HILLIARD LYONS

Industrials Monthly
Sector Update

February 2017

We recommend this report be viewed/printed in color

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Industrials Sector

PRICE PERFORMANCE

January marked a positive start to 2017 for the Industrials sector, as measured by the Industrial Select Sector SPDR ETF (XLI). The XLI advanced 1.86% last month; the S&P 500 large cap index rallied 1.79% and the iShares Russell 2000 (small cap) Index Fund (IWM) gained just 0.28%. 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.

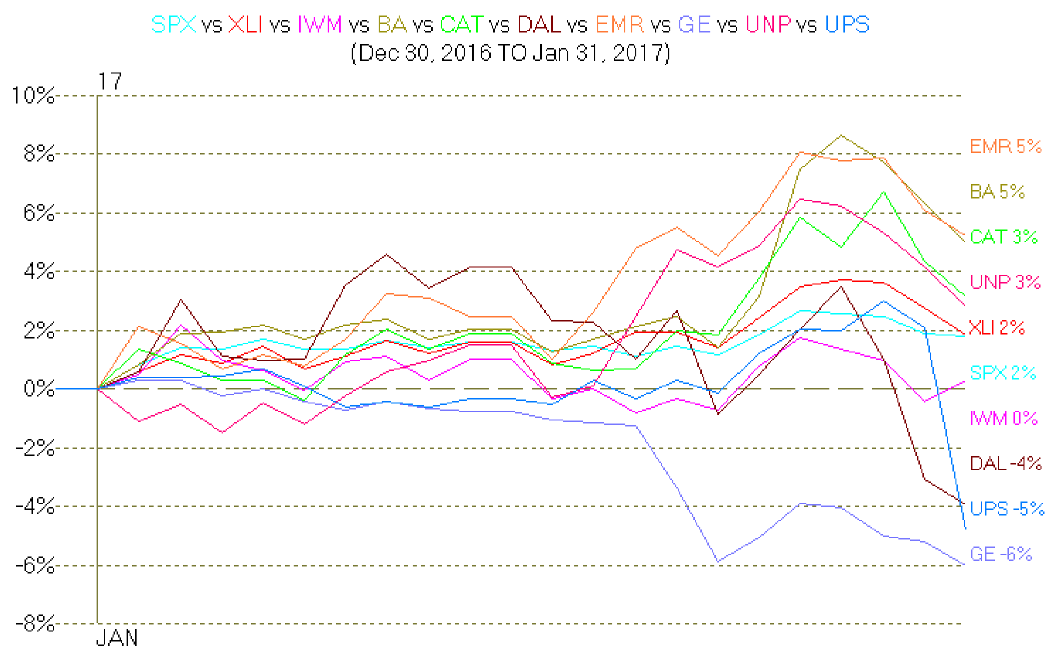
Performance for our coverage was comparatively weaker than the sector last month, with five of our six names lower in January **(Exhibit 2)**. Even our large-caps Leggett & Platt (LEG) and 3M Company (MMM) slipped last month; SMID-cap Franklin Electric (FELE) was our lone gainer to start the year.

Year-to-date through February 13, the XLI has maintained its outperformance, while small stocks continue to lag a bit. Performance is more mixed amongst our coverage, which is skewed toward SMID-cap names **(Exhibit 3)**.

Past performance is no guarantee of future results.

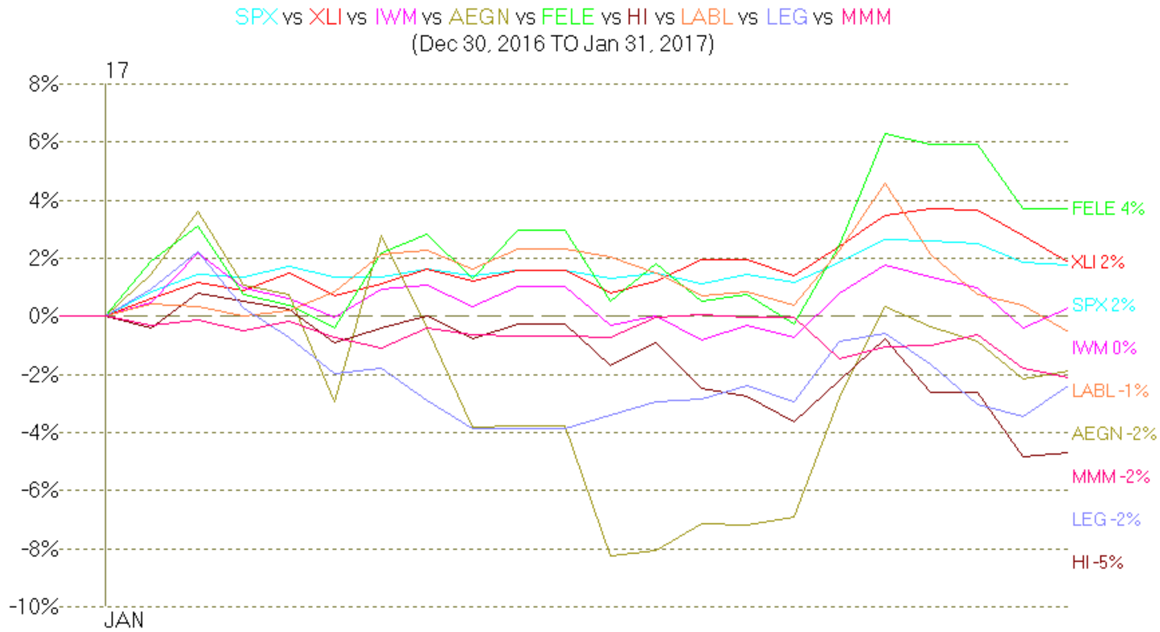
Across an active past month since our prior *Industrials Monthly* we have published on four of our six covered companies, perhaps most notably downgrading Multi-Color Corp. We expect to remain active in February with the sector finishing up earnings season. AEGN remains our lone Buy rating, while FELE, HI, LABL, LEG and MMM are all Neutral-rated.

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



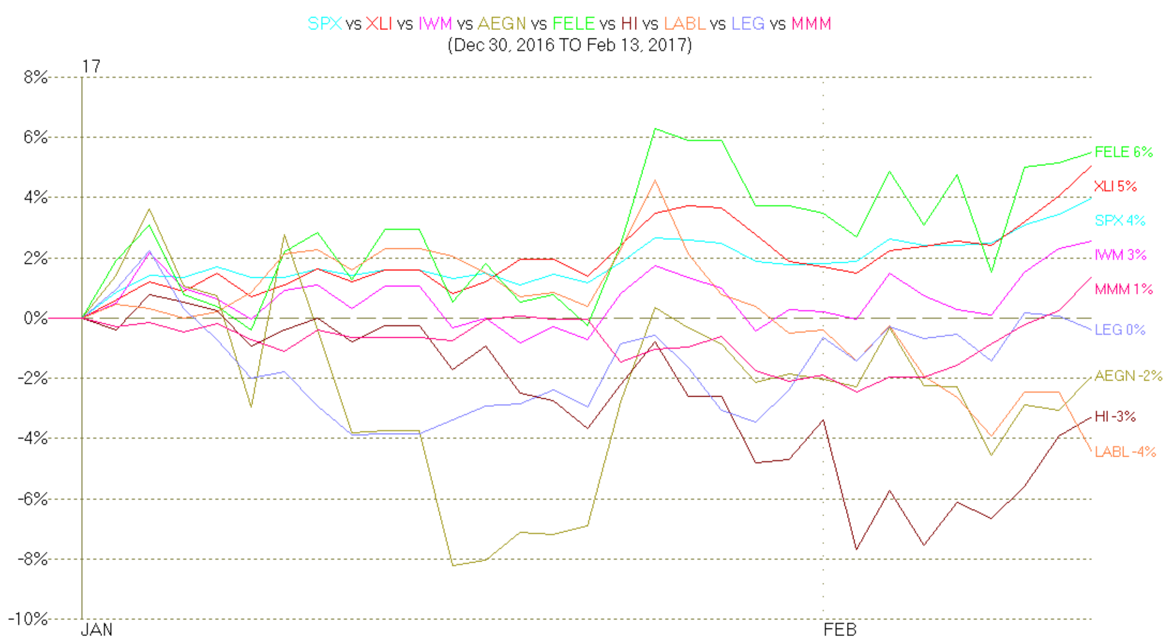
Source: Baseline SPX-S&P 500 Index; XLI-Industrials sector ETF; IWM-Russell 2k Index ETF; BA-Boeing; CAT-Caterpillar; DAL-Delta; EMR-Emerson; GE-General Electric; UNP-Union Pacific; UPS-United Parcel Svc. *Note: It is not possible to invest directly in an index*

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



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

SECTOR COMMENTARY AND OUTLOOK

After lagging a bit to close the year, the Industrials sector regained its footing in January, slightly outpacing a moderate move higher by the broader market. As measured by the XLI, the sector advanced 1.86%, which led a 1.79% rally for the S&P 500; both buckets of large-cap stocks bettered the Russell 2000 small-cap index, which advanced 0.28% last month.

Industrials stocks have mostly held early-year gains and maintained early-year strength across earnings season. With 60 of 69 S&P 500 Industrials components having reported, the sector has posted a -1.1% blended earnings growth rate (10th out of 11 sectors) on +1.4% revenue growth (10th place), although the surprise factor has been nearly in line with the broader market, particular in the sales column. Telling a bit stronger story, FY 2016 consensus EPS expectations for our 31-company composite group currently sit at $184.43. This has risen nearly $3 in the past six weeks, with only one company left to report a fiscal Q4'16.

We are a bit surprised that the sector has continued to outperform in February thus far (up ~5%, about 100bps ahead of the market). 2017 and 2018 earnings expectations for our composite group have tracked higher since the beginning of the year, but not to the extent of realized 2016 results, with multiple expansion fueling the outsized rally. We expect a firming of the energy patch continues to provide a tailwind, and we do acknowledge that a handful of economic data points are registering their strongest levels since the latter stages of 2014. Although raw cost tailwinds are likely abating across the space (holding back EPS), most companies seem to be fairly bullish on activity (top line) as we work through Q1.

Within our coverage group, the most interesting earnings report and/or recent news has likely come from Multi-Color Corp; LABL shares gapped lower by as much 16% after reporting a miss to Q3'17 consensus expectations on February 8, but rallied throughout the day to close lower by just 1.3%. LABL management admitted several self-inflicted wounds in the quarter, in a report that was reminiscent of the company's year-ago Q3, in our view. On the positive side however, LABL closed two acquisitions in January that should add some resiliency to top line expectations, and the company actually guided investors toward fiscal 2018 EPS of $4.00.

From a sector wide standpoint, we favor US-centric names where plausible, in what is truly an international sector. Domestic tax reform is likely to be comparatively less impactful for global players, while risks from a potential 'trade shock' or 'border tax' remain noteworthy for us at this point in the new administration. Along these lines, we continue to like the Defense industry, as a multi-year growth and capital allocation play, and pockets of SMID-cap exposure, where valuations are reasonable.

Although our move in January (from Overweight) has proved a bit premature thus far, we are keeping our Marketweight allocation recommendation for the Industrials sector as we trade through February. A relatively abrupt halt to the post-election US Dollar rally bodes well for the sector, in our view, although we still believe a level of strength for the sector may have been pulled forward into 2016 with the exuberance around infrastructure post-election. Valuation is not unreasonable, in our view, although we do caution that the group has substantially re-rated higher since this past summer. Our group is currently trading at average multiples of 20.0x/19.6x/17.4x based on 2016E/2017E/2018E EPS.

Aegion Corp. continues to mark our current top pick in the space, and at this point remains our lone positive rating in the sector following a late-January downgrade to Multi-Color Corp. Although we do not expect much from AEGN's to-be-reported Q4'16, we like owning the stock as the company replaces easy comparison quarters over most of 2017. Around $22-$23 per share, Aegion is trading at just ~7x our EBITDA estimate for this year on an Enterprise Value basis, which we view as quite compelling. Although the stock does not pay a regular dividend, the company does hold a $40MM repurchase authorization for this year. Our 1-year price target is $30, suggesting potential upside of ~29%.

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.

Multi-Color Corp. (LABL - $74.15, Neutral) 2/8/17—In conjunction with fiscal Q3'17 results, LABL announced two acquisitions that closed in January, representing collective TTM sales of $18MM. The separate purchases occurred in France and Australia. Management also guided to FY 2017/2018 EPS of $3.50/$4.00.

Multi-Color Corp. (LABL - $74.15, Neutral) 2/7/17—The LABL Board of Directors appointed Ari J. Benacerraf to the Chairmanship of the Compensation and Organizational Development Committee. The change follows the passing of Thomas M. Mohr in January.

3M Company (MMM - $181.02, Neutral) 2/7/17—MMM announced a 5.9% dividend hike, moving its quarterly payment to $1.175/share from $1.11/share. The raise marked the company 59th consecutive year of raising the dividend; MMM has paid a dividend consecutively for over 100 years.

Hillenbrand, Inc. (HI - $37.10, Neutral) 2/1/17—HI management reiterated fiscal year 2017 (ending 9/30/2017) EPS guidance in the range of $1.95-$2.10, on total revenue growth of +1% to +3%.

Leggett & Platt (LEG - $48.68, Neutral) 1/31/17—Management initiated 2017 EPS guidance in the range of $2.55-$2.75.

3M Company (MMM - $181.02, Neutral) 1/24/17—Management reiterated 2017 EPS guidance in the range of $8.45-$8.80.

Aegion Corp. (AEGN - $23.24, Buy, $30 TP) 1/11/17—AEGN issued an 'update to Q4 performance.' The company cited December weather and select pressure pipe delays as driving a $10MM revenue headwind to its Infrastructure Solutions platform. Somewhat offsetting this however, AEGN cited the Appomattox coating project as progressing well and driving positive financial impact in Q4, while also alerting investors to a $6.63MM legal verdict in the company's favor (an initial cash payment of $3MM+ occurred in Q4'16).

3M Company (MMM - $181.02, Neutral) 1/3/17—MMM completed the sale of its protective prescription eyewear business; operations were divested from the Personal Safety Division within the Safety & Graphics segment. This deal was first announced on December 8 and closed in line with 3M's initial projection.

Franklin Electric Co, Inc. (FELE - $41.05, Neutral) 12/16/16—FELE's Board of Directors voted to alter the company's fiscal calendar; Franklin's fiscal years now begin on 1/1 and conclude on 12/31. The prior fiscal format called for a 52/53 week year, ending on the Saturday nearest December 31.

3M Company (MMM - $181.02, Neutral) 12/8/16—MMM announced an agreement to sell its identity management business (~$215MM annual revenue). The $850MM sale to Gemalto is expected to close in 1H'17. This business is part of the Traffic Safety and Security Division, which sits within the Safety & Graphics segment.

Hillenbrand, Inc. (HI - $37.10, Neutral) 12/6/16—Hillenbrand declared a fiscal Q1'17 dividend of $0.2050/share, raising HI's indicated annual payment by $0.01 to $0.82/share. The magnitude of the hike (a penny raise per share per year) matches HI's status quo since becoming a standalone company in 2008.

HL INDUSTRIALS COVERAGE COMP SHEET—HL Estimates

Actual // *Estimate*

Company	Ticker	Price 13-Feb-17	Target Price	Rating	Revenue TTM ($MM's)	Mkt Cap ($MM)	Price/ Book	LTD / Cap. (%)	EPS FY'15	EPS FY'16E	EPS FY'17E	EPS FY'18E	P/E FY'15	P/E FY'16E	P/E FY'17E	P/E FY'18E	5-Yr Avg P/E	3-Yr Avg EPS Growth	Curr EV / EBITDA	Div. Yld.	TTM ROE (%)	30-day Avg. Vol.
Aegion Corp	AEGN	$ 23.24	$ 30	Buy	1,237.5	789.3	1.4x	39.0	$1.29	*$1.01*	*$1.53*	*$1.39*	18.0x	23.0x	15.2x	16.7x	16.3x	-5%	10.7x	0.0%	5.9	179,860
Franklin Electric	FELE	$ 41.05	--	Neutral	938.9	1,900.8	3.1x	20.0	$1.47	*$1.65*	*$1.81*	*$1.99*	27.9x	24.9x	22.7x	20.6x	21.1x	-6%	13.9x	1.0%	12.9	113,554
Hillenbrand	HI	$ 37.10	--	Neutral	1,538.4	2,339.4	3.4x	50.0	$2.05	$2.00	*$2.01*	*$2.26*	18.1x	18.5x	18.5x	16.4x	14.7x	2%	11.3x	2.2%	20.3	278,853
3M Company	MMM	$ 181.02	--	Neutral	30,109.0	108,877.4	7.9x	51.0	$7.72	$8.16	*$8.51*	*$8.94*	23.4x	22.2x	21.3x	20.2x	18.7x	6%	16.7x	2.6%	44.5	1,949,394
Leggett & Platt	LEG	$ 48.68	--	Neutral	3,749.9	6,507.5	5.3x	47.0	$2.34	$2.49	*$2.61*	*$2.78*	20.8x	19.6x	18.7x	17.5x	20.7x	19%	12.1x	2.8%	30.5	1,096,043
Multi-Color Corp.	LABL	$ 74.15	--	Neutral	870.8	1,255.4	3.3x	58.0	$3.20	$3.22	*$3.47*	*$3.78*	23.2x	23.0x	21.4x	19.6x	17.3x	14%	11.4x	0.3%	17	78,852
					Averages:		4.1x	44.2					21.9x	21.9x	19.6x	18.5x	18.1x	5.00%	12.7x	1.5%	21.9	

Source: Company reports, Baseline, 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 13-Feb-17	Revenue TTM ($MM)	Mkt Cap ($MM)	Price/ Book	LTD / Cap. (%)	Consensus EPS FY'16	Consensus EPS FY'17E	Consensus EPS FY'18E	P/E FY'16	P/E FY'17E	P/E FY'18E	5-Yr Avg P/E	3-Yr Avg EPS Growth	Current EV / EBITDA	Div. Yld.	Div. Payout (%)	30-day Avg. Vol.
Aegion Corp	AEGN	$ 23.24	1,230.8	789.3	1.4x	39.0	*$1.04*	*$1.54*	*$1.51*	22.3x	15.1x	15.4x	16.3x	-5%	10.7x	0.0%	0	179,860
Franklin Electric	FELE	$ 41.05	929.5	1,900.8	3.1x	20.0	*$2.92*	*$3.17*	*$3.43*	14.1x	12.9x	12.0x	21.1x	-6%	13.9x	1.0%	25	113,554
Hillenbrand	HI	$ 37.10	1,542.8	2,339.4	3.4x	50.0	$1.96	*$2.00*	*$2.26*	18.9x	18.6x	16.4x	14.7x	2%	11.3x	2.2%	41	278,853
3M Company	MMM	$ 181.02	30,109.0	108,877.4	7.9x	51.0	$8.16	*$8.62*	*$9.38*	22.2x	21.0x	19.3x	18.7x	6%	16.7x	2.6%	55	1,949,394
Leggett & Platt	LEG	$ 48.68	3,749.9	6,507.5	5.3x	47.0	$2.49	*$2.63*	*$2.83*	19.6x	18.5x	17.2x	20.7x	19%	12.1x	2.8%	54	1,096,043
Multi-Color Corp	LABL	$ 74.15	906.4	1,255.4	3.3x	58.0	$2.99	*$3.49*	*$3.82*	24.8x	21.2x	19.4x	17.3x	14%	11.4x	0.3%	6	78,852

Source: Company reports and Baseline

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

SELECT INDUSTRIALS SECTOR COMPARABLES—Consensus Estimates

Actual // *Estimate*

Company	Tkr	Price 13-Feb-17	Revenue TTM ($MM)	Mkt Cap ($MM)	Price/ Book	LTD / Cap. (%)	Consensus EPS FY'16	FY'17E	FY'18E	FY'16	FY'17E	FY'18E	5-Yr Avg P/E	3-Yr Avg EPS Growth	Current EV / EBITDA	Div. Yld.	Div. Payout (%)	30-day Avg. Vol.
Aero & Defense																		
Boeing	BA	$ 168.03	94,571.0	103,702.4	13.5x	92.0	$7.28	*$9.29*	*$10.13*	23.1x	18.1x	16.6x	16.9x	-7%	14.1x	3.4%	64	3,572,102
General Dynamics	GD	$ 186.60	31,353.0	56,823.4	4.5x	21.0	$9.88	*$9.76*	*$10.58*	18.9x	19.1x	17.6x	13.9x	13%	12.4x	1.6%	31	1,526,129
Lockheed Martin	LMT	$ 262.35	49,919.0	76,862.5	16.6x	90.0	$12.38	*$12.65*	*$14.10*	21.2x	20.7x	18.6x	15.2x	5%	13.2x	2.8%	56	1,373,745
Northrup Grumman	NOC	$ 239.08	24,508.0	42,140.7	6.2x	57.0	$11.50	*$11.89*	*$13.35*	20.8x	20.1x	17.9x	14.4x	11%	13.5x	1.5%	30	1,097,482
Raytheon	RTN	$ 151.85	24,069.0	44,590.3	4.0x	35.0	$6.91	*$7.40*	*$8.30*	22.0x	20.5x	18.3x	14.9x	4%	13.1x	1.9%	42	1,817,366
Rails																		
CSX	CSX	$ 47.91	11,069.0	44,875.4	3.6x	48.0	$1.81	*$2.01*	*$2.27*	26.5x	23.8x	21.1x	14.9x	0%	12.0x	1.5%	40	16,606,530
Norfolk Southern	NSC	$ 122.21	9,888.0	35,678.2	2.8x	44.0	$5.62	*$6.15*	*$6.85*	21.7x	19.9x	17.8x	15.0x	-6%	10.9x	2.0%	42	2,361,684
Union Pacific	UNP	$ 108.32	19,941.0	89,267.7	4.0x	42.0	$5.08	*$5.64*	*$6.33*	21.3x	19.2x	17.1x	17.3x	-1%	10.9x	2.2%	45	4,074,993
Airlines																		
American Airlines	AAL	$ 47.41	40,181.0	24,564.3	3.1x	86.0	$6.44	*$4.62*	*$5.35*	7.4x	10.3x	8.9x	10.7x		5.3x	0.8%	6	7,015,311
Delta Airlines	DAL	$ 50.06	39,639.0	36,863.4	2.7x	34.0	$5.31	*$5.23*	*$5.80*	9.4x	9.6x	8.6x	9.2x	25%	6.0x	0.0%	14	7,820,473
United Continental	UAL	$ 73.84	36,556.0	23,428.4	2.2x	55.0	$8.73	*$6.76*	*$8.11*	8.5x	10.9x	9.1x	12.3x	42%	4.3x	0.0%	0	3,555,414
Southwest Airlines	LUV	$ 55.73	20,425.0	34,307.3	3.8x	25.0	$3.75	*$3.89*	*$4.68*	14.9x	14.3x	11.9x	17.3x	41%	6.9x	0.7%	11	5,717,080
Shipping, Air/Ground																		
C.H. Robinson	CHRW	$ 76.98	13,144.4	10,901.1	7.8x	28.0	$3.59	*$3.68*	*$3.96*	21.4x	20.9x	19.4x	21.6x	12%	13.2x	2.3%	49	1,261,732
Fed Ex	FDX	$ 192.57	55,294.0	51,177.2	4.0x	48.0	$10.81	*$11.97*	*$13.47*	17.8x	16.1x	14.3x	17.6x	22%	7.8x	0.8%	13	1,471,158
J.B. Hunt	JBHT	$ 100.36	6,555.5	11,258.9	7.0x	41.0	$3.74	*$4.16*	*$4.77*	26.8x	24.1x	21.0x	24.5x	11%	11.8x	0.9%	24	970,294
UPS	UPS	$ 108.50	60,906.0	74,795.6	19.9x	81.0	$5.77	*$5.95*	*$6.47*	18.8x	18.2x	16.8x	19.5x	10%	9.8x	3.1%	55	3,369,681
Machinery																		
Caterpillar	CAT	$ 98.50	38,537.0	57,629.7	3.8x	63.0	$3.44	*$3.07*	*$4.37*	28.6x	32.1x	22.5x	14.8x	-27%	-	3.1%	90	4,705,576
Cummins	CMI	$ 152.85	17,509.0	25,614.6	3.3x	19.0	$8.54	*$8.05*	*$9.29*	17.9x	19.0x	16.5x	14.2x	3%	10.4x	2.7%	47	1,346,725
Deere	DE	$ 110.75	25,773.5	34,822.4	4.7x	78.0	$4.81	*$4.46*	*$5.26*	23.0x	24.8x	21.1x	11.9x	-27%	14.6x	2.2%	50	2,124,586
Paccar	PCAR	$ 69.87	16,144.0	24,492.0	3.1x	-	$3.85	*$3.55*	*$4.10*	18.1x	19.7x	17.0x	15.2x	6%	5.5x	1.4%	25	2,094,240
Electric Components																		
Eaton	ETN	$ 72.20	19,547.0	32,612.7	2.1x	34.0	$4.22	*$4.43*	*$4.89*	17.1x	16.3x	14.8x	14.4x	-1%	12.4x	3.2%	54	2,272,314
Emerson Electric	EMR	$ 64.15	18,770.0	41,234.1	4.8x	33.0	$2.98	*$2.52*	*$2.79*	21.5x	25.5x	23.0x	16.5x	-10%	11.8x	3.0%	66	4,015,749
Rockwell Automation	ROK	$ 152.01	5,943.2	19,492.2	7.2x	38.0	$5.93	*$6.29*	*$6.82*	25.6x	24.2x	22.3x	17.5x	0%	15.1x	2.0%	48	1,289,314
United Technologies	UTX	$ 112.02	57,244.0	92,237.9	3.1x	44.0	$6.61	*$6.55*	*$7.01*	16.9x	17.1x	16.0x	15.8x	-1%	10.6x	2.4%	40	3,083,385
Comglomerates																		
Danaher	DHR	$ 84.19	19,888.6	58,234.4	2.2x	30.0	$4.25	*$3.94*	*$4.28*	19.8x	21.4x	19.7x	15.8x	11%	14.0x	0.6%	13	2,629,255
General Electric	GE	$ 30.04	123,693.0	265,745.6	2.7x	64.0	$1.50	*$1.63*	*$1.91*	20.0x	18.4x	15.7x	16.6x	-5%	15.4x	3.2%	63	31,023,830
Honeywell	HON	$ 123.62	39,302.0	94,213.9	4.4x	38.0	$6.53	*$7.04*	*$7.66*	18.9x	17.6x	16.1x	16.8x	10%	12.4x	2.2%	39	3,156,521
3M Corp	MMM	$ 181.02	30,109.0	108,877.4	7.9x	51.0	$8.16	*$8.62*	*$9.38*	22.2x	21.0x	19.3x	18.7x	6%	16.7x	2.6%	55	1,949,394
Parker Hannifin	PH	$ 152.46	11,199.8	20,337.9	4.2x	37.0	$6.45	*$7.33*	*$7.85*	23.6x	20.8x	19.4x	15.7x	-2%	12.4x	1.7%	37	1,114,186
Other																		
Illinois Tool Works	ITW	$ 129.37	13,599.0	45,409.5	7.4x	63.0	$5.64	*$6.17*	*$6.83*	22.9x	21.0x	18.9x	18.2x	12%	14.3x	2.0%	44	1,298,325
Waste Management	WM	$ 70.84	13,395.0	31,311.5	5.5x	62.0	*$2.92*	*$3.16*	*$3.43*	24.3x	22.4x	20.7x	19.5x	9%	11.5x	2.3%	58	1,533,720
				Averages: [BA thru WM]	5.6x	47.8				20.0x	19.6x	17.4x	16.0x	5.5%	11.4x	1.9%	40.4	

Source: Company reports and Baseline

***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

	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	March Q1'16	June Q2'16	Sept Q3'16	Dec Q4'16	FY'16	March Q1'17E	June Q2'17E	Sept Q3'17E	Dec Q4'17E	FY'17E
Dollar Index (DXY)	81.20	76.51	80.58	81.44	82.55	96.26	97.41	94.48	95.78	99.87	96.88	100.34	100.34	100.34	100.34	
$ strength / (weakness)	0.7%	-5.8%	5.3%	1.1%	1.4%	16.6%	2.5%	-1.6%	-0.6%	2.2%	0.6%	3.0%	6.2%	4.8%	0.5%	
LAST UPDATE: 2/7/2016												spot @ 2/7				
Developed Region FX																
Average Euro€ Price : EUR/USD	$ 1.327	$ 1.325	$ 1.287	$ 1.328	$ 1.329	$ 1.117	$ 1.104	$ 1.130	$ 1.116	$ 1.078	$ 1.107	$ 1.069	$ 1.069	$ 1.069	$ 1.069	
($ strength) / weakness	-4.8%	-0.1%	-2.9%	3.3%	0.0%	-16.0%	-2.1%	2.1%	0.3%	-3.8%	-0.9%	-3.2%	-5.4%	-4.2%	-0.8%	
Average 1$Pr in CAD : USD/CAD	CAD 1.030	CAD 0.989	CAD 1.000	CAD 1.030	CAD 1.105	CAD 1.278	CAD 1.372	CAD 1.288	CAD 1.304	CAD 1.335	CAD 1.325	CAD 1.316	CAD 1.316	CAD 1.316	CAD 1.316	
$ strength / (weakness)	-9.7%	-4.0%	1.0%	3.1%	7.2%	15.7%	10.6%	4.8%	-0.3%	-0.1%	3.6%	-4.1%	2.2%	0.9%	-1.4%	
Avg Aussie$ Price : AUD/USD	$ 0.921	$ 1.033	$ 1.036	$ 0.969	$ 0.902	$ 0.752	$ 0.723	$ 0.746	$ 0.758	$ 0.749	$ 0.744	$ 0.764	$ 0.764	$ 0.764	$ 0.764	
($ strength) / weakness	16.2%	12.2%	0.3%	-6.5%	-6.8%	-16.7%	-8.1%	-4.1%	4.5%	4.3%	-1.1%	5.6%	2.4%	0.7%	1.9%	
Average GBP£ Price : GBP/USD	$ 1.546	$ 1.604	$ 1.585	$ 1.565	$ 1.648	$ 1.532	$ 1.433	$ 1.440	$ 1.313	$ 1.242	$ 1.357	$ 1.247	$ 1.247	$ 1.247	$ 1.247	
($ strength) / weakness	-1.3%	3.8%	-1.2%	-1.3%	5.3%	-7.0%	-5.4%	-6.1%	-15.2%	-18.8%	-11.4%	-13.0%	-13.4%	-5.1%	0.4%	
Average 1$Pr in SFr : USD/CHF	CHF 1.043	CHF 0.892	CHF 0.938	CHF 0.927	CHF 0.916	CHF 0.963	CHF 0.993	CHF 0.971	CHF 0.975	CHF 1.002	CHF 0.985	CHF 0.997	CHF 0.997	CHF 0.997	CHF 0.997	
$ strength / (weakness)	-3.9%	-14.4%	5.1%	-1.1%	-1.2%	5.1%	4.1%	3.1%	1.1%	1.2%	2.3%	0.4%	2.7%	2.2%	-0.5%	
Average 1$Pr in JapYen¥ : USD/JPY	¥ 87.77	¥ 79.72	¥ 79.87	¥ 97.59	¥ 105.88	¥ 120.88	¥ 115.31	¥ 108.30	¥ 102.37	¥ 109.62	¥ 108.90	¥ 112.07	¥ 112.07	¥ 112.07	¥ 112.07	
$ strength / (weakness)	-6.2%	-9.2%	0.2%	22.2%	8.5%	14.2%	-3.2%	-10.8%	-16.2%	-9.3%	-9.9%	-2.8%	3.5%	9.5%	2.2%	
non-Developed/Emerging FX																
Average Brz Real Price	$ 0.56851	$ 0.59813	$ 0.51322	$ 0.46517	$ 0.42596	$ 0.30429	$ 0.25641	$ 0.28241	$ 0.30812	$ 0.30358	$ 0.288	$ 0.31991	$ 0.31991	$ 0.31991	$ 0.31991	
($ strength) / weakness	12.4%	5.2%	-14.2%	-9.4%	-8.4%	-28.6%	-26.5%	-13.3%	9.0%	16.8%	-5.5%	24.8%	13.3%	3.8%	5.4%	
Average S. Afr Rand Price	$ 0.13682	$ 0.13892	$ 0.12204	$ 0.10394	$ 0.09222	$ 0.07946	$ 0.06328	$ 0.06665	$ 0.07114	$ 0.07186	$ 0.068	$ 0.07457	$ 0.07457	$ 0.07457	$ 0.07457	
($ strength) / weakness	13.8%	1.5%	-12.2%	-14.8%	-11.3%	-13.8%	-25.7%	-19.5%	-7.5%	-1.6%	-14.1%	17.9%	11.9%	4.8%	3.8%	
Average MexiPeso₱ Price	$ 0.0792	$ 0.0806	$ 0.0761	$ 0.0784	$ 0.0752	$ 0.0632	$ 0.0555	$ 0.0553	$ 0.0533	$ 0.0503	$ 0.054	$ 0.0485	$ 0.0485	$ 0.0485	$ 0.0485	
($ strength) / weakness	6.8%	1.8%	-5.7%	3.1%	-4.1%	-15.9%	-17.0%	-15.2%	-12.3%	-16.2%	-15.2%	-12.7%	-12.4%	-9.1%	-3.6%	
Average 1$Pr in S.KoreaWon₩	₩ 1,156.3	₩ 1,108.1	₩ 1,126.6	₩ 1,094.6	₩ 1,052.9	₩ 1,128.4	₩ 1,200.6	₩ 1,163.0	₩ 1,120.2	₩ 1,160.9	₩ 1,161.2	₩ 1,143.3	₩ 1,143.3	₩ 1,143.3	₩ 1,143.3	
$ strength / (weakness)	-9.5%	-4.2%	1.7%	-2.8%	-3.8%	7.2%	9.1%	6.0%	-4.3%	1.3%	2.9%	-4.8%	-1.7%	2.1%	-1.5%	
Average 1$PR in TurkLira£	1.508 TL	1.681 TL	1.800 TL	1.905 TL	2.188 TL	2.723 TL	2.941 TL	2.897 TL	2.967 TL	3.306 TL	3.028 TL	3.740 TL	3.740 TL	3.740 TL	3.740 TL	
$ strength / (weakness)	-3.0%	11.5%	7.1%	5.8%	14.9%	24.5%	19.4%	8.7%	3.9%	13.7%	11.2%	27.2%	29.1%	26.1%	13.1%	
Average 1$Pr in IndiaRupee	INR 45.7	INR 46.7	INR 53.5	INR 58.5	INR 61.0	INR 64.0	INR 67.5	INR 66.9	INR 67.0	INR 67.4	INR 67.2	INR 67.4	INR 67.4	INR 67.4	INR 67.4	
$ strength / (weakness)	-5.5%	2.1%	14.5%	9.5%	4.3%	4.8%	8.4%	5.3%	3.1%	3.3%	5.0%	-0.2%	0.7%	0.6%	-0.1%	
Average 1$Pr in ChinaYuan	¥ 6.769	¥ 6.464	¥ 6.308	¥ 6.149	¥ 6.162	¥ 6.274	¥ 6.538	¥ 6.529	¥ 6.666	¥ 6.847	¥ 6.645	¥ 6.882	¥ 6.882	¥ 6.882	¥ 6.882	
$ strength / (weakness)	-0.9%	-4.5%	-2.4%	-2.5%	0.2%	1.8%	4.8%	5.2%	5.8%	7.8%	5.9%	5.3%	5.4%	3.2%	0.5%	
Average 1$Pr in RUSRuble	RUB 30.37	RUB 29.40	RUB 31.06	RUB 31.85	RUB 38.59	RUB 60.58	RUB 75.52	RUB 65.90	RUB 64.60	RUB 63.01	RUB 67.26	RUB 59.28	RUB 59.28	RUB 59.28	RUB 59.28	
$ strength / (weakness)	-4.4%	-3.2%	5.6%	2.5%	21.1%	57.0%	20.2%	25.0%	2.2%	-0.9%	11.0%	-21.5%	-10.0%	-8.2%	-5.9%	

Sources: Bloomberg Terminal, Thomson One, Hilliard Lyons calculations

MONTHLY ECONOMIC STATISTICS

Macro Data--MONTHLY	Q2		Q3			Q4			2015	Q1			Q2			Q3			Q4			2016	Q1
	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15		Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16		Jan '17
LAST UPDATE Check: 2/13/2017																							
Business Spending																							
Cap Gds Orders, x-A&Def, Seas Adj m/m	-1.4%	-6.6%	-1.7%	-5.8%	-7.1%	0.3%	-0.1%	-7.1%		-5.2%	-3.3%	-4.6%	-4.7%	-4.0%	-3.5%	-5.6%	-2.8%	-1.5%	0.5%	1.7%	0.7%		
Consumer Spending																							
Durable Goods, Real (FRED)	1470.1	1455.3	1473.9	1484.1	1487	1483.2	1532.5	1534.8		1518.7	1528.9	1527	1555.9	1555.6	1571.4	1606.7	1583.3	1623.2	1642.7	1636.9	1659.7		
Non-Durable Goods, Real (FRED)	2429.4	2434.7	2440.9	2452.5	2450.2	2447.2	2458.4	2465.8		2470.0	2465.8	2477.8	2499.9	2506.3	2510.0	2501.5	2501.0	2504.8	2514.4	2517.9	2517.1		
Energy																							
US Oil & Gas Rig Count, Mo Avg	889	861	866	883	848	791	760	714		654	532	477	437	407	417	449	481	509	544	580	634		683
Year/Year change	-52.1%	-53.8%	-53.8%	-53.7%	-56.1%	-58.9%	-60.5%	-62.1%		-61.2%	-60.5%	-56.9%	-55.2%	-54.2%	-51.6%	-48.2%	-45.5%	-40.0%	-31.2%	-23.7%	-11.2%		4.5%
Oil Price: Refinery Acq Cost, $/bbl	$58.65	$60.12	$53.40	$44.97	$44.38	$44.77	$41.43	$35.63		$29.99	$28.53	$33.82	$37.71	$42.88	$45.96	$43.26	$42.70	$42.73	$46.85	$44.06	$49.05		
Interest Rates & Money																							
Corporate BAA to AAA spread, in bps	91	94	105	115	127	139	140	149		145	138	131	117	103	103	94	92	90					
2-yr Treasury Note	0.61%	0.69%	0.67%	0.70%	0.71%	0.65%	0.89%	0.98%		0.90%	0.73%	0.88%	0.77%	0.82%	0.73%	0.67%	0.74%	0.77%	0.86%	1.11%	1.20%		1.19%
30-yr T-Bond	2.96%	3.11%	3.07%	2.86%	2.95%	2.89%	3.03%	2.97%		2.86%	2.62%	2.69%	2.62%	2.63%	2.45%	2.23%	2.26%	2.35%	2.58%	3.02%	3.06%		3.05%
2-yr -- 30-yr spread, bps	235	242	240	216	224	224	214	199		196	189	181	185	181	172	156	152	158	172	191	186		186
Labor Markets																							
Unemployment Rate, avg	5.5%	5.3%	5.3%	5.1%	5.1%	5.0%	5.0%	5.0%		4.9%	4.9%	5.0%	5.0%	4.7%	4.9%	4.9%	4.9%	4.9%	4.8%	4.6%	4.7%		4.8%
Monthly non-Farm Payrolls (in 000s)																+252k	+167k	+173k	+135k	+164k	+157k		+227k
Misc Macro																							
Index of Leading Indicators (LEI), mthly chg	0.6%	0.6%	0.0%	-0.1%	0.0%	0.5%	0.5%	-0.3%		-0.2%	0.1%	0.1%	0.5%	-0.2%	0.2%	0.5%	-0.2%	0.3%	0.2%	0.1%	0.5%		
ISM Non-Manufacturing Index	55.9	56.2	59.6	58.3	56.7	58.3	56.6	55.3		53.5	53.4	54.5	55.7	52.9	56.5	55.5	51.4	57.1	54.8	57.2	56.6		56.5
Prices & Costs																							
CPI: Core, % chg yr/yr	1.7%	1.8%	1.8%	1.8%	1.9%	1.9%	2.0%	2.1%		2.2%	2.3%	2.2%	2.1%	2.2%	2.2%	2.2%	2.3%	2.2%	2.1%	2.1%	2.2%		
PCE Price Index: Core, % chg y/y	1.3%	1.4%	1.3%	1.4%	1.4%	1.3%	1.4%	1.4%		1.6%	1.7%	1.6%	1.6%	1.6%	1.6%	1.6%	1.7%	1.7%	1.8%	1.7%	1.7%		
Production																							
ISM Total Index--PMI	53.1	53.1	51.9	51.0	50.0	49.4	48.4	48.0		48.2	49.5	51.8	50.8	51.3	53.2	52.6	49.4	51.5	51.9	53.2	54.5		56.0
Durable Goods Orders, total, Seas Adj m/m	-3.4%	5.0%	0.8%	-2.9%	-2.7%	4.8%	-0.9%	-3.9%		3.7%	-3.3%	2.0%	3.2%	-2.9%	-4.3%	3.6%	0.2%	0.3%	5.0%	-4.7%	-0.5%		
Retail Sales																							
Retail & Food Sales, nom % chg y/y (seas Adj)	2.4%	2.1%	2.7%	2.1%	2.2%	1.5%	1.6%	2.8%		2.8%	3.6%	1.7%	3.0%	2.2%	2.8%	2.4%	2.2%	3.3%	4.2%	3.9%	4.1%		
R&F Sales, x-Auto, nom % chg y/y (seas Adj)	1.3%	1.1%	1.9%	1.3%	0.8%	0.4%	0.5%	1.9%		2.4%	2.6%	2.1%	3.1%	2.6%	3.2%	2.1%	2.1%	3.1%	4.0%	3.9%	3.4%		
Trade & Currencies																							
ISM Export Orders Index (seas adj'd)	50.0	49.5	48.0	46.5	46.5	47.5	47.5	51.0		47.0	46.5	52.0	52.5	52.5	53.5	52.5	52.5	52.0	52.5	52.0	56.0		54.5
Exports to China, $B	8.8	9.6	9.5	9.2	9.4	11.4	10.6	10.1		8.2	8.0	9.0	8.7	8.5	8.8	9.2	9.4	9.6	12.7	12.1	11.6		
Transportation																							
Rails: Carloads Orign, in 000s	1,073.2	1,338.7	1,124.9	1,443.3	1,130.1	1,124.8	1,313.6	947.5		968.0	979.0	1,196.2	944.3	962.6	1,245.0	1,025.4	1,348.0	1,068.6	1,067.0	1,319.0	973.6		996.6
Rails: Intermodal Origin, in 000s	1,086.0	1,372.2	1,076.9	1,393.2	1,086.1	1,088.9	1,293.9	909.7		1,039.6	1,049.1	1,250.9	1,028.5	1,049.6	1,295.2	1,002.4	1,327.3	1,040.9	1,075.8	1,319.2	1,011.9		1,021.1
Rails: Cars + Intermdodal, in 000s	2,159	2,711	2,202	2,837	2,216	2,214	2,608	1,857		2,008	2,028	2,447	1,973	2,012	2,540	2,028	2,675	2,110	2,143	2,638	1,986		2,018
Total Year/Year change	-3.2%	20.2%	-20.2%	24.0%	-22.0%	-4.3%	18.7%	-29.5%		-7.3%	0.5%	-11.0%	-11.8%	-6.8%	-6.3%	-7.9%	-5.7%	-4.8%	-3.2%	1.2%	6.9%		0.5%
TTINNSAV Trk Tonnage Index, seas Adj	131.6	134.3	133.9	133.9	133.7	132.8	134.8	134.7		134.3	144.0	137.6	135.3	139.3	137.1	134.2	140.8	131.9	131.6	142.7	133.8		

Source: Baseline; Census Bureau Reports; 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 (i.e. rig count, unemployment) the listed value is an average of monthly reads.

Macro Data--QUARTERLY		March	June	Sept	Dec		March	June	Sept	Dec		March	June	Sept	Dec	
	FY'13	Q1'14	Q2'14	Q3'14	Q4'14	FY'14	Q1'15	Q2'15	Q3'15	Q4'15	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16
US Real GDP Growth--Q/Q-seas adj	1.7%	-1.2%	4.0%	5.0%	2.3%	2.4%	2.0%	2.6%	2.0%	0.9%	2.6%	0.8%	1.4%	3.5%	1.9%	1.6%
Yr / Yr Change	-0.5%	-4.0%	3.2%	1.9%	-1.7%	0.7%	3.2%	-1.4%	-3.0%	-1.4%	0.2%	-1.2%	-1.2%	1.5%	1.0%	-1.0%
LAST UPDATE Check: 2/13/2017																
WORLDWIDE NEWS							*CA port closure			*Dec: 1st Fed rate hike			*6/23-- Brexit vote	*TUR coup *Rio Olympcs	*US Prez election *Dec 2nd Fed hike	
US Real GDP Drivers																
Consumption		1.3%	2.6%	2.5%	3.1%		1.6%	1.9%	1.8%	1.5%		1.1%	2.9%	2.0%	1.7%	
Governmnet Spending		-0.2%	0.0%	0.5%	-0.1%		0.5%	0.6%	0.3%	0.2%		0.3%	-0.3%	0.1%	0.2%	
Investment		-1.1%	1.8%	1.5%	0.5%		1.6%	0.2%	0.4%	-0.4%		-0.6%	-1.3%	0.5%	1.7%	
Trade Balance		-1.2%	-0.4%	0.5%	-1.1%		-1.7%	-0.1%	-0.5%	-0.5%		0.0%	0.2%	0.9%	-1.7%	
TOTAL		-1.2%	4.0%	5.0%	2.3%		2.1%	2.6%	2.0%	0.9%		0.8%	1.4%	3.5%	1.9%	
Business Spending																
Cap Gds Order, x-A&Def, Seas Adj m/m		0.4%	-1.4%	4.8%	-0.6%		-2.2%	-3.1%	-4.9%	-2.3%		-4.4%	-4.1%	-3.3%	1.0%	
Capital Spend, as % of GDP, nominal		12.9%	12.9%	13.0%	12.9%		12.9%	12.8%	12.9%	12.7%		12.5%	12.5%			
Industrial Equipment		-0.2%	5.1%	6.2%	5.5%		1.9%	1.9%	-1.4%	3.8%		2.7%	2.1%			
Consumer Spending																
Durable Goods, Real		3.1%	5.9%	7.0%	7.5%		7.3%	5.9%	5.6%	5.3%		4.3%	4.8%	6.1%	7.8%	
Non-Durable Goods, Real		1.5%	2.2%	2.2%	2.3%		2.4%	2.6%	3.1%	2.4%		2.3%	3.0%	2.1%	2.4%	
TTM Consumer Bankruptcies, in '000s		1,006.6	970.0	935.4	909.8		885.0	854.7	835.2	819.8		808.7	793.9			
Household Debt Service Ratio		10.07%	10.00%	9.95%	9.93%		10.02%	9.97%	9.97%	10.00%		10.01%	10.00%	10.01%		
Energy																
US Oil & Gas Rig Count, Qrtr Avg		1,780	1,852	1,903	1,911		1,380	909	866	755		554	420	480	586	
Year/Year change		1.3%	5.2%	7.6%	8.7%		-22.5%	-50.9%	-54.5%	-60.5%		-59.8%	-53.7%	-44.6%	-22.4%	
Oil Price: Refinery Acq Cost, $/bbl		$97.68	$101.09	$96.36	$73.78		$47.97	$57.43	$47.58	$40.61		$30.78	$42.18	$42.90	$46.65	
Equity Market																
Corporate Profits, after tax (seas adj'd)		-1.3%	4.5%	4.3%	2.4%		-1.3%	-4.0%	-8.4%	-19.7%		-5.3%	-1.7%			
Interest Rates & Money																
Corporate BAA to AAA spread, in bps		68	60	62	86		93	94	116	143		138	108	92		
2-yr Treasury Note		0.37%	0.42%	0.52%	0.54%		0.60%	0.61%	0.69%	0.84%		0.84%	0.77%	0.73%	1.06%	
30-yr T-Bond		3.68%	3.44%	3.26%	2.97%		2.55%	2.89%	2.96%	2.96%		2.72%	2.57%	2.28%	2.89%	
2-yr -- 30-yr spread, bps		331	302	274	243		195	227	227	212		189	179	155	183	
Labor Markets																
Unemployment Rate, avg		6.6%	6.2%	6.1%	5.7%		5.6%	5.4%	5.2%	5.0%		4.9%	4.9%	4.9%	4.7%	
Misc Macro																
Index Lead Indictrs, Approx total chg		1.7%	1.6%	1.9%	1.3%		0.4%	1.8%	-0.1%	0.7%		0.0%	0.5%	0.6%	0.8%	
ISM Non-Manufacturing Index		53.6	56.1	57.7	57.5		57.0	56.5	58.2	56.9		53.8	55.0	54.7	56.2	
Prices & Costs																
CPI: Core, % chg yr/yr		1.6%	1.9%	1.8%	1.7%		1.7%	1.8%	1.8%	2.0%		2.2%	2.2%	2.2%	2.1%	
PCE Prc Idx: Core, %chg y/y		1.4%	1.6%	1.6%	1.4%		1.3%	1.3%	1.3%	1.4%		1.6%	1.6%	1.7%	1.7%	
Production																
ISM Total Index--PMI		54.0	55.5	56.5	56.6		53.2	52.6	51.0	48.6		49.8	51.8	51.2	53.2	
Change in Real Inventories, 2005$B		31.7	55.2	66.8	76.9		114.4	93.8	70.9	56.9		40.7	-9.5	12.6		
Durable Goods Orders, tot, Seas Adj m/m		0.8%	0.3%	1.1%	-1.3%		1.5%	0.0%	-1.6%	0.0%		0.8%	-1.3%	1.4%	-0.1%	
Retail Sales																
Retail & Food Sales, nom % chg y/y (seas Adj)		2.6%	4.8%	4.7%	4.4%		2.9%	2.1%	2.3%	2.0%		2.7%	2.7%	2.6%	4.1%	
R&F Sales, x-Auto, nom % chg y/y (seas Adj)		2.1%	4.2%	4.2%	3.8%		1.6%	1.0%	1.3%	0.9%		2.4%	3.0%	2.4%	3.8%	
Trade & Currencies																
ISM Export Orders Index (seas adj'd)		54.5	56.0	53.8	52.8		48.5	50.3	47.0	48.7		48.5	52.8	52.3		
Exports to China, $B Qrtly total		31.0	27.5	28.2	36.9		28.2	27.7	28.1	32.1		25.2	26.0	28.2	36.4	
Transportation																
Rails: Carloads Orign, in 000s		3,356.6	3,845.6	4,174.1	3,814.9		3,644.9	3,536.8	3,698.3	3,385.9		3,143.3	3,151.9	3,442.0	3,359.6	
Rails: Intermodal Orign, in 000s		3,016.1	3,439.2	3,711.5	3,328.5		3,289.7	3,570.5	3,556.2	3,292.5		3,339.6	3,373.3	3,370.6	3,406.9	
Rails: Cars + Intermdodal, in 000s		6,373	7,285	7,886	7,143		6,935	7,107	7,255	6,678		6,483	6,525	6,813	6,767	
Year/Year change		-4.3%	6.6%	12.5%	-3.3%		8.8%	-2.4%	-8.0%	-6.5%		-6.5%	-8.2%	-6.1%	1.3%	
Trucking Tonnage Index, seas Adj		127.4	127.6	130.9	132.6		133.4	132.7	133.8	134.1		138.6	137.2	135.6	136.0	

Source: Baseline; Census Bureau Reports; 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 (>50) in the US manufacturing sector for a fifth consecutive month in January, with a PMI read of 56.0. This marked the highest read for the data point in over two years, and in our assessment, reflects some level of pent up demand from what was a tentative business climate through election season. Market interest rates were flattish in January for a second straight month after spiking in November, with the 2-yr and 10-yr notes ending the month at 1.19% and 3.05%.

The advance growth estimate for Q4'16 US GDP came in at a seasonally adjusted real rate of 1.9%, substantially weaker than the final Q3'16 estimate at 3.5%. Versus the prior quarter, the Trade Balance (which swung negative) hampered growth, although we note that this initial Q4 estimate will see revisions in both February and March. In agreement with a late-year rebound in PMI's, Private Investment provided its most impactful contribution to consolidated growth since Q2'14.

We remain interested in how individual GDP drivers develop over the first couple years of the Trump Administration; Government Spending has been nearly dormant (in terms of driving GDP) for the past couple of years, although this could change if we see a material infrastructure bill. We expect optimism regarding tax and regulatory reform can support continued bounce back for Private Investment, although we are uncertain about how long this theme might hold in the absence of legislative progress. We hold little opinion directionally, but see the potential for noteworthy swings (and/or unintended consequences) for the Trade Balance if status quo is upended.

As of December, inflation remained within the norms for 2016, with the PCE Price index (ex-food & energy) measuring 1.7% for the fifth time across twelve months. Having said that, there seems to be a consensus coalescing around multiple Fed rate hikes in 2017, and a presumed rise in inflation expectations. January payrolls data of +227,000 was above recent months; the unemployment rate ticked higher to 4.8% most recently.

CURRENCY PRICE COMMENTARY

The US Dollar is situated to be stronger yr/yr in Q1'17, although the greenback has mostly weakened sequentially since early-January. Were recent levels to hold through quarter-end in March, we estimate the Dollar Index (DXY) would average about ~3% stronger than the year-ago period, which flows in close approximation to the Euro/Dollar pair. The headwind would further stiffen across Q2-Q3, although we believe it is far too early in the year, against a far too fluid macro backdrop, to make a convicted call on full year FX.

Amongst our developed region pairs, USD strength against the British Pound is still impacting yr/yr conversations, with the Brexit vote still 4-5 months from its anniversary. We calculate the average price of a Pound is situated to be ~13% weaker versus the US Dollar in Q1'17, while the strongest pair at this point is positioned to be the Aussie Dollar, likely due in part to firming commodity markets. For most of this year, the Euro has been valued between $1.05 and $1.10.

From an equity investing perspective, our slightly negative view toward forex concerns as we worked into 2017 actually pivots to slightly positive. Having moved through earnings season, we expect most analysts revised models during what could prove an interim top in the USD early this year. We are encouraged by a wide basket of currencies that have been able to hold their value in recent weeks despite continued political tumult, which includes a swath of both developed and emerging monies.

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. According to Baseline, PCE is the Federal Reserve's most 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 (₽): 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)

Multi-Color Corp. (LABL - $74.15, Neutral) 2/8/17: Mixed Fiscal Q3'17 Shows Growth but Misses Expectations.

Hillenbrand, Inc. (HI - $37.10, Neutral) 2/2/17: Resilient Q1'17 Results from HI; Reiterating Neutral Rating.

Leggett & Platt (LEG - $48.68, Neutral) 1/31/17: Post Conference Call—Miss in Q4'16 from LEG, but Constructive Guide for 2017; Reiterating Neutral.

Leggett & Platt (LEG - $48.68, Neutral) 1/31/17: Soft Q4'16 Results from LEG, but OK Guide for 2017; Reiterating Neutral Rating—Pre Conference Call.

Multi-Color Corp. (LABL - $74.15, Neutral) 1/26/17: Downgrading to Neutral on Price Appreciation.

3M Company (MMM - $181.02, Neutral) 1/24/17: Q4'16 Results from MMM; Reiterating Neutral Rating.

Industrials Monthly 1/20/17: January Sector Update.

Aegion Corp. (AEGN - $23.24, Buy, $30 TP) 1/11/17: Adjusting Outlook for Q4 Update; Reiterating Buy Rating.

Industrials Monthly 12/21/16: December Sector Update.

3M Company (MMM - $181.02, Neutral) 12/14/16: 2017 Outlook Meeting; Adjusting Estimates.

Aegion Corp. (AEGN - $23.24, Buy, $30 TP) 12/8/16: Raising Price Target to $30; Reiterating Buy Rating.

Hillenbrand, Inc. (HI - $37.10, Neutral) 11/14/16: Downgrading to Neutral on Price Appreciation Ahead of Fiscal Q4/FY 2016 Results.

Aegion Corp. (AEGN - $23.24, Buy, $30 TP) 11/1/16: Down Q3'16 for AEGN, but Continued Visibility to Improvement; Reiterating Buy Rating and $25 PT.

Franklin Electric Co., Inc. (FELE - $41.05, Neutral) 10/25/16: Q3'16 Results from FELE; Reiterating Neutral Rating.

Additional information is available upon request.

Prices and all price sensitive data as of Monday, February 13, 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.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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