Economic Outlook / Investment Review

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ECONOMIC OUTLOOK

- The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.2% in September to 124.4 (2010 = 100), following a 0.2% decline in August, and a 0.5% increase in July. The September increase, reversing the August decline together with the Q3-2016 pickup in GDP growth rate suggests the economy should continue expanding moderately through the first quarter of 2017. Housing permits, unemployment insurance claims, and the interest rate spread were the main components lifting the index in September.

- We expect Q4-2016 U.S. economic activity to expand moderately at around 2.3%. That is still sluggish but better than the growth rate in the first half of the year. Before 2011, GDP growth below 2% had been considered "stall speed" which led to prior recessions. However, economic growth has been fluctuating around 2% since Q1-2011 without actually stalling.

- Productivity improved to an annual 3.1% pace in the three months from July through September. That is the first gain since the fall of 2015 and the largest advance in two years. Prior to this reading, productivity has grown at less than half its historical norm during the more than seven-year-old economic recovery. Aging demographics and the coming flood of retiring baby boomers likely influence productivity. Older workers' experience increases not only their own productivity, but also the productivity of those who work with them. All else being equal, experienced workers are more productive. As the most productive workers retire, productivity is pressured downward.

- Job openings decreased to 5.4 million at the end of August, down from 5.9 million openings (the all-time record) at the end of July. Hires and layoffs/retirements were unchanged at 5.2 million and 5.0 million, respectively. Because our economy continues to shift toward digital automation in nearly every industry, our collective employment challenge is the availability of qualified applicants with required technical skills.

- The Institute for Supply Management (ISM) Manufacturing Report On Business® is one of the most reliable economic indicators, as is the manufacturing sector in general. According to this report, economic activity in the manufacturing sector expanded in October and the overall economy grew for the 89th consecutive month. The closely watched Purchasing Managers Index registered 51.9% in October, an increase of 0.4% from the September reading of 51.5%. In another sign of stabilization in the manufacturing sector, factory orders rose for the third month in a row during September. According to the Commerce Department, factory orders rose by a seasonally adjusted 0.3%, and August's orders were revised to show 0.4% growth instead of a previously reported 0.2% gain.

- Corporate earnings have been in recession since Q2-2015. The biggest earnings drag has been from a serious recession in oil related industries. The crude oil price has recovered to the $40-$50 range from its low of $26 in February, and it appears the worst is over. The S&P 500 earnings recession actually bottomed during Q1-2016 at $26.96 per share based on operating earnings, as compiled by Thomson Reuters. Earnings rose to $29.61 during Q2 - 2016, with the current blended, reported and expected number for Q3 - 2016 at $30.68.

INVESTMENT REVIEW

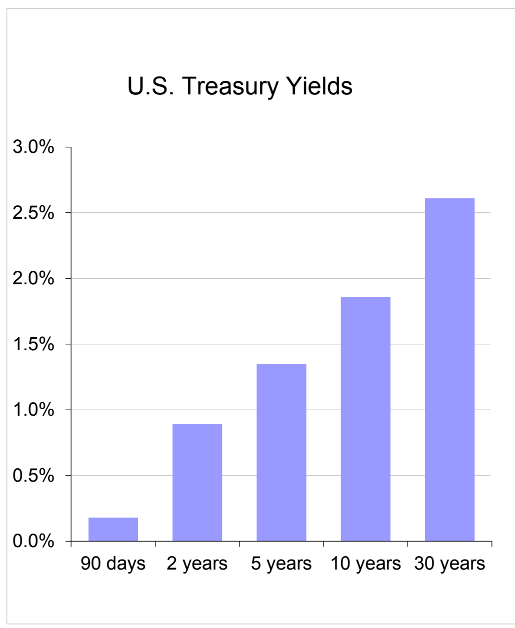
- The major U.S. stock indexes were down in October. The Dow Jones Industrial Average declined 0.9%, the S&P 500 was off 1.9% and the Nasdaq Composite retreated 2.3%.

- The U.S. Dollar Index continued upward during October peaking at January 2016 levels. The Index, a trade weighted average of six currencies that are major trading partners with the U.S. rose by 3.1% in October. This rise in the value of the dollar reduces profit accounting for U.S. companies with international operations as the stronger dollar lowers the cost of imports and increases the price of exports to foreign purchasers.

- Cash trends in mutual fund investing are a proxy for market shifts in asset class investing sentiment. Equity funds posted an outflow of $22.51 billion in September, compared with an outflow of $32.38 billion in August. Bond funds had an inflow of $17.68 billion in September, compared with an inflow of $23.08 billion in August. Money market funds had an outflow of $52.26 billion in September, compared with an inflow of $17.62 billion in August.

KEY INVESTMENT STATISTICS

	10/31/2016	12 Month High	12 Month Low	YTD Price Change
Dow Jones Industrial Average	18,142	18,636	15,660	4.1%
Nasdaq Composite	5,189	5,340	4,267	3.6%
S & P 500 Stock Index	2,126	2,190	1,829	4.0%
2016 Operating EPS Estimate	$117			
P/E on 2016 EPS	18x			
2017 Operating EPS Estimate	$129			
P/E on 2017 EPS	16x			
Dividend Yield	2.2%			
Yields on U.S. Treasury Obligations				
90 days	0.18%			
2 years	0.89%			
5 years	1.35%			
10 years	1.86%			
30 years	2.61%			
CPI: Trailing 12 Months	1.5%			
Crude Oil: Price Per Barrel	$47	$52	$26	
Gold: Price Per Ounce	$1,272	$1,366	$1,049	
Natural Gas: Price per MM Btu	$2.79	$3.22	$1.53	



Source: Bloomberg LLC, Thomson Financial, U.S. Department of Labor