

AUGUST 2017

ECONOMIC OUTLOOK

- ◆ The U.S. economy picked up speed in the second quarter after a slow start to the year. The preliminary estimate for Q2 GDP growth came in at 2.6%, more than double the first quarter's 1.2% increase. Healthy consumer spending, especially on clothing and furniture, was the most important driver of GDP improvement. Solid business investment was another positive factor. The only weak spot was the slower pace of housing construction compared to a year ago.
- ◆ The Conference Board Leading Economic Index for the U.S. increased by 0.6% in June to 127.8. (2010 = 100), following increases of 0.2% in both April and May. This suggests continued growth in the U.S. economy and a possible improvement in GDP growth for the second half of the year.
- ◆ With a historically low unemployment rate of 4.4%, the U.S. labor market is firing on all cylinders. The current number of job openings nationwide is near record-high levels, and the ratio of unemployed workers to job openings stands at 1.2x, the lowest level since 2000. Wage inflation is currently running at 2.5% year-over-year, outpacing the 1.6% inflation rate of the national economy. Workers are enjoying real wage gains.
- ◆ The U.S. Consumer Confidence Index reached 121.1 in July. Consumers are optimistic about the strong labor market and continued housing price increases. The index hit a 16-year high in March of this year. This month's reading is the second highest since 2000.
- ◆ The Fed Funds rate remains in a range of 1.00-1.25% after the Federal Reserve decided to leave it unchanged at their July meeting. The Fed has raised rates twice this year, once in March and again in June. We expect the Fed to raise rates at least one more time in the second half of 2017 as the labor market continues its positive trend.
- ◆ The Federal Reserve is preparing to begin the process of reducing its balance sheet. The Fed currently holds \$4.5 trillion of Treasury and mortgage bonds acquired during its quantitative easing program. Until now, the interest from these bonds has been used to purchase additional bonds. In a number of recent speeches, Fed Governors have suggested that the Fed will halt these incremental purchases at some point in the second half of 2017. The impact of this change is unclear, but it may put upward pressure on interest rates.

This commentary reflects the opinions of Welch & Forbes based on information that we believe to be reliable. It is intended for informational purposes only, and not to suggest any specific performance or results, nor should it be considered investment, financial, tax or other professional advice. It is not an offer or solicitation.

INVESTMENT REVIEW

- ◆ The major U.S. equity indices posted strong gains in July. The Dow Jones Industrial Average rose 2.5%, the S&P 500 added 2.1% and the Nasdaq Composite increased 3.4% for the month. All three indices either reached or flirted with record highs as the strong economy and expectations of earnings growth bolstered investor confidence.
- ◆ Amazon announced in June that it is buying Whole Foods Market in a \$13.7 billion dollar acquisition. Amazon has struggled to gain a foothold in the \$800 billion grocery market over the last few years. The deal points to a change in strategy for the online retailer, which will now have “brick and mortar” store locations across the country.
- ◆ The Initial Public Offering (IPO) market showed a great deal of strength in the first half of 2017. During that time, there were 77 IPOs raising \$20.5 billion. The health care sector saw the largest number of IPOs in the first half of the year, with many of the new issues being biotech companies. This level of investor interest has not been seen since 2015. In only six months, the IPO market has raised more money than in all of 2016.

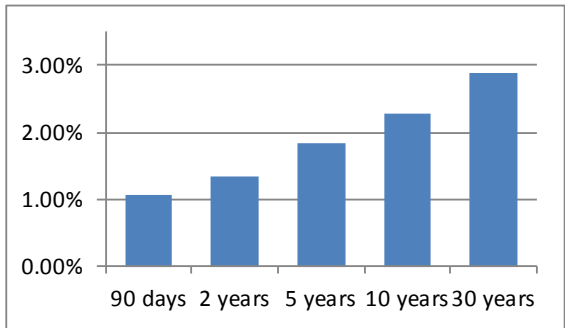
KEY INVESTMENT STATISTICS

	07/31/17	12 Month High	12 Month Low	YTD Price Change
Dow Jones Industrial Average	21,891	21,891	17,888	10.8%
Nasdaq Composite	6,348	6,423	5,046	17.9%
S & P 500 Stock Index	2,470	2,478	2,085	10.3%

2017 Operating EPS Estimate	\$130
P/E on 2017 EPS	19X
2018 Operating EPS Estimate	\$145
P/E on 2018 EPS	17X
Dividend Yield	2.0%

Yields on U.S. Treasury Obligations	
90 days	1.07%
2 years	1.35%
5 years	1.82%
10 years	2.28%
30 years	2.89%

U.S. Treasury Yields



CPI: Trailing 12 Months	1.6%		
Crude Oil: Price Per Barrel (WTI)	\$50	\$54	\$40
Gold: Price Per Ounce (spot)	\$1,269	\$1,364	\$1,128
Natural Gas: Price per MM Btu (spot)	\$2.79	\$3.93	\$2.55

Source: Bloomberg LLC, FactSet, U.S. Commerce Department, Bloomberg Businessweek, IHS iSuppli

This commentary reflects the opinions of Welch & Forbes based on information that we believe to be reliable. It is intended for informational purposes only, and not to suggest any specific performance or results, nor should it be considered investment, financial, tax or other professional advice. It is not an offer or solicitation.