LPL Financial

75 State Street, 22nd Floor
Boston, MA 02109

4707 Executive Drive
San Diego, CA 92121

1055 LPL Way
Fort Mill, SC 29715

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Dear Valued Investor,

Six months and counting. That is the current monthly winning streak for the S&P 500 Index. To take that a step further, this key equity benchmark has posted gains in 13 of the last 16 months—dating back to the March 2020 low. With stocks nearly at a double from those lows, it has indeed been hard to quibble about what stocks have provided recently.

The primary upside equity catalyst in July appeared to be another healthy earnings season. So far, with more than 60% of S&P 500 companies reporting results, 88% have beaten their earnings estimates. This would be the highest ever recorded if it stands, according to FactSet—and well above the 75% five-year average. There's more. Add in the steady recent decline in interest rates, which help with equity valuation calculations, and you get an equity market on a hot streak.

Meanwhile, the Federal Reserve Bank (Fed) has, so far, remained relatively quiet about its plans to roll back its historic accommodation. Its recent two-day meeting closed with little fanfare and negligible new information. Monetary policymakers are still discussing a plan to taper bond purchases that we expect to see uncovered in the fall.

Second-quarter U.S. GDP was reported in the last week of July. Although the 6.5% reading (quarter-over-quarter annualized) was below the Bloomberg consensus forecast of 8.4%, consumer spending exceeded expectations. Moreover, inventories declined at their second-worst rate in 12 years, setting up a possible boost in coming quarters when those inventories are replenished. While the post-COVID economic rebound has certainly been robust, supply chain issues continue to take some edge off growth.

Although we booked a lot of good news in recent months, we have now come upon a typically volatile period for stocks. The months of August and September have historically been a bit choppy as trading volume tends to dissipate and it may take less selling to move the major averages lower. That could be something investors will want to keep an eye on now that August has arrived. Also, consider that the second year of a bull market has historically brought more ups and downs.

Looking ahead, our stock market outlook remains positive as fundamental drivers have been robust, though we acknowledge that valuations are elevated. The latter point puts us on the lookout for a pullback that we believe is overdue, given the S&P 500 has not fallen as much as 5% since October 2020. The typical trading year brings several 5%-plus pullbacks and potentially one correction of the 10% variety. Should we get one, we believe investors may want to step in to do some quick bargain-hunting, as we would not expect a drawdown to last uncomfortably long. That said, stocks have come a long way and investors may want to double-check their allocations against their risk tolerance. Getting too far out over one's skis is never a good idea.

Please contact your financial professional with any questions.

Sincerely,

Ryan Detrick

Ryan Detrick, CMT
Chief Market Strategist
LPL Research

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