

APRIL 2017

ECONOMIC OUTLOOK

- ◆ The Federal Reserve raised the target range for its federal funds by 25 basis points to 0.75% - 1% at its March meeting, reflecting increased confidence in the strength of the economy. The decision was in line with market expectations as the labor market strengthened and economic activity continued to expand at a moderate pace. This was the third rate increase since the 2008 recession, when the Fed Funds target rate was reduced to 0% - 0.25%. We expect to see two more interest rate hikes this year as the Fed aims for a gradual normalization of monetary policy.
- ◆ A measure of consumer confidence in March grew to its highest level in 16 years, according to the Conference Board, and U.S. home prices rose in January at their fastest pace in 31 months, spurred in part by a pickup in job growth; the unemployment rate declined to 4.7% last month. The Commerce Department revised fourth quarter GDP up to 2.1% from its previous estimate of 1.9% and reported that consumer inflation in February rose 2.1% from the previous year. This is the first time this has exceeded the Fed's 2% target in over five years. Moderate oil prices might hold down the inflation index, but wages are climbing at the fastest pace since the recession ended and prices for commodities other than oil, including steel, have increased.
- ◆ The much hyped repeal of the Affordable Care Act, "Obamacare," failed when President Donald Trump and GOP leaders pulled their bill to repeal the law off the House floor just before the House was due to vote on it. Healthcare and related spending are deeply entwined with the wider economy. Last year, U.S. health-care spending accounted for roughly 18% of GDP. It had become clear the repeal would fail as Republican lawmakers could not come to agreement over a replacement for the existing health law. This was a blow to President Trump, who campaigned on a promise to repeal the law. Attention quickly moved toward overhauling the tax code.
- ◆ Football in the desert? The National Football League's owners voted to allow the Oakland Raiders to relocate to Las Vegas. The league has long been opposed to gambling, but Las Vegas has evolved as an entertainment site as well as a gambling destination. The city is viewed as a growing market and a unique tourist destination, and currently has no major professional sports franchise. Las Vegas will gain added visibility from millions of television viewers and stands to benefit from weekend visits by Raiders' fans. And Amazon agreed to pay about \$50 million for rights to stream 10 Thursday night football games, about five times more than Twitter's arrangement last year.

INVESTMENT REVIEW

- ◆ Stocks took a breather in March; the Dow Industrial Average and the S&P 500 closed the month almost flat with declines of .7% and .3%, respectively. The Nasdaq composite rose 1.5% and closed a hairsbreadth from its all-time high of 5914 as investor interest turned to technology shares. For the first quarter, the 5.5% gain by the S&P 500 was its biggest quarterly gain since 2015 and sixth straight quarterly advance.
- ◆ Oil prices show no sign of rising anytime soon. Price has declined by 5% this year. According to a Reuters poll, analysts are unsure that OPEC's supply cut will be enough to offset the increase in U.S. production and do not believe prices will reach \$60 a barrel until early next year. U.S. shale production is expected to rise by 109,000 barrels per day (bpd) to 4.96 million bpd in April, its biggest monthly increase since October.
- ◆ Margin debt reached a record high in February, climbing to \$528.2 billion, reflecting investor bullishness. The rise has been steady, and when measured against the rising value of the market, investors now are not setting records in borrowing against their accounts. Margin debt totaled 2.5% of market capitalization on the New York Stock Exchange in February, roughly level with where it was in 2013.

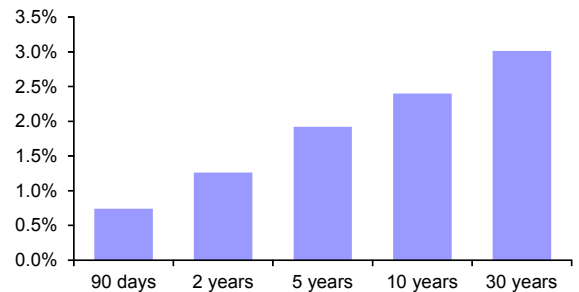
KEY INVESTMENT STATISTICS

	3/31/2017	High	Low	Change
Dow Jones Industrial Average	20663	21115	17140	4.6%
Nasdaq Composite	5912	5914	4594	9.8%
S & P 500 Stock Index	2363	2396	2000	5.5%

2017 Operating EPS Estimate	\$131
P/E on 2017 EPS	18X
2018 Operating EPS Estimate	\$146
P/E on 2018 EPS	16X
Dividend Yield	1.9%

Yields on US Treasury Obligations	
90 days	0.74%
2 years	1.26%
5 years	1.92%
10 years	2.40%
30 years	3.01%

US Treasury Yields



CPI: Trailing 12 Months	2.7%		
Crude Oil: Price Per Barrel [WTI]	\$51	\$54	\$36
Gold: Price Per Ounce	\$1,247	\$1,365	\$1,127
Natural Gas: Price per MM BTU [spot]	\$3.19	\$3.93	\$1.90

Sources: Federal Reserve, Bloomberg LLC, FACTSET, National Association of Realtors, U.S. Department of Labor, Conference Board, Energy Information Administration

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