

MAY 2017

ECONOMIC OUTLOOK

- ◆ The U.S. Department of Commerce reported a lower than expected first quarter real gross domestic product (GDP) annual growth rate of 0.7% in its advanced estimate, the lowest in three years. Economists had expected a growth rate of 1.0% according to Bloomberg. The growth rate was dragged down by excess inventories and net imports. Auto sales were also weak, falling in each of the quarter's three months. The GDP estimate will be revised at least once in the coming months. Weak economic growth has not been atypical in the first quarter since the end of the Great Recession, a phenomenon in part ascribed to seasonal adjustment factors. We expect GDP to accelerate in subsequent quarters. Even Federal Reserve Chairperson Janet Yellen described the weak print as "transitory".
- ◆ The Eurozone, the single currency bloc of 19 European countries, grew 0.5% in the first quarter or at an annual rate of 2.0% as reported by statistics agency Eurostat. There was concern entering 2017 that a rise in populism translating into electoral victories across the region would slow economic growth. To date, elections in Austria, the Netherlands, and France where the populist failed to win, reduces the likelihood that future elections in France and Germany will pose a drag on eurozone economies.
- ◆ We expect the Federal Reserve, this month, to maintain a current target range for federal funds of 0.75% - 1% which it established at its March meeting. According to Bloomberg the probability of a May rate hike is only 13%. We expect to see two more interest rate hikes this year as the Fed aims for a gradual normalization of monetary policy with the next hike expected to come in June (70% probability according to Bloomberg). However, we believe the Fed is still data dependent and will look for stronger economic data over the next month before committing to another interest rate raise.
- ◆ President Trump concluded his first 100 days in office without achieving any significant legislation to his credit. Last month President Trump decided to reconsider legislation pertaining to the Affordable Care Act, after initially abandoning the effort when the House of Representatives couldn't muster enough votes. The President also unveiled a tax overhaul plan which was heavy on tax cuts but light on details. The market, unsurprisingly, didn't react because of skepticism that the plan in its current form can pass in Congress. At least some of the post-election stock market rally was due to expectations of an economic stimulus inducing tax plan, so passage in some form continues to be part of the favorable stock market outlook.

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INVESTMENT REVIEW

- ◆ After taking a breather in March stocks rebounded in April: The Nasdaq Composite rose an impressive 2.3%, the Dow Jones Industrial Average and the S&P 500 each rose a solid but more modest 1.3% and 0.9%, respectively. Non-U.S. markets were strong too. The EAFE index which captures developed markets in Europe, Australia and the Far East rose 2.2% and Emerging Markets rose 2.1%. Stocks gained in anticipation of improving economic data and earnings.
- ◆ The CBOE Volatility Index fell to its lowest level since the beginning of the Great Recession ten years ago. The VIX briefly fell below 10 for only the second time in 2017 after not having fallen below this level in the past eight years, according to the Wall Street Journal. Since hitting its 2017 peak of 16 just prior to the first round of the French presidential election, the VIX has fallen 30% since independent centrist Emmanuel Macron's win in the first round of the voting. The run-off is May 7.
- ◆ Currencies were also impacted by the French vote. The euro surged 2% to its highest level since November 10. Investors were concerned that a victory by either the far-Left or far-Right candidates could jeopardize the euro's future. In a separate action, the U.S. Treasury delivered its semi-annual currency report, which didn't include any major trading partners as "currency manipulators", much to the relief of China, which candidate Trump had promised to target.

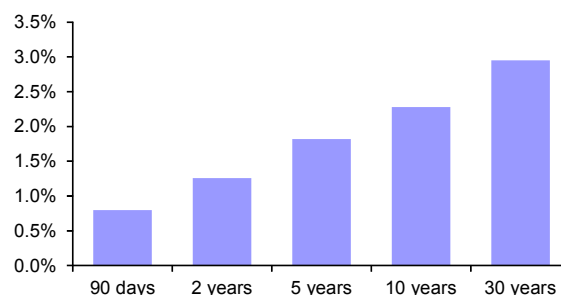
KEY INVESTMENT STATISTICS

	4/28/2017	High	Low	Change
Dow Jones Industrial Average	20940	21115	17140	6.0%
Nasdaq Composite	6047	6048	4594	12.3%
S & P 500 Stock Index	2384	2396	2000	6.5%
2017 Operating EPS Estimate	\$131			
P/E on 2017 EPS	18X			
2018 Operating EPS Estimate	\$146			
P/E on 2018 EPS	16X			
Dividend Yield	1.9%			

Yields on US Treasury Obligations

90 days	0.80%
2 years	1.26%
5 years	1.82%
10 years	2.28%
30 years	2.95%

US Treasury Yields



CPI: Trailing 12 Months	2.4%		
Crude Oil: Price Per Barrel [WTI]	\$49	\$54	\$39
Gold: Price Per Ounce	\$1,268	\$1,366	\$1,128
Natural Gas: Price per MM BTU [spot]	\$3.28	\$3.93	\$1.96

Sources: Federal Reserve, Bloomberg LLC, FACTSET, National Association of Realtors, U.S. Department of Labor, Conference Board, Energy Information Administration

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