

ECONOMIC OUTLOOK

- ◆ The U.S. economy has maintained steady growth and the outlook remains positive. Third quarter gross domestic product (GDP) growth was 3.2%, its fastest pace in more than two years and the first time since 2014 that the economy experienced growth of 3% or more for two consecutive quarters. Estimates for 2018 call for GDP growth of about 2.5%. Estimates were increased slightly in light of tax cuts that are expected to provide a lift to consumer spending and a modest boost to capital spending.
- ◆ The Federal Reserve voted in December to raise its target interest rate for the third time in 2017, to 1.25%-1.50%. The Fed has raised interest rate targets five times since 2015, at increments of 0.25%. The rate one year ago was 0.50%-0.75%. The rate hikes reflect growing confidence in the strength of the economy and labor conditions. Fed officials have signaled further rate increases this year and next. The frequency and size of rate hikes will hinge on continued economic growth and the rate of inflation, which has remained below the Fed's 2% target. A pickup in growth and inflation spurred by new tax cuts could prompt the Fed to raise rates faster than currently expected. The Federal Reserve will be under new direction this year. Fed chairwoman Janet L. Yellen will step down in February and Jerome H. Powell, a Fed governor since 2012 who has a reputation for consensus building, is awaiting Senate confirmation for the role.
- ◆ Manufacturing, construction and retail sales reports present a robust picture of the U.S. economy. The Institute for Supply Management's (ISM) manufacturing index rose 1.5% from a month earlier to a reading of 59.7, the second highest level since early 2011. The factory sector's run of strong growth shows no sign of letting up. The Commerce Department said construction spending rose 0.8% to an all-time high of \$1.257 trillion in November; construction spending has advanced 2.4% on a year-on-year basis. Retailing analysts are projecting the strongest holiday season sales growth since 2010, potentially surpassing 5% year-over-year growth.
- ◆ The Fed has kept a watchful eye on inflation, which has grown at a rate below its targeted 2%, despite economic strength and rising employment. The unemployment rate is 4.1%, close to a 17 year low, while wages are rising slowly. The Fed aims to continue to gradually raise interest rates to keep both inflation and unemployment from drifting too low, while holding the overall economy on a steady path and avoiding "boom-bust" cycles. Slow price and wage growth offset a need to raise interest rates.
- ◆ President Donald Trump signed into law a massive \$1.5 trillion tax cut that slashes the corporate rate from 35% to 21%, its lowest point since 1939, and temporarily reduces the tax burden for most individuals. This is the most far-reaching overhaul of the U.S. tax system in decades. Many economists believe the tax bill will increase the pace of economic growth for the next two years, with most seeing a modest boost to the near term annual growth rate for GDP. Forecasters remain divided over likely long-term effects, and long-term estimates for GDP growth remain in line with Federal Reserve estimates of 1.75%.

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

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INVESTMENT REVIEW

- ◆ Stock indices continued their rise in December, at a more modest pace than in November. The Dow rose 1.8%, the Nasdaq Composite edged up 0.4% and the S & P 500 rose 1%. For the year, the three indices outpaced expectations and posted their best gains since 2013. The Dow Jones traded through milestone after milestone, closing out the year with a near 5,000 point gain. The bull market, nearly nine years old, is now the second longest and second strongest in history.
- ◆ Global stock benchmarks rose to multiyear highs. For the year, Hong Kong's Hang Seng rose 36%, India's Sensex rose 28%, and South Korea's Kospi rose 22%, the best point gains for those indices since 2009. Japan's Nikkei rose 19% in 2017, the most since 2013, and London's export-heavy FTSE 100 climbed 7.6%, ending the year at a record.
- ◆ Cryptocurrency! Bitcoin, the first decentralized digital currency, became one of the market's greatest speculative crazes. Bitcoin value rose from \$970 early in the year to nearly \$20,000 in December. Increasing volatility brought a year end close of \$14,292. Rival Ethereum rose about 5,000%, from \$8 to nearly \$400. Blockchain, the technology that maintains the Bitcoin transaction ledger, is in early stages; trustworthiness, reliability and usage remain to be seen.

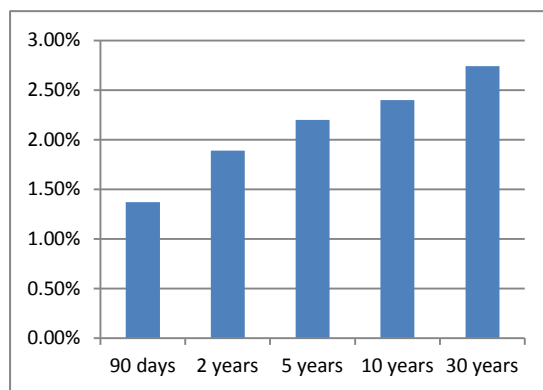
KEY INVESTMENT STATISTICS

	12/29/17	12 Month High	12 Month Low	YTD Price Return
Dow Jones Industrial Average	24,719	24,837	19,732	25.1%
Nasdaq Composite	6,903	6,995	5,383	28.2%
S & P 500 Stock Index	2,674	2,690	2,239	19.4%

2017 Operating EPS Estimate	\$131
P/E on 2017 EPS	20.4x
2018 Operating EPS Estimate	\$146
P/E on 2018 EPS	18.3x
Dividend Yield	1.85%

Yields on U.S. Treasury Obligations	
90 days	1.37%
2 years	1.89%
5 years	2.20%
10 years	2.40%
30 years	2.74%

U.S. Treasury Yields



CPI: Trailing 12 Months (DoL)	2.2%		
Crude Oil: Price Per Barrel (WTI)	\$60	\$60	\$43
Gold: Price Per Ounce (spot)	\$1,306	\$1,346	\$1,151
Natural Gas: Price per MM Btu (spot)	\$2.95	\$3.71	\$2.57

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