

FEBRUARY 2017

ECONOMIC OUTLOOK

- ◆ U.S. Gross Domestic Product (GDP) grew at an annual rate of 1.9% in the fourth quarter (Q4) of 2016. The reading trailed estimates for 2.2% growth and followed a 3.5% increase in GDP in the third quarter. For all of 2016, GDP growth was 1.6% as the second half strength made up for a weak first half of the year. Important contributors to Q4 GDP growth were a 2.5% increase in personal consumption, driven by durable goods, and business inventories. The foreign trade deficit expanded in Q4 and net exports were the largest detractor from growth in the period.
- ◆ The U.S. economy has been stuck in slow growth mode since the Great Recession of 2008 - 2009. Many economists believe that more modest GDP growth is a structural issue resulting from factors such as slower population growth, a decline in the workforce due to baby boomer retirements and muted workforce productivity gains. Newly inaugurated President Donald Trump, however, has pledged to accelerate growth for the U.S. economy to 4% through a combination of fiscal stimulus, lower tax rates and less regulation. If President Trump's initiatives are successful, however, the impact on growth would not likely be felt until the second half of 2017 and into 2018. We forecast U.S. GDP growth in 2017 of 2.5-3.0%.
- ◆ The Federal Open Market Committee (FOMC) left its target for short term interest rates unchanged after its January 31-February 1 meeting. The range remains 0.5% - 0.75%. The FOMC also did not make any substantive changes to their current assessment or outlook. They continue to expect to increase their rate target by 0.25% three times in 2017 in a gradual fashion. Investor expectations for the number and timing of potential increases in rates, though, can be viewed in the federal funds interest futures market. Currently, the market is expecting only two 0.25% increases in rates in 2017 with probabilities pointing to those occurring at the Fed's June and September meetings. The FOMC next meets on March 14-15 and market expectations for the probability of a rate increase at that meeting are less than 10%.
- ◆ The January unemployment report showed the U.S. economy added 227,000 jobs during the month. The number was better than expected and brought the three month average up to 183,000 which is in-line with the pace of job creation in 2016. The unemployment rate rose from 4.7% to 4.8%, but it was for the good reason that more people were trying to enter the workforce. Hourly earnings grew 2.5% year over year which continues the trend of higher wages from earlier in 2016 although the January numbers represented a downtick from December's 2.9% growth. Other metrics such as a relatively short work week and an elevated number of part time workers indicate slack remains in the employment environment. While any one month's unemployment report does not make a trend, the report was viewed as helpful in not forcing the Fed's hand to raise rates sooner than expected.

INVESTMENT REVIEW

- ◆ Each of the three major indices posted positive returns in the first month of 2017. The NASDAQ Composite led the way gaining 5.3%. The S&P 500 advanced 2.0% and the Dow Jones Industrial Average rose 0.7% during the period.
- ◆ Corporate earnings for the fourth quarter (Q4) of 2016 are coming in better than expected. Combining the 60% of the companies in the S&P 500 having reported with estimates for the remainder, earnings are tracking towards a 4.6% gain in Q4. This growth rate is ahead of previous expectations for a 3.1% increase prior to the beginning of the reporting season. Looking ahead, earnings momentum is expected to accelerate in 2017, potentially to double digit rates if current consensus estimates prove accurate.
- ◆ The New England Patriots won their 5th Super Bowl championship in a record-breaking come from behind victory over the Atlanta Falcons. The 5th win established a record for Tom Brady and Bill Belichick as the most won by any quarterback/coach combination in NFL history.

KEY INVESTMENT STATISTICS

	1/31/17	12 Month High	12 Month Low	2017 Total Return
Dow Jones Industrial Average	19,864	20,126	15,503	0.7%
Nasdaq Composite	5,615	5,670	4,210	5.3%
S & P 500 Stock Index	2,279	2,301	1,810	2.0%

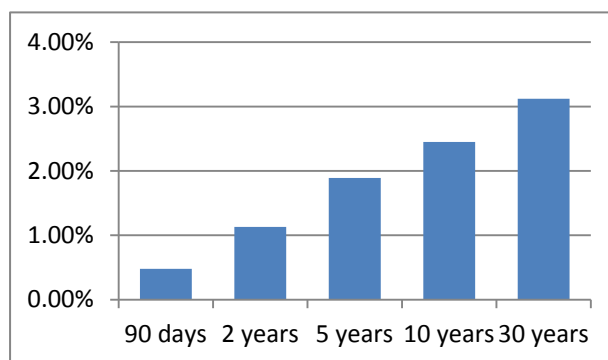
2016 Operating EPS Estimate	\$118
P/E on 2016 EPS	19X
2017 Operating EPS Estimate	\$133
P/E on 2017 EPS	17X
Dividend Yield	1.93%

Yields on U.S. Treasury Obligations

90 days	0.51%
2 years	1.20%
5 years	1.92%
10 years	2.47%
30 years	3.09%

CPI: Trailing 12 Months	2.1%		
Crude Oil: Price Per Barrel (WTI)	\$53	\$54	\$26
Gold: Price Per Ounce (spot)	\$1,209	\$1,365	\$1,127
Natural Gas: Price per MM Btu (spot)	\$3.12	\$3.93	\$1.64

U.S. Treasury Yields



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

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