

ECONOMIC OUTLOOK

- ◆ The U.S. economy grew at a faster pace in the second quarter than previously reported. The second revision for Q2 U.S. GDP came in at 1.4%, up from 1.1% on the first revision, as business spending on equipment was stronger than previously reported. In Q1, GDP increased by 0.8%. The Atlanta Fed's forecast for Q3 GDP growth currently stands at 2.8%.
- ◆ The Conference Board Leading Economic Index® (LEI) for the U.S. declined -0.2% in August to 124.1 (2010 = 100), following a 0.5% increase in July and a 0.2% increase in June. While the LEI declined in August, the trend still suggests moderate economic growth over the next six months.
- ◆ Since 2009, the vigor of the economic recovery has been questioned due to concerns regarding underemployment and tepid wage growth. This may be changing. Data released in September show that incomes are rising and jobs are plentiful. Real median household income rose by 5.2% in 2015, the best one-year gain since 1968, when BLS began tracking the statistic. Median wage growth in August was 3.3% year over year, according to the Atlanta Fed. The unemployment rate stands at 4.9%. June's Job Openings and Labor Turnover Survey (JOLTS) report showed that there were 5.6 million job openings nationwide, and that the ratio of unemployed workers to job openings was 1.4. That ratio is down dramatically from the peak level of 6.6 reached in July 2009.
- ◆ Part of the Fed's mandate is to control inflation. Since wage increases can be a driver of future inflation, last month's robust income and wage data suggests it may have to act soon. The Fed chose not to raise rates at its September meeting, perhaps because it did not want to be seen as influencing the presidential election. The Fed is unlikely to raise rates at the next meeting on November 1st-2nd for the same reason. Futures markets imply a 57% chance that the Fed will hike rates at the December 13th-14th meeting.
- ◆ Economists worry that China's debt has reached unsound levels. A Chinese government economist reports that the country's total government and corporate debt is equal to 250% of GDP. The Bank for International Settlements says that China's "credit gap" (the difference between the current ratio of government and corporate debt relative to GDP and the long-term trend in that ratio) is now three times higher than the typical danger level. Since China is the world's largest exporter, there is a risk that writing off bad Chinese loans and reducing excess capacity could lead to global deflation.

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INVESTMENT REVIEW

- ◆ The Dow Jones Industrial Average was down -0.5% in September and the S&P 500 was flat. The Nasdaq Composite gained 1.9%. International equity markets were strong in September. The MSCI Europe Australia Far East Index (EAFE) was up 1.3% and the MSCI Emerging Markets Index rose 2.5% for the month.
- ◆ Two major global banks faced challenges in September. Wells Fargo was accused of opening more than 2 million bank and credit card accounts for customers without their knowledge in order to boost fees. Wells Fargo has dismissed over 5,000 employees in response to the allegations and faces a \$185M fine. Meanwhile, Deutsche Bank faces a fine that may be as high as \$14B from the U.S. Department of Justice over misconduct related to mortgage sales prior to the financial crisis.
- ◆ On September 28th, according to informal reports, OPEC reached a preliminary deal to cut output for the first time since 2008. Details on individual country production quotas will not be finalized until OPEC's November meeting. Oil bulls cheered the news. Oil rallied 5.3% the day after the meeting, and was up 7.9% for the month of September.

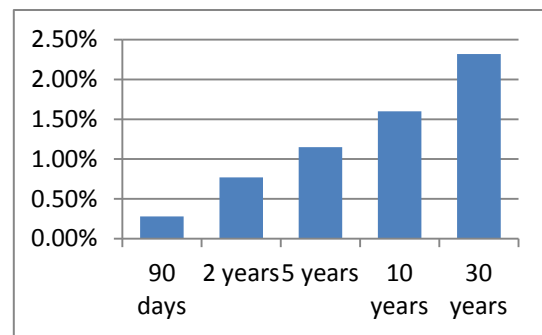
KEY INVESTMENT STATISTICS

	9/30/16	12 Month High	12 Month Low	YTD Price Change
Dow Jones Industrial Average	18,308	18,668	15,451	5.1%
Nasdaq Composite	5,312	5,342	4,210	7.2%
S & P 500 Stock Index	2,168	2,194	1,810	6.1%

2016 Operating EPS Estimate	\$117
P/E on 2016 EPS	19X
2017 Operating EPS Estimate	\$133
P/E on 2017 EPS	16X
Dividend Yield	2.1%

Yields on U.S. Treasury Obligations	
90 days	0.28%
2 years	0.77%
5 years	1.15%
10 years	1.60%
30 years	2.32%

U.S. Treasury Yields



CPI: Trailing 12 Months	1.1%		
Crude Oil: Price Per Barrel (WTI)	\$48	\$54	\$35
Gold: Price Per Ounce (spot)	\$1,316	\$1,366	\$1,051
Natural Gas: Price per MM Btu (spot)	\$2.91	\$3.06	\$1.64

Sources: Bloomberg LLC, Thomson Financial, U.S. Commerce Department, Bloomberg Businessweek, IHS iSuppli

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