01/17

SEPTEMBER 19–20
FED MEETING

The Federal Open Market Committee (FOMC), the Fed's policymaking arm, will hold its sixth of eight meetings this year on September 19–20. At 2 p.m. ET on September 20, the FOMC will release its policy statement, a new set of members' forecasts on the economy, labor market, and inflation, and a new set of "dot plots" (members' forecasts of where they think the fed funds rate will be at the end of 2017, 2018, 2019, and in the "long run"). Fed Chair Janet Yellen will also hold the third post-FOMC meeting press conference of the year at 2:30 p.m. ET on September 20.

As of Friday, September 1, 2017, the market, as measured by fed funds futures, is pricing in just a 1% chance of a 25 basis point (0.25%) rate hike at the meeting, and a 42% chance of a hike in December. However, there will be additional information for markets to digest between now and mid-September—including consumer and producer inflation (inflation is a key factor for the Fed's rate hike trajectory), the Institute for Supply Management's (ISM) Non-Manufacturing Index, and retail sales—which could change the odds of future rate hikes.

Though markets aren't expecting a rate hike in September, some market participants are expecting the Fed to announce the beginning of its balance sheet normalization plan. The minutes of the Fed's July meeting showed continued discussion of starting to allow maturing bonds to roll off the Fed's balance sheet at a measured pace, and though the Fed hasn't given an exact timeframe for an announcement yet, the July meeting statement did say it intended to begin implementing the program "relatively soon." Given that there will not be another meeting with a press conference until December, these comments likely point to a September announcement, assuming no unexpected economic or market disruptions occur between now and then.

SEPTEMBER 20–21
BANK OF JAPAN MEETING

The Bank of Japan (BOJ), unlike the ECB, is likely to continue its current policy of aggressively buying assets at its September 21 meeting. Even though Japan's economy has begun to accelerate, the BOJ continues to push back its forecast of when Japan will reach its 2% inflation target, with the latest estimate in early 2020. Little change is expected in the current policy of buying 170 billion yen (roughly $150 billion) per year in Japanese government and corporate bonds, real estate investment trusts, and stocks, for the foreseeable future.

SEPTEMBER 29–30
DEBT CEILING EXPIRES AND POTENTIAL GOVERNMENT SHUTDOWN

In theory, on September 29, the U.S. government will exceed its ability to borrow additional money to fund services, as well as pay interest on existing debt. However, the exact date is unknown, and there are short-term fixes that the Treasury Department could use to raise enough funds to potentially last a few more weeks. While failure to raise the debt ceiling could lead to a technical default on our bonds, with unknown political and economic ramifications, we view it as highly unlikely that Congress would allow this occur. One possibility to ensure its passage of an increase would be to tie it to another "must pass" bill, like providing relief to the victims of Hurricane Harvey.

Though a second more benign threat also looms. The government's fiscal year ends on September 30, and if it does not pass a budget there will be no money to fund operations, resulting in a government shutdown. The most recent and probably most impactful shutdown was in October 2013, when the government was closed for 16 days. The economic impact of the shutdown was estimated to be about $24 billion in lost gross domestic product (GDP), or about 0.15% of total GDP that year. The S&P 500 gained 2.4% during the shutdown. But the potential political impact is more subjective. At the time, most Americans (8 out of 10) said that the shutdown was a bad idea. However, today more Americans seem to think that a shutdown would be beneficial to change what they perceive to be a "business as usual" culture in Washington, D.C.

Ultimately, Congress is going to have to pass a budget. But more recently Congress has been using continuing resolutions (CR) to provide temporary funding to keep the government going until a full budget is passed. In addition to creating future potential flash points that could result in a shutdown, using a CR delays the impact of budgetary policy and extends uncertainty about what that policy will even be. Furthermore, the longer Congress deals with mandatory budget issues, the less time they have for other issues, such as corporate tax reform.

CONCLUSION

September has several important events that markets will be watching closely, which only increases the chances of overall market volatility. From three major central bank decisions, to Congress coming back to work and confronting some important deadlines, the stage is set for a few fireworks. Markets may be able to discount some of the noise, but if you factor in that the month tends to be volatile regardless, September 2017 may certainly be a month to watch. ■

LPL RESEARCH SEPTEMBER 2017 PREVIEW

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
27	28	29	30	31	1 Jobs Report ISM: Mfg.	2
3	4 Labor Day	5 Congress Back in Session	6 ISM: Non-Mfg.	7 ECB Meeting	8	9
10	11	12 NFIB Small Business Index	13 PPI	14 CPI	15 Retail Sales	16
17	18	19 Fed Meeting Housing Starts	20 Fed Meeting Bank of Japan Meeting Existing Home Sales	21 Bank of Japan Meeting Leading Indicators	22 First Day of Fall 	23
24 German Elections	25	26 S&P/Case-Shiller Composite Consumer Confidence	27	28 GDP Q2 (Final)	29 Debt Ceiling Expires	30 Potential Government Shutdown

Source: LPL Research 09/05/17

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.

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

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

DEFINITIONS

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Federal Open Market Committee (FOMC) is the branch of the Federal Reserve Board that determines the direction of monetary policy. The eleven-person FOMC is composed of the seven-member board of governors, and the five Federal Reserve Bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other regional Federal Reserve Banks rotate their service in one-year terms.

The Fed Funds futures contract represents the average daily fed funds effective rate for a given calendar month as calculated and reported by the Federal Reserve Bank of New York. It is designed to capture the market's need for an instrument that reflects Federal Reserve monetary policy.

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.

The U.S. Institute for Supply Managers (ISM) manufacturing index is an economic indicator derived from monthly surveys of private sector companies, and is intended to show the economic health of the U.S. manufacturing sector. A PMI of more than 50 indicates expansion in the manufacturing sector, a reading below 50 indicates contraction, and a reading of 50 indicates no change.

The European Central Bank (ECB) is the central bank responsible for the monetary system of the European Union (EU) and the euro currency. The bank was formed in Germany in June 1998 and works with the other national banks of each of the EU members to formulate monetary policy for the European Union.

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