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Dear Valued Investor:

Do you have an in-law that is tough to please? Someone for whom no matter how good your gift, meal, accommodations, spouse, or job, it just isn't ever good enough? Well, that in-law has nothing on the S&P 500.

The S&P 500 experienced an 8% pullback this year in the middle of the strongest earnings reporting season in years and in the midst of some of the most robust economic reports in a very long time. Unimpressed, the stock market has turned up its nose at the data and is back to where it started this year.

In the midst of the stock market decline at the end of January, the fourth quarter Gross Domestic Product (GDP) report was released. This key measure of the growth in the U.S. economy came in at 5.7%, well ahead of economists' expectations and above the average pace of growth. Many underlying components of GDP showed an increase. Among the drivers of the strong performance of the U.S. economy was a powerful rise in business spending and exports, benefitting the companies in the S&P 500. The Index of Leading Indicators* continues to rise suggesting continued growth in the quarters ahead.

The fourth quarter earnings reports for S&P 500 companies coincided with the stock market pullback. The average company is beating the consensus analyst estimate by a whopping 12%. S&P 500 company earnings per share are up an incredible 208%, excluding Financials they are up a still impressive 16%. The gains are not merely due to cost cutting—sales growth rose as well, outpacing GDP growth. Expectations have been rising for coming quarters. In fact, the CEO of a bellwether technology company said, "This is one of the most robust positive turnarounds I've seen in my career."

Like a perfectionist that is never satisfied, when presented with some of the best fundamental data in years the S&P 500 chooses to find faults and be picky. Not that there aren't a number of things to be critical of, including, the situation in Greece, lack of job growth, high budget deficits, and slowing loan growth in China. These are all reminders that risks to the economy and earnings still exist. We expect volatility, much like what we have already experienced this year, to continue as the economy and markets transition from stimulus-driven recovery to an environment of self-sustaining growth.

All the best,

Jeffrey Kleintop, CFA
Chief Market Strategist
LPL Financial

*The index of leading economic indicators (LEI) is intended to predict future economic activity. Typically, three consecutive monthly LEI changes in the same direction suggest a turning point in the economy. For example, consecutive negative readings would indicate a possible recession.

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