Dear Valued Investor:

Hindsight is 20/20, but finding clarity in future uncertainty can be fuzzy. 2019 has been a very rewarding year for investors. One year ago after publishing Outlook 2019 we were all tested with market volatility, but hope that our guidance based on solid fundamentals helped you resist the temptation of straying from your long-term investment plan.

As we look forward to the year 2020 and a new decade, some key trends and market signals will be important to watch. These include progress on U.S.-China trade discussions, slowing global growth, an encouraging outlook from corporate America, and continued strength in consumer spending. To help keep it all in focus, we’ve provided LPL Research Outlook 2020: Bringing Markets Into Focus, with investment insights and market guidance through the end of 2020.

In our view, progress on trade remains central to growth projections. We expect 1.75% U.S. gross domestic product (GDP) growth in 2020, reflecting the potential for continued trade and geopolitical uncertainties amid the expected gradual slowing of the economy at this point in the economic cycle.

Turning to the bond market, we expect a modest increase in longer-term yields. Our year-end 2020 forecast for the 10-year U.S. Treasury yield is a range of 2–2.25%. Continued flexibility by the Federal Reserve in setting interest rates should provide enough support to the economy to foster a modest increase in longer-term yields.

Based on expectations for better corporate earnings growth in 2020, along with continued economic growth in the United States, we expect support for stocks at current valuations. After the strong market gains thus far in 2019, we look for corporate earnings to be the primary driver for stocks next year. By our calculations, we believe the S&P 500 will increase by mid-single-digit returns, consistent with profit gains, by the end of 2020. We look for mild inflation and still-low interest rates to support these valuations. At the same time, we are mindful of our position in this extended business cycle, and will be on the lookout for signs of moderation.

Be assured, along the way we will be here to help. We will continue to monitor the impact of trade negotiations, the upcoming election, and keep an eye on developments around the world. The LPL Research Outlook 2020 is here to bring some clarity to a complex investing environment and provide insightful commentary to support investment decisions during the year ahead. If you have any questions, please reach out to your trusted financial advisor.

Sincerely,

John Lynch
EVP, Chief Investment Strategist
LPL Research
Our 2020 year-end fair value target range for the S&P 500 is 3,250–3,300. We base this year-end target on a trailing price-to-earnings ratio (P/E) of 18.75, which we multiply by our 2020 S&P 500 EPS forecast of $175. This material is for general information only and is not intended to provide specific advice or recommendations for any individual. The economic forecasts set forth may not develop as predicted.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Earnings per share (EPS) is the portion of a company’s profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company’s profitability. Earnings per share is generally considered to be the single most important variable in determining a share’s price. It is also a major component used to calculate the price-to-earnings valuation ratio.

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 Standard & Poor’s (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks. All indexes are unmanaged and cannot be invested into directly.

Please see the Outlook 2020: Bringing Market Into Focus for additional description and disclosure.

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