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NOVEMBER PREVIEW

THE CALENDAR IS TICKING ON TAX REFORM

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KEY TAKEAWAYS

November kicks off a historically strong period of the year for financial markets.

Interest rate decisions from the Fed, Bank of Japan, and Bank of England are on tap soon.

Next steps on tax reform will be very important this month.

Along with the holiday anticipation November can bring, it is also historically a bullish time for equities. The S&P 500 Index is on pace to log another gain in October, marking 7 consecutive monthly gains on a price basis and 12 in a row on a total return basis (including dividends). But the incredible strength does have some potential warnings, as the S&P 500 has now gone nearly a full year since the last 3% correction, the longest such streak in history. During the month, multiple central banks are meeting, earnings season will be winding down, and tax reform is entering a critical stretch.

To help, we've created this guide that looks at key events that are set to take place in November 2017.

LATE OCTOBER/EARLY NOVEMBER

CENTRAL BANK ACTION PICKS UP

The European Central Bank (ECB) managed to pull off a dovish taper at its meeting in late October, but the three remaining major central banks will meet over the course of the next week.

- **The Bank of Japan (BOJ) will announce the details of its latest monetary policy meeting on Tuesday, October 31.** Markets aren't expecting any changes out of the BOJ until at least the end of BOJ President Kuroda's term in April 2018, even though he is currently expected to be reappointed. There are thoughts that after that date the BOJ could seek to change the shape of the Japanese yield curve as the economy improves, but unlike the Fed and ECB, the BOJ isn't likely to begin a sustained removal of monetary stimulus for some time.
- **The Federal Reserve's (Fed) seventh of eight meetings this year will be in session October 31 through November 1.** This meeting isn't likely to be that impactful given that it doesn't include updated economic projections, dot plots, or a post-meeting Q&A session. Markets will keep a close eye on the Fed's statement, but aren't expecting any changes that would materially alter expectations for a rate hike in December. While the Fed meeting isn't likely to move markets, President Trump's announcement of his choice for the next Fed chair, which is expected by November 3, may be more impactful. (See our *Bond Market Perspectives, "Will Hawks Take Control in 2018?"* for more on our views on the Fed chair search.)

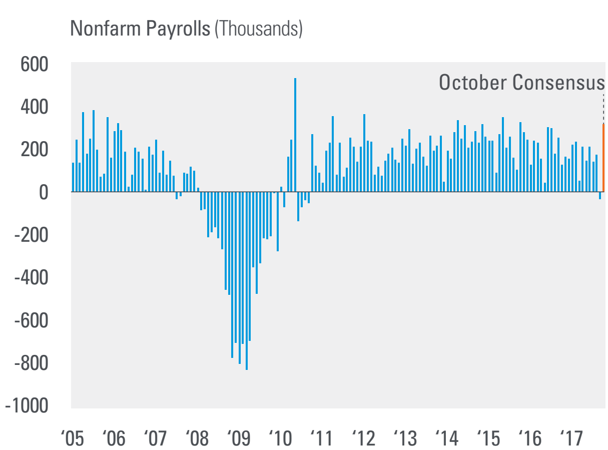
- **The Bank of England (BOE) meets November 2.** The United Kingdom recently saw third quarter GDP come in a little above expectations (+0.4% month over month versus +0.3% expected), which, along with an inflation reading of 3% for September, is likely to push the BOE toward a rate hike in November (markets are currently pricing in an 88% chance); however, we don't expect a prolonged period of tightening policy given the headwind of ongoing Brexit negotiations.

NOVEMBER 2
FIRST REAL LOOK AT TAX REFORM

While this date is not set in stone, on Thursday or thereabouts, the House Ways and Means Committee will release the initial House proposal of the tax reform bill. This version will be amended and modified before it goes to vote in the House. The Senate, in turn, will have its own version of the bill. While there's still a lot of work to do, this will be the first time that we'll see what we expect to be a full proposal with all the details filled in, and a bill like this comes with a lot of details. The Republicans' initial framework on tax reform was a loose outline consisting of about five pages of aspirational proposals. What we'll get from the Ways and Means Committee is expected to run 700+ pages.

Overall, tax reform is now on a modestly accelerated timeline after the House pragmatically agreed to the Senate budget proposal in order to turn to tax reform more quickly. While the time saved was important, the signal that House Republicans are approaching tax reform with a sense of urgency may be more meaningful. But there are still many pitfalls. Reconciliation instructions in the budget allow the tax reform bill to add up to $1.5 trillion to the deficit over the next 10 years; even with that provision, the proposed bill will need to be paid for by eliminating current loopholes or existing tax provisions. These "pay-fors" are where the real action will be. Everyone loves a tax break—no one likes losing one. Some of the more controversial candidates to reduce the cost of the bill have included eliminating the deduction for state taxes, reducing the maximum annual contribution for retirement accounts, and eliminating the interest expense deduction for businesses. Should the House pass a version by the end of November, we would consider this a big win in the bill's progress, and even a December vote keeps passage of the final bill in the first quarter of 2018 well in play.

1 JOBS ARE EXPECTED TO BOUNCE BACK IN OCTOBER



Source: LPL Research, FactSet 10/27/17

NOVEMBER 3
OCTOBER EMPLOYMENT REPORT PREVIEW

U.S. payrolls fell 33,000 in September, versus expectations of rising 80,000, due to the hurricanes. This was the first monthly drop after a record 83 months of jobs growth [Figure 1]. The unemployment rate dropped from 4.4% to 4.2%, while wage gains—also impacted by hurricanes—accelerated. Wages rose 0.5% month over month and 2.9% year over year, compared to consensus expectations of 0.3% and 2.6%, and 0.1% and 2.5%, respectively, in the prior month.

Data that were impacted by the hurricanes will be looked at as a one-off occurrence, as the

Fed is set to likely increase rates this coming December — especially after the stronger than expected third quarter gross domestic product (GDP) number announced Friday.

While the 2017 average is down to 148,000 jobs added per month, this is still enough to slowly tighten the labor market. Economists are looking for a big bounce back in jobs in October of more than 300,000, with the unemployment rate holding steady at 4.2%.

LATE NOVEMBER

LATTER HALF OF THIRD QUARTER EARNINGS SEASON

Earnings season will continue into late November, with results from nearly half of the S&P 500 on tap during the month. The first half of the season has been good relative to expectations, with earnings tracking near 7% growth year over year (2% above prior expectations) and a solid 74% of companies beating estimates. Growth has slowed from the last two quarters, due partly to the impact of insured hurricane losses, sending financials earnings down 7% year over year. Strong upside and big increases in technology and energy earnings have offset financials weakness and driven the upside relative to expectations.

Forward guidance from corporate America has been good overall, with S&P 500 earnings estimates for the next 12 months down only 0.2% since the season began. We expect solid results may continue in November based on the strong macroeconomic backdrop, resilient estimates, and a weaker U.S. dollar.

CONCLUSION

November has some big events, but none are larger than potential forward movement on tax reform. October 2017 has been one of the least volatile Octobers on record, which only builds on the calm action we've seen in most of 2017. Can November extend this tranquil market? With multiple central bank meetings, earnings season wrapping up, hurricane-influenced economic data, and tax reform, the stage is set for potential movement. Enjoy the shorter days and colder weather, and be ready in case there is some overdue volatility. ■

LPL RESEARCH NOVEMBER 2017 PREVIEW

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
29	30 PCE	31 Halloween S&P Case-Shiller Consumer Confidence Bank of Japan Meeting Fed Meeting	1 ISM: Mfg.	2 Bank of England Meeting	3 Nonfarm Payrolls ISM: Non-Mfg.	4
5	6	7 JOLTS Jobs Openings NFIB Small Business Index	8	9	10	11
12	13	14 PPI	15 CPI Retail Sales	16	17 Housing Starts	18
19	20 Leading Indicators	21 Existing Home Sales	22 Durable Goods FOMC Minutes	23 Thanksgiving	24 Black Friday (NYSE Closes at 1:00pm ET)	25
26	27 Earnings Season Ends New Home Sales	28 Consumer Confidence	29 GDP Q3 (2nd Estimate) Beige Book	30 Potential Tax Reform Milestone PCE	1 ISM: Mfg.	2

Source: LPL Research 10/30/17

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.

The Standard & Poor's 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.

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

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.

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.

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.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

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. Potential Gross Domestic Product is a measure of the maximum level of national production possible over the long term. This is a conceptual amount, however, as actual GDP may be lower or higher than the national potential. In a case where the country is producing at a higher rate than the long-term potential, the higher demand compared to available supply will cause price inflation.

Personal Consumption Expenditures (PCE) is a measure of price changes in consumer goods and services, targeted towards goods and services consumed by individuals. PCE is released monthly by the Bureau of Economic Analysis.

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 Small Business Optimism Index is compiled from a survey that is conducted each month by the National Federation of Independent Business of its members. The index is a composite of ten seasonally adjusted components based on questions on the following: plans to increase employment, plans to make capital outlays, plans to increase inventories, expect economy to improve, expect real sales higher, current inventory, current job openings, expected credit conditions, is now a good time to expand, and earnings trend.

The Job Openings and Labor Turnover Survey (JOLTS) is a survey done by the United States Bureau of Labor Statistics to help measure job vacancies. It collects data from employers including retailers, manufacturers, and different offices each month. Respondents to the survey answer quantitative and qualitative questions about their businesses' employment, job openings, recruitment, hires, and separations. The JOLTS data is published monthly, and by region and industry.

Producer Price Index (PPI) is an inflationary indicator published by the U.S. Bureau of Labor Statistics to evaluate wholesale price levels in the economy.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Beige Book is a commonly used name for the Fed report called the Summary of Commentary on Current Economic Conditions by Federal Reserve District. It is published just before the FOMC meeting on interest rates and is used to inform the members on changes in the economy since the last meeting.

The Leading Economic Index is a monthly publication from the Conference Board that attempts to predict future movements in the economy based on a composite of 10 economic indicators whose changes tend to precede changes in the overall economy.

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