

ECONOMIC OUTLOOK

- ◆ U.S. GDP growth in the first three months of 2016 was disappointing, continuing the trend of weakening sequential growth over the last year. The economy expanded just 0.5% (on an annualized basis), the slowest rate in two years. Consumer spending was lackluster, and a strong dollar continued to undercut exports. Economists had forecast economic growth of 0.7%, following the 1.4% pace of the fourth quarter. We now anticipate GDP growth for the full year to range between 2%-2.5%.
- ◆ The euro zone economy, on the other hand, grew at its fastest pace in five years in the first quarter. Euro zone growth of 0.6% beat even the most optimistic expectations. Unemployment fell to 10.2%, the lowest rate in over four years. Less positive news, however, was the report that consumer prices declined by 0.2% year over year. The core rate of PCE (personal consumption expenditure) inflation fell to 1.6%. Inflation has undershot the ECB's 2% target for more than three years. The ECB President, Mario Draghi, has said monetary policy would remain loose for an extended period of time.
- ◆ After meeting for two days in April, the Fed left its benchmark overnight interest rate target unchanged at 0.25%-0.50% and suggested it was in no hurry to tighten monetary policy further. In a statement released afterwards, the Fed said that it is continuing to closely monitor "inflation indicators and global economic and financial developments." In March, the Fed called these areas risks to the U.S. economy. Fed policymakers have forecast two interest rate hikes this year, down from four in January.
- ◆ While the energy sector remains in a rut, the overall labor market in the U.S. continues to expand steadily. Employment gains averaged 209,000 jobs per month in the first quarter. The four-week average of initial claims has fallen to its lowest level since 1973. We expect this trend to continue for the foreseeable future.
- ◆ The Institute for Supply Management's manufacturing and nonmanufacturing surveys, which are closely correlated to economic activity, have rebounded in recent months. The ISM reported that its gauge of factory activity rose to 51.8 in March from 49.5 in February (a reading above 50 indicates growth in the sector). The ISM Non-Manufacturing Index rose to 54.5.
- ◆ After unexpectedly cutting its benchmark interest rate below zero back in January, the Bank of Japan surprised investors by not easing monetary policy further in April. Expectations had been building for weeks ahead of the policy meeting. When the decision to do nothing came to light, the yen promptly strengthened against the dollar, and the Japanese stock market fell 3.6%. The Japanese currency is up 11% versus the dollar this year. Due to the continued lack of inflation and strength of the yen, we anticipate the BOJ will eventually ease.

INVESTMENT REVIEW

- ◆ In April, the Dow Jones Industrial Average was up 0.6%, the Nasdaq Composite dropped 1.4% and the S&P 500 dipped 0.3%.
- ◆ Oil markets rose 20% or more in April. Non-OPEC output is set to mark its biggest decline in around 20 years, spurring the most sustained rally in prices since the oil slump started.
- ◆ The dollar has backed off from 12-year highs reached in November against a basket of other major currencies. U.S. multinational companies have found some measure of relief from the dollar's decline, and analysts have begun raising earnings per share estimates for the year ahead.

KEY INVESTMENT STATISTICS

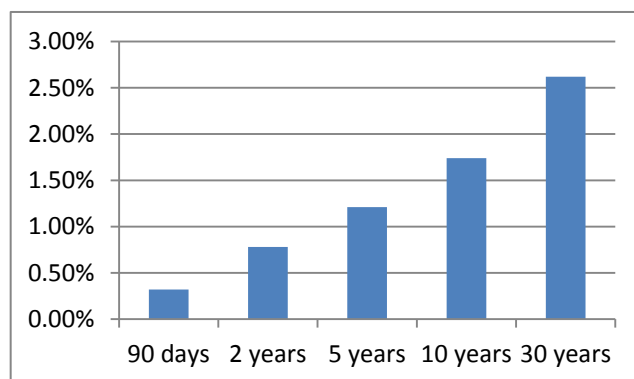
	4/30/16	12 Month High	12 Month Low	YTD Price Change
Dow Jones Industrial Average	17,774	18,312	15,660	2.0%
Nasdaq Composite	4,267	5,219	4,209	-4.6%
S & P 500 Stock Index	2,065	2,131	1,829	1.0%

2016 Operating EPS Estimate	\$122
P/E on 2016 EPS	17X
2017 Operating EPS Estimate	\$130
P/E on 2017 EPS	16X
Dividend Yield	2.2%

Yields on U.S. Treasury Obligations	
90 days	0.22%
2 years	0.78%
5 years	1.29%
10 years	1.83%
30 years	2.68%

CPI: Trailing 12 Months	0.9%		
Crude Oil: Price Per Barrel (WTI)	\$46	\$61	\$26
Gold: Price Per Ounce (spot)	\$1,289	\$1,289	\$1,049
Natural Gas: Price per MM Btu (spot)	\$1.97	\$3.07	\$1.49

U.S. Treasury Yields



Source: Bloomberg LLC, Thomson Financial, Dow Jones, U.S. Commerce Department, Bloomberg Businessweek, IHS iSuppli

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