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DECEMBER GAME PLAN

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KEY TAKEAWAYS

This month has several significant events that have the potential to be market movers.

The ECB, Fed, and OPEC meetings are some of the events we'll be watching.

December is a historically strong month for the S&P 500, as since 1950, no month sports a better average gain or is positive more often.

Welcome to December. The year 2016 saw global turmoil in equity, credit, and energy markets in the initial months; a highly emotional U.S. presidential campaign and election; and a subsequent equity markets rally with various indexes at new all-time highs. It isn't over yet though, as several global market-moving events are on tap in December. With so many significant events ahead, it is important to be on top of what's coming up. To help you, we've created this guide to the December market calendar, which provides an overview of key events.

NOVEMBER 30

OPEC MEETING IN VIENNA AUSTRIA

The Organization of the Petroleum Exporting Countries (OPEC), which has largely been irrelevant for years, is attempting to come together (with the help of non-member Russia) to limit oil production. If OPEC can agree on a deal, it would be the organization's first production cut since 2008. The negotiations are high stakes and treacherous, worthy of a John le Carré novel, but the current belief is that some deal is forthcoming. It also appears that Saudi Arabia, which had been the de facto leader of OPEC, will accept most of the cuts.

DECEMBER 2

NOVEMBER EMPLOYMENT REPORT

The October jobs report kept the Federal Reserve (Fed) on track to raise rates in December, as the U.S. economy created 161,000 net new jobs, the unemployment rate fell to 4.9%, and average hourly earnings—a key gauge of wage pressures—accelerated to 2.8% year-over-year from 2.7% in September. Although the headline job number was slightly below expectations (173,000), the September reading was revised up a significant 35,000. Since mid-2016, job creation has slowed to 175,000 jobs per month and could continue to slow further during 2017. The recent job growth trend is right in line with the expected 175,000 jobs created in November and we anticipate a number in line with consensus. If there are any surprises, it could come from how quickly wage growth accelerates, as wage inflation may approach 3.0% by the end of 2016, up from a low of 1.5% in 2012. This is still nowhere close to the pre-Great Recession pace of 4-4.5%, but further acceleration in that direction in coming months could still catch the market, and maybe even the Fed, off guard. On

balance, the labor market continues to tighten and push up wages, keeping the Fed on track to hike rates later this month and potentially twice in 2017.

DECEMBER 4 ELECTIONS IN AUSTRIA AND CONSTITUTIONAL REFERENDUM IN ITALY

On the surface, both of the votes are very different. But they each represent opportunities for their respective citizens to indirectly express their view on European integration, continued membership in the European Union, and use of the euro as a common currency. Currently more Eurosceptic factions lead the polling in both countries.

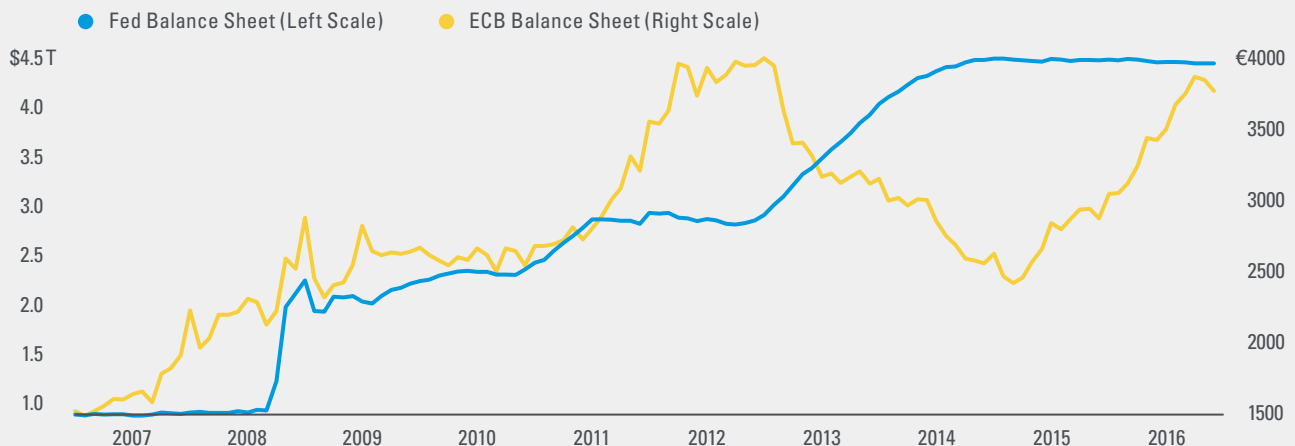
DECEMBER 8 EUROPEAN CENTRAL BANK (ECB) MEETING

The European Central Bank's (ECB) current policy of quantitative easing (QE)—bond buying to keep interest rates low—will expire in March 2017. The ECB is unlikely to end the program abruptly. More likely, it will announce further measures of support, though probably on a schedule that diminishes QE over time, similar to the Fed's "tapering" policy that began in 2013 [Figure 1].

DECEMBER 13 – 14 FEDERAL RESERVE (FED) MEETING

The Fed's policymaking arm, the Federal Open Market Committee (FOMC), will hold its eighth and final policy meeting of 2016 on December 13–14, 2016. Barring a sharp downturn in the economic data or an unusual rise in geopolitical risk in the coming weeks, we expect—and the market has fully priced in—that the Fed will raise its target range for the federal funds rate by 25 basis points at the meeting. The hike would be the second of this cycle; the first came a year ago, in December 2015. At the December meeting the Fed will also release a new set of economic projections and more importantly, publish a new set of rate path projections (the "dot plots") for 2017, 2018, 2019, and the "longer run." Fed Chair Janet Yellen will also hold her fourth and final press conference of 2016 following the meeting. At the September 2016 meeting, the "dot plots" suggested that the FOMC planned to hike rates by 50 basis points in 2017 if its forecasts for the labor market and inflation were met. We concur with the Fed's view for 2017, and in our view three 25 basis point Fed rates hikes are more likely than just one in 2017. Currently, the market has priced in just one 25 basis point hike in 2017.

1 EUROPEAN CENTRAL BANK (ECB) IS MAKING UP FOR A SLOW START



Source: LPL Research, Bloomberg 11/25/16

DECEMBER 23 – JANUARY 4 SANTA CLAUS RALLY

One of the more well-known Wall Street seasonal patterns is the Santa Claus rally. Although this historically bullish time for equities properly refers to the last five days of the year and first two days of the following year, people generally associate it with the entire month of December. Going back to 1950, no month is more bullish, as the average gain for the S&P 500 is 1.6% and the index is higher 76% of the time, both the highest of all 12 months. When the S&P 500 is up more than 5% for the year heading in December (like 2016 likely will be), this jumps to an even stronger average gain of 2.1% during December.

The traditional Santa Claus rally timeframe (the last five days of the year and first two days of the following year) have gained an average of 1.4% and have been higher 77% of the time since 1950.

What is interesting is in the past two years these historically strong seven days have been lower by 3% two years ago and 2.3% last year and the month of January was down 3.1% and 5.1%, respectively. In other words, if Santa doesn't come, we could be in for a rough January.

CONCLUSION

December is an important month for global events. Any of these events may move global markets, and with many potential market-moving events packed close together, it could be time to buckle your seat belts. Although this is the feel-good time of the year and equity markets are historically higher, we advise preparing for a potentially bumpy ride.

Most importantly, we wish each of you a happy holiday season filled with happiness, health, and cheer. ■

Thank you to Matthew Peterson for his contributions to this report, and please see the next page for our December calendar.

LPL RESEARCH DECEMBER PREVIEW

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
27	28	29	30 OPEC Meeting: Vienna, Austria	1	2 November Employment Report	3
4 ELECTIONS: Austria CONSTITUTIONAL REFERENDUM: Italy	5	6	7	8 ECB Meeting	9	10
11	12	13 Fed Meeting ↔	14	15	16	17
18	19	20	21	22	23 Santa Claus Rally ////////////////	24
25	26	27	28	29	30	31
Santa Claus Rally ////////////////						
1 Santa Claus Rally ////////////////	2	3	4	5	6	7

Source: LPL Research, Commission on Presidential Debates (CPD) 11/28/16

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INDEX DESCRIPTIONS

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.

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