Winslow, Evans & Crocker, Inc.℠

MAY 2018

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.

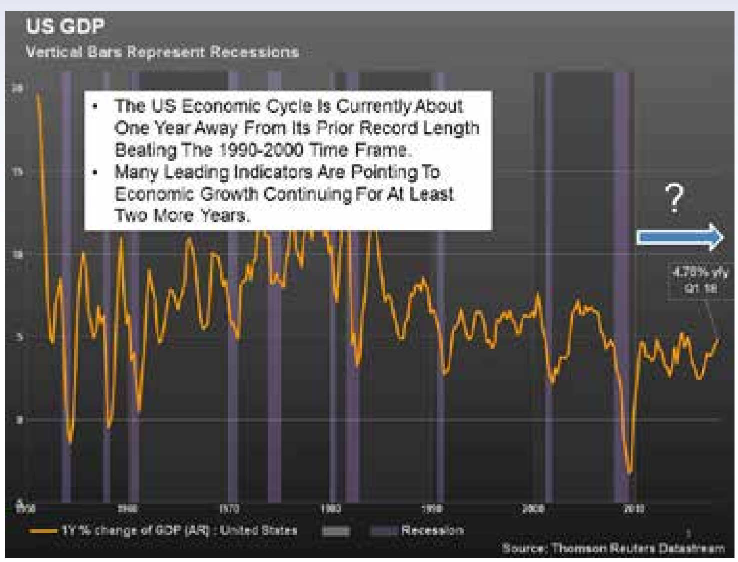
WINSLOW, EVANS & CROCKER

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

THE ECONOMY: THE LONGEST EXPANSION ON RECORD?

If the US expansion lasts through next year, a common expectation based on current and leading economic indicators, it will be the longest one on record. Chart #1 provides an excellent picture of where we are now compared to cycle lengths of the past 50 years. Knowing about when an economic cycle is to end is important from an investment perspective because bull markets, on average, have peaked about six months prior to the beginning of a recession.

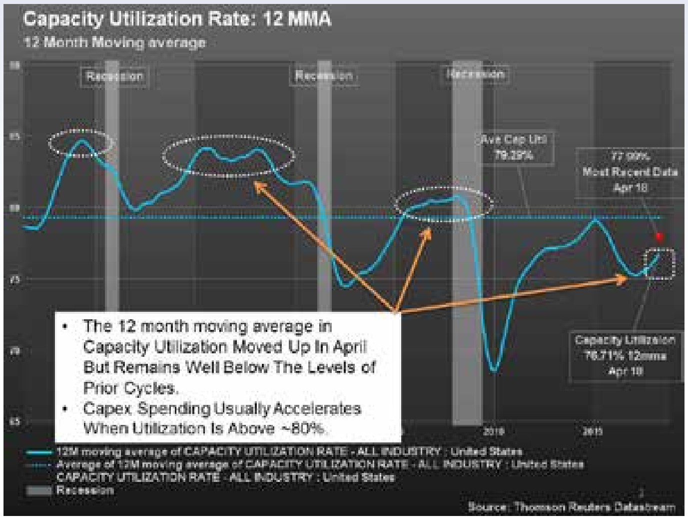
1



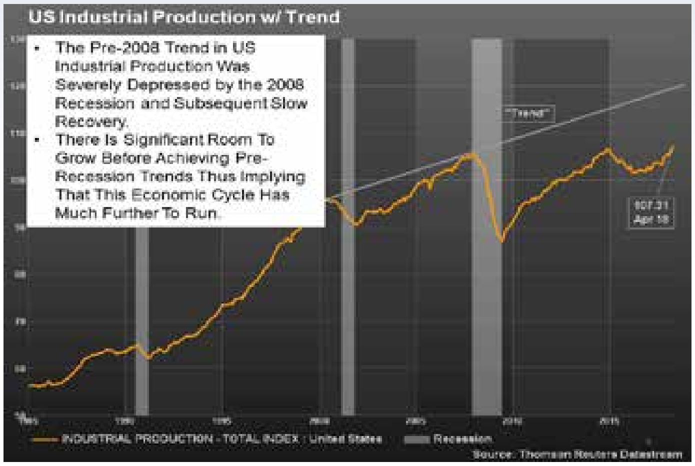
CHARTS 2-3

As we mentioned above there are several leading indicators which give us confidence that this economic cycle will last for at least a few more years. Chart #2 illustrates the economy's capacity utilization rate. You can plainly see that it remains well below its long term average as wellas being much lower than the peaks achieved during the prior three economic cycles which are circled in white. Although current levels of capital expenditures are showing signs of strength they have, historically, accelerated when utilization rates exceed 80%. This is clear evidence that this economic cycle is not near its end. Another indicator of an extended cycle is evidenced by industrial production in the US, Chart #3. This chart illustrates two points. First, after the deep recession of 2008 the recovery was very slow and thus industrial production grew at a rate that was significantly below its prior trend. Secondly, it is clear that industrial production has lots of room to grow which is another way of saying that this economic expansion is not yet late in the cycle.

2



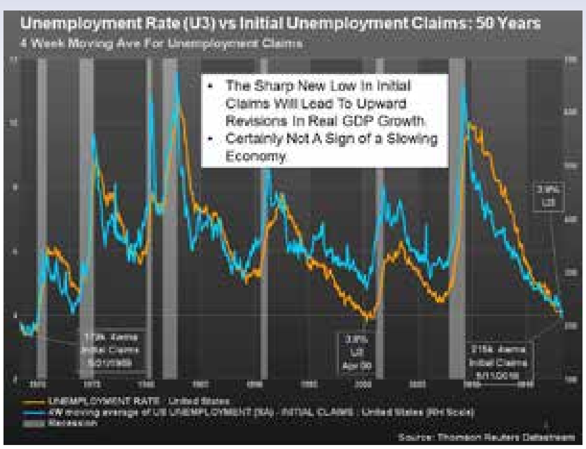
3



CHARTS 4-5

Further evidence that the economy continues to gain strength is found in the employment numbers on Charts #4 and #5. In Chart #4 we can see that initial unemployment claims and unemployment have broken through the floor of 50 year lows. This data is a very important indicator of economic strength and will force economists to increase their estimates of Real GDP growth which is certainly not a sign of a slowing economy. Furthermore, as shown in Chart #5, job openings have just rocketed to new highs. Earnings growth, however, remains modest and well below the peaks achieved over the past two cycles. The implication of this modest wage growth is that there may be more labor slack in the economy than reflected in official data and that inflation, while growing, will remain moderate. The rate of inflation increases will influence the US Federal Reserve's approach to monetary policy.

4

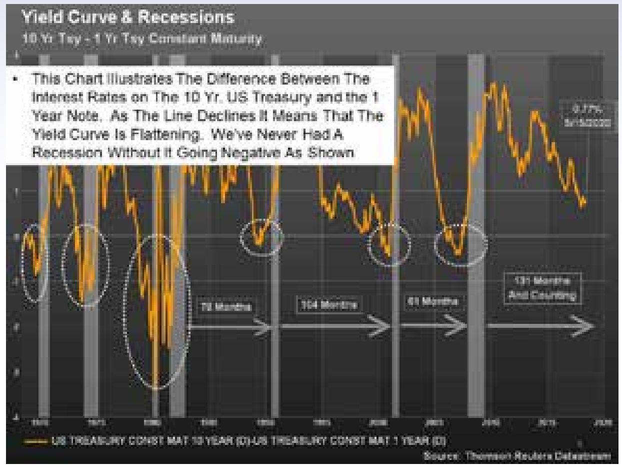


5

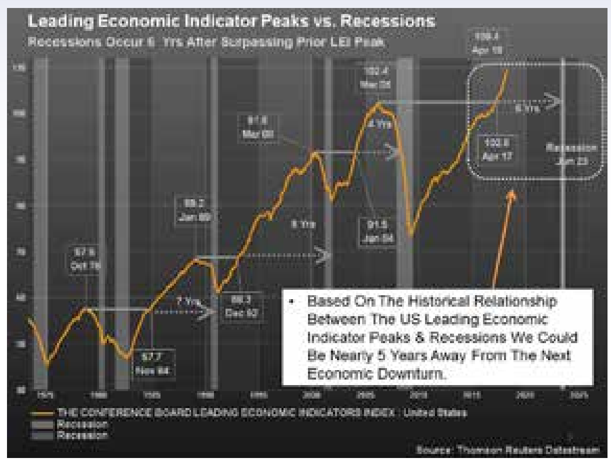
CHARTS 6-8

In Chart #6 we highlight the relationship between the yield curve and recessions which is another important indicator that we watch for hints on an impending economic downturn. This chart demonstrates two very important points. First, there has never been a recession without the yield curve inverting, or going negative, as illustrated by the white circles. As you can see we are still a ways from that happening. Secondly, this is the longest period in over 50 years that the yield curve has remained in positive territory which provides another hint of an extended economic cycle. Finally, in Chart #7, we examine the US Leading Economic Indicators from past economic cycles and find that when it exceeds the peak of a prior cycle the average time to the next recession averages six years. This implies that the next economic downturn will occur in 2023! Although this is a very optimistic scenario and certainly isn't the consensus it is well worth remembering that many economic prognosticators have seen events such as Brexit, Grexit, Tapering, Rate Hikes, the election of Trump and Student Loan defaults as catalysts for an imminent downturn which, of course, never occurred. It is interesting to note that Australia, a very commodity dependent economy, has managed to avoid an economic downturn since 1991, Chart #8! Although it certainly isn't the US economy it does show that an extended up cycle is certainly possible!

6



7



8

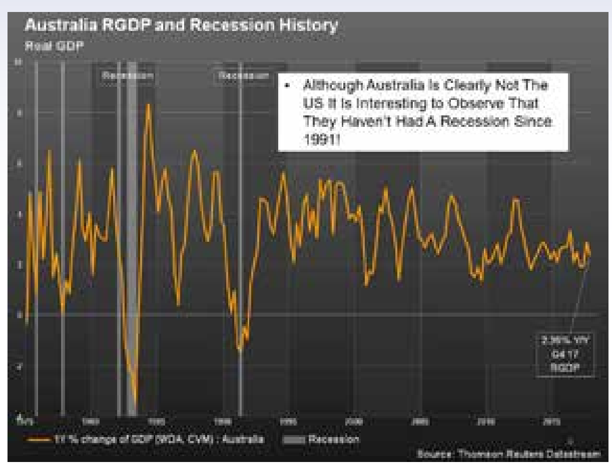
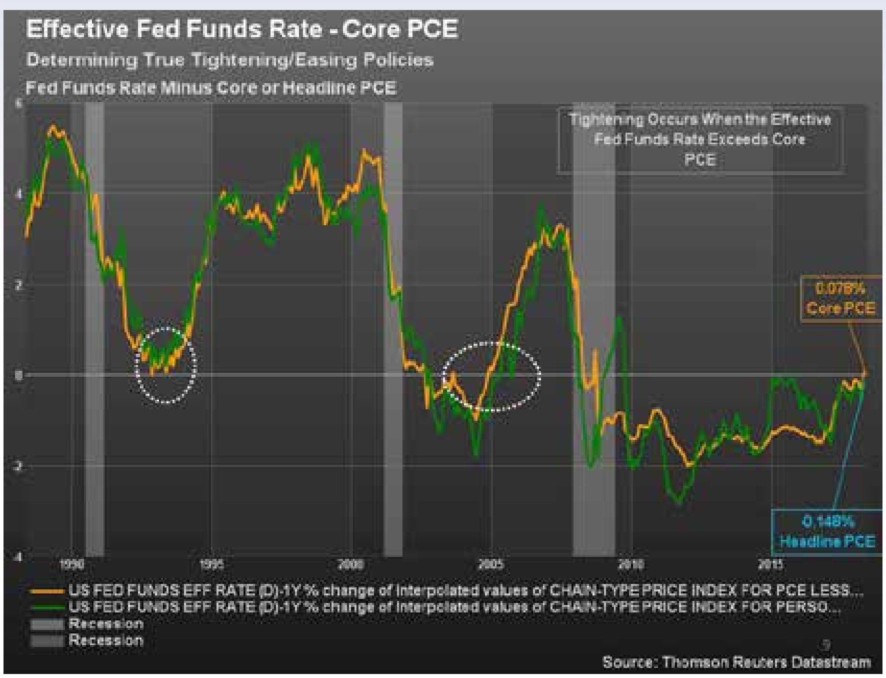


CHART 9

Another important indicator of the nearness of an economic recession is the speed and level at which the US Federal Reserve tightens monetary policy. Raising interest rates sharply and rapidly is the most common cause of recessions because it usually causes the yield curve to invert which, as mentioned above, is a precursor to an economic downturn. The tightness of the Fed's monetary policy can be observed by looking at the real, or after inflation, Fed Funds rate as shown in Chart #9. Here again by examining prior cycles we can see that the real Fed Funds rate must turn positive well before the start of a recession and that, as of today, it has barely begun to do so.

As all of the above arguments support the thesis that we are not in the late stages of this economic cycle it is still important to watch for signals that would change this outlook. One very important indicator to track is inflation which, if it should unexpectedly accelerate, would force the Federal Reserve to aggressively tighten monetary policy thus hastening the onset of another recession. So far, however, inflation indicators have been mixed. As mentioned above wage pressures have remained unusually muted for a labor market that is this tight although this could certainly change fairly quickly.

9



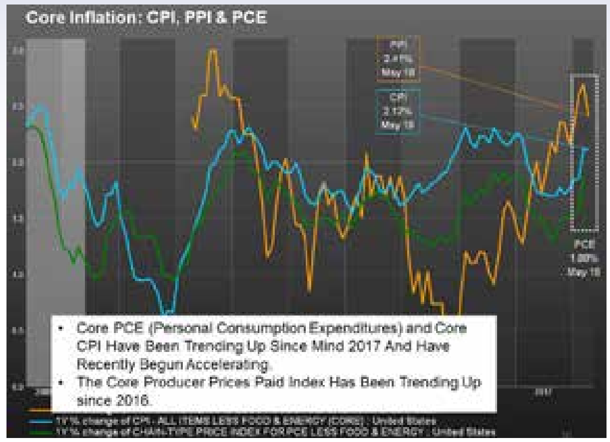
CHARTS 10-12

Other indicators such as the Producers Price Index and the Prices Paid Surveys, Chart #10, are all pointing to further upward pressure on prices. The Core PCE and CPI have recently accelerated. The data on Chart #11 confirms this upward trend in pricing pressure. The top half of the chart shows that prices paid in the regional surveys are trending up. The bottom half shows that the ISM Manufacturing prices paid are also trending up but, in contrast, the Non-Manufacturing prices paid have remained flat. If the economy were about to experience a sharp rise in inflation we would expect to see an increase in gold prices along with a drop in the yields on Treasury Inflation Protection Securities (TIPS). This, however, has not been the case as we can see on Chart #12.

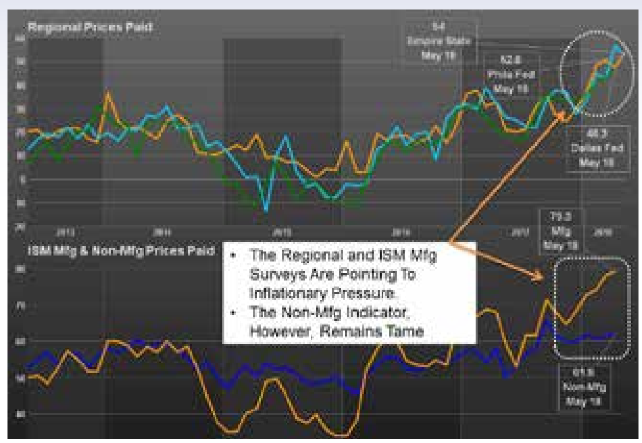
In conclusion, we have had to suffer a very tumultuous year in the stock market as investors have had to absorb mixed signals such as the threat of trade wars, the lowering of corporate taxes and the daily political soap opera emanating from Washington. By looking at the economic hard data along with the forward looking surveys we believe that this economic cycle will be one of the longest on record. With strong earnings growth, increasing capital expenditures, higher utilization and industrial production rates this bull market should also be one of the longest in several generations.

Please consult with your investment advisor if you would like to discuss how any of the above comments may impact your portfolio.

10



11



12