

Market and Economic Outlook

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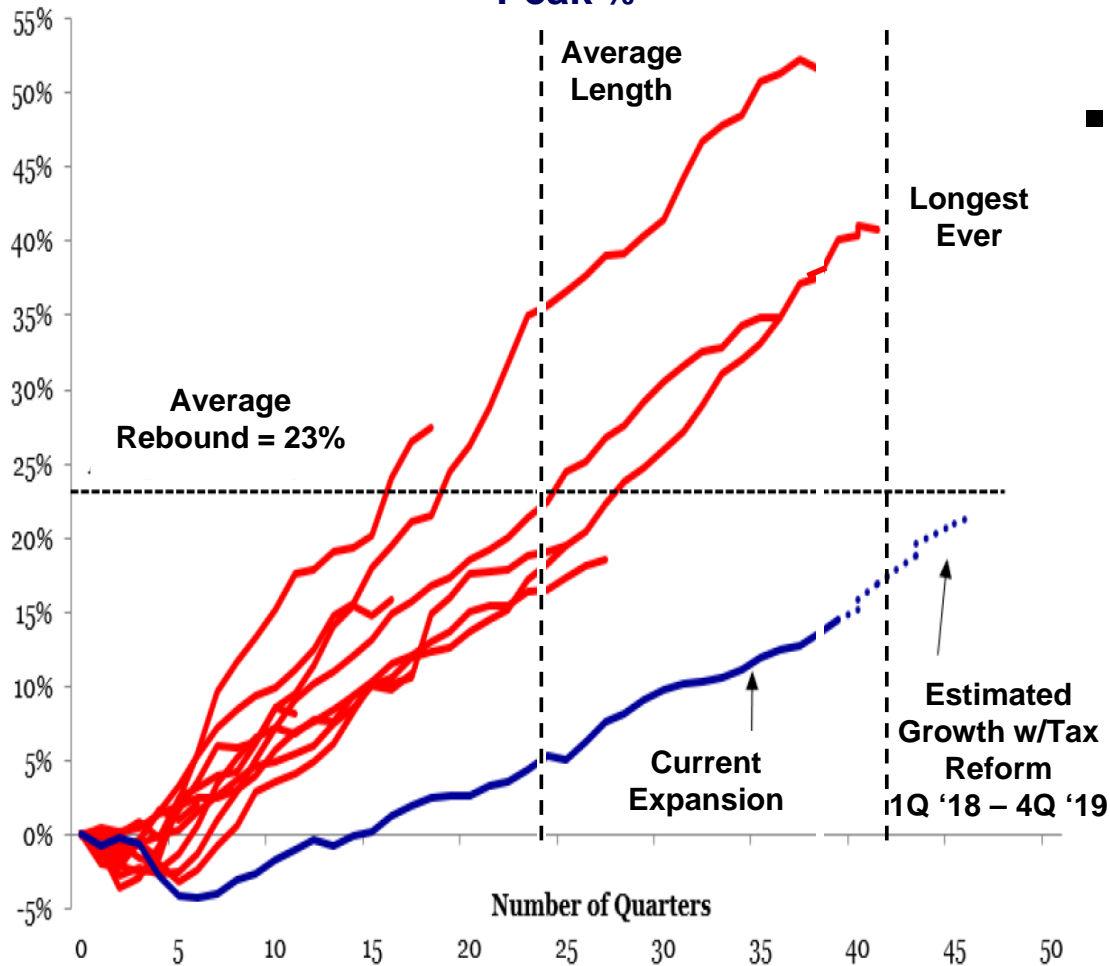


Summary

- Positive GDP Growth Going Forward
- No Recession in 2017 or 2018
- “Possibility” of Higher Growth
- Interest Rates Higher
- Corporate Earnings, and Stock Prices, Higher*
- Timing, Size & Impact of Policy Changes Unknown
 - Potential Positives – Tax Reform (Corporate & Personal), Regulation Relief, Infrastructure Spend
 - Potential Negatives – Trade Policy, Immigration Policy

Boom/Bust vs. Slow and Steady Cycles

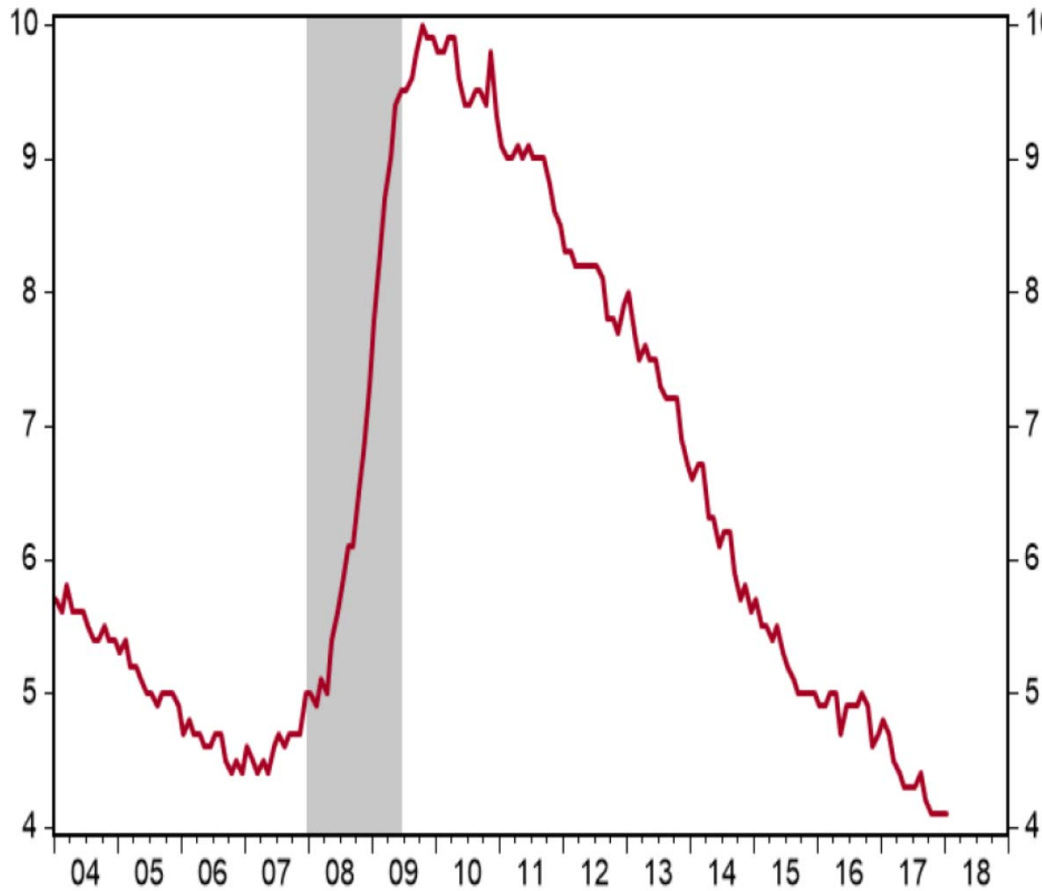
**U.S. Economic Contractions + Expansions
Cumulative Real GDP Growth Since Prior
Peak %**



Source: Strategas Research Partners, LLC

- With help and time, we're just getting back to average.

**Civilian Unemployment Rate: 16 yr. +
SA, %**



- 4.1% unemployment rate low...and headed lower.

Source: Bureau of Labor Statistics

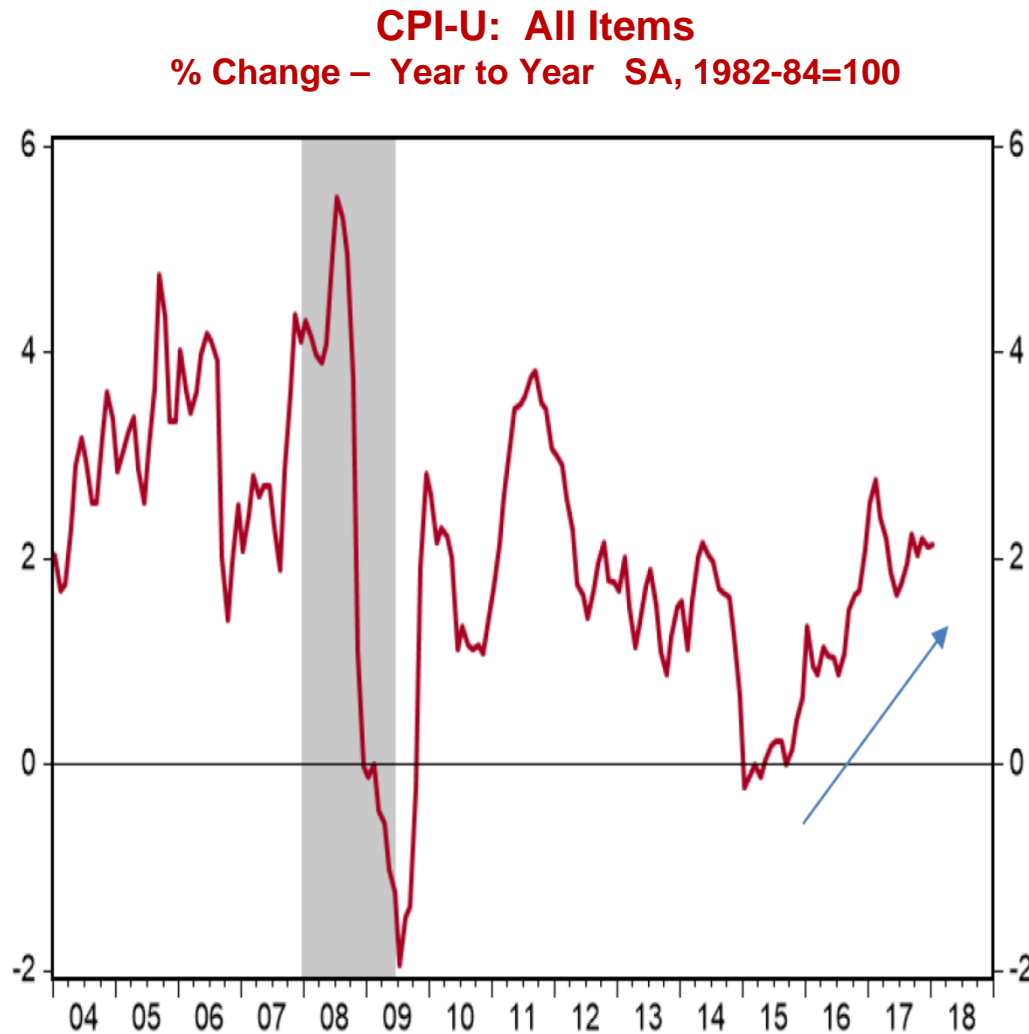


**Average Hourly Earnings:
Production and Nonsupervisory Workers
(Y/Y Pct. Chg., SA, \$/Hour)**



Source: Strategas Research Partners, LLC

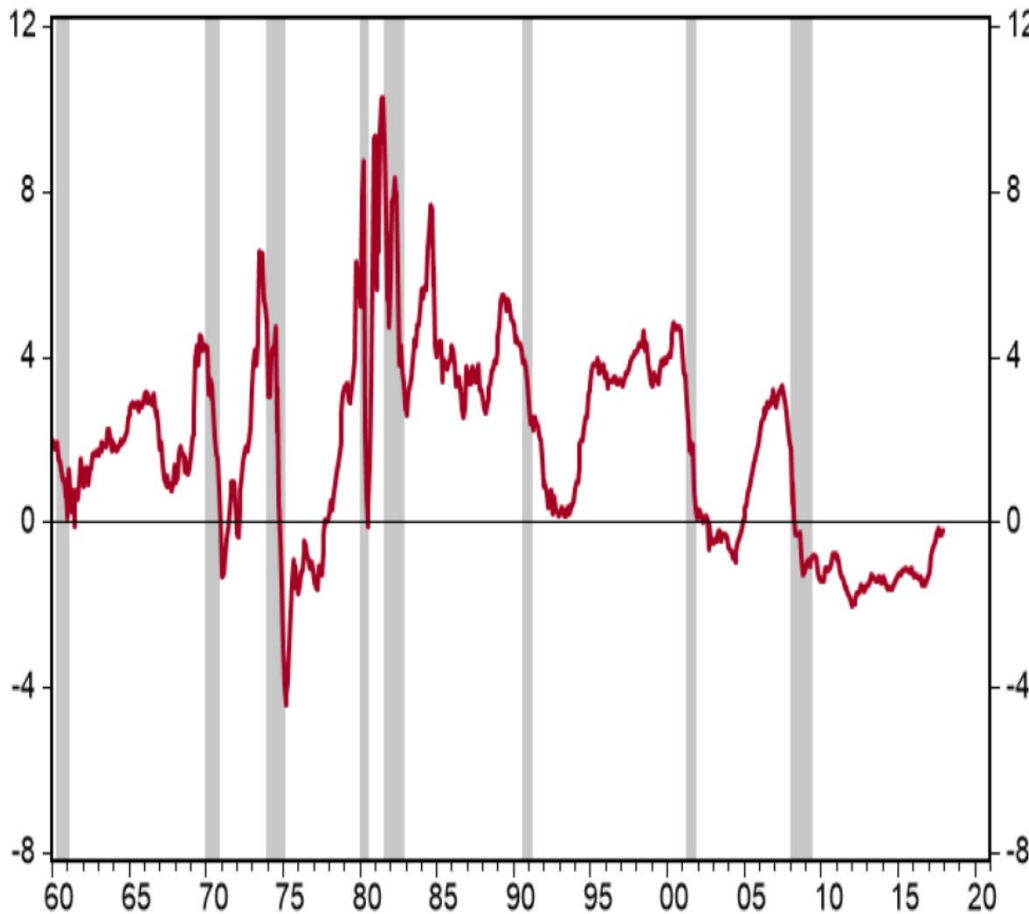
- This should move higher but...a long way to go before trouble.



Source: Bureau of Labor Statistics

- Consumer Price Index up 2.1% Y/Y...with core up 1.8%.
- These are not high inflation results but, clearly hooking higher.
- Fed uses PCE inflation not CPI. Core PCE currently at 1.5%.
- But...probably the beginning of the end of Goldilocks.

U.S. Funds Rate Minus Core PCE Deflator
Y/Y %

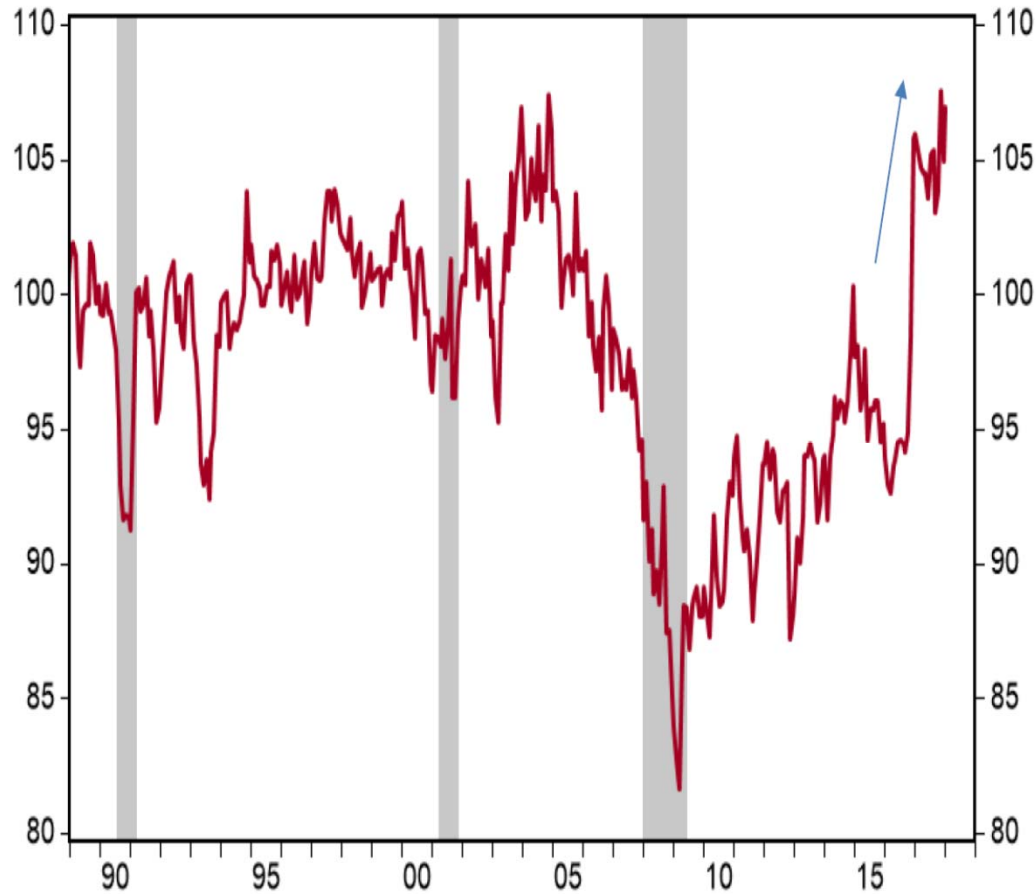


Source: Haver Analytics

- Central bankers treading lightly as real rates are still negative.

Small Business Confidence

NFIB: Small Business Optimism Index
SA, 1986=100



- Confidence remains high.

Source: National Federation of Independent Business

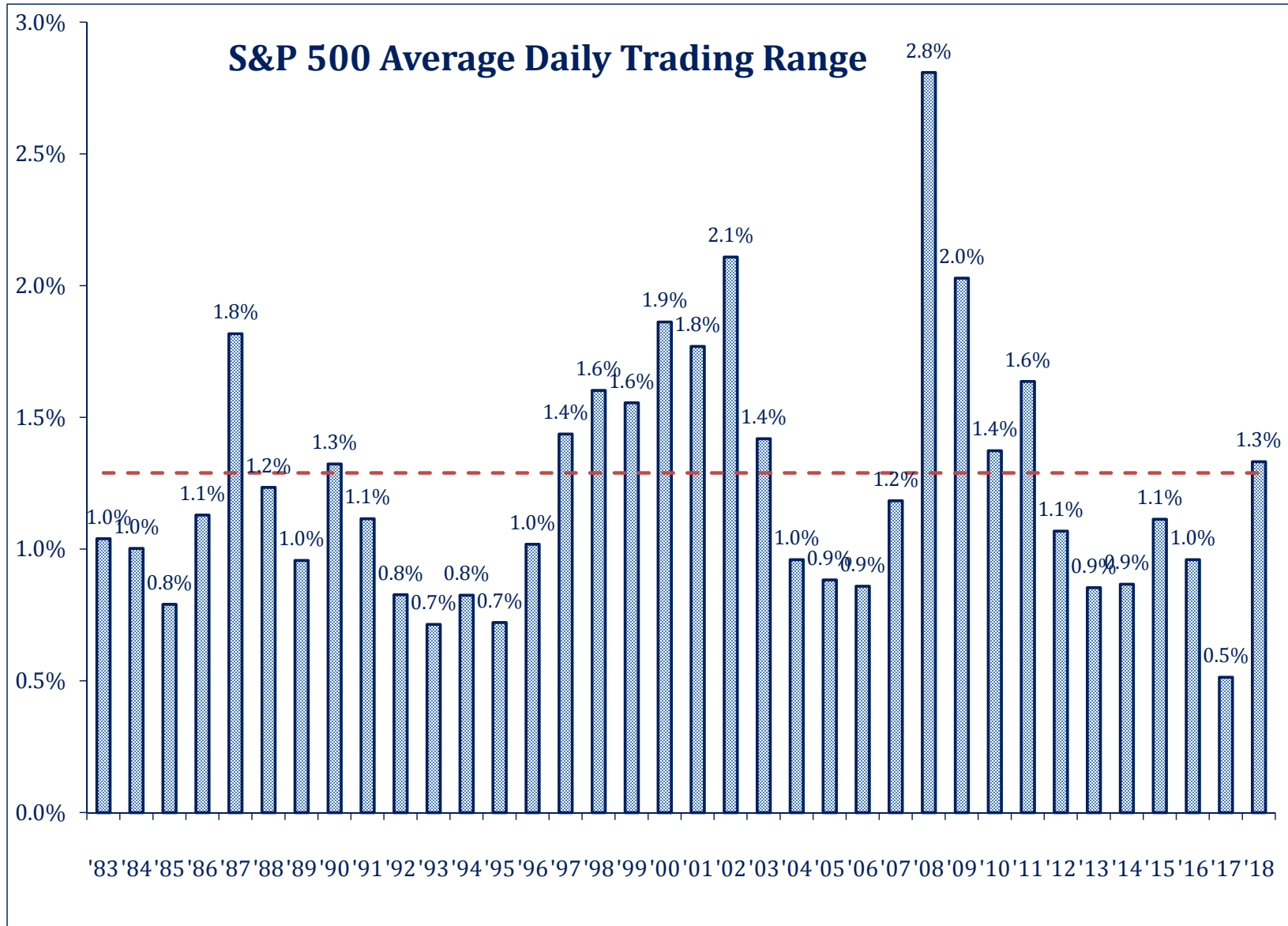
Interest Rates Higher

- I'm still looking for higher yields.

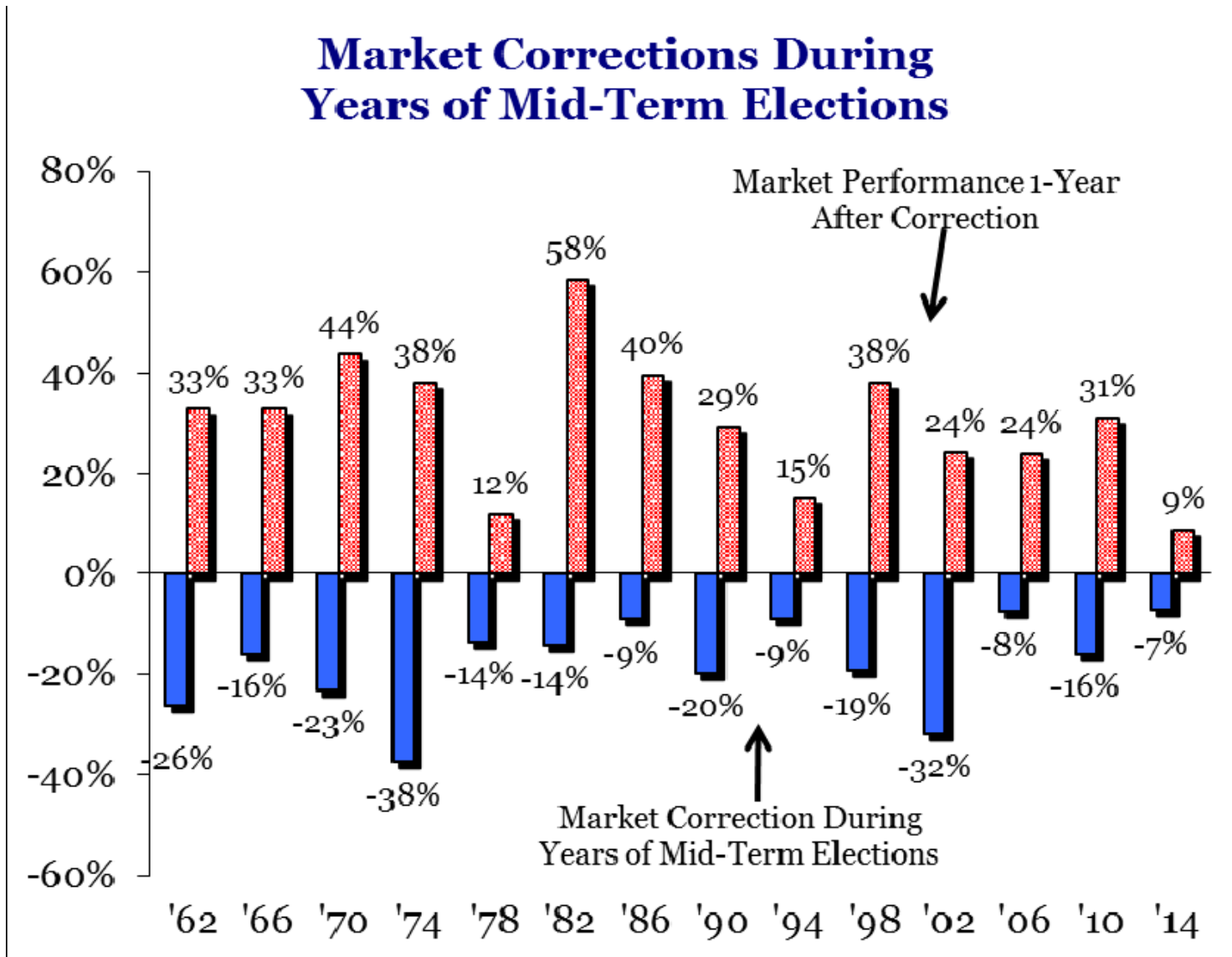


Source: Bloomberg Finance L.P.





Market Corrections During Years of Mid-Term Elections



Key Themes for 2018

- Synchronized global growth positive and accelerating.
- U.S. growth in 2018...2%-2 ½%, (2 ½%-3%) with tax plan...now 3%
- U.S. wages are modestly accelerating.
- Interest rates will move higher, from low levels. Inflation is not high; But...it is not taking much actual inflation to spook the market.
- S&P earnings new high. Outlook still positive.
- 2018 will be a year the economy does considerable better than equities. Look for continuing volatility.



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