



Industrials Monthly

Sector Update

December 2017

****We recommend this report be viewed/printed in color****

Analyst: Spencer E. Joyce, CFA
502.588.8402 // sjoyce@hilliard.com

Institutional Sales Desk: George Moorin
502.588.9141 // gmoorin@hilliard.com

J.J.B. Hilliard, W.L. Lyons, LLC
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Industrials Sector

PRICE PERFORMANCE

November was the best month of the year thus far for Industrials, as measured by the Industrial Select Sector SPDR ETF (XLI). The XLI advanced 4.17% last month versus an S&P 500 rally of 2.81%; the iShares Russell 2000 (small cap) Index Fund (IWM) logged a 2.94% gain. Index-ETF performance and a potential ‘stock of interest’ from each of our 7 major sub-sectors [Aerospace & Defense, Rails, Airlines, Shipping, Machinery, Electric Components, and Conglomerates] is depicted in **Exhibit 1**. Our full industry comp table is on page 8.

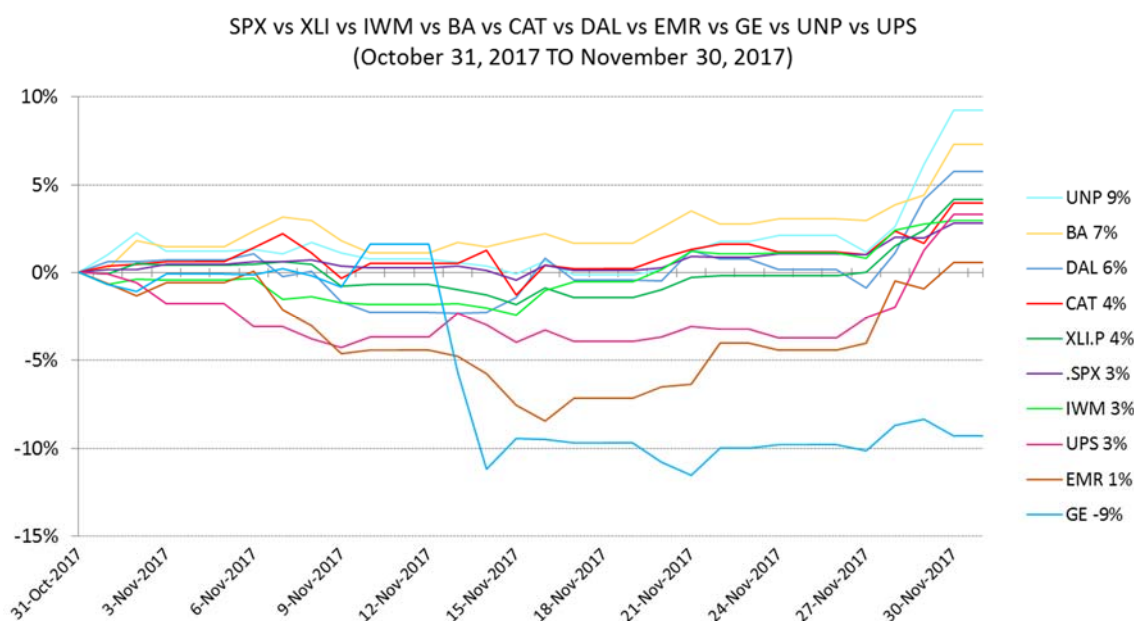
Performance for our coverage was mixed last month, largely keying off calendar Q3 earnings reports; on average the group was up ~6%, with a 26 percentage point range of performance (**Exhibit 2**). Aegion (AEGN) was far and above our strongest name in November on the back of Q3 results.

YTD through 12/9, the XLI has outperformed the S&P 500 by ~180bps, as a strong move into year-end has turned the tables. Both the Industrials sector and large-caps have outpaced SMID-caps; seemingly tax reform was priced into small stocks before reform was passed earlier this month (**Exhibit 3**).

Past performance is no guarantee of future results.

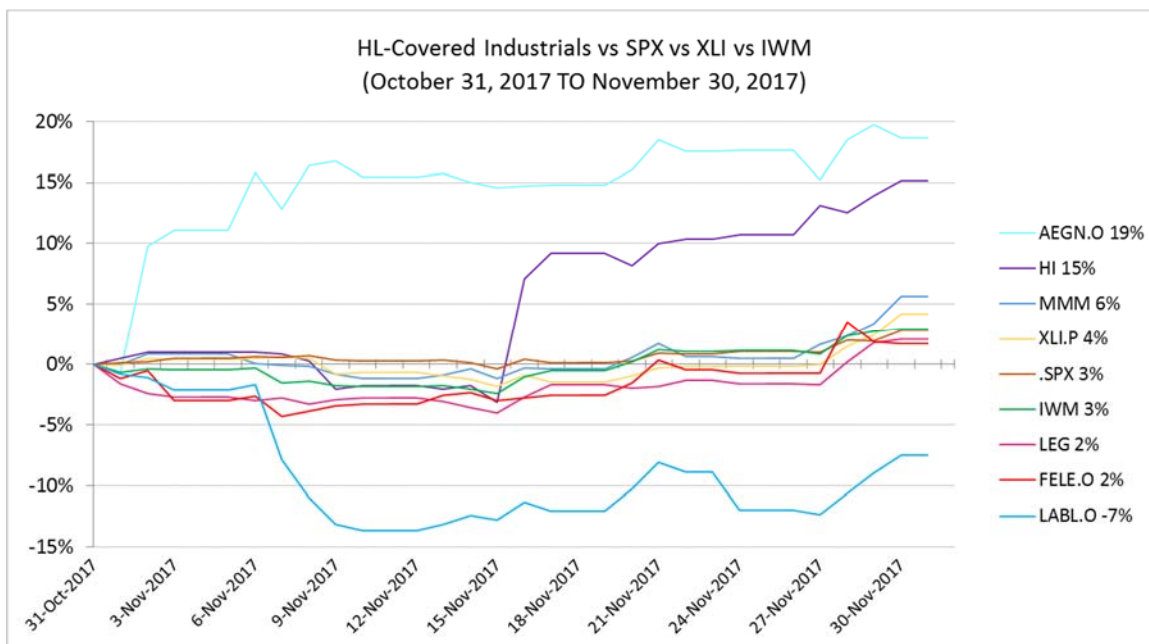
Since our prior *Industrials Monthly* we have published several notes on our Industrials coverage, perhaps most notably dropping AEGN to a Neutral rating and closing out a relatively quick trade (upgraded to Buy in October); at Aegion, we merely identified a more balanced risk/reward setup. In early December, we commented on investor events hosted by Hillenbrand and 3M Company, but left our ratings unchanged. As we move toward year-end, we assign a Long-term Buy rating to LEG; the balance of our coverage group is Neutral-rated: AEGN, FELE, HI, LABL, and MMM.

Exhibit 1
Industrials Sector Monthly Price Performance vs. S&P 500 vs. Russell 2000—Daily Chart



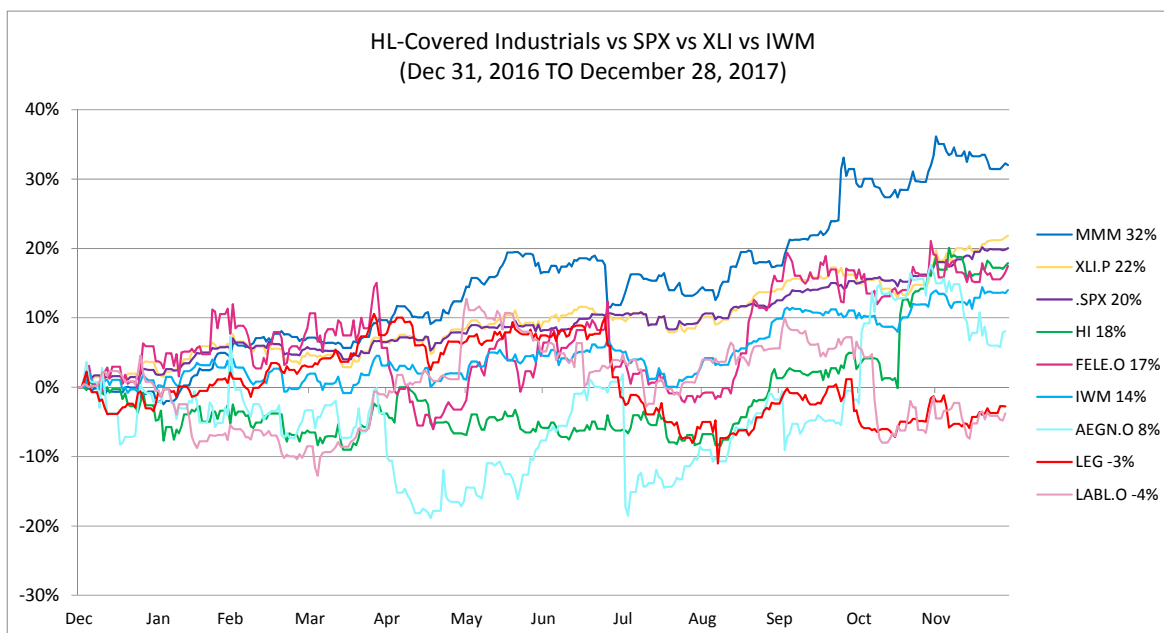
Source: Thomson Reuters SPX-S&P 500 Index; XLI-Industrials sector ETF; IWM-Russell 2k Index ETF; BA-Boeing; CAT-Caterpillar; DAL-Delta; EMR-Emerson; GE-General Electric; UNP-Union Pacific; UPS-United Parcel *Note: It is not possible to invest directly in an index*

Exhibit 2
Hilliard Lyons Covered Industrials Monthly Price Performance vs. S&P 500 vs. Russell 2000—Daily Chart



Source: Thomson Reuters SPX-S&P 500 Index; XLI-Industrials sector ETF; IWM-Russell 2k Index; AEGN-Aegion; FELE-Franklin Electric; HI-Hillenbrand; LABL-Multi-Color; LEG-Leggett & Platt; MMM-3M Company *Note: It is not possible to invest directly in an index*

Exhibit 3
Hilliard Lyons Covered Industrials YTD Price Performance vs. S&P 500 vs. Russell 2000—Daily Chart



Source: Thomson Reuters SPX-S&P 500 Index; XLI-Industrials sector ETF; IWM-Russell 2k Index; AEGN-Aegion; FELE-Franklin Electric; HI-Hillenbrand; LABL-Multi-Color; LEG-Leggett & Platt; MMM-3M Company *Note: It is not possible to invest directly in an index*

SECTOR COMMENTARY AND OUTLOOK

November was another month of gains for the Industrials sector as measured by the XLI, and March remains the sector's only 'down' month this year. The sector advanced 4.17% last month, which outpaced the nearly 3% gain for the S&P 500; Industrials have outperformed in 8 of 11 months thus far in 2017. Having perhaps priced in potential tax reform passed this month, the Russell 2000 small-cap index advanced about 3% as well, nearly in line with large cap stocks.

From our vantage point, a lot has gone right from a macro standpoint for the Industrials sector over the last few weeks. A strong third quarter earnings has seemingly been parlayed into heightened expectations for the fourth quarter and for the out years of 2018 and 2019, and incremental economic data has been strong, in our view. Continued stabilization of the energy and specialty materials/chemicals complexes, especially domestically, remains constructive for the sector from our vantage point, and the group is well-positioned to benefit from the tax changes (and potential implications for near-term economic growth) here in the US. Furthermore, the US Dollar has retreated toward lows for the year, keeping intact the potential for a nice revenue tailwind as market participants look toward 2018.

FY 2017 EPS expectations for our 31-company composite group total \$202.12, up about \$2 m/m, and nearly \$16 above the consensus summation from back in early-January. Current expectations suggest yr/yr growth in 2017 of 9.9%, after earnings declined by 1.5% in 2016. FY 2018 and 2019 expectations indicate yr/yr growth for our composite of 9.8% and 12.2%, respectively; composite estimate totals rose by a bit more for the out years than did 2017 expectations, suggesting some incremental optimism, in our view.

News flow to close out the year for our coverage group is likely highlighted by analyst events from 3M and Hillenbrand. Both companies initiated/reiterated outlooks for 2018 and stretch targets (through 2020). As much as bottom-up items however, we have been cognizant of potential implication of tax reform for our coverage (and the total sector), which ultimately passed just ahead of the Christmas holiday. Industrials are typically global firms, and will probably see just average benefit from lower statutory rates versus other sectors; however, we do see outsized benefit from potential demand driven immediate capital expensing and more money in the pockets of US retail customers.

Our core thesis for the sector is to favor the most resilient growth companies, geography agnostic, but we also suggest looking toward consumer-oriented names entering the New Year. In our view, the 'heavy' economy did well in 2017, and we see the potential for consumer-centric plays to catch up, in part portended by a strong holiday season. An item that has not changed is our affinity for the Defense industry.

We are reiterating our Marketweight allocation recommendation for the Industrials sector as we trade through December, but consider the assertion under review as we formulate our tactical strategy for early-2018. Q3 earnings season was quite strong and current economic data is supportive of the sector, in our view, although we hesitate to suggest this is not somewhat priced into the market, as expectations have risen for Q4'17 and FY 2018/2019. Due to some levitation in earnings expectations, valuation multiples have actually expanded over the past ~6 weeks for our composite group that is currently trading at average multiples of 21.8/19.8x/17.7x based on 2017E/2018E/2019E EPS.

Our current top pick in the space remains Leggett & Platt (LEG). The stock has levitated from lows for the year, but remains well below its own 52-week high. Earnings are likely to be down at Leggett for the full year when the company reports in February; however, much of the headwind is attributable to steel price inflation, which should actually support revenue growth in 2018 and into 2019. Furthermore, we like LEG's positioning in the consumer durables space amidst near-record consumer sentiment and exiting what we expect will be a strong holiday spending season. LEG is a member of the S&P 500 Dividend Aristocrats, and has raised its dividend for 46 consecutive years.

RECENT EVENTS -- Hilliard Lyons Coverage Universe (reverse chronological order)

For earnings announcements, quarterly results and rating actions, please consult our most recently published notes. Dividend announcements outside of raises and special items are omitted.

Leggett & Platt (LEG - \$47.53, Long-term Buy, \$66 TP) 12/15/17—According to local news reports, LEG announced the closing of Talbot Industries in Neosho, MO, resulting in the loss of about 120 jobs by late-April. A commensurate plant closure is to take place as well; Talbot was purchased by LEG in 1994.

3M Company (MMM - \$235.72, Neutral) 12/12/17—MMM unveiled its 2018 guidance at an event in NYC. 3M expects GAAP EPS in 2018 to be in the range of \$9.60 to \$10.00, representing high single-digit growth potential from reiterated 2017 GAAP EPS guidance in the range of \$9.00 to \$9.10 (the high end was emphasized). Revenue growth is expected to be 5% to 7%, which is inclusive of 1% bumps from FX translation and net M&A. The recently announced \$800MM divestiture of a communications-related division is not included in guidance.

Hillenbrand, Inc. (HI - \$45.20, Neutral) 12/12/17—Hillenbrand hosted an investor day in NYC. The company reaffirmed its 2018 guidance, and rolled out stretch targets for fiscal 2020. Over the next three fiscal years, HI's total revenue CAGR is expected to be in the 2% to 4% range; management expects a 'double digit' EPS growth CAGR during this period, but this is contingent on acquisition activity (5% to 7% ex-M&A).

Aegion Corp (AEGN - \$25.61, Neutral) 11/20/17—AEGN announced the resignation of David A. Martin from his position as Executive Vice President and Chief Financial Officer; Mr. Martin is expected to stay on as a special advisor to the company through March 31, 2018. VP and CAO David F. Morris has been appointed interim CFO. Aegion is considering both internal and external candidates for the role.

Hillenbrand, Inc. (HI - \$45.20, Neutral) 12/12/17—Management initiated FY 2018 adjusted EPS guidance of \$2.16 – \$2.28 on total revenue growth of 2% to 4%.

Multi-Color Corp. (LABL - \$74.65, Neutral) 11/6/17—With two quarters left in the fiscal year (ending March 2018), LABL dropped core EPS guidance to a range of \$3.80-\$3.90, from \$4.00.

Aegion Corp (AEGN - \$25.61, Neutral) 11/2/17—AEGN announced a \$40MM share repurchase program for 2018, which is additional to the current \$40MM program set to conclude at the end of the year.

Multi-Color Corp. (LABL - \$74.65, Neutral) 11/2/17—LABL closed its ~\$1.3B acquisition of Constantia Flexibles. The combined pro-forma company is expected to generate approximately \$1.7B in annual revenue, which is nearly double LABL's fiscal 2017 revenue. Additionally with the close, Executive Vice President and Head of Constantia Labels Mike Henry became LABL's CEO-elect with full transition expected in January 2018.

Leggett & Platt (LEG - \$47.53, Long-term Buy, \$66 TP) 10/27/17— Management raised the low end of FY adjusted 2017 EPS guidance by \$0.05 to \$2.45-\$2.50, on sales of \$3.95B-\$4.00B (low-end +\$0.05B).

3M Company (MMM - \$235.72, Neutral) 10/24/17—3M increased full year 2017 EPS guidance to \$9.00 - \$9.10 from \$8.80 - \$9.05, which is a GAAP number that includes several cents of special benefit we expect to hit in Q4; FY organic sales are now expected to be +4% to +5%, an effective 100bps hike.

Franklin Electric Co. (FELE - \$45.70, Neutral) 10/24/17—FELE narrowed FY 2017 EPS guidance from \$1.87-\$1.97 to \$1.88-\$1.92, an effective cut of \$0.02 to the mid-point.

HL INDUSTRIALS COVERAGE COMP SHEET—HL Estimates

		Actual // Estimate																		
Company	Ticker	Price 28-Dec-17	Target Price	Rating	Revenue TTM (\$MM's)	Mkt Cap (\$MM)	Price/ Book	LTD / Cap. (%)	EPS						5-Yr Avg P/E	3-Yr Avg EPS Growth	Curr EV/ EBITDA	Div. Yld.	TTM ROE (%)	30-day Avg. Vol.
									FY'16	FY'17E	FY'18E	FY'16	FY'17E	FY'18E						
Aegion Corp	AEGN	\$ 25.61	--	Neutral	1,343.3	833.0	1.7x	37%	\$1.11	<u>\$1.12</u>	<u>\$1.41</u>	23.2x	22.9x	18.1x	16.9x	-4.7%	9.0x	NULL	-7%	171,925
Franklin Electric	FELE	\$ 45.70	--	Neutral	1,076.3	2,129.5	3.0x	19%	\$1.66	<u>\$1.88</u>	<u>\$2.12</u>	27.6x	24.3x	21.6x	22.2x	-1.2%	15.5x	0.94%	13%	150,093
Hillenbrand	HI	\$ 45.20	--	Neutral	1,590.2	2,848.7	3.8x	36%	\$2.00	\$2.10	<u>\$2.27</u>	22.6x	21.5x	19.9x	15.5x	0.8%	11.5x	1.84%	18%	404,025
3M Company	MMM	\$ 235.72	--	Neutral	30,996.0	140,396.7	11.6x	49%	\$8.16	<u>\$8.97</u>	<u>\$9.67</u>	28.9x	26.3x	24.4x	20.4x	6.7%	16.9x	1.99%	45%	1,906,641
Leggett & Platt	LEG	\$ 47.53	\$ 66	LTB	3,863.0	6,265.3	5.4x	46%	\$2.49	<u>\$2.47</u>	<u>\$2.78</u>	19.1x	19.2x	17.1x	20.2x	17.4%	12.8x	3.03%	30%	811,157
Multi-Color Corp.	LABL	\$ 74.65	--	Neutral	953.1	1,525.9	2.9x	56%	\$3.22	\$3.61	<u>\$3.80</u>	23.2x	20.7x	19.6x	18.5x	19.0%	13.0x	0.27%		73,995
Averages:							4.7x	40.5%				24.1x	22.5x	20.1x	18.9x	6.34%	13.1x	1.6%		

Source: Company reports, Thomson Reuters, and Hilliard Lyons estimates

LABL (March fiscal year-end); HI (September fiscal year-end)

HL INDUSTRIALS COVERAGE COMP SHEET—Consensus Estimates

		Actual // Estimate																	
Company	Tkr	Price 28-Dec-17	Revenue TTM (\$MM)	Mkt Cap (\$MM)	Price/ Book	LTD / Cap. (%)	Consensus EPS						5-Yr Avg P/E	3-Yr Avg EPS Growth	Current EV/ EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
							FY'17E	FY'18E	FY'19E	FY'17E	FY'18E	FY'19E							
Aegion Corp	AEGN	\$ 25.61	1,343.3	833.0	1.7x	37.0%	<u>\$1.09</u>	<u>\$1.34</u>	<u>\$1.49</u>	23.4x	19.1x	17.1x	16.9x	-4.7%	9.0x	NULL	0.0%	3.9%	171,925
Franklin Electric	FELE	\$ 45.70	1,076.3	2,129.5	3.0x	19.3%	<u>\$1.90</u>	<u>\$2.11</u>	<u>\$2.38</u>	24.1x	21.6x	19.2x	22.2x	-1.2%	15.5x	0.9%	21.8%	1.4%	150,093
Hillenbrand	HI	\$ 45.20	1,590.2	2,848.7	3.8x	36.3%	\$2.11	<u>\$2.25</u>	<u>\$2.45</u>	21.4x	20.1x	18.4x	15.5x	0.8%	11.5x	1.8%	41.4%	1.8%	404,025
3M Company	MMM	\$ 235.72	30,996.0	140,396.7	11.6x	48.7%	<u>\$9.08</u>	<u>\$9.79</u>	<u>\$10.60</u>	26.0x	24.1x	22.2x	20.4x	6.7%	16.9x	2.0%	50.5%	1.2%	1,906,641
Leggett & Platt	LEG	\$ 47.53	3,863.0	6,265.3	5.4x	46.2%	<u>\$2.48</u>	<u>\$2.77</u>	<u>\$3.02</u>	19.2x	17.2x	15.7x	20.2x	17.4%	12.8x	3.0%	56.2%	6.6%	811,157
Multi-Color Corp	LABL	\$ 74.65	953.1	1,525.9	2.9x	55.5%	\$3.61	<u>\$3.84</u>	<u>\$4.46</u>	20.7x	19.5x	16.8x	18.5x	19.0%	13.0x	0.3%	5.8%	3.8%	73,995

Source: Company reports and Thomson Reuters

LABL (March fiscal year-end); HI (September fiscal year-end)

SELECT INDUSTRIALS SECTOR COMPARABLES—Consensus Estimates

Actual // Estimate

Company	Tkr	Price 28-Dec-17	Revenue TTM (\$MM)	Mkt Cap (\$MM)	Price/ Book	LTD / Cap. (%)	Consensus EPS			FY'17E	FY'18E	FY'19E	5-Yr Avg P/E	3-Yr Avg EPS Growth	Current EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
							FY'17E	FY'18E	FY'19E										
Aero & Defense																			
Boeing	BA	\$ 296.35	91,310.0	176,499.7	nm	88.4%	<u>\$10.21</u>	<u>\$11.08</u>	<u>\$13.11</u>	29.0x	26.7x	22.6x	18.5x	1%	15.8x	2.3%	51.6%	1.3%	3,183,340
General Dynamics	GD	\$ 203.86	30,929.0	60,869.1	5.3x	21.1%	<u>\$9.83</u>	<u>\$10.50</u>	<u>\$11.44</u>	20.7x	19.4x	17.8x	15.6x	12.0%	13.4x	1.6%	31.2%	0.7%	1,157,299
Lockheed Martin	LMT	\$ 322.10	49,663.0	92,357.1	44.0x	89.9%	<u>\$13.11</u>	<u>\$13.39</u>	<u>\$15.55</u>	24.6x	24.0x	20.7x	17.4x	9.0%	15.5x	2.5%	58.4%	0.9%	967,921
Northrup Grumman	NOC	\$ 308.29	25,566.0	53,666.7	8.3x	57.3%	<u>\$13.18</u>	<u>\$13.42</u>	<u>\$14.91</u>	23.4x	23.0x	20.7x	15.9x	13.4%	15.2x	1.3%	28.1%	1.1%	772,417
Raytheon	RTN	\$ 188.92	24,803.0	54,614.3	5.0x	33.5%	<u>\$7.61</u>	<u>\$8.29</u>	<u>\$9.42</u>	24.8x	22.8x	20.1x	17.0x	7.7%	14.9x	1.7%	41.2%	1.2%	1,223,021
Rails																			
CSX	CSX	\$ 55.00	11,582.0	49,154.8	4.5x	47.7%	<u>\$2.22</u>	<u>\$2.68</u>	<u>\$3.11</u>	24.8x	20.5x	17.7x	16.7x	-0.4%	11.7x	1.5%	39.1%	1.9%	9,055,864
Norfolk Southern	NSC	\$ 145.31	10,372.0	41,580.3	3.3x	42.3%	<u>\$6.48</u>	<u>\$7.12</u>	<u>\$7.79</u>	22.4x	20.4x	18.6x	16.4x	-1.3%	11.6x	1.7%	38.1%	1.5%	1,476,445
Union Pacific	UNP	\$ 135.12	20,958.0	106,362.3	5.6x	40.8%	<u>\$5.79</u>	<u>\$6.50</u>	<u>\$7.14</u>	23.3x	20.8x	18.9x	18.1x	2.5%	12.3x	2.0%	41.7%	1.7%	4,601,036
Airlines																			
American Airlines	AAL	\$ 52.46	41,396.0	25,102.1	6.4x	79.9%	<u>\$4.63</u>	<u>\$5.03</u>	<u>\$5.87</u>	11.3x	10.4x	8.9x	7.2x	25.2%	6.5x	0.8%	10.1%	4.8%	3,963,394
Delta Airlines	DAL	\$ 56.35	40,457.0	40,176.0	2.9x	31.6%	<u>\$4.97</u>	<u>\$5.65</u>	<u>\$6.33</u>	11.3x	10.0x	8.9x	9.8x	19.2%	5.6x	2.2%	18.2%	1.9%	6,723,409
United Continental	UAL	\$ 67.54	37,350.0	20,008.9	2.2x	52.7%	<u>\$6.34</u>	<u>\$6.34</u>	<u>\$7.41</u>	10.7x	10.7x	9.1x	12.0x	45.0%	4.9x	NULL	0.0%	3.6%	3,763,050
Southwest Airlines	LUV	\$ 65.87	20,973.0	39,086.4	4.4x	24.6%	<u>\$3.57</u>	<u>\$4.54</u>	<u>\$4.95</u>	18.5x	14.5x	13.3x	15.8x	49.6%	8.1x	0.8%	12.9%	2.1%	4,713,817
Shipping, Air/Ground																			
C.H. Robinson	CHRW	\$ 89.46	14,324.6	12,471.2	9.2x	19.4%	<u>\$3.32</u>	<u>\$3.71</u>	<u>\$4.02</u>	26.9x	24.1x	22.3x	21.2x	10.6%	16.1x	2.1%	53.5%	14.9%	1,486,725
Fed Ex	FDX	\$ 248.32	60,953.0	66,586.4	3.9x	48.1%	\$12.30	<u>\$13.01</u>	<u>\$15.70</u>	20.2x	19.1x	15.8x	17.3x		9.4x	0.8%	16.3%	1.5%	1,736,318
J.B. Hunt	JBHT	\$ 115.24	6,920.5	12,647.8	8.6x	41.1%	<u>\$3.68</u>	<u>\$4.54</u>	<u>\$5.26</u>	31.3x	25.4x	21.9x	24.7x	9.1%	13.1x	0.8%	24.0%	2.8%	816,877
UPS	UPS	\$ 119.05	63,974.0	102,589.1	nm	75.1%	<u>\$6.01</u>	<u>\$6.51</u>	<u>\$7.01</u>	19.8x	18.3x	17.0x	19.7x	8.0%	14.9x	2.8%	79.9%	0.9%	2,797,885
Machinery																			
Caterpillar	CAT	\$ 158.42	42,140.0	94,249.4	6.0x	45.6%	<u>\$6.45</u>	<u>\$7.92</u>	<u>\$9.24</u>	24.6x	20.0x	17.1x	17.5x	-16.1%	15.9x	2.0%	91.2%	2.2%	3,564,702
Cummins	CMI	\$ 177.20	19,455.0	29,409.4	3.9x	17.4%	<u>\$10.24</u>	<u>\$11.72</u>	<u>\$12.81</u>	17.3x	15.1x	13.8x	15.3x	3.1%	12.7x	2.4%	42.1%	3.0%	1,437,678
Deere	DE	\$ 157.70	29,737.7	50,668.5	5.3x	52.2%	<u>\$8.17</u>	<u>\$9.68</u>	<u>\$10.87</u>	19.3x	16.3x	14.5x	13.7x		13.8x	1.5%	35.8%	2.9%	2,384,712
Paccar	PCAR	\$ 71.44	18,072.5	25,119.0	3.2x	55.6%	<u>\$4.19</u>	<u>\$4.73</u>	<u>\$5.03</u>	17.0x	15.1x	14.2x	15.2x	5.3%	9.9x	1.4%	40.4%	2.6%	1,962,319
Electric Components																			
Eaton	ETN	\$ 78.16	20,058.0	34,961.0	2.1x	28.9%	<u>\$4.59</u>	<u>\$5.15</u>	<u>\$5.63</u>	17.0x	15.2x	13.9x	15.6x	0.6%	11.9x	3.1%	37.1%	1.9%	2,149,408
Emerson Electric	EMR	\$ 69.98		44,914.6	5.2x	28.3%	\$2.64	<u>\$2.91</u>	<u>\$3.27</u>	26.5x	24.1x	21.4x	17.7x	-11.0%	14.8x	2.8%	73.5%	1.3%	3,790,415
Rockwell Automation	ROK	\$ 197.53	6,311.3	25,383.2	9.5x	27.6%	\$6.76	<u>\$7.43</u>	<u>\$8.27</u>	29.2x	26.6x	23.9x	19.4x	3.1%	18.7x	1.7%	49.4%	0.6%	859,305
United Technologies	UTX	\$ 128.12	58,816.0	102,312.8	3.4x	40.7%	<u>\$6.61</u>	<u>\$6.84</u>	<u>\$7.46</u>	19.4x	18.7x	17.2x	16.8x	2.1%	11.5x	2.2%	41.0%	1.6%	3,030,268
Conglomerates																			
Danaher	DHR	\$ 93.56	17,828.3	65,080.8	2.6x	27.4%	<u>\$3.99</u>	<u>\$4.33</u>	<u>\$4.70</u>	23.4x	21.6x	19.9x	17.1x	1.8%	18.7x	0.6%	15.6%	0.9%	2,023,100
General Electric	GE	\$ 17.36	123,780.0	150,547.4	2.0x	48.7%	<u>\$1.07</u>	<u>\$1.03</u>	<u>\$1.24</u>	16.2x	16.9x	14.0x	17.9x	-3.1%	15.0x	2.8%	109.8%	1.4%	64,452,400
Honeywell	HON	\$ 154.13	39,676.0	116,647.2	5.6x	34.5%	<u>\$7.10</u>	<u>\$7.77</u>	<u>\$8.45</u>	21.7x	19.8x	18.2x	17.6x	9.9%	14.2x	1.9%	39.8%	1.3%	2,951,015
3M Corp	MMM	\$ 235.72	30,996.0	140,396.7	11.6x	48.7%	<u>\$9.08</u>	<u>\$9.79</u>	<u>\$10.60</u>	26.0x	24.1x	22.2x	20.4x	6.7%	16.9x	2.0%	50.5%	1.2%	1,906,641
Parker Hannifin	PH	\$ 199.21	12,650.8	26,540.0	4.8x	43.7%	\$8.11	<u>\$9.57</u>	<u>\$10.63</u>	24.6x	20.8x	18.7x	17.5x	7.9%	15.7x	1.3%	32.9%	1.5%	730,992
Other																			
Illinois Tool Works	ITW	\$ 166.71	14,084.0	57,114.7	11.4x	59.4%	<u>\$6.68</u>	<u>\$7.22</u>	<u>\$7.86</u>	25.0x	23.1x	21.2x	19.7x	15.8%	16.6x	1.9%	39.6%	1.0%	1,176,413
Waste Management	WM	\$ 86.29	14,293.0	37,468.5	7.1x	60.8%	<u>\$3.20</u>	<u>\$3.48</u>	<u>\$3.77</u>	26.9x	24.8x	22.9x	20.9x	10.6%	12.0x	2.0%	40.2%	1.6%	1,784,592
Averages: [BA thru WM]					6.8x	45.6%				21.8x	19.8x	17.7x	17.0x	8.5%	13.1x	1.8%	41.4%	2.2%	

Source: Company reports and Thomson Reuters

*All Companies BA thru WM are in the S&P 500

Data Points

CURRENCY PRICES—listed prices reflect average within specified period

blue = \$ terms

purple = Foreign terms

Currency Worksheet						Sept	Dec			March	June	Sept	Dec		
	FY'11	FY'12	FY'13	FY'14	FY'15	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	Q1'18E	
Dollar Index (DXY)	76.51	80.58	81.44	82.55	96.26	95.78	99.87	96.88	100.76	98.39	93.54	93.80		92.66	
\$ strength / (weakness)	-5.8%	5.3%	1.1%	1.4%	16.6%	-0.6%	2.2%	0.6%	3.4%	4.1%	-2.3%	-6.1%		-8.0%	
spot @ 12/28															
Developed Region FX															
Average Euro€ Price : EUR/USD (\$ strength) / weakness	\$ 1.325 -0.1%	\$ 1.287 -2.9%	\$ 1.328 3.3%	\$ 1.329 0.0%	\$ 1.117 -16.0%	\$ 1.116 0.3%	\$ 1.078 -3.8%	\$ 1.107 -0.9%	\$ 1.065 -3.5%	\$ 1.101 -2.6%	\$ 1.175 5.2%	\$ 1.176 9.1%		\$ 1.195 12.2%	
Average 1\$Pr in CAD : USD/CAD (\$ strength) / weakness	CAD 0.989 -4.0%	CAD 1.000 1.0%	CAD 1.030 3.1%	CAD 1.105 7.2%	CAD 1.278 15.7%	CAD 1.304 -0.3%	CAD 1.335 -0.1%	CAD 1.325 3.6%	CAD 1.323 -3.6%	CAD 1.344 4.3%	CAD 1.254 -3.8%	CAD 1.270 -4.9%		CAD 1.258 -4.9%	
Avg Aussie\$ Price : AUD/USD (\$ strength) / weakness	\$ 1.033 12.2%	\$ 1.036 0.3%	\$ 0.969 -6.5%	\$ 0.902 -6.8%	\$ 0.752 -16.7%	\$ 0.758 4.5%	\$ 0.749 4.3%	\$ 0.744 -1.1%	\$ 0.758 4.8%	\$ 0.751 0.7%	\$ 0.789 4.1%	\$ 0.768 2.5%		\$ 0.779 2.8%	
Average GBPE Price : GBP/USD (\$ strength) / weakness	\$ 1.604 3.8%	\$ 1.585 -1.2%	\$ 1.565 -1.3%	\$ 1.648 5.3%	\$ 1.532 -7.0%	\$ 1.313 -15.2%	\$ 1.242 -18.8%	\$ 1.357 -11.4%	\$ 1.239 -13.5%	\$ 1.280 -11.1%	\$ 1.309 -0.4%	\$ 1.325 6.7%		\$ 1.344 8.5%	
Average 1\$Pr in SFr : USD/CHF (\$ strength) / weakness	CHF 0.892 -14.4%	CHF 0.938 5.1%	CHF 0.927 -1.1%	CHF 0.916 -1.2%	CHF 0.963 5.1%	CHF 0.975 1.1%	CHF 1.002 1.2%	CHF 0.985 2.3%	CHF 1.004 1.2%	CHF 0.985 1.5%	CHF 0.963 -1.3%	CHF 0.987 -1.5%		CHF 0.979 -2.5%	
Average 1\$Pr in JapYen¥ : USD/JPY (\$ strength) / weakness	¥ 79.72 -9.2%	¥ 79.87 0.2%	¥ 97.59 22.2%	¥ 105.88 8.5%	¥ 120.88 14.2%	¥ 102.37 -16.2%	¥ 109.62 -9.3%	¥ 108.90 -9.9%	¥ 113.62 -1.5%	¥ 111.14 2.6%	¥ 111.00 8.4%	¥ 112.88 3.0%		¥ 112.88 -0.6%	
non-Developed/Emerging FX															
Average Brz Real Price (\$ strength) / weakness	\$ 0.59813 5.2%	\$ 0.51322 -14.2%	\$ 0.46517 -9.4%	\$ 0.42596 -8.4%	\$ 0.30429 -28.6%	\$ 0.30812 9.0%	\$ 0.30358 16.8%	\$ 0.288 -5.5%	\$ 0.31807 24.0%	\$ 0.31094 10.1%	\$ 0.31593 2.5%	\$ 0.30909 1.8%		\$ 0.30293 -4.8%	
Average S. Afr Rand Price (\$ strength) / weakness	\$ 0.13892 1.5%	\$ 0.12204 -12.2%	\$ 0.10394 -14.8%	\$ 0.09222 -11.3%	\$ 0.07946 -13.8%	\$ 0.07114 -7.5%	\$ 0.07186 -1.6%	\$ 0.068 -14.1%	\$ 0.07570 19.6%	\$ 0.07575 13.7%	\$ 0.07856 10.4%	\$ 0.07227 0.6%		\$ 0.08088 6.8%	
Average MexiPesoP Price (\$ strength) / weakness	\$ 0.0806 1.8%	\$ 0.0761 -5.7%	\$ 0.0784 3.1%	\$ 0.0752 -4.1%	\$ 0.0632 -15.9%	\$ 0.0533 -12.3%	\$ 0.0503 -16.2%	\$ 0.054 -15.2%	\$ 0.0493 -11.1%	\$ 0.0539 -2.6%	\$ 0.0561 5.2%	\$ 0.0530 5.4%		\$ 0.0506 2.7%	
Average 1\$Pr in S.KoreaWon₩ (\$ strength) / weakness	₩ 1,108.1 -4.2%	₩ 1,126.6 1.7%	₩ 1,094.6 -2.8%	₩ 1,052.9 -3.8%	₩ 1,128.4 7.2%	₩ 1,120.2 -4.3%	₩ 1,160.9 1.3%	₩ 1,161.2 2.9%	₩ 1,151.4 -4.1%	₩ 1,130.1 -2.8%	₩ 1,132.7 1.1%	₩ 1,112.6 -4.2%		₩ 1,069.6 -7.1%	
Average 1\$Pr in TurkLira₺ (\$ strength) / weakness	1.681 TL 11.5%	1.800 TL 7.1%	1.905 TL 5.8%	2.188 TL 14.9%	2.723 TL 24.5%	2.967 TL 3.9%	3.306 TL 13.7%	3.028 TL 11.2%	3.698 TL 25.7%	3.578 TL 23.5%	3.513 TL 18.4%	3.795 TL 14.8%		3.780 TL 2.2%	
Average 1\$Pr in IndiaRupee (\$ strength) / weakness	INR 46.7 2.1%	INR 53.5 14.5%	INR 58.5 9.5%	INR 61.0 4.3%	INR 64.0 4.8%	INR 67.0 3.1%	INR 67.4 3.3%	INR 67.2 5.0%	INR 67.0 -0.7%	INR 64.5 -3.6%	INR 64.2 -4.1%	INR 64.9 -3.8%		INR 64.1 -4.4%	
Average 1\$Pr in ChinaYuan (\$ strength) / weakness	¥ 6.464 -4.5%	¥ 6.308 -2.4%	¥ 6.149 -2.5%	¥ 6.162 0.2%	¥ 6.274 1.8%	¥ 6.666 5.8%	¥ 6.847 7.8%	¥ 6.645 5.9%	¥ 6.861 4.9%	¥ 6.854 5.0%	¥ 6.672 0.1%	¥ 6.617 -3.4%		¥ 6.532 -4.8%	
Average 1\$Pr in RUSRuble (\$ strength) / weakness	RUB 29.40 -3.2%	RUB 31.06 5.6%	RUB 31.85 2.5%	RUB 38.59 21.1%	RUB 60.58 57.0%	RUB 64.60 2.2%	RUB 63.01 -0.9%	RUB 67.26 11.0%	RUB 58.57 -22.5%	RUB 57.14 -13.3%	RUB 58.95 -8.7%	RUB 58.46 -7.2%		RUB 57.55 -1.7%	

Sources: Bloomberg, Thomson Reuters, Hilliard Lyons calculations

MONTHLY ECONOMIC STATISTICS

Macro Data--MONTHLY	Q2				Q3			Q4			2016			Q1			Q2			Q3			Q4	
	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16		Jan '17	Feb '17	Mar '17		Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sept '17	Oct '17	Nov '17				
LAST UPDATE Check: 12/28/2017																								
Business Spending																								
Cap Gds Orders, x-A&Def, Seas Adj m/m	-3.5%	-5.6%	-2.8%	-1.5%	0.5%	1.7%	0.8%		0.2%	0.1%	0.0%		0.3%	0.8%	-0.1%	1.3%	1.4%	2.3%	0.8%	-0.1%				
Durable Goods Orders, total, Seas Adj m/m	-4.3%	3.6%	0.2%	0.3%	5.0%	-4.7%	-0.9%		2.4%	1.4%	2.4%		-0.8%	0.0%	6.4%	-6.8%	2.1%	2.4%	-0.4%	1.3%				
Consumer Spending																								
Durable Goods, Real (FRED)--seas Adj	1571.4	1606.7	1583.3	1623.2	1644.2	1637.7	1664.6		1638.2	1643.4	1660.4		1671.4	1677.5	1684.5	1707.6	1685.9	1738.8	1736.8					
Non-Durable Goods, Real (FRED)--seas Adj	2510.0	2501.5	2501.0	2504.8	2515.3	2535.4	2539.8		2537.8	2530.0	2552.7		2560.1	2572.0	2567.6	2572.0	2582.1	2584.6	2596.8					
Energy																								
US Oil & Gas Rig Count, Mo Avg	417	449	481	509	544	580	634		683	744	789		853	893	931	953	947	940	922	911				
Year/Year change	-51.6%	-48.2%	-45.5%	-40.0%	-31.2%	-23.7%	-11.2%		4.5%	39.8%	65.1%		95.3%	119.2%	123.4%	112.4%	96.8%	84.7%	69.5%	57.1%				
Worldwide Crude Production, MM/day	79.7	80.37	79.86	80.23	81.26	82.29	81.73		80.76	80.94	80.41		79.89	80.42	81.24	81.24	80.79	81	81					
Oil Price: Refinery Acq Cost, \$/bbl	\$45.96	\$43.26	\$42.70	\$42.73	\$46.85	\$44.06	\$48.66		\$49.99	\$51.24	\$48.65		\$49.47	\$48.34	\$45.17	\$46.32	\$48.19	\$50.77	\$52.68					
Interest Rates & Money																								
Corporate BAA to AAA spread, in bps	103	94	92	90																				
2-yr Treasury Note-month end	0.73%	0.67%	0.74%	0.77%	0.86%	1.11%	1.20%		1.19%	1.22%	1.27%		1.28%	1.28%	1.38%	1.34%	1.33%	1.47%	1.60%	1.78%				
30-yr T-Bond-month end	2.45%	2.23%	2.26%	2.35%	2.58%	3.02%	3.06%		3.05%	2.97%	3.02%		2.96%	2.87%	2.84%	2.89%	2.73%	2.86%	2.88%	2.83%				
2-yr -- 30-yr spread, bps	172	156	152	158	172	191	186		186	175	175		168	159	146	155	140	139	128	105				
Labor Markets																								
Unemployment Rate, total 16+	4.9%	4.9%	4.9%	4.9%	4.8%	4.6%	4.7%		4.8%	4.7%	4.5%		4.4%	4.3%	4.4%	4.3%	4.4%	4.2%	4.1%	4.1%				
Monthly non-Farm Payrolls (in 000s)	+297k	+291k	+176k	+249k	+124k	+164k	+155k		+216k	+232k	+50k		+207k	+145k	+210k	+138k	+208k	+38k	+244k	+228k				
Misc Macro																								
Index of Leading Indicators (LEI), mthly chg	0.2%	0.5%	-0.2%	0.3%	0.2%	0.2%	0.6%		0.6%	0.5%	0.4%		0.2%	0.3%	0.6%	0.3%	0.4%	0.1%	1.2%	0.4%				
ISM Non-Manufacturing Index	56.1	54.9	51.7	56.6	54.6	56.2	56.6		56.5	57.6	55.2		57.5	56.9	57.4	53.9	55.3	59.8	60.1	57.4				
Prices & Costs																								
CPI: Core, % chg yr/yr	2.2%	2.2%	2.3%	2.2%	2.1%	2.1%	2.2%		2.3%	2.2%	2.0%		1.9%	1.7%	1.7%	1.7%	1.7%	1.7%	1.8%	1.7%				
PCE Price Index: Core, % chg y/y	1.6%	1.6%	1.7%	1.7%	1.8%	1.8%	1.8%		1.9%	1.9%	1.6%		1.6%	1.5%	1.5%	1.4%	1.3%	1.4%	1.4%	1.4%				
Production																								
ISM Total Index--PMI	52.8	52.3	49.4	51.7	52.0	53.5	54.5		56.0	57.7	57.2		54.8	54.9	57.8	56.3	58.8	60.8	58.7	58.2				
US Industrial Production Index	103.12	103.22	103.15	102.99	103.17	102.95	103.77		103.46	103.70	103.92		105.05	105.07	105.25	105.12	104.65	104.92	106.15	106.40				
Total Year/Year change	-0.8%	-1.2%	-1.3%	-1.2%	-0.8%	-0.4%	0.8%		0.0%	0.4%	1.4%		2.1%	2.3%	2.1%	1.8%	1.5%	1.9%	2.9%					
Retail Sales																								
Retail & Food Sales, nom% chg y/y (seas Adj)	2.8%	2.4%	2.2%	3.3%	4.2%	3.9%	4.4%		6.0%	5.1%	4.8%		4.6%	4.1%	3.4%	3.5%	3.5%	4.8%	4.9%	5.8%				
R&F Sales, x-Auto, nom% chg y/y (seas Adj)	3.2%	2.1%	2.1%	3.1%	4.0%	3.9%	3.6%		5.8%	5.5%	4.9%		4.7%	3.8%	2.7%	3.4%	4.1%	4.7%	4.6%	5.7%				
Trade & Currencies																								
ISM Export Orders Index (seas adj'd)	53.5	52.5	52.5	52.0	52.5	52.0	56.0		54.5	55.0	59.0		59.5	57.5	59.5	57.5	55.5	57.0	56.5	56.0				
Exports to China, \$B	8.8	9.2	9.4	9.6	12.7	12.1	11.6		10.1	9.8	9.6		9.8	10.2	9.7	10.0	10.9	10.8	13.0					
Transportation																								
Rails: Carloads Orign, in 000s	1,020.8	1,025.4	1,348.0	1,068.6	1,067.0	1,319.0	973.6		996.6	1,044.0	1,283.5		1,023.3	1,286.1	1,066.0	1,019.2	1,343.4	1,044.6	1,065.8	1,307.5				
Rails: Intermodal Orign, in 000s	1,064.2	1,002.4	1,327.3	1,040.9	1,075.8	1,319.2	1,011.9		1,021.1	1,068.4	1,298.2		1,052.0	1,339.4	1,113.6	1,058.4	1,401.1	1,080.4	1,144.2	1,369.2				
Rails: Cars + Intermodal, in 000s	2,085	2,028	2,675	2,110	2,143	2,638	1,986		2,018	2,112	2,582		2,075	2,625	2,180	2,078	2,744	2,125	2,210	2,677				
Total Year/Year change	-23.1%	-7.9%	-5.7%	-4.8%	-3.2%	1.2%	6.9%		0.5%	4.2%	5.5%		5.2%	6.4%	4.5%	2.5%	2.6%	0.7%	3.1%	1.5%				
TTINNSAV Trk Tonnage Index, seas Adj	137.1	134.2	137.7	134.4	134.3	142.8	134.9		138.9	138.8	137.4		135.4	144.7	138.4	139.1	145.7	142.9	148.4	151.8				

Source: American Trucking Assoc.; Assoc. of American Railroads; Census Bureau; Energy Information Administration; Institute for Supply Mgmt; US Fed; US Treasury; US Bureau of Economic Analysis
 Blue: metrics and values expressed in terms of % change, negative % change is bright red
 Purple: metrics and values expressed as a percentage of a separate metric, Dark Red: index values that indicate contraction (i.e. ISM <50)

QUARTERLY ECONOMIC STATISTICS—for data points reported monthly, the listed value could be either an average of monthly reads (i.e. rig count) or sum of monthly totals (i.e. railcars).

Macro Data—QUARTERLY	March	June	Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec			
	FY'14	Q1'15	Q2'15	Q3'15	Q4'15	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E
US Real GDP Growth—Q/Q-seas adj	2.6%	3.2%	2.7%	1.6%	0.5%	2.9%	0.6%	2.2%	2.8%	1.8%	1.5%	1.2%	3.1%	3.2%	
Yr / Yr Change	0.9%	4.1%	-1.9%	-3.6%	-1.5%	0.3%	-2.6%	-0.5%	1.2%	1.3%	-1.4%	0.6%	0.9%	0.4%	
LAST UPDATE Check: 12/28/2017															
WORLDWIDE NEWS		*CA port closure		*Dec: 1st Fed rate hike		*6/23--Brexit vote	*TUR coup	*US Prez election	*Rio Olympics	*Dec: 2nd Fed hike		*Mar: 3rd Fed hike	*June: 4th Fed hike	*Storms Harvey & Irma	
US Real GDP Drivers															
Consumption		2.5%	2.0%	1.9%	1.8%		1.2%	2.6%	1.9%	2.0%		1.3%	2.2%	1.5%	
Government Spending		0.3%	0.6%	0.2%	0.1%		0.3%	-0.2%	0.1%	0.0%		-0.1%	0.0%	0.1%	
Investment		2.1%	0.1%	0.3%	-1.1%		-0.7%	-0.5%	0.4%	1.3%		-0.2%	0.6%	1.2%	
Trade Balance		-1.6%	0.0%	-0.8%	-0.3%		-0.3%	0.3%	0.4%	-1.6%		0.2%	0.2%	0.4%	
TOTAL		3.2%	2.7%	1.6%	0.5%		0.6%	2.2%	2.8%	1.8%		1.2%	3.1%	3.2%	
Business Spending															
Cap Gds Order, x-A&Def, Seas Adj m/m		-2.2%	-3.1%	-4.9%	-2.3%		-4.4%	-4.1%	-3.3%	1.0%		0.1%	0.3%	1.7%	0.4%
Durable Goods Orders, tot, Seas Adj m/m		3.3%	0.0%	-1.6%	0.0%		0.8%	-1.3%	1.4%	-0.2%		2.1%	1.9%	-0.8%	0.5%
Industrial Equip, Seas Adj Annual Rt		2.1%	0.8%	-2.7%	3.2%		1.8%	1.1%	2.4%	2.2%		6.2%	7.7%	8.6%	
Consumer Spending															
Durable Goods, Real		7.3%	5.9%	5.6%	5.3%		4.3%	4.8%	6.1%	7.3%		6.7%	6.5%	6.1%	5.8%
Non-Durable Goods, Real		2.4%	2.6%	3.1%	2.4%		2.3%	3.0%	2.1%	2.5%		2.1%	1.9%	2.4%	2.9%
TTM Consumer Bankruptcies, in '000s		885.0	854.7	835.2	819.8		808.7	793.9	781.1	770.8		770.9	772.6	767.7	
Household Debt Service Ratio		9.93%	9.89%	9.92%	9.82%		9.82%	9.83%	9.88%	9.95%		9.92%	9.91%		
Energy															
US Oil & Gas Rig Count, Qtrr Avg		1,380	909	866	755		554	420	480	586		739	892	947	917
Year/Year change		-22.5%	-50.9%	-54.5%	-60.5%		-59.8%	-53.7%	-44.6%	-22.4%		33.3%	112.3%	97.4%	56.4%
Oil Price: Refinery Acq Cost, \$/bbl		\$47.97	\$57.43	\$47.58	\$40.61		\$30.78	\$42.18	\$42.90	\$46.52		\$49.96	\$47.66	\$48.43	\$52.68
Interest Rates & Money															
Corporate BAA to AAA spread, in bps		93	94	116	143		138	108	92						
2-yr Treasury Note—Qtrly Avg		0.60%	0.61%	0.69%	0.84%		0.84%	0.77%	0.73%	1.06%		1.23%	1.31%	1.38%	1.69%
30-yr T-Bond—Qtrly Avg		2.55%	2.89%	2.96%	2.96%		2.72%	2.57%	2.28%	2.89%		3.01%	2.89%	2.83%	2.86%
2-yr -- 30-yr spread, bps		195	227	227	212		189	179	155	183		179	158	145	117
Labor Markets															
Unemployment Rate, avg		5.6%	5.4%	5.2%	5.0%		4.9%	4.9%	4.9%	4.7%		4.7%	4.4%	4.3%	4.1%
Misc Macro															
Index Lead Indictrs, Approx total chg		0.4%	1.8%	-0.1%	0.7%		0.0%	0.5%	0.6%	1.0%		1.5%	1.1%	0.8%	
ISM Non-Manufacturing Index		57.0	56.5	58.2	56.9		53.8	55.1	54.4	55.8		56.4	57.3	56.3	58.8
Prices & Costs															
CPI-Core, % chg yr/yr		1.7%	1.8%	1.8%	2.0%		2.2%	2.2%	2.2%	2.1%		2.2%	1.8%	1.7%	1.8%
PCE Prc Idx: Core, %chg y/y		1.3%	1.3%	1.3%	1.4%		1.6%	1.6%	1.7%	1.8%		1.8%	1.5%	1.4%	1.4%
Production															
ISM Total Index--PMI		53.2	52.6	51.0	48.6		49.8	51.8	51.2	53.3		57.0	55.8	58.6	58.5
Retail Sales															
Retail & Food Sales, nom% chg y/y (seas Adj)		2.9%	2.1%	2.3%	2.0%		2.7%	2.7%	2.6%	4.2%		5.3%	4.0%	3.9%	5.4%
R&F Sales, x-Auto, nom% chg y/y (seas Adj)		1.6%	1.0%	1.3%	0.9%		2.4%	3.0%	2.4%	3.8%		5.4%	3.7%	4.1%	5.2%
Trade & Currencies															
ISM Export Orders Index (seas adj'd)		48.5	50.3	47.0	48.7		48.5	52.8	52.3	53.5		56.2	58.8	56.7	56.3
Exports to China, \$B Qtrly total		28.2	27.7	28.1	32.1		25.2	26.0	28.2	36.4		29.5	29.7	31.8	
Transportation															
Rails: Carloads Origin, in 000s		3,644.9	3,536.8	3,698.3	3,385.9		3,143.3	3,151.9	3,442.0	3,359.6		3,324.1	3,375.4	3,407.2	
Rails: Intermodal Origin, in 000s		3,289.7	3,570.5	3,556.2	3,292.5		3,339.6	3,373.4	3,370.6	3,406.9		3,387.7	3,505.0	3,539.9	
Rails: Cars + Intermodal, in 000s		6,935	7,107	7,255	6,678		6,483	6,525	6,813	6,767		6,712	6,880	6,947	
Year/Year change		8.8%	-2.4%	-8.0%	-6.5%		-6.5%	-8.2%	-6.1%	1.3%		3.5%	5.4%	2.0%	
Trucking Tonnage Index, seas Adj		133.4	132.7	133.8	134.1		137.9	137.2	135.4	137.3		138.4	139.5	142.6	150.1

Source: American Trucking Association; Association of American Railroads; Census Bureau Reports; Energy Information Administration; Institute for Supply Management; US Federal Reserve; US Treasury; US Bureau of Economic Analysis

Blue: metrics and values expressed in terms of % change, negative % change is bright red
 Purple: metrics and values expressed as a percentage of a separate metric
 Dark Red: index values that indicate contraction (i.e. ISM <50)

ECONOMIC COMMENTARY

ISM data indicated expansion (a read >50) in the US manufacturing sector for a 15th consecutive month in November, with a PMI print of 58.2 that was just off October's read of 58.7, but higher than any print across the first half of this year. November payrolls data of +228,000 is positioned to be the 2nd strongest month of 2017 (trailing October), with the Bureau of Labor and Statistics asserting a labor market more/less normalized post Hurricanes Irma and Harvey. November unemployment held at 4.1% month/month. We believe what will turn out to be a strong holiday shopping season is playing into a virtuous cycle of economic activity at current.

The 2-yr and 30-yr notes ended last month at 1.78% (+18 bps) and 2.83% (-5 bps), respectively, with the 105 basis point spread marking the tightest month-end margin this decade. This perhaps foreshadowed the FOMC's hike of its Fed Funds rate (+25 bps) to a target range of 1.25%-1.50% just this month, which met market expectations. The move marked the fifth rate hike this cycle, dating back to December of 2015.

The US Bureau for Economic Analysis' estimate for Q3'17 US GDP growth was finalized at 3.2% in late-November. Growth is indicated to have accelerated slightly on a seasonally adjusted basis from an annualized rate of 3.1% in Q2'17. Each of the four GDP components made a positive contribution to growth in the third quarter, with Consumption the most impactful driver (+1.5% contribution); Private Investment is the component 'most improved' relative to Q2 (+1.2% contribution versus +0.6%).

Incremental inflation data points over the past few weeks remained benign, with the PCE Price index (ex-food & energy) measuring 1.4% for October. Core-CPI for November at 1.7% (6th month of past 7) keeps the metric at its lowest level since May 2015.

Our current and holistic view of the US political economy remains positive. Tax cuts are likely to be a net positive, at least near-term, in our view, and the holiday shopping season seems supportive of continued expansion. Broadly, we remain more than comfortable with the preponderance of recent economic data.

CURRENCY PRICE COMMENTARY

We calculate the US Dollar Index (DXY) is positioned to average over 6% weaker this quarter versus average prices in Q4'17, which is accelerating weakness versus the -2.3% average we deduced for Q3'17. The greenback has mostly weakened since our last monthly in early-November, with the DXY just above lows for the year (made in September) at this point after giving back all of a small rally in early-December. Comps remain favorable for at least the first half of 2018, over which the DXY averaged 99-100. In our view, there are few noteworthy narratives in the (developed markets) forex arena at this point, although recent USD weakening amidst debt-funded tax cuts and rate hikes might be the most interesting conundrum.

Amongst our developing region pairs, the South African Rand has displaced the Turkish Lira as our most volatile pair of late; after costing an average of just over 7 cents for much of the fourth quarter, a Rand now costs over 8 cents following recent elections. After finding some strength mid-year, the Mexican Peso shed some of its value (versus the dollar) across the latter stages of 2017.

From an equity investing perspective, our view toward forex concerns remains constructive, although moves in January ahead of earnings season will likely be meaningful to the next round of modeling revisions made by analysts. FX impact to Q3'17 revenues was positive, and we are very comfortable asserting the same will hold for Q4'17. Projecting current prices forward, we see potential for dollar weakness to be a tailwind to revenue over the entirety of 2018, but especially over Qs 1 and 2.

We do not assume 'mean reversion' in FX, either thematically, or in modeling individual company revenue.

GLOSSARY

Australian Dollar (AUD): Australian unit of currency

Canadian Dollar (CAD, C\$): Canadian unit of currency

Cap Ex: capital expenditures; business investment in long-lived assets

Capital Goods Spending [economic data point]: attempts to quantify underlying demand for investment; used as an indicator for equipment spending in the National Accounts. Metric could exclude the most volatile components (aircraft and defense) and transportation (vehicles).

Chinese Yuan (CNY, C¥): Chinese unit of currency

Conglomerate: large corporation with numerous businesses across multiple industries

CPI: acronym for consumer price index, which is a gauge of inflation that measures prices paid by consumers.

CPI Core [economic data point]: measure of consumer inflation that is adjusted to exclude the impacts of food and energy prices, two of CPI's most volatile components. This metric is typically stated as a seasonally adjusted figure, expressed in terms of percentage change year-over-year.

DoE: US Department of Energy

Durable Goods: term to indicate long-lived goods such as: motor vehicles, furniture, consumer electronics, sporting equipment, jewelry, and books.

Durable Goods Orders [economic data point]: dollar amount of orders received by US manufacturers for long-lived goods; these data represent demand for capital goods and durable consumer items, but exclude US demand sourced overseas that appears as imports. Exports are included in the survey, which can make the data point difficult to interpret in times of volatile currency prices; similarly, monthly data can be volatile and moving averages are commonly cited. Durable Goods Orders is a metric often used as a leading indicator for production and demand components in GDP, such as capital spending.

DXY: U.S. Dollar Index, sometimes pronounced 'dixie.' An index of USD value measured relative to a weighted basket of currencies including: Euro, Yen, Pound, CAD, Swedish Krona, and Swiss Franc.

ETF: exchange traded fund, a pooled investment product that trades on an exchange, offering transparent pricing and intraday liquidity. Most ETFs are passively managed and track an index.

Euro (€): European Monetary Union unit of currency

FX: foreign currency exchange

GBP (£): (Great British Pound) UK's unit of currency

GDP: Gross Domestic Product, a measure of all goods and services produced by a nation's economy, less goods and services consumed in production. Components include: Consumption, Government Spending, Business Investment, and Net Exports.

Household Debt Service Ratio [economic data point]: household payments for both mortgage and consumer debt expressed as a percentage of disposable personal income. Metric can indicate the health of consumer balance sheets.

Index of Leading Indicators [economic data point]: an index derived via a weighted set of 10 financial and economic variables designed to predict the near-term future direction of the economy. The components are, casually: 1. weekly manufacturing hours; 2. initial unemployment claims, 3. manufacturer new orders for consumer goods, 4. Vendor performance, 5. manufacturer new orders for non-defense capital goods, 6. new housing permits, 7. S&P 500 price, 8. M2 money supply, 9. interest rate spread, 10yr T-bonds less fed funds, 10. consumer expectations.

Indian Rupee (₹): Indian unit of currency

Industrial Equipment Spending [economic data point]: capital spending on industrial equipment such as: fabricated metal products, engines, metalworking machinery, and electrical transmission apparatus. This metric is typically stated as a seasonally adjusted figure, expressed in terms of percentage change year-over-year.

ISM Export Orders Index [economic data point]: an index of new export orders; values greater than 50 usually indicate export expansion. This metric is seasonally adjusted.

ISM Non-Manufacturing Index [economic data point]: an index measuring the growth of non-manufacturing industries. The base value=50

ISM Total Index (Purchasing Managers Index or PMI) [economic data point]: an index that attempts to show the health of the manufacturing sector. The measure consists of a weighted average of production orders, inventories, supplier delivery times, and employment plans. Values greater than 50 usually indicate business expansion. The data is seasonally adjusted.

Japanese Yen (JPY, ¥): Japanese unit of currency

Korean Won (₩): Korean unit of currency

Lira (₺): Turkish unit of currency

Nominal: unadjusted for inflation; indicates actual observable figures (i.e. nominal interest rate)

Non-Durable Goods Spending [economic data point]: consumer expenditures on items such as: food, beverages, clothes, shoes, gas, tobacco, toiletries, and drugs.

PCE Price Index Core [economic data point]: an index measuring the prices paid for domestic purchases of goods and services, excluding food and energy. It is calculated from real and nominal personal consumption expenditures. PCE is the Federal Reserve's favored measure of inflation; PCE is a broader measure of consumer prices than the CPI.

Peso (₱): Mexican unit of currency

PPI: acronym for producer price index, which is a gauge of inflation that measures prices received by producers of good and service.

PPI Core [economic data point]: measure of producer inflation that is adjusted to exclude the impacts of food and energy prices, two of CPI's most volatile components. PPI measures the average change in price at all stages of production. This metric is typically stated as a seasonally adjusted figure, expressed in terms of percentage change year-over-year.

Rail Total Carloads [economic data point]: total carloads “**Originated**” measures (raw commodities, agricultural products, and nonmetallic minerals and products); “**Intermodal**” includes a wider range of goods including finished consumer products. Both measures are presented in nominal terms.

real: adjusted to neutralize the impact of inflation (i.e. real GDP)

Real (R\$): Brazilian unit of currency

Retail Sales [economic data point]: this measure represents sales by retail establishments that primarily sell goods. Automotive is typically about a fourth of the total, and is often separated out; because of small sample size data are subject to significant revisions which are sometimes more important than figures for the current month. The data is presented monthly, typically as a nominal percentage change yr/yr and seasonally adjusted.

Ruble (P): Russian unit of currency

Refinery Oil Acquisition Cost [economic data point]: weighted average of domestic import crude oil costs, including transportation and other fees paid by the refiner. The metric is presented in dollars per barrel.

Seasonally Adjusted: refers to a statistical technique that measures and removes the influences of predictable seasonal patterns. Functionally, this allows year-over-year changes to be examined on a sequential basis.

South African Rand (R): South African unit of currency

Swiss Franc (CHF): Swiss unit of currency

Trucking Tonnage (TTINNSAV) [economic data point]: The tonnage of goods shipped by truck.

Unemployment Rate [economic data point]: percentage of the civilian labor force who are actively seeking jobs. The figure is usually seasonally adjusted.

Upstream: portion of the oil & gas industry focused on exploration and production of crude products (also known as E&P)

YTD: year-to-date

****Adjective Scale Used in Text****

Least Intense:	Negligible/Immaterial
	Slight
	Mild/ Minor
	Modest
	Moderate
Most Intense:	Major/Severe

RECENTLY PUBLISHED RESEARCH (listed chronologically)

Industrials Monthly 12/29/17: December Sector Update.

Aegion Corp. (AEGN - \$25.61, Neutral) 12/21/17: Downgrading to Neutral.

Hillenbrand, Inc. (HI - \$45.20, Neutral) 12/14/17: Thoughts from Investor Day; Reiterating Neutral.

3M Company (MMM - \$235.72, Neutral) 12/13/17: 2018 Outlook Meeting; Reiterating Neutral Rating.

Hillenbrand, Inc. (HI - \$45.20, Neutral) 11/17/17: Solid Q4'17 Results from HI; Reiterating Neutral.

Industrials Monthly 11/9/17: November Sector Update.

Multi-Color Corp. (LABL - \$74.65, Neutral) 11/7/17: Mixed Q2'18 for LABL; Reiterating Neutral Rating.

Aegion Corp. (AEGN - \$25.61, Neutral) 11/2/17: Resilient Q3'17 from AEGN; Reiterating Buy Rating and Raising Price Target to \$30.

Leggett & Platt (LEG - \$47.53, Long-term Buy, \$66 TP) 10/27/17: Better than Expected Q3'17 from LEG; Reiterating Long-term Buy Rating.

Franklin Electric Co., Inc. (FELE - \$45.70, Neutral) 10/24/17: Mixed Q3 Results for FELE; Reiterating Neutral.

3M Company (MMM - \$235.72, Neutral) 10/24/17: Strong Q3'17 from MM; Reiterating Neutral Rating.

Industrials Monthly 10/19/17: October Sector Update.

Additional information is available upon request.

Prices and all price sensitive data as of Thursday, December 28, 2017, close

Analyst Certification

I, Spencer E. Joyce, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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Definitions of Ratings: **Buy** - We believe the stock has significant total return potential in the coming 12 months. **Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years. **Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise. **Underperform** - We believe the stock is vulnerable to a price decline in the next 12 months.

Definitions of Suitabilities: **1** - A large cap, core holding with a solid history. **2** - A historically secure company that could be cyclical, have a shorter history than a "1" or is subject to event driven setbacks. **3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage. **4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	13%	87%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 6 December 2017

Other Disclosures

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