



SEPTEMBER 2017 GLOBAL ECONOMICS & CAPITAL MARKET COMMENTARY

GLOBAL ECONOMICS

Douglas E. White, CFA
Chief Investment Officer
Executive Vice President
(617) 896-3518
dwhite@e-winslow.com

Rand Folta, CFA
Executive Vice President
(617) 896-3590
rfolta@e-winslow.com

INSTITUTIONAL TRADING

Fixed Income
Nomi Caperton
Managing Director
(617) 896-3526
ncaperton@e-winslow.com

David Strimaitis
Managing Director
(617) 896-3577
dstrimaitis@e-winslow.com

Equity

John Bridges
Managing Director
(617) 896-3524
jbridges@e-winslow.com

SETTLEMENT AND TRADING

OASYS: WYNS
MPID: WYNS
DTC: 0443
Clearing: Pershing, LLC.

WINSLOW, EVANS & CROCKER

175 Federal Street, 6th Floor
Boston, MA 02110
Phone: (617) 896-3500
Member: FINRA/SIPC

Overview

Bear Market Barometer Update; Leading Inflation

Indicators; Geopolitical Risks

In last month's issue we outlined five factors that we watch for indications of an impending market reversal and recession: 1) Economic Data; 2) Monetary Conditions; 3) S&P500 Earnings; 4) Valuation Measures; and, 5) Market Technicals. Our conclusion last month, which remains the same today, is that none of these indicators are giving any signs of an impending bear market. In fact, there are several of these leading indicators which have shown improvement over the past month and are worth another review. Although the S&P500 was essentially flat during the month of August there was new data released on the economy that points to continued strength both domestically and internationally.

As you can see from Chart #1 the market has closely followed the forward earnings estimates.

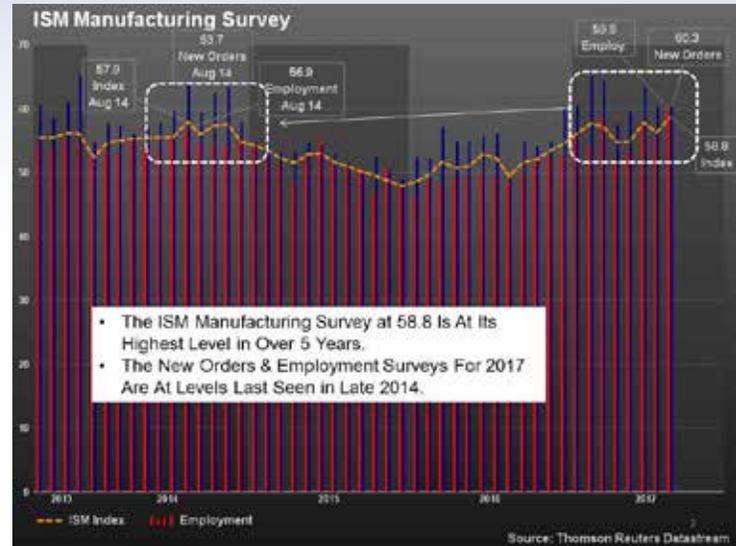




CHARTS 2-3

This is important because the good economic data released in August supports further strength in corporate earnings. One very important economic indicator, the August ISM Manufacturing Survey, reached its highest level in over five years. Chart #2 shows how this survey, along with its sub-components on employment and new orders, has had some of their best readings this year since late 2014. The new orders component provides an excellent leading indicator for future earnings growth and, as shown in Chart #3, is pointing to continued strength.

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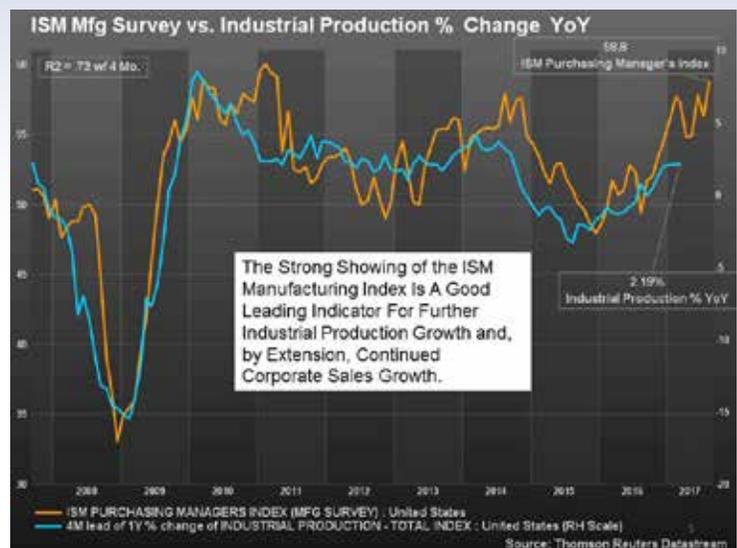
CHARTS 4-5

Another economic data point, Industrial Production, also rose in August and provides a good leading indicator for corporate sales, Chart #4. To further bolster this optimistic outlook we can look back at the ISM Survey Index as a good leading indicator for industrial production and, as shown in Chart #5, the implication is for stronger growth. The strong trend in economic data is being aided by a weaker US\$, low interest rates and increasing household net worth. During the next several months, however, there will likely be disruptions in some of these economic figures as we work through the damages from hurricanes Harvey and Irma.

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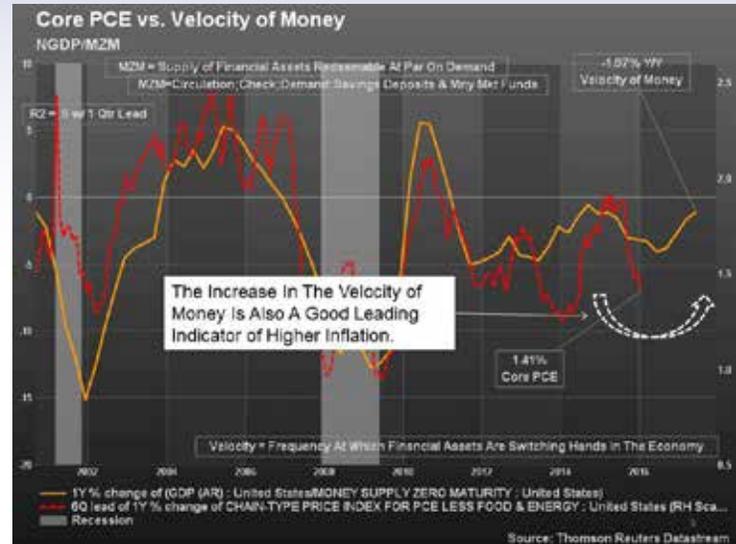




CHARTS 9-10

You can clearly see that the changes in PPI and the velocity of money have, historically, had a reasonable level of correlation with inflation. On the other hand there are some indicators such as the St. Louis Fed's Price Pressure Index, that don't support the view that inflation will be accelerating in the immediate future Chart #10.

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