Economic Outlook

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EST. 1838

FEBRUARY 2018

ECONOMIC OUTLOOK

- U.S. GDP growth in Q4 fell shy of expectations, coming in at +2.6% (vs. expectations of +3%). Inventories and trade were larger drags than anticipated. The pace of global economic growth remains robust, however, and global forecasts have been moving higher. The Atlanta Fed's initial forecast for Q1 2018 GDP growth is now at 5.4%. Expectations for Euro area growth are also being raised (growth has jumped by 1% over the last year). The region grew 0.6% in the fourth quarter of 2017 and 2.5% for the year.

- The current economic expansion has been remarkable for its longevity (we are entering the ninth year of the recovery). The Index of Leading Economic Indicators rose 0.6% in December, more than the 0.5% gain expected. January Consumer Confidence, continuing the positive momentum from last month, hit a record high 59.5%. Data on housing released in January was solid: home prices increased 6.2% in November, household formation surged in the fourth quarter, and the home ownership rate also rebounded in the final three months of the year.

- The Fed left its benchmark rate between 1.25% and 1.50%, as expected, at its January policy meeting. Credit conditions have remained relatively easy, with high yield spreads moving lower as sovereign yields have increased, helping keep the absolute level of borrowing costs low. But investors expect that inflation will rebound later this year. The Fed has projected three quarter-point increases to its benchmark policy rate this year, but some investors believe the pace could speed up if inflation, long missing from the economic recovery, starts to rise. Private sector wages are starting to firm, and oil prices have moved higher.

- The U.S. Dollar has been declining since November of last year and the dollar index reached a cycle low of 89.1 in January. Extreme dollar weakness year to date is puzzling, given strong U.S. economic growth, tax cuts, better news on inflation, a repricing of Fed expectations from two to three hikes this year and a widening of yield differentials in favor of the currency.

- The roaring start of the S&P in 2018 has been accompanied by record equity inflows. Global equity funds broke a record for inflows in January (the previous record was December 2014) with the pace of inflows five times higher than at this point last year.

- The U.S. Energy Information Administration (EIA) issued a prognostication that U.S. oil production would overtake that of Saudi Arabia and Russia in 2019. New crude supply has been released by the shale oil boom and output from the U.S. now stands at just under 10.04 million barrels a day. Inventories rose in the last week of January, following 10 weeks of declines.

- In his first State of the Union address, President Trump focused on jobs and the economy, infrastructure, immigration, trade and national security.

Sources: Bloomberg LLC, US Commerce Dept., Bureau of Labor Statistics, EIA, Dow Jones Inc. MarketWatch, Standard & Poors, Federal Reserve Bank, Financial Times, FactSet

INVESTMENT REVIEW

- Stronger corporate earnings, a pick-up in economic growth, and optimism over U.S. tax cuts helped push the stock market to a record close in January. The Dow produced its best January return since 1989 (gaining +5.8%), while the S&P 500 Index registered its best January since 1997 (+5.6%). The Nasdaq Composite logged its best gain in January since 2012 (+7.4%).

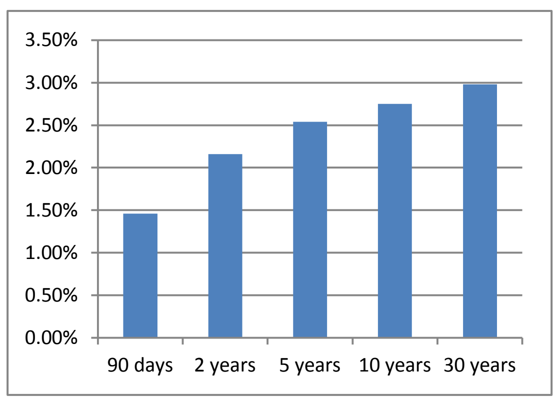
- The yield on 10-year Treasuries jumped to 2.72% in January, the highest level in almost four years. The head of the European Central Bank, Mario Draghi, signaled quantitative easing – which involves buying bonds to drive down long-term interest rates – would probably end in 2018.

- During the last week of January, stocks suffered back-to-back declines of more than 0.5%. Up until that point, the S&P 500 had enjoyed a record-long streak (320 trading days) without consecutive drops of 0.5%. The VIX (CBOE Volatility Index), Wall Street's fear gauge, soared about 35% during the week to the highest level since August.

KEY INVESTMENT STATISTICS

	1/31/18	12 Month High	12 Month Low	YTD Price Return
Dow Jones Industrial Average	26,149	26,439	19,885	5.8%
Nasdaq Composite	7,411	7,506	5,615	7.4%
S & P 500 Stock Index	2,824	2,873	2,280	5.6%
2018 Operating EPS Estimate	$151			
P/E on 2018 EPS	18.7x			
2019 Operating EPS Estimate	$170			
P/E on 2109 EPS	16.6x			
Dividend Yield	1.7%			
Yields on U.S. Treasury Obligations				
90 days	1.46%			
2 years	2.16%			
5 years	2.54%			
10 years	2.75%			
30 years	2.98%			
CPI: Trailing 12 Months (DoL)	2.1%			
Crude Oil: Price Per Barrel (WTI)	$65	$66	$42	
Gold: Price Per Ounce (spot)	$1,345	$1,355	$1,199	
Natural Gas: Price per MM Btu (spot)	$3.21	$6.24	$2.44	

U.S. Treasury Yields



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