LPL Financial

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Dear Valued Investor:

June 2016 is full of major market events, which may go a long way toward determining the direction of the stock market for the rest of the year. Although for some, the approach of summer means it's time to slow down and plan vacations, the markets and global economies are doing anything but that. As we approach the midpoint of this year and the kick-off to summer, events are ramping up — not slowing down — making this a good time for a check-in and look ahead.

The month of June starts off with an OPEC (Organization of the Petroleum Exporting Countries) meeting and the monthly jobs report, followed by policy meetings for the Federal Reserve (Fed), European Central Bank, and Bank of Japan, as well as the anticipated "Brexit" vote on whether the U.K. will remain in the European Union. These events could be viewed as opportunities to provide clarity and potential resolution to issues that have been years in the making. The path of the Fed's rate hike campaign could ramp up and place us firmly in the midst of a rate normalization cycle. We have endured a volatile two years for oil prices — another OPEC meeting may provide important confirmation that we are entering a period of greater stability. And after overcoming past threats, such as Greece, the EU may face the first country to exit after its more than 20 years in existence as the U.K. goes to the polls. How the U.S. and global economies react to these events will be watched closely by all market participants.

For the OPEC meeting, the market's expectations are low and a production freeze seems unlikely, so any movement toward restraining supply could push oil prices higher. Although we don't expect much action out of this meeting, with oil prices ranging from as high as over $100 per barrel in June 2014 down to $26 per barrel in February 2016, it still warrants close attention.

Concerning central banks overseas, we do not expect major policy shifts at their June meetings, but a challenging growth environment in both the Eurozone and Japan suggests we may see further loosening of monetary policy in the coming months. Fiscal policy will also be on watch, such as Japan's recent decision to push a scheduled sales tax increase all the way back to October 2019.

The markets will be particularly focused on the June 14–15 Federal Open Market Committee (FOMC) meeting. We believe the market may still be underestimating the probability of an early summer rate hike and another by year-end — our base case and a potential source of near-term volatility. After years of low interest rates, the second hike will reaffirm that we are finally normalizing rates. Thus, the outcome of this meeting (or the following one in July) could be the turning point here, as we watch how the U.S. economy and market participants can handle this shift.

Last but not least, should the British people vote to leave the EU, it may be seen as a lack of confidence in the second-largest economic region worldwide, which may spark other anti-EU movements across the continent, drag down economic activity in the U.K., or weaken London's place as a global financial center. It could also lead to a spike in financial market volatility. The latest polls, however, do show "remain" ahead of "exit."

All in all, we are in for a busy month in June. Instead of easing into a low-key summer, we will be watching these events and the impact they may have. Coupled with the age of the economic cycle and election-related uncertainty, stocks may experience continued volatility over the summer. Although these ups and downs can make for a bumpy ride, we expect a dip may be an opportunity to buy. As we prepare our market outlook for the remainder of the year, we continue to expect the S&P 500 to deliver mid-single-digit gains for the year and end 2016 slightly above current levels.*

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

Sincerely,

Burt White
Chief Investment Officer
Managing Director, LPL Research

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*Historically since WWII, the average annual gain on stocks has been 7-9%. Thus, our forecast is roughly in-line with average stock market growth. We forecast a mid-single digit gain, including dividends, for U.S. stocks in 2016 as measured by the S&P 500. This gain is derived from earnings per share (EPS) for S&P 500 companies assuming mid-to-high-single-digit earnings gains, and a largely stable price-to-earnings ratio. Earnings gains are supported by our expectation of improved global economic growth and stable profit margins in 2016.

This research material has been prepared by LPL Financial LLC.