Economic Outlook

WELCH & FORBES LLC
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ECONOMIC OUTLOOK

- Hope for enactment of the Republican led health care reform bill was dampened as the Senate vote was postponed to July 10th. Since the election, stock markets in the U.S. have rallied as investors have responded to President Trump's campaign promises of economic stimulus, tax reform and regulatory relief. Investors will increasingly look toward the 2018 mid-term elections as it takes longer for President Trump's legislative agenda to pass in Congress. Tax reform is especially important as it has a direct and beneficial effect on corporate earnings.

- The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3% in May to 127.0 (2010 = 100), following 0.2% increase in April and a 0.4% increase in March. The LEI is a reliable indication of economic activity for the next six months.

- The U.S. economy expanded faster in the second quarter than previously reported. Real GDP grew at a 1.4% annualized rate, up from the preliminary estimate of .7%, as personal consumption expenditures growth was stronger than the initial estimate. This follows real GDP growth of 2.1% in the fourth quarter of 2016. The economic expansion that began in July, 2009 is already the third longest growth period in the country's history. However, during this expansion GDP growth has only averaged 2.1% a year, weaker than any expansion since 1949. The labor market continues to be tight with unemployment rate at 4.3%. The leading indicator of jobless claims continues to be near historic lows and job openings at an all-time record high.

- Bank stocks rallied in June as the Federal Reserve announced that all thirty-four U.S. banks passed the annual "stress test". The announcement allows banks to return higher levels of capital in the form of higher dividends and share buybacks. This is the first time that all the banks have passed the Federal Reserve tests since it was instituted in 2011 following the financial crisis.

- The U.S. economic picture remains mixed. On the positive side, bank loans have increased, which could imply an improvement in business confidence. Additionally, a survey conducted by Evercore ISI showed that 30% of companies plan to increase spending in 2017, up from just 9% in November, 2016. A case can be made that employment is strong enough for the Fed to raise rates. Our view is that the Fed will continue to raise rates slowly in 2017.

INVESTMENT REVIEW

- U.S. stock indices rallied in June, based on upbeat economic news and corporate profit growth. The Dow Jones Industrial Average gained 1.6%, the S&P 500 was up 0.5%, and the Nasdaq Composite dropped 2.4%. International equity markets were slightly higher. The MSCI Europe Australia Far East Index (EAFE) dropped 0.4% and the MSCI Emerging Markets Index was up 0.5%.

- Volatility in the U.S. stock market is near an all-time low even as corporate profits have recovered from a year ago. Some investors are worried that the pace of hikes in the Federal Funds rate could further slow an already sub-par economic recovery. Risks to the markets include a policy error by the Federal Reserve, a global trade war, an economic slowdown in China and a military engagement.

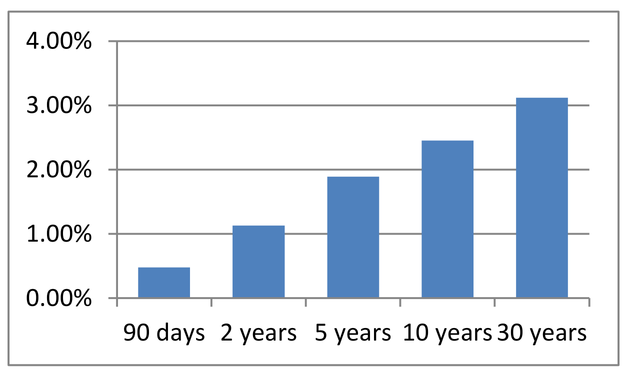
- The Federal Reserve raised the Federal Funds rate by 25 basis points (100 basis points= 1 percent) in June. This widely expected move was the second hike this year and the third since December. The key will be whether economic data and corporate profits in the months ahead justify higher borrowing costs.

KEY INVESTMENT STATISTICS

	6/30/17	12 Month High	12 Month Low	YTD Price Change
Dow Jones Industrial Average	**21,350**	21,529	17,888	8.0%
Nasdaq Composite	6,140	6,322	4,823	14.1%
S & P 500 Stock Index	2,423	2,453	2,085	8.2%

2017 Operating EPS Estimate	$131		
P/E on 2017 EPS	21X		
2018 Operating EPS Estimate	$146		
P/E on 2018 EPS	17X		
Dividend Yield	1.9%		
Yields on U.S. Treasury Obligations			
90 days	1.01%		
2 years	1.42%		
5 years	1.94%		
10 years	2.35%		
30 years	2.86%		
CPI: Trailing 12 Months	1.9%		
Crude Oil: Price Per Barrel (WTI)	$46	$54	$39
Gold: Price Per Ounce (spot)	$1,241	$1,365	$1,128
Natural Gas: Price per MM Btu (spot)	$3.03	$3.93	$2.55

U.S. Treasury Yields



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