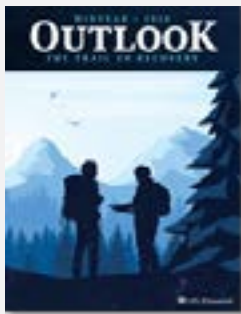


July 2020

MIDYEAR OUTLOOK 2020

EXECUTIVE SUMMARY

Read the full
[Midyear Outlook
2020: The Trail to
Recovery](#)



THE TRAIL AHEAD

At the midpoint of 2020, we're mindful that it's been an extremely challenging year so far in the United States and around the globe. We're in the midst of a pandemic that continues to impact all of us, our communities, and our economies.

Together we're looking ahead for new ways to face these challenges and how we can prepare now for better times. We've been impressed by what we've seen so far: The resiliency and accelerated innovation among large and small US businesses; efforts by our national, state, and local governments to support our communities; and most of all, the dedication and unprecedented cooperation among our front-line health professionals, medical researchers, and everyday people to guide us through this health crisis.

At LPL Research, we know the stock market is forward-looking: It focuses on what's happening today and what it sees on the road ahead. Much of the real-time economic data we follow—such as transportation activity, home sales, and jobless claims—is showing tangible evidence that economic activity—while still depressed—has begun to make a comeback.

Stocks already are pricing in a steady economic recovery beyond 2020 that may be supported if we receive breakthrough treatments to end the COVID-19 pandemic. However, the optimism reflected in stocks also may limit their upside potential over the rest of the year.

It's still going to be a challenging environment with significant uncertainty that may lead to more volatility for the next few months. Still, we continue to encourage investors to focus on the fundamental drivers of investment returns and their long-term financial goals.

LPL Research's *Midyear Outlook 2020* provides our updated views of the pillars for investing—the economy, bonds, and stocks. As the headlines change daily, look to these pillars, or trail markers, and the *Midyear Outlook 2020* to help provide perspective on facing these challenges now and preparing to move forward together.

Also, read our special "Election 2020" section to find out how the economy has predicted the winning president every year going back to 1924.

2020 MIDYEAR FORECASTS

ECONOMY

Domestic Economy. The trajectory of the economic recovery remains uncertain, but based on the depth of the contraction and a multi-staged recovery, our 2020 base case GDP forecast calls for a 3–5% contraction in GDP.

Global Economy. We expect economies in Europe to contract more than the United States or Japan in 2020. After the pandemic ends, deficits and populism may continue to weigh on Eurozone growth. So far, China has led the way out of the global crisis in terms of containing the virus and reopening its economy.

Recession. The US economy entered a recession in March 2020. Although this recession may end up as one of the shortest on record, the eventual recovery may not be strong enough to get economic activity back to 2019 levels by the end of 2020.

Employment. Ongoing unemployment in industries that are more challenged because of social distancing may likely delay consumer spending's return to 2019 levels until 2021.

BONDS

We expect interest rates to remain at historically low levels, but the direction may be higher over the rest of 2020. Our year-end base-case forecast for the 10-year US Treasury yield is 1–1.5%, which would be the lowest level to end a year on record if realized.

STOCKS

We believe the optimistic economic recovery scenario reflected in stocks may limit their upside potential over the rest of the year. Our 2020 year-end S&P 500 Index target range is 3,250–3,300, based on a P/E just below 20 and a normalized EPS of \$165

ELECTION 2020

Historically, when a president has been up for reelection, it has tended to boost stocks. So, it isn't about Republican or Democrat—it's about trying to boost the economy and stock prices by the time voters go to the polls.

History also shows that the US economy has major bearings on the presidential election outcomes. If there has been a recession during the year or two before the election, the incumbent president has tended to lose. If there has been no recession

2020 US MARKET FORECASTS— BASE CASE FORECAST ALLOWS FOR MODEST SECOND-HALF GAINS FOR STOCKS

2020 US			
Market Forecasts	2020 Bull Case	2020 Base Case	2020 Bear Case
S&P 500 Index Fair Value	3,450+	3,250–3,300	2,650
S&P 500 Earnings per Share	\$130+	\$120–125	\$110–115
10-Year US Treasury Yield	1.5–2%	1–1.5%	0–0.5%

Source: LPL Research, Bloomberg 06/30/20

Economic forecasts may not develop as predicted and are subject to change.

2020 ECONOMIC FORECASTS— COVID-19 HAS HAD A SIGNIFICANT IMPACT ON GLOBAL GROWTH

Real GDP Growth Forecasts (YoY)	2019	2020 Bull Case	2020 Base Case	2020 Bear Case
United States	2.0%	-2% to -3%	-3% to -5%	-5% to -8%
Developed ex-US	1.3%	-4% to -5%	-5% to -7%	-7% to -10%
Emerging Markets	4.3%	2% to 3%	flat to 2%	flat to -3%
Global	3.5%	-1% to flat	-1% to -3%	-3% to -6%

Source: LPL Research, Bloomberg 06/30/20

Economic forecasts may not develop as predicted and are subject to change.

ahead of the election, the incumbent president has tended to win. In fact, the economy has incredibly predicted the winning president every year going back to President Calvin Coolidge in 1924.

In addition, how stocks perform the three months ahead of the election has delivered a solid track record of deciding who will be in the White House the next January. The S&P 500 has predicted every presidential election winner since 1984, and 87%

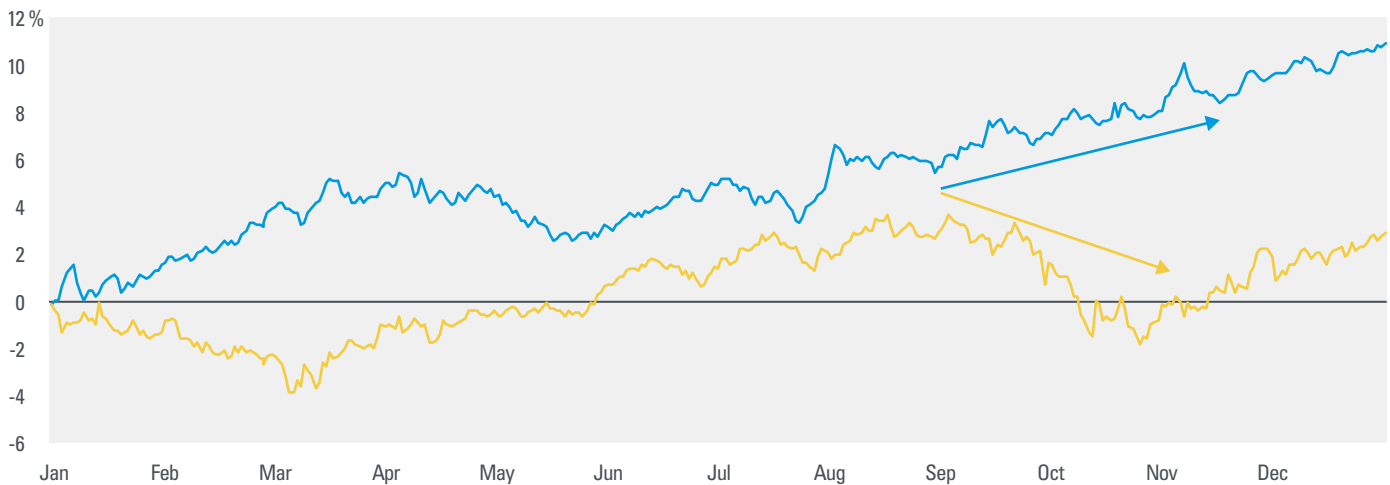
of the winners since 1928, with stocks favoring the incumbent party if stocks are higher in the three-month period before the election. As the chart shows, if stocks sell off ahead of the election, the opposition party has tended to win and the incumbent party has lost.

Our analysis suggests the 2020 presidential race is still up in the air.

STOCK PERFORMANCE AHEAD OF THE ELECTION COULD SIGNAL THE OUTCOME

S&P 500 Index Performance During Election Years (1950–2019)

● Incumbent Party Wins ● Incumbent Party Loses



Source: LPL Research, FactSet 06/30/20

For more investment insights, read the full LPL Research [Midyear Outlook 2020: The Trail to Recovery](#).

IMPORTANT DISCLOSURES

Please read the full LPL Research [Midyear Outlook 2020: The Trail to Recovery](#) publication for additional description and disclosure.

The opinions, statements and forecasts presented herein are general information only and are not intended to provide specific investment advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing.

Any forward-looking statements including the economic forecasts may not develop as predicted and are subject to change based on future market and other conditions. All performance referenced is historical and is no guarantee of future results.

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Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. Diversification does not protect against market risk. Investing in foreign and emerging markets debt or securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

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 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.

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.

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

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. Mortgage backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

Fixed Income Definitions

Credit quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default. Credit ratings are published rankings based on detailed financial analyses by a credit bureau specifically as it relates the bond issue's ability to meet debt obligations. The highest rating is AAA, and the lowest is D. Securities with credit ratings of BBB and above are considered investment grade.

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