

ECONOMIC OUTLOOK

- ◆ U.S. Gross Domestic Product (GDP) grew at an annualized rate of 3.0% in the third quarter (Q3) of 2017. In Q3, hurricanes in various regions of the U.S. hurt economic activity, but that impact was offset by overall increases in consumer and business spending. Q3 GDP growth was further helped by increased demand for U.S. goods due to improving international economies and by the restocking of inventories. Following a 3.1% increase in GDP in the second quarter; economic growth over the past six months has accelerated from the previous six months and is above the average 2.2% recorded in the recovery from the Great Recession of 2008-2009. Current fourth quarter estimates show a further acceleration towards 4.0% growth. The final three quarters of 2017 will make up for a lackluster first quarter and we forecast 2.5% - 3% U.S. GDP growth for the year.
- ◆ Employment in October rebounded from the hurricane related slowdown in September, as payrolls increased by 261,000 during the month. The report also showed upward revisions to the payroll numbers for the months of August and September. The unemployment rate declined slightly to 4.1%; however, the average workweek and average hourly wages were both unchanged in October. Wages had been expected to show increases for the month, especially since wage gains in September had been above expectations, but the storms may have adversely impacted the data. We believe that wage gains will rebound from the October lull and that the outlook for both employment and wages is favorable going forward.
- ◆ President Donald Trump has nominated Jerome Powell to be the new chair of the Federal Reserve Open Market Committee. Assuming Mr. Powell's nomination is approved by the Senate, he would succeed Janet Yellen when her term as chairperson expires in February 2018. Mr. Powell is currently a member of the Fed's board of governors and has served since 2012. His education is in the law and, in addition to practice as a lawyer, his career prior to joining the Fed included finance and government service. Mr. Powell would be the first Fed chair since 1979 who does not hold either an undergraduate degree or a Ph.D. in economics. Mr. Powell is known for a balanced, pragmatic approach to both the policy and the functioning of the Fed and, given the continuity he represents at this critical juncture, we view his nomination positively.
- ◆ At its October meeting, the Fed left short term interest rates unchanged. The program to reduce the securities held at the Fed is also to continue as scheduled. The Fed next meets December 12-13 and we expect a 0.25% increase in short term interest rates, which would bring their target to 1.25% – 1.5%. Looking ahead to 2018, the outlook is for further increases in short rates. We do not currently foresee any deviation from that course even with a new chairperson at the Fed.

INVESTMENT REVIEW

- ◆ October showed another month of gains for the major equity indices. The Dow Jones Industrial Average rose 4.3%, the Nasdaq Composite gained 3.6% and the S&P 500 added 2.2% during the month.
- ◆ Corporate reports for the third quarter are showing better than expected revenue and earnings growth with some effect from the hurricanes. With 80+ % of the companies in the S&P 500 having reported, revenues have grown 5.8% and earnings per share (EPS) have increased 5.9%. Excluding results from the insurance industry, which were impacted by the hurricanes, EPS growth jumps up to 8.5%.
- ◆ House Republicans released their tax plan and, assuming it passes, the bill moves on to the Senate for the next step in the legislative process. There are a myriad of details in the 429-page document, but, in general, corporations would benefit more from tax relief than individuals. Since the bill will be considered under the reconciliation process in the Senate, it cannot increase the deficit after 10 years. As currently constructed, the legislation does not appear to meet that criterion. However, it is the very beginning of the process and we still expect some tax reform to occur in 2018.

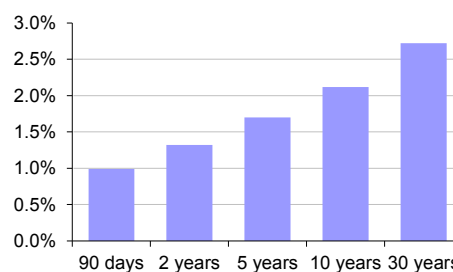
KEY INVESTMENT STATISTICS

	10/30/2017	12 Month High	12 Month Low	YTD Price Change
Dow Jones Industrial Average	23,377	23,442	17,888	18.3%
Nasdaq Composite	6,728	6,728	5,046	25.0%
S & P 500 Stock Index	2,575	2,581	2,085	15.0%
2017 Operating EPS Estimate	\$131			
P/E on 2017 EPS	19.7x			
2018 Operating EPS Estimate	\$146			
P/E on 2018 EPS	17.6x			
Dividend Yield	1.9%			

Yields on U.S. Treasury Obligations

90 days	1.13%
2 years	1.59%
5 years	2.01%
10 years	2.38%
30 years	2.88%

U.S. Treasury Yields



Core CPI: Trailing 12 Months	1.7%		
Crude Oil: Price Per Barrel	\$54	\$54	\$42
Gold: Price Per Ounce	\$1,271	\$1,349	\$1,128
Natural Gas: Price per MM Btu	\$2.91	\$3.82	\$2.57

Source: Bloomberg LLC, FactSet, U.S. Department of Labor

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