

ECONOMIC OUTLOOK

- ◆ The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3% in July to 128.3 (2010 = 100), following a 0.6% increase in June, and a 0.3 % increase in May. This upward trend suggests the U.S. economy is likely to experience further improvement in economic activity in the second half of the year.
- ◆ Specifically we expect the current quarter for U.S. economic activity to expand moderately in the range of 2.5-3.0%. We expect the Q4 '17 economy to expand at about 2.3%. This sanguine economic outlook is supported by the numbers.
- ◆ Our hearts are with the individuals and businesses impacted by Hurricanes Harvey and Irma. These storms are likely to have a short term (3-6 month) negative economic impact. Longer-term impacts for Houston, southern Florida, surrounding states and nationally are more difficult to predict. Some industries are harmed while other sectors related to rebuilding (like autos and building materials) will see increased demand.
- ◆ 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 and the overall US economy expanded in August for the 99th consecutive month. The closely watched Purchasing Managers Index registered 58.8%, an increase of 2.5% from the July reading of 56.3%. A reading of 50.0% is considered neutral. Comments from the survey panel participants reflect expanding business conditions, with new orders, production, employment, backlog and exports all growing in August.
- ◆ The August civilian unemployment rate ticked up slightly to 4.4% from 4.3% in July. According to the most recent report from the Bureau of Labor Statistics job openings remain above 6 million, record territory. Through July, disposable personal income has been growing at an average rate of 0.37% each month this year. Rising personal income leads to confidence. Consumer confidence beat expectations again in August. The Consumer Confidence Index rose for the second month to 122.9 — the second-highest reading in 16 years, surpassed only by March's 124.9. Numbers are relative to the 1985 reading of 100.0.
- ◆ The Consumer Confidence Board, Consumer Confidence Survey: Availability of Jobs -- The survey includes an important question on whether jobs are plentiful, available, or hard to get. In August, the percentage saying jobs were hard to get fell to 17.3%, the lowest since August 2001, while the percentage saying jobs are plentiful rose to 35.4%, the highest since July 2001. The former is highly correlated with the unemployment rate, and suggests the jobless rate could fall further.
- ◆ Close-fitting with a growing economy and stock market strength, corporate earnings of the S&P 500 are on track to grow at 10% this year and are expected to grow by 11% next year.

INVESTMENT REVIEW

- ◆ The major U.S. stock indexes were modestly higher in August. The Dow Jones Industrial Average increased by 0.26%, the S&P 500 was up 0.05% and the Nasdaq Composite advanced 1.27%.
- ◆ The U.S. Dollar Index was virtually flat in August posting a loss in value of 0.02%. The Index is used to measure the value of the U.S. dollar versus six major foreign currencies. A 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. A lower dollar value has opposite impacts.
- ◆ Cash trends in mutual fund investing are a proxy for market shifts in asset class investing sentiment. Equity funds posted an outflow of \$13.89 billion in July, compared with an outflow of \$9.54 billion in June. Bond funds had an inflow of \$20.38 billion in July, compared with an inflow of \$19.92 billion in June. Money market funds had an inflow of \$12.74 billion in July, compared with an outflow of \$22.24 billion in June.

KEY INVESTMENT STATISTICS

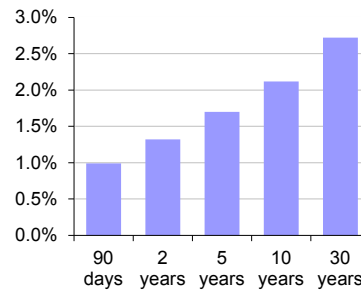
	8/31/2017	12 Month High	12 Month Low	YTD Price Change
Dow Jones Industrial Average	21,948	22,179	17,884	11.06%
Nasdaq Composite	6,429	6,461	5,034	19.42%
S & P 500 Stock Index	2,472	2,491	2,084	10.40%

2017 Operating EPS Estimate	\$131
P/E on 2017 EPS	18x
2018 Operating EPS Estimate	\$146
P/E on 2018 EPS	17x
Dividend Yield	1.9%

Yields on U.S. Treasury Obligations

90 days	0.99%
2 years	1.32%
5 years	1.70%
10 years	2.12%
30 years	2.72%

U.S. Treasury Yields



CPI: Trailing 12 Months	1.7%		
Crude Oil: Price Per Barrel	\$47	\$54	\$42
Gold: Price Per Ounce	\$1,316	\$1,349	\$1,128
Natural Gas: Price per MM Btu	\$3.04	\$3.99	\$2.56

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

This commentary reflects the opinions of Welch & Forbes based on information that we believe to be reliable. It is intended for informational purposes only, and not to suggest any specific performance or results, nor should it be considered investment, financial, tax or other professional advice. It is not an offer or solicitation.