



Weekly Market Commentary



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Will Shoppers Bring Holiday Cheer for Markets?

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Highlights

We expect holiday shoppers, bolstered by lower energy prices, to help support potential stock market gains.

Although the severity of the oil price decline has been unsettling, we view the decline as positive for U.S. consumers overall.

Retail stocks should deliver some cheer for markets this holiday season, but don't stuff those stockings with too much of them.

Even after last week's 3.6% loss, led down by the energy sector as oil's slide continued, the S&P 500 has returned 10.5% year to date.

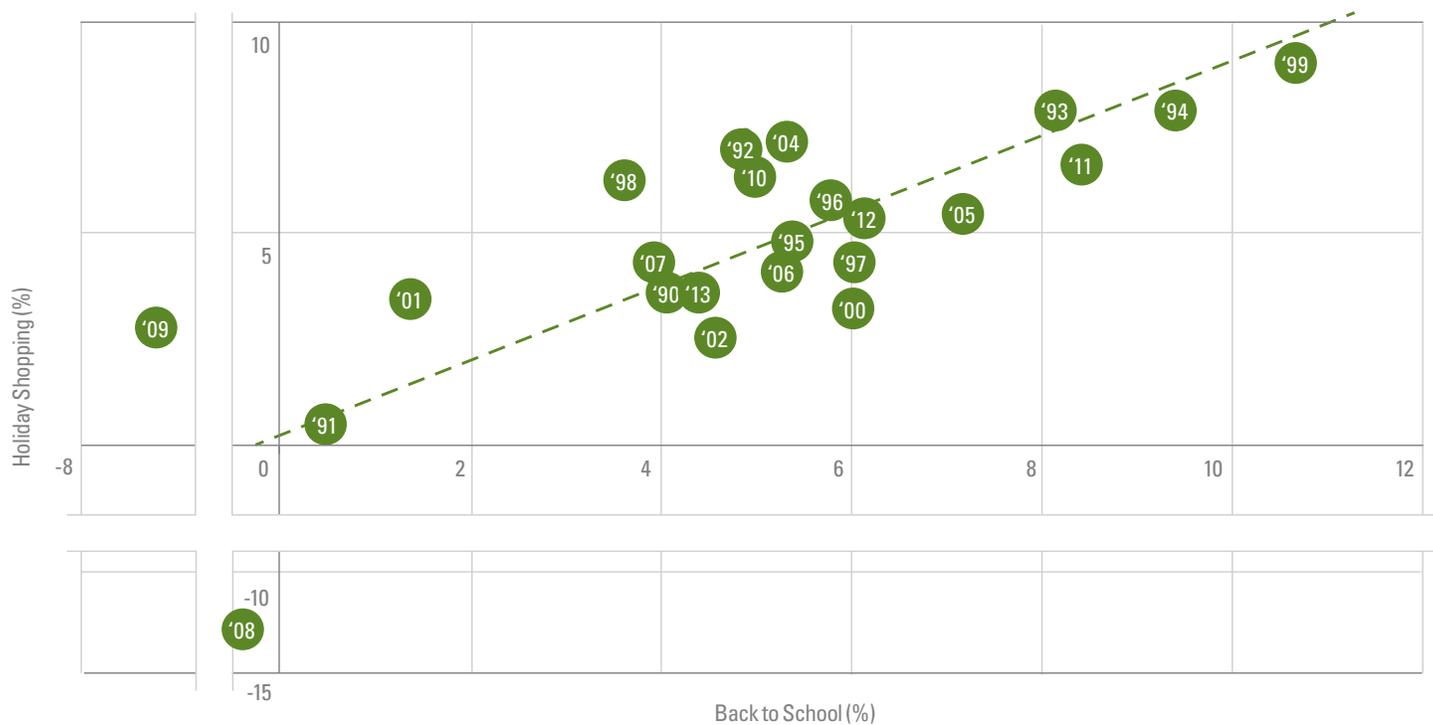
We think the holiday shopping season may bring some holiday cheer for the markets this year. The U.S. consumer is in good shape, the season got off to a strong start, and the stock market has performed well. Even after last week's 3.6% loss, led down by the energy sector as oil's slide continued, the S&P 500 has returned 10.5% year to date. We expect holiday shoppers, bolstered by lower energy prices, to help support potential stock market gains.

- **The U.S. consumer is in good shape.** As we noted in our *Outlook 2015: In Transit* publication, the consumer is a key factor supporting our 3%-plus U.S. gross domestic product (GDP) forecast for 2015.* Job growth has picked up in recent months, with an average of nearly 300,000 jobs added per month over the three months ending in November 2014. Consumer confidence has been improving and is near post-Great Recession highs. Consumers feel wealthier after enjoying substantial stock market and home price gains in recent years. Debt reduction has brought consumers' financial obligations to multi-decade lows, relative to their incomes. And finally, the drop in oil prices puts more money in consumers' pockets.
- **Holiday shopping is off to a good start.** It is easier to be confident in a good holiday shopping season when considering the positive results that were already reported for the first half of it. November retail sales were stronger than expected, with core sales (excluding autos and gas) increasing 0.6% month over month and 5.2% compared with November 2013. Worries after poor Thanksgiving weekend sales (including Black Friday) were misplaced as holiday shopping started earlier, with retailers moving up their promotions and more sales shifting online.
- **Back-to-school shopping a good sign.** Back-to-school shopping season has been a good leading indicator for holiday shopping season in recent decades. As shown in [Figure 1](#), when sales during this important part of the retail calendar are good, sales for the holidays are almost invariably good as well. Sales during this year's back-to-school shopping season (August and September 2014) rose 4.7% compared with the year ago period, suggesting similar holiday sales gains.

*LPL Financial Research expects GDP to expand at a rate of 3% or higher, which matches the average growth rate of the past 50 years. This is based on contributions from consumer spending, business capital spending, and housing, which are poised to advance at historically average or better growth rates in 2015. Net exports and the government sector should trail behind.



1 Back-to-School Sales Growth Is a Good Indicator of Holiday Shopping Season



Source: LPL Financial Research, Haver Analytics, FactSet, 12/12/14

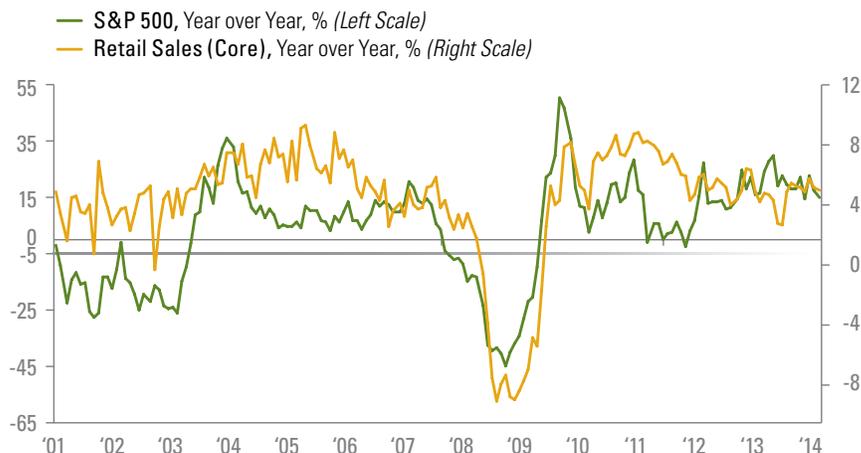
- Stock market performance should help.** The stock market has historically been a pretty good indicator of the health of holiday shopping season. Since 1990, when the S&P 500 is up year to date through December 15, the average holiday sales gain is 5.2%. The S&P 500 is up over 8% year to date through December 15, 2014 (total return is 10.5%). **Figure 2** shows the strong correlation between annual gains in retail sales compared with annual gains in stock prices.

Holiday shopping can also be a leading indicator for near-term stock returns. Since 1990, when holiday sales increased by 4.1% or better (this year's National Retail Foundation [NRF] forecast), stocks gained an average of 4.4% over the following three months, and rose 87% of the time, compared with an average 1.9% gain over all periods. Sales have hit the NRF forecasts about 70% of the time over the past 20 years, but we believe the odds are higher this year after strong November sales and the drop in oil prices.

- Drop in oil prices comes at a good time.** Although the swiftness and severity of the oil price decline has been a bit unsettling and led to an increase in stock market volatility last week (December 8–12, 2014), we view the decline as positive for U.S. consumers overall. Every 10 cent drop in gasoline prices at the pump saves consumers an estimated \$1.4 billion. Some of those savings will surely be spent on holiday gifts.



2 Stock Market Has Been Strongly Correlated with Retail Sales Gains



Source: LPL Financial Research, Haver Analytics, FactSet, 12/12/14

The S&P 500 Index is unmanaged and cannot be invested into directly. Past performance is not indicative of future results.

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

Should You Put Retailers In Your Stockings?

So, should you put some retail stocks in your stockings this holiday season? Although we don't think retailers give investors a lump of coal—due to the good health of the consumer, strong recent sales trends, cheap oil, and positive technical signals—the potential for some margin pressure due to discounting and higher wages, along with above-average valuations, does suggest some caution is warranted. Furthermore, with the U.S. economy transitioning to the second half of the current business cycle, we would expect more business spending-oriented sectors, such as the industrials and technology sectors, to perform better.

Conclusion

Retail stocks should deliver some cheer for markets this holiday season, but don't stuff those stockings with too much of them. Still, we think the holiday shopping season should be strong enough to help support potential gains for the broad stock market. ■



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 reference is historical and is no guarantee of future results.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Stock investing involves risk including loss of principal.

INDEX DESCRIPTIONS

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.

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