

ECONOMIC OUTLOOK

- ◆ Jerome Powell was sworn in as the 16th chairman of the Federal Reserve on Monday, February 5. He was greeted with a 1,100 point drop in the Dow Jones Industrial average on his first day; the market's reaction to news of greater than expected wage inflation data. It isn't clear yet how Chairman Powell will run the Federal Reserve; however, the consensus is he would continue with former Chairperson Yellen's policy of small interest rate hikes at a measured, data dependent, pace.
- ◆ Market expectations at the beginning of the year for up to three one-quarter percentage interest rate hikes in 2018 increased in the direction of a fourth rate hike when, during Chairman Powell's first Semi-annual Monetary Report to the Congress (known as Humphrey Hawkins testimony), sounded a bit more hawkish than expected. Chairman Powell stated: "We've seen continuing strength in the labor market. We've seen some data that will, in my case, add some confidence to my view that inflation is moving up to target. We've also seen continued strength around the globe, and we've seen fiscal policy become more stimulative." The Fed is expected to raise interest rates again in March.
- ◆ The second read on fourth quarter gross domestic product (GDP) came in a bit weaker than the initial read but relatively strong nonetheless. Fourth quarter real GDP was revised down 0.1 percentage point to 2.5% (annualized). Excluding international trade and inventories GDP rose 4.6%, the best reading since the third quarter of 2014.
- ◆ Housing data has softened in the past two months although some of the weakness may be due to weather. The National Association of Realtors (NAR) said its Pending Home Sales Index (PHSI), a forward looking indicator of existing home sales, fell 4.7% in January to its lowest level since October 2014 and 3.7% below the level in January 2017. December was also revised-down. The index, which is based on contracts to purchase an existing home, had been expected to rise in January. NAR chief economist Lawrence Yun commented on the unexpected fall, "...last month's retreat in contract signings occurred because of woefully low supply levels and the sudden increase in mortgage rates."
- ◆ Personal income rose a larger-than-expected 0.4% in January following a similar gain in December. Excluding direct tax payments, Personal disposable income rose an even stronger 0.6%; this was the largest increase since December 2012. According to the Bureau of Economic Analysis (BEA), the gain partially reflected the reduction in taxes from the Tax Cuts and Jobs Act (TCJA) passed in late 2017. The Atlanta Fed currently expects consumer spending to contribute about 2 percentage points to first quarter growth. Some are concerned that the low savings rate may be contributing to consumer spending but may not be able to continue indefinitely. The savings rate did rise in January to 3.2% for the first time since May of last year.
- ◆ Consumer confidence as reflected in the Conference Board index jumped 6.5 points to 130.8, the seventh increase in eight months, the largest increase since March and the highest level since November 2000. The University of Michigan index rose 4 points to 99.7, its highest level since January 2001.

Sources: Bloomberg LLC, US Commerce Dept., Bureau of Labor Statistics, EIA, Dow Jones Inc. MarketWatch, Standard & Poors, Federal Reserve Bank, Financial Times, FactSet, State Street Global Advisors, Mortgage News Daily

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INVESTMENT REVIEW

- ◆ Stronger than expected wage inflation data in the U.S. was the catalyst for a global correction in stocks in the month of February. Technical factors and the unwinding of certain low volatility trading strategies exacerbated the sell-off which reached 10% in nine trading days. The volatility index or VIX, which had been complacent throughout 2017 and began February at 14 spiked to 37 before ending the month just below 20, the 10-year average.
- ◆ Stocks closed the month of February off their lows but each major index closed down. The Dow Jones Industrial Average lost 4.28%, the S&P 500 lost 3.89%, and the Nasdaq Composite lost 1.87%. Losses weren't confined to the U.S. The MSCI EAFE index of non-U.S. developed countries lost 4.71% and the MSCI Emerging Markets index lost 4.73%.
- ◆ The Winter Olympics were held in PyeongChang, South Korea during the month of February; 92 countries participated. According to Variety, viewership was down 7% from the 2014 winter games with 19.8 million primetime viewers including streaming services. Norway led the medal count with 39 total medals tying Germany with 14 gold. The U.S. finished 4th in the medal count with a total of 23 including 9 gold. Host South Korea finished with 17 total medals including 5 gold.

KEY INVESTMENT STATISTICS

	2/28/18	12 Month High	12 Month Low	YTD Price Return
Dow Jones Industrial Average	25,029	26,616	20,404	1.25%
Nasdaq Composite	7,273	7,506	5,794	5.35%
S & P 500 Stock Index	2,714	2,873	2,329	1.5%

2018 Operating EPS Estimate \$158
 P/E on 2018 EPS 17.2x

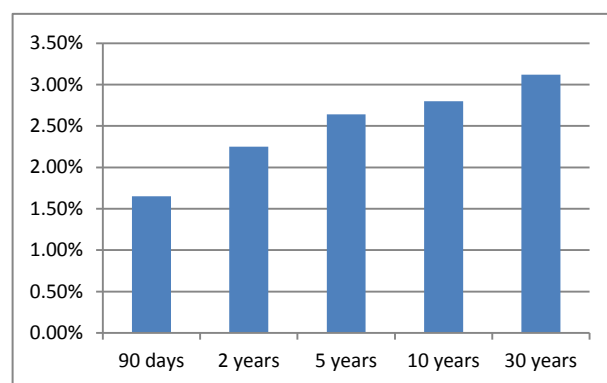
2019 Operating EPS Estimate \$172
 P/E on 2109 EPS 15.8x

Dividend Yield 1.9%

Yields on U.S. Treasury Obligations

90 days 1.65%
 2 years 2.25%
 5 years 2.64%
 10 years 2.80%
 30 years 3.12%

U.S. Treasury Yields



CPI: Trailing 12 Months (DoL) 2.1%
 Crude Oil: Price Per Barrel (WTI) \$62 \$66 \$44
 Gold: Price Per Ounce (spot) \$1,318 \$1,358 \$1,199
 Natural Gas: Price per MM Btu (spot) \$2.66 \$5.46 \$2.52

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