Winslow, Evans & Crocker, Inc.℠

FEB. 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.

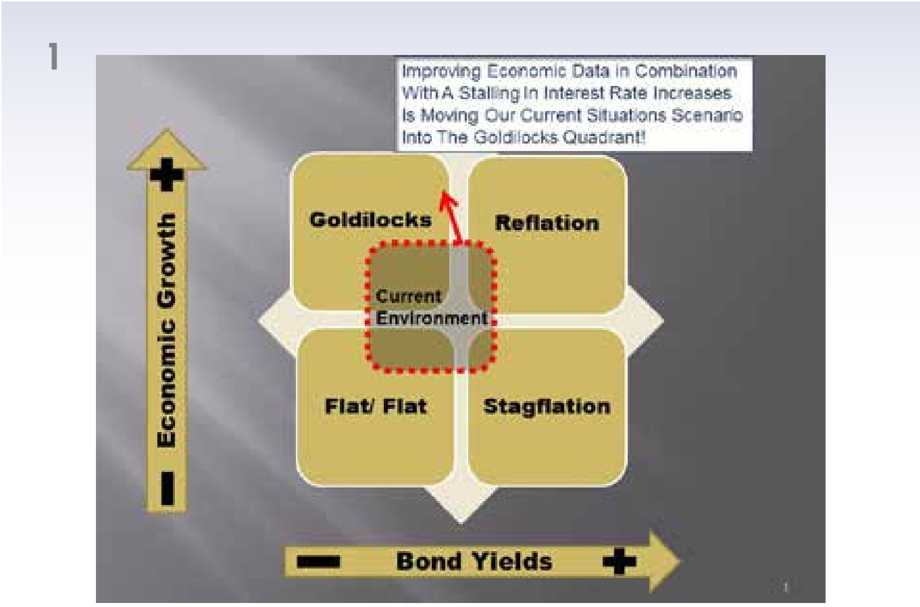
WINSLOW, EVANS & CROCKER

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

Overview

2017 Economic Momentum: A Shift to the Goldilocks Scenario?

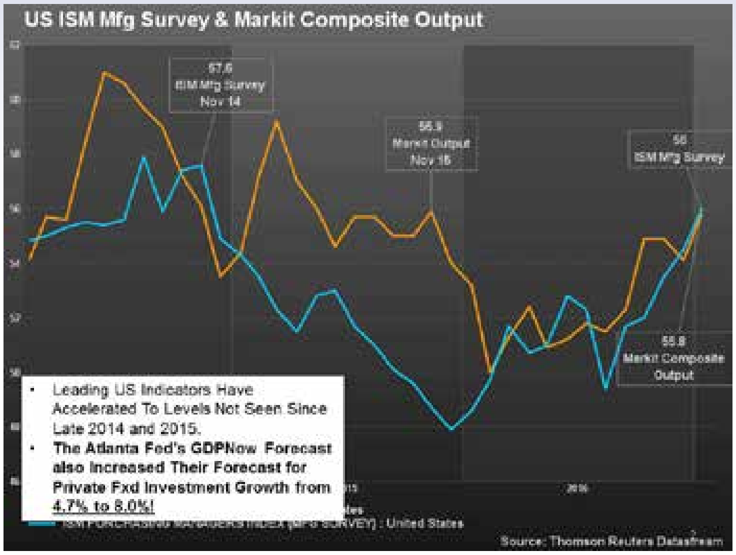
In this month's report we will continue to employ the grid framework illustrated in Chart #1 to assess the impact of the economic and interest rate environments on our view of asset allocation and portfolio construction. As the chart illustrates we are seeing a shift toward the "Goldilocks" scenario because of strengthening economic indicators and a pause in the rise in interest rates.



CHARTS 2-3

In Chart #2 we show two important leading indicators, the Purchasing Managers Survey and the Markit Composite Output Index. Both of them have recently risen to one and two year highs. These indicators are consistent with the recent forecast by the Atlanta Federal Reserve that first quarter GDP will rise by 2.7%. This forecast is an increase from 1.9% of the fourth quarter, 2016, and is a reflection of the strengthening economic data. The Atlanta Fed also increased their forecast for private fixed investment growth from 4.7% to 8.0%! This optimistic outlook is also confirmed by the ISM Survey which, in this case, examines the relationship between capital expenditures, capex, and the New Orders component of the survey. Chart #3 illustrates this strong correlation and implies a strengthening in capital expenditure growth over the next two quarters.

2



3

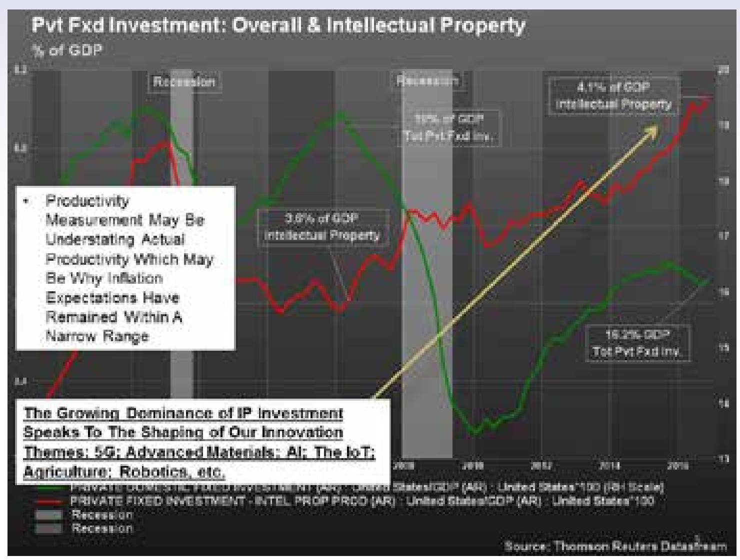
CHARTS 4-5

An additional positive indicator for capex is the CEO confidence survey shown on Chart #4. This has increased sharply over the past several months due to expectations that the Trump administration will reduce regulatory burdens and corporate taxes. Although this CEO survey is at a five year high it is at risk of a quick reversal should the administration pursue an overall industrial and trade policy deemed harmful by the business community.

A final, interesting observation about capital expenditures can be seen in Chart #5 in which private fixed investment as a percentage of GDP, the green line, is at 16.2% and well below the peak of 19% of the last economic cycle. The interesting part of this chart is the red line which also represents the investment in intellectual property as a percentage of GDP. You can see that it is at an all-time high and is consistent with our views that our economy is at a technological inflection point in such areas as 5G; Advanced Materials; the Internet of Things (IoT); Robotics; Machine Learning, etc.

4

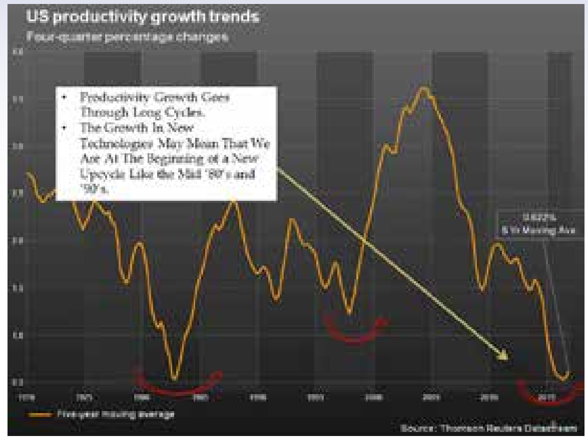
5



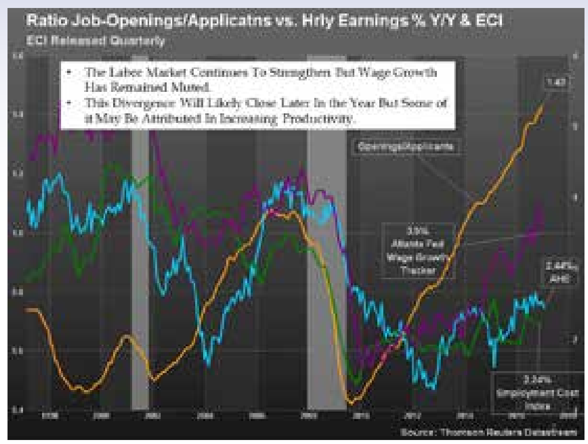
CHARTS 6-8

All of these themes will likely enhance productivity which, as you can see on Chart #6, is near a long term low. We may actually be at an inflection point similar to the ones in the 1980's and 1990's. Another key indicator of the strengthening economy is the labor market. The monthly payroll numbers remain strong and the unemployment rate is below 5.0%. The weekly initial jobless claims, a high frequency leading economic indicator, is near a 40 year low! What is puzzling to economists, however, is the slow growth in wages. In Chart #7 you can see that the job openings to applications ratio, the gold line, is well above prior cycles but the growth in average hourly earnings, the employment cost index and, to a lesser extent, the Atlanta Fed wage tracker remain well below prior cycle peaks. Some of this divergence will likely close if the economy continues to strengthen but part of this might be explained by productivity increases that are not being accurately measured by official statistics. If this is true, then the increases in productivity will help to moderate inflation and interest rates. Chart #8 illustrates that despite the strong economic indicators mentioned above inflation expectations, the blue line, have remained range bound since the recession's end and interest rates, the orange line, are well below the prior peaks of this cycle.

6



7



8

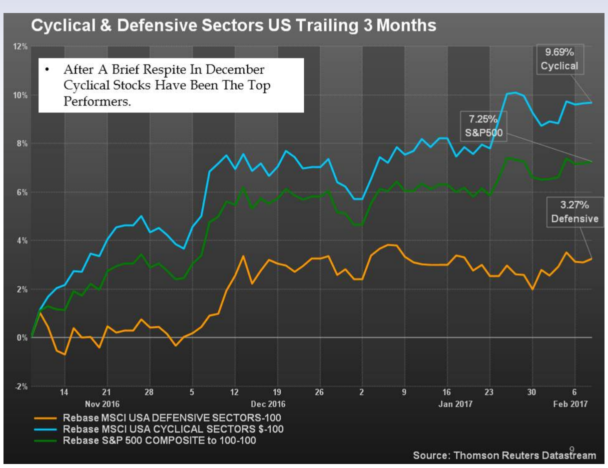
CHARTS 9-10

As a consequence of stronger economic indicators the index of cyclical companies has, after a brief respite in December, outperformed the S&P500 and defensive stocks, Chart #9, blue line. The index of defensive companies, although up for that time frame, has been relatively flat since mid-December. Since defensive stocks tend to be treated as bond substitutes this underperformance is an indication that the market expects interest rates to eventually increase later this year as the economy strengthens.

The US equity markets have continued to be strong this year with a forward price to earnings ratio of nearly 18 times. This is on the high side of its historical average but, when compared to the relatively low level of interest rates, the market still appears to be fairly to slightly undervalued. Additionally, forward earnings and sales estimates for the S&P500 have risen sharply over the last three months and are now approaching levels last seen in 2014, Chart #10.

Please contact your investment advisor if you would like to discuss the above commentary in further detail.

9



10