



# Industrials Monthly

## Sector Update

January 2018

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

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<p><b>Note Important Disclosures on page 17</b> <b>Note Analyst Certifications on page 17</b></p>
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## Industrials Sector

### PRICE PERFORMANCE

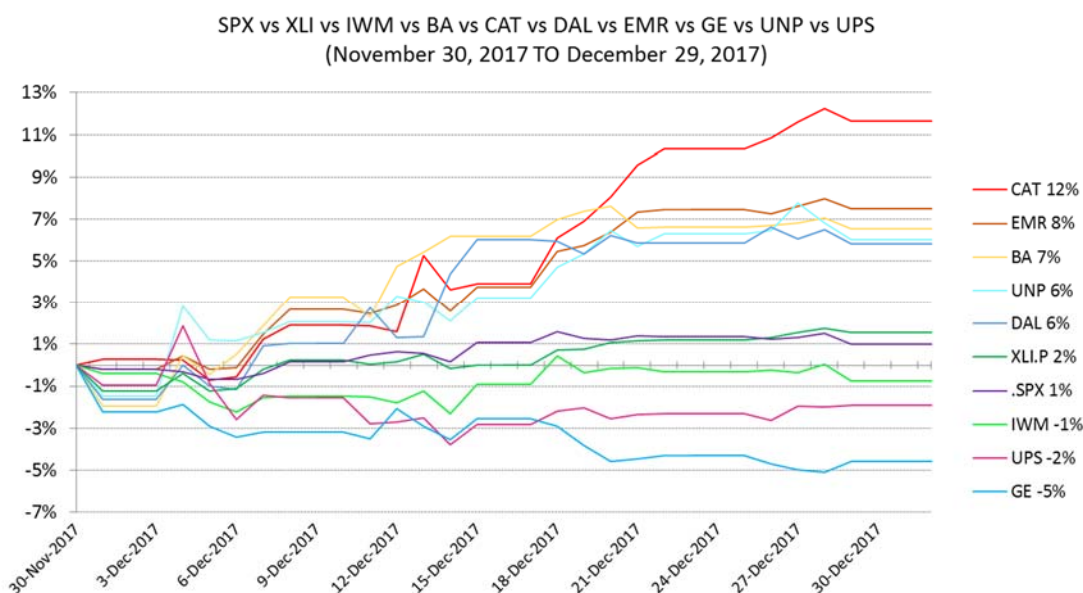
The Industrials sector followed a robust November with a month of outperformance in December, as measured by the Industrial Select Sector SPDR ETF (XLI). The XLI advanced 1.56% last month versus an S&P 500 move of +0.98%; the iShares Russell 2000 (small cap) Index Fund (IWM) logged a 0.77% loss. Index-ETF 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 group was underwhelming to close out 2017, likely owing in part to a SMID-cap bias. None of our names posted gains in December, with Aegion leading the pack to the downside with a drop of nearly 8% (**Exhibit 2**). Thus far, January performance has improved, bolstered in our view, by constructive earnings and qualitative improvement of sentiment tied to tax reform.

Looking back on full year 2017, the XLI outperformed the S&P 500 by ~220bps, owing in large part to a good Q4. With just a few weeks in the books for 2018, both the Industrials sector and broader equity market have shown continued strength; through 1/26, the XLI has rallied 6.59% YTD, just lagging the S&P’s jump of 7.45% (**Exhibit 3**). Past performance is no guarantee of future results.

Since our prior *Industrials Monthly* we have been quite active, most notably having made a couple of rating changes across our Industrials coverage. Just ahead of Q4 earnings, we upgraded mega-cap MMM to Buy from Neutral, citing Street expectations we vied as too low; we also upgraded our rating on Multi-Color Corp (LABL) to Long-term Buy from Neutral, reflecting our affinity for consumer-oriented companies as we head into the New Year. At current, we assign a Long-term Buy rating to LEG and LABL, a Buy-rating to MMM; the balance of our coverage group is Neutral-rated: AEGN, FELE, and HI.

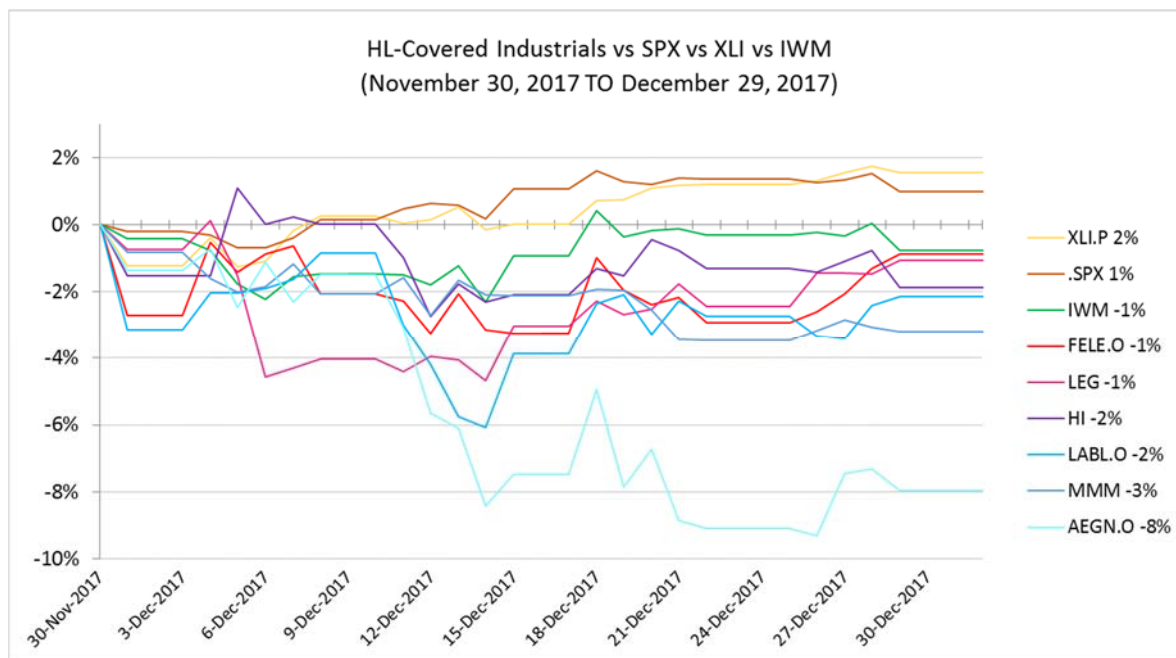
**Exhibit 1**  
**Industrials Sector Monthly Price Performance vs. S&P 500 vs. Russell 2000—Daily Chart**



**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**

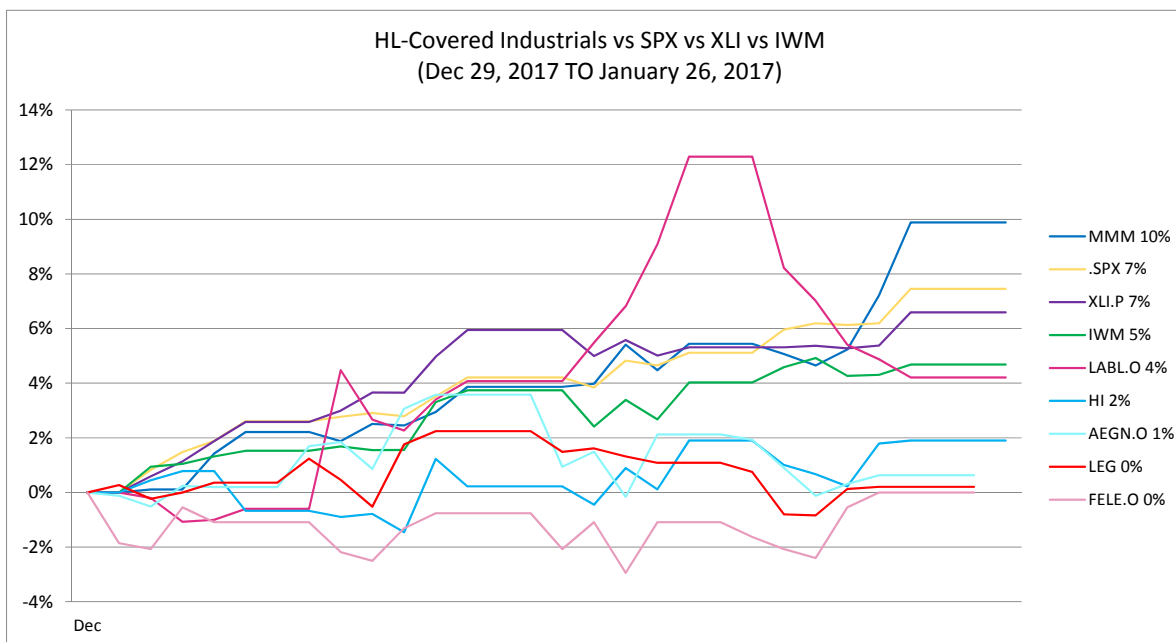
**Hilliard Lyons Covered Industrials Monthly Price Performance vs. S&P 500 vs. Russell 2000—Daily Chart**



**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

December was yet another positive month for the Industrials sector as measured by the XLI, and March was ultimately the sector's only 'down' month in 2017. The sector advanced 1.56% last month, which outpaced the 0.98% gain for the S&P 500; Industrials outperformed in 9 of 12 months in 2017, with cumulative price performance for the XLI exceeding the S&P 500 index by 220 basis points (+21.62% versus +19.42%). Past performance is no guarantee of future results. We believe end-of-year trading was influenced by the US Tax Cut and Jobs Act (TCJA), which we see as a net positive for industrial companies, while the entirety of 2017 was more-impacted by general economic momentum, a firming of the energy complex, and a weakening dollar.

About 75% of the way through calendar Q4-earnings season, FY 2017 EPS expectations for our 31-company composite group total \$201.83, which is actually down fractionally m/m. Having said that, expectations for the year rose steadily through 2017 from a low point of just \$186.66 at about this time last year. Furthermore, current expectations call for 2018 EPS of \$236.55 and 2019 EPS of \$269.70, which reflect increased expectations of ~\$10 and ~\$14, respectively, due in large part to the TCJA; our composite group is suggested to grow earnings 17.2% this year, and 14.0% next year.

With our coverage skewing toward later-reporting companies, news flow over early-2018 has been relatively sparse and fairly benign, in our view. FELE acquired another distribution company, Valley Farms Supply, which will be folded into the still-new Headwater Distribution business segment; we calculate this purchase represents 10% to 12% percent of segment revenues on a pro forma basis.

We expect news flows to pick up in the next few weeks as we work through the balance of earnings season; 3M Company kicked off our cycle of reports on January 25<sup>th</sup>, although we expect reports to trickle in through early-March. MMM's Q4 revenue (up 9%) and EPS (adjusted, +17%) beat both our target and Street expectations with strong performance across all business segments. Notably, the company increased their 2018E EPS guidance by \$0.65, or 6.6% at the midpoint to include tax reform impacts; we published a report last week detailing 3M's Q4 and full year results.

Our core thesis for the sector is to favor the most resilient growth companies, but we also suggest looking toward consumer-oriented names entering the New Year. Furthermore, we add a new layer of suggestion in early-2018, which is stick with companies that seem to be executing well amidst what is becoming an increasingly synchronized global economic expansion (i.e. MMM). From an industry-standpoint, our affinity for Aero/Defense has not changed.

We are reiterating our Marketweight allocation recommendation for the Industrials sector as we trade through January. Q4 earnings season is shaping up to be quite constructive, in our view, and likely supportive of the recent rise in stock prices across the sector; however, we do not necessarily see a compelling reason to overweight the group at this juncture, particularly as expectations have risen for both full years 2018 and 2019. Valuation multiples have actually stayed relatively steady over the past few weeks for our composite group, which is currently trading at 19.8x/17.5x based on 2018E/2019E EPS.

Our current top pick in the space remains Leggett & Platt (LEG). Despite gains across the Industrials sector in 2017, LEG was down slightly last year and remains well below its own 52-week high. FY 2017 earnings are positioned to be relatively flat, but we believe recent headwinds should abate as the company passes along price hikes in 2018 alongside what we expect would be a more favorable consumer spending environment. Steel price inflation, which weighed on margins last year, should actually support revenue growth in 2018 and into 2019 given LEG's pricing power as a market leader. LEG is a member of the S&P 500 Dividend Aristocrats, and has raised its dividend for 46 consecutive years; our 2-year \$66 price target suggests total return potential of ~44% over our investment timeframe.

**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.\*

**3M Company (MMM - \$258.63, Buy, \$285 TP)** 1/26/18—MMM hiked 2018 EPS guidance to a range of \$10.20 to \$10.70, up from \$9.60 to \$10.00.

**3M Company (MMM - \$258.63, Buy, \$285 TP)** 1/26/18—MMM increased their quarterly dividend by 16% to \$1.36 per share, or \$5.44 annualized. This marks the 60th consecutive year of an increase.

**Franklin Electric Co. (FELE - \$45.90, Neutral)** 1/4/18—FELE announced the acquisition of Valley Farms Supply, a groundwater distribution company based in Michigan. Valley Farms has ~\$28MM in annual revenues, and FELE is paying \$9MM for the entity, which will be tucked into the Headwater Distribution segment.

**Leggett & Platt (LEG - \$47.83, 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 - \$258.63, Buy, \$285 TP)** 12/12/17—MMM unveiled its 2018 guidance at an event in NYC, which was subsequently adjusted for tax items in late-January. The planned \$800MM divestiture of a communications-related division remains excluded from guidance.

**Hillenbrand, Inc. (HI - \$45.55, 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% EPS CAGR ex-M&A).

**Aegion Corp (AEGN - \$25.59, 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.

**Multi-Color Corp. (LABL - \$78.00, Long-term Buy, \$105)** 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 - \$25.59, Neutral)** 11/2/17—AEGN announced a \$40MM share repurchase program for 2018, which is additional to the \$40MM program that concluded at the end of 2017.

**Multi-Color Corp. (LABL - \$78.00, Long-term Buy, \$105)** 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.

**HL INDUSTRIALS COVERAGE COMP SHEET—HL Estimates**

		Actual // Estimate																		
Company	Ticker	Price 26-Jan-18	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'17E	FY'18E	FY'19E	FY'17E	FY'18E	FY'19E						
Aegion Corp	AEGN	\$ 25.59	--	Neutral	1,343.3	832.4	1.7x	37%	<u>\$1.12</u>	<u>\$1.41</u>	<u>\$1.53</u>	22.9x	18.1x	16.7x	16.9x	-7.1%	9.0x	NULL	-7%	146,282
Franklin Electric	FELE	\$ 45.90	--	Neutral	1,076.3	2,138.8	3.1x	19%	<u>\$1.88</u>	<u>\$2.12</u>	<u>\$2.37</u>	24.4x	21.7x	19.4x	22.4x	3.6%	15.5x	0.94%	13%	126,549
Hillenbrand	HI	\$ 45.55	--	Neutral	1,590.2	2,879.5	3.8x	36%	\$2.10	<u>\$2.27</u>	<u>\$2.39</u>	21.7x	20.1x	19.1x	15.7x	0.8%	11.5x	1.82%	18%	267,708
3M Company	MMM	\$ 258.63	\$ 285	Buy	30,996.0	154,042.1	13.2x	47%	\$9.03	<u>\$10.61</u>	<u>\$11.43</u>	28.7x	24.4x	22.6x	21.0x	7.1%	19.4x	2.10%	44%	2,133,167
Leggett & Platt	LEG	\$ 47.83	\$ 66	LTB	3,863.0	6,304.8	5.4x	46%	<u>\$2.47</u>	<u>\$2.78</u>	<u>\$3.20</u>	19.4x	17.2x	14.9x	20.4x	12.5%	12.9x	3.01%	30%	931,782
Multi-Color Corp.	LABL	\$ 78.00	\$ 105	LTB	953.1	1,594.4	3.1x	56%	\$3.61	<u>\$3.83</u>	<u>\$4.51</u>	21.6x	20.4x	17.3x	18.8x	20.8%	13.4x	0.26%	15%	99,900
Averages:							5.0x	40.3%				23.1x	20.3x	18.3x	19.2x	6.29%	13.6x	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 26-Jan-18	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	\$ 25.59	1,343.3	832.4	1.7x	37.0%	<u>\$1.09</u>	<u>\$1.35</u>	<u>\$1.50</u>	23.4x	19.0x	17.1x	16.9x	-7.1%	9.0x	NULL	0.0%	3.0%	146,282	
Franklin Electric	FELE	\$ 45.90	1,076.3	2,138.8	3.1x	19.3%	<u>\$1.90</u>	<u>\$2.13</u>	<u>\$2.35</u>	24.2x	21.5x	19.6x	22.4x	3.6%	15.5x	0.9%	21.8%	1.1%	126,549	
Hillenbrand	HI	\$ 45.55	1,590.2	2,879.5	3.8x	36.3%	\$2.11	<u>\$2.25</u>	<u>\$2.45</u>	21.6x	20.3x	18.6x	15.7x	0.8%	11.5x	1.8%	41.4%	1.5%	267,708	
3M Company	MMM	\$ 258.63	30,996.0	154,042.1	13.2x	47.3%	\$9.17	<u>\$10.41</u>	<u>\$11.37</u>	28.2x	24.9x	22.8x	21.0x	7.1%	19.4x	2.1%	57.8%	1.4%	2,133,167	
Leggett & Platt	LEG	\$ 47.83	3,863.0	6,304.8	5.4x	46.2%	<u>\$2.48</u>	<u>\$2.79</u>	<u>\$3.06</u>	19.3x	17.1x	15.6x	20.4x	12.5%	12.9x	3.0%	56.2%	6.5%	931,782	
Multi-Color Corp	LABL	\$ 78.00	953.1	1,594.4	3.1x	55.5%	\$3.61	<u>\$3.88</u>	<u>\$4.58</u>	21.6x	20.1x	17.0x	18.8x	20.8%	13.4x	0.3%	5.8%	4.1%	99,900	

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 26-Jan-18	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										
<b>Aero &amp; Defense</b>																			
Boeing	BA	\$ 343.22	91,310.0	204,414.5	nm	88.4%	<u>\$10.21</u>	<u>\$11.96</u>	<u>\$14.36</u>	33.6x	28.7x	23.9x	18.7x	8.2%	18.3x	2.0%	51.6%	1.3%	4,800,044
General Dynamics	GD	\$ 226.24	30,350.0	67,551.4	5.9x	25.8%	<u>\$9.95</u>	<u>\$11.18</u>	<u>\$12.31</u>	22.7x	20.2x	18.4x	16.0x	8.5%	14.8x	1.5%	33.7%	0.7%	1,522,521
Lockheed Martin	LMT	\$ 344.90	49,663.0	98,894.6	nm		<u>\$12.91</u>	<u>\$14.00</u>	<u>\$16.40</u>	26.7x	24.6x	21.0x	18.9x	4.3%	16.5x	2.3%	58.4%	0.9%	1,137,860
Northrup Grumman	NOC	\$ 335.56	25,566.0	58,413.8	8.3x	67.1%	<u>\$13.28</u>	<u>\$15.19</u>	<u>\$17.31</u>	25.3x	22.1x	19.4x	16.6x	11.6%	16.3x	1.3%	33.8%	0.9%	734,704
Raytheon	RTN	\$ 208.91	24,803.0	60,393.2	6.1x	31.2%	<u>\$7.64</u>	<u>\$9.49</u>	<u>\$11.09</u>	27.3x	22.0x	18.8x	17.7x	3.2%	16.1x	1.5%	45.0%	1.1%	1,380,970
<b>Rails</b>																			
CSX	CSX	\$ 57.91	11,582.0	51,755.5	3.5x	44.4%	<u>\$2.30</u>	<u>\$3.11</u>	<u>\$3.61</u>	25.2x	18.6x	16.1x	17.4x	7.2%	12.3x	1.4%	12.8%	1.9%	9,156,532
Norfolk Southern	NSC	\$ 150.97	10,372.0	43,199.9	2.6x	34.9%	<u>\$6.61</u>	<u>\$8.47</u>	<u>\$9.44</u>	22.8x	17.8x	16.0x	16.9x	2.5%	11.9x	1.9%	43.6%	1.4%	1,617,901
Union Pacific	UNP	\$ 134.23	20,958.0	105,661.7	4.3x	38.6%	<u>\$5.79</u>	<u>\$7.47</u>	<u>\$8.37</u>	23.2x	18.0x	16.0x	18.5x	0.7%	11.9x	2.0%	17.8%	1.7%	5,210,459
<b>Airlines</b>																			
American Airlines	AAL	\$ 53.07	41,396.0	25,393.9	6.9x	77.6%	<u>\$4.88</u>	<u>\$5.51</u>	<u>\$6.74</u>	10.9x	9.6x	7.9x	7.4x	26.7%	6.8x	0.8%	10.2%	4.1%	5,098,329
Delta Airlines	DAL	\$ 55.26	40,457.0	39,398.9	2.8x	29.0%	<u>\$4.93</u>	<u>\$6.20</u>	<u>\$7.06</u>	11.2x	8.9x	7.8x	10.0x	15.8%	5.3x	2.2%	20.4%	2.4%	9,191,233
United Continental	UAL	\$ 66.56	37,350.0	19,718.6	2.2x		<u>\$6.76</u>	<u>\$7.45</u>	<u>\$8.99</u>	9.8x	8.9x	7.4x	11.6x	28.6%	5.0x	NULL	0.0%	3.9%	5,371,412
Southwest Airlines	LUV	\$ 60.82	20,973.0	36,089.8	4.1x		<u>\$3.50</u>	<u>\$4.85</u>	<u>\$5.48</u>	17.4x	12.5x	11.1x	15.8x	25.0%	7.5x	0.8%	14.3%	2.1%	4,824,050
<b>Shipping, Air/Ground</b>																			
C.H. Robinson	CHRW	\$ 96.73	14,324.6	13,484.7	10.0x	19.4%	<u>\$3.32</u>	<u>\$4.22</u>	<u>\$4.71</u>	29.1x	22.9x	20.6x	21.1x	3.3%	17.3x	1.9%	53.5%	12.2%	1,389,353
Fed Ex	FDX	\$ 268.85	62,335.0	72,022.1	4.2x	48.1%	<u>\$12.30</u>	<u>\$13.48</u>	<u>\$16.81</u>	21.9x	20.0x	16.0x	18.2x	22.4%	10.1x	0.7%	10.9%	1.8%	1,833,712
J.B. Hunt	JBHT	\$ 125.03	6,920.5	13,722.3	7.5x	37.1%	<u>\$3.58</u>	<u>\$5.26</u>	<u>\$6.21</u>	34.9x	23.8x	20.1x	25.2x	4.6%	14.7x	0.8%	14.8%	2.8%	1,005,646
UPS	UPS	\$ 132.72	63,974.0	114,369.0	nm	75.1%	<u>\$6.01</u>	<u>\$7.17</u>	<u>\$7.91</u>	22.1x	18.5x	16.8x	19.9x	8.2%	16.4x	2.5%	79.9%	1.4%	3,254,481
<b>Machinery</b>																			
Caterpillar	CAT	\$ 167.06	42,140.0	99,389.6	7.3x	49.0%	<u>\$6.88</u>	<u>\$8.88</u>	<u>\$10.46</u>	24.3x	18.8x	16.0x	18.2x	15.9%	14.1x	1.9%	45.3%	2.1%	5,215,556
Cummins	CMI	\$ 192.50	19,455.0	31,948.7	4.2x	17.4%	<u>\$10.26</u>	<u>\$11.86</u>	<u>\$12.82</u>	18.8x	16.2x	15.0x	15.4x	4.9%	13.7x	2.2%	42.1%	2.8%	1,130,588
Deere	DE	\$ 171.49	29,737.7	55,099.2	5.8x	52.2%	<u>\$6.68</u>	<u>\$8.43</u>	<u>\$10.15</u>	25.7x	20.3x	16.9x	14.3x	-3.6%	14.6x	1.4%	35.8%	2.8%	2,006,690
Paccar	PCAR	\$ 78.71	18,072.5	27,675.2	3.5x	55.6%	<u>\$4.20</u>	<u>\$4.87</u>	<u>\$5.09</u>	18.7x	16.2x	15.5x	15.3x	4.2%	10.8x	1.3%	40.4%	2.5%	1,879,100
<b>Electric Components</b>																			
Eaton	ETN	\$ 86.49	20,058.0	38,687.0	2.3x	28.9%	<u>\$4.57</u>	<u>\$5.08</u>	<u>\$5.55</u>	18.9x	17.0x	15.6x	15.7x	-0.5%	13.0x	2.8%	37.1%	1.8%	2,291,698
Emerson Electric	EMR	\$ 74.05	15,264.0	47,526.8	5.5x	28.3%	<u>\$2.64</u>	<u>\$2.98</u>	<u>\$3.36</u>	28.0x	24.8x	22.0x	17.9x	-11.0%	15.6x	2.6%	75.0%	1.2%	2,993,239
Rockwell Automation	ROK	\$ 203.01	6,311.3	26,087.4	12.1x	27.6%	<u>\$6.76</u>	<u>\$7.78</u>	<u>\$8.75</u>	30.0x	26.1x	23.2x	20.0x	3.5%	19.3x	1.6%	49.4%	0.7%	707,896
United Technologies	UTX	\$ 137.98	58,816.0	110,186.7	3.7x	42.3%	<u>\$6.65</u>	<u>\$7.02</u>	<u>\$7.82</u>	20.7x	19.6x	17.6x	17.0x	-0.7%	11.9x	2.0%	47.2%	2.0%	3,819,210
<b>Conglomerates</b>																			
Danaher	DHR	\$ 103.80	17,828.3	72,203.8	2.8x	27.4%	<u>\$3.98</u>	<u>\$4.35</u>	<u>\$4.72</u>	26.1x	23.9x	22.0x	17.3x	3.0%	20.5x	0.5%	15.6%	1.0%	2,337,965
General Electric	GE	\$ 16.13	123,780.0	139,880.7	2.2x	61.2%	<u>\$1.05</u>	<u>\$0.98</u>	<u>\$1.10</u>	15.4x	16.5x	14.6x	18.0x	-12.1%	11.9x	3.0%	45.7%	1.6%	95,683,994
Honeywell	HON	\$ 164.99	39,676.0	124,866.2	6.0x	35.6%	<u>\$7.11</u>	<u>\$7.93</u>	<u>\$8.61</u>	23.2x	20.8x	19.2x	18.0x	8.5%	15.2x	1.8%	41.9%	1.3%	3,296,530
3M Corp	MMM	\$ 258.63	30,996.0	154,042.1	13.2x	47.3%	<u>\$9.17</u>	<u>\$10.41</u>	<u>\$11.37</u>	28.2x	24.9x	22.8x	21.0x	7.1%	19.4x	2.1%	57.8%	1.4%	2,133,167
Parker Hannifin	PH	\$ 209.66	12,650.8	27,932.2	5.1x	43.7%	<u>\$8.11</u>	<u>\$9.76</u>	<u>\$10.94</u>	25.9x	21.5x	19.2x	17.8x	9.0%	16.4x	1.3%	32.9%	2.2%	846,273
<b>Other</b>																			
Illinois Tool Works	ITW	\$ 178.88	14,084.0	61,284.1	13.4x	57.9%	<u>\$6.59</u>	<u>\$7.66</u>	<u>\$8.33</u>	27.1x	23.4x	21.5x	20.1x	12.2%	17.5x	1.7%	55.8%	1.1%	1,271,768
Waste Management	WM	\$ 89.71	14,293.0	38,953.5	7.4x	60.8%	<u>\$3.20</u>	<u>\$3.57</u>	<u>\$3.85</u>	28.0x	25.2x	23.3x	21.1x	9.0%	12.3x	1.9%	40.2%	1.5%	1,626,982
Averages: [BA thru WM]					5.8x	44.7%				23.3x	19.8x	17.5x	17.3x	7.4%	13.8x	1.7%	37.5%	2.1%	

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						March	June	Sept	Dec		March	June	Sept	Dec		March
	FY'11	FY'12	FY'13	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17	Q1'18E
<b>Dollar Index (DXY)</b>	76.51	80.58	81.44	82.55	96.26	97.41	94.48	95.78	99.87	96.88	100.76	98.39	93.54	93.69	96.59	89.39
\$ strength / (weakness)	-5.8%	5.3%	1.1%	1.4%	16.6%	2.5%	-1.6%	-0.6%	2.2%	0.6%	3.4%	4.1%	-2.3%	-6.2%	-0.3%	-11.3%
LAST UPDATE: 12/29/2017																spot @ 1/29
<b>Developed Region FX</b>																
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%	\$ 1.104 -2.1%	\$ 1.130 2.1%	\$ 1.116 0.3%	\$ 1.078 -3.8%	\$ 1.107 -0.9%	\$ 1.065 -3.5%	\$ 1.101 -2.6%	\$ 1.175 5.2%	\$ 1.178 9.3%		\$ 1.237 16.1%
Average \$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 1.372 10.6%	CAD 1.288 -4.8%	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 1.271 -4.8%		CAD 1.233 -6.8%
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%	\$ 0.723 -8.1%	\$ 0.746 -4.1%	\$ 0.758 4.5%	\$ 0.749 4.3%	\$ 0.744 -1.1%	\$ 0.758 4.8%	\$ 0.751 0.7%	\$ 0.789 4.1%	\$ 0.769 2.7%		\$ 0.809 6.8%
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%	\$ 1.433 -5.4%	\$ 1.440 -6.1%	\$ 1.313 -15.2%	\$ 1.242 -18.8%	\$ 1.357 -11.4%	\$ 1.239 -13.5%	\$ 1.280 -11.1%	\$ 1.309 -0.4%	\$ 1.328 6.9%		\$ 1.408 13.6%
Average \$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 0.993 4.1%	CHF 0.971 3.1%	CHF 0.975 1.1%	CHF 1.002 1.2%	CHF 0.985 -1.3%	CHF 1.004 1.2%	CHF 0.985 1.5%	CHF 0.963 -1.3%	CHF 0.987 -1.5%		CHF 0.935 -6.9%
Average \$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%	¥ 115.31 -3.2%	¥ 108.30 -10.8%	¥ 102.37 -16.2%	¥ 109.62 -9.3%	¥ 108.90 -9.9%	¥ 113.62 -1.5%	¥ 111.14 2.6%	¥ 111.00 8.4%	¥ 112.89 3.0%		¥ 108.74 -4.3%
<b>non-Developed Emerging FX</b>																
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%	\$ 0.25641 -26.5%	\$ 0.28241 -13.3%	\$ 0.30812 9.0%	\$ 0.30358 16.8%	\$ 0.288 -5.5%	\$ 0.31807 24.0%	\$ 0.31094 10.1%	\$ 0.31593 2.5%	\$ 0.30781 1.4%		\$ 0.32088 0.9%
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%	\$ 0.06328 -25.7%	\$ 0.06665 -19.5%	\$ 0.07114 -7.5%	\$ 0.07186 -1.6%	\$ 0.068 -14.1%	\$ 0.07570 19.6%	\$ 0.07575 13.7%	\$ 0.07856 10.4%	\$ 0.07340 2.1%		\$ 0.08351 10.3%
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%	\$ 0.0555 -17.0%	\$ 0.0553 -15.2%	\$ 0.0533 -12.3%	\$ 0.0503 -16.2%	\$ 0.054 -15.2%	\$ 0.0493 -11.1%	\$ 0.0539 -2.6%	\$ 0.0561 5.2%	\$ 0.0527 4.8%		\$ 0.0537 9.0%
Average \$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%	₩ 1,200.6 9.1%	₩ 1,163.0 6.0%	₩ 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%	₩ 1,106.2 -4.7%		₩ 1,071.4 -6.9%
Average \$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%	2.941 TL 19.4%	2.897 TL 8.7%	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%	3.799 TL 14.9%		3.780 TL 2.2%
Average \$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 67.5 8.4%	INR 66.9 5.3%	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 64.7 -4.1%		INR 63.6 -5.1%
Average \$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%	¥ 6.538 4.8%	¥ 6.529 5.2%	¥ 6.666 5.8%	¥ 6.847 7.8%	¥ 6.645 5.9%	¥ 6.861 4.9%	¥ 6.854 5.0%	¥ 6.672 0.1%	¥ 6.607 -3.5%		¥ 6.332 -7.7%
Average \$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 75.52 20.2%	RUB 65.90 25.0%	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 58.42 -7.3%		RUB 56.43 -3.7%

Sources: Bloomberg, Thomson Reuters, Hilliard Lyons calculations

MONTHLY ECONOMIC STATISTICS

Macro Data--MONTHLY	Q3			Q4			2016			Q1			Q2			Q3			Q4			2017		
	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	Dec '17		
<b>LAST UPDATE Check: 1/29/2018</b>																								
<b>Business Spending</b>																								
Cap Gds Orders, x-A&Def, Seas Adj m/m	-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%	0.2%	-0.3%		
Durable Goods Orders, total, Seas Adj m/m	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%	1.7%	2.9%		
<b>Consumer Spending</b>																								
Durable Goods, Real (FRED)--seas Adj	1606.7	1583.3	1623.2	1644.2	1637.7	1664.6		1638.2	1643.4	1660.4		1671.4	1677.5	1684.5		1707.5	1685.8	1745.3		1752.7	1772.4	1786.6		
Non-Durable Goods, Real (FRED)--seas Adj	2501.5	2501.0	2504.8	2515.3	2535.4	2539.8		2537.8	2530.0	2552.7		2560.1	2572.0	2567.6		2571.4	2582.5	2590.6		2597.1	2623.5	2622.7		
<b>Energy</b>																								
US Oil & Gas Rig Count, Mo Avg	449	481	509	544	580	634		683	744	789		853	893	931		953	947	940		922	911	930		
Year/Year change	-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%	46.7%		
Worldwide Crude Production, MM/day	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		81.24	80.79	81		
Oil Price: Refinery Acq Cost, \$/bbl	\$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	\$50.79		\$52.86	\$57.23			
<b>Interest Rates &amp; Money</b>																								
Corporate BAA to AAA spread, in bps	94	92	90																					
2-yr Treasury Note-month end	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%	1.89%		
30-yr T-Bond-month end	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%	2.74%		
2-yr - 30-yr spread, bps	156	152	158	172	191	186		186	175	175		168	159	146		155	140	139		128	105	85		
<b>Labor Markets</b>																								
Unemployment Rate, total 16+	4.9%	4.9%	4.9%	4.8%	4.6%	4.7%		4.8%	4.7%	4.5%		4.4%	4.3%	4.3%		4.3%	4.4%	4.2%		4.1%	4.1%	4.1%		
Monthly non-Farm Payrolls (in 000s)	+291k	+176k	+249k	+124k	+164k	+155k		+216k	+232k	+50k		+207k	+145k	+210k		+138k	+208k	+38k		+211k	+252k	+148k		
<b>Misc Macro</b>																								
Index of Leading Indicators (LEI), mthly chg	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%		1.3%	0.5%	0.6%		
ISM Non-Manufacturing Index	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	55.9		
<b>Prices &amp; Costs</b>																								
CPI: Core, % chg yr/yr	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%	1.8%		
PCE Price Index: Core, % chg y/y	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%	1.5%	1.5%		
<b>Production</b>																								
ISM Total Index--PMI	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	59.7		
US Industrial Production Index	103.22	103.15	102.99	103.17	102.95	103.77		103.46	103.70	103.92		105.05	105.07	105.25		105.01	104.58	104.77		106.64	106.51	107.46		
Total Year/Year change	-1.2%	-1.3%	-1.2%	-0.8%	-0.4%	0.8%		0.0%	0.4%	1.4%		2.1%	2.3%	2.1%		1.7%	1.4%	1.7%		3.4%	3.5%	3.6%		
<b>Retail Sales</b>																								
Retail & Food Sales, nom % chg y/y (seas Adj)	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%	6.0%	5.4%		
R&F Sales, x-Auto, nom % chg y/y (seas Adj)	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%	6.2%	6.3%		
<b>Trade &amp; Currencies</b>																								
ISM Export Orders Index (seas adj'd)	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	58.5		
US Trade Balance, \$B																					-48.9	-50.5		
Exports to China, \$B	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	12.7			
<b>Transportation</b>																								
Rails: Carloads Origin, in 000s	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	998.2		
Rails: Intermodal Origin, in 000s	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	1,066.0		
Rails: Cars + Intermodal, in 000s	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	2,064		
Total Year/Year change	-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%	4.0%		
TTINNSAVTrk Tonnage Index seas Adj	134.2	137.7	134.4	134.3	141.0	134.9		138.9	138.8	137.4		135.4	144.7	138.4		139.1	145.7	142.9		148.4	151.6	142.9		

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'17			
	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	Q4'17	FY'17
<b>US Real GDP Growth--Q/Q-seas adj</b>	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%	2.6%	2.3%
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%	0.8%	0.8%
<b>LAST UPDATE Check: 1/29/2018</b>																
<b>WORLDWIDE NEWS</b>		*CA port closure		*Dec: 1st Fed rate hike			*6/23-- Brexit vote	*TUR coup Olympics	*US Prez election *Dec: 2nd Fed hike			*Mar: 3rd Fed hike	*June: 4th Fed hike	*Storms Harvey & Irma		
<b>US Real GDP Drivers</b>																
Consumption		2.5%	2.0%	1.9%	1.8%		1.2%	2.6%	1.9%	2.0%		1.3%	2.2%	1.5%	2.6%	
Government Spending		0.3%	0.6%	0.2%	0.1%		0.3%	-0.2%	0.1%	0.0%		-0.1%	0.0%	0.1%	0.5%	
Investment		2.1%	0.1%	0.3%	-1.1%		-0.7%	-0.5%	0.4%	1.3%		-0.2%	0.6%	1.2%	0.6%	
Trade Balance		-1.6%	0.0%	-0.8%	-0.3%		-0.3%	0.3%	0.4%	-1.6%		0.2%	0.2%	0.4%	-1.1%	
<b>TOTAL</b>		3.2%	2.7%	1.6%	0.5%		0.6%	2.2%	2.8%	1.8%		1.2%	3.1%	3.2%	2.6%	
<b>Business Spending</b>																
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%	0.2%	
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%	1.4%	
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%	8.9%	
<b>Consumer Spending</b>																
Durable Goods, Real		7.3%	5.9%	5.6%	5.3%		4.3%	4.8%	6.1%	7.3%		6.7%	6.5%	6.3%	7.4%	
Non-Durable Goods, Real		2.4%	2.6%	3.1%	2.4%		2.3%	3.0%	2.1%	2.5%		2.1%	1.9%	2.5%	3.2%	
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, seas adj		10.06%	10.04%	10.10%	10.03%		10.05%	10.10%	10.18%	10.27%		10.24%	10.26%	10.29%		
<b>Energy</b>																
US Oil & Gas Rig Count, Qtr Avg		1,380	909	866	755		554	420	480	586		739	892	947	921	
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%	57.2%	
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	\$55.05	
<b>Interest Rates &amp; Money</b>																
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%	1.76%	
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%	2.82%	
2-yr -- 30-yr spread, bps		195	227	227	212		189	179	155	183		179	158	145	106	
<b>Labor Markets</b>																
Unemployment Rate, avg		5.6%	5.4%	5.2%	5.0%		4.9%	4.9%	4.9%	4.7%		4.7%	4.3%	4.3%	4.1%	
<b>Misc Macro</b>																
Index Lead Indictors, 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%	2.4%	
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	57.8	
<b>Prices &amp; Costs</b>																
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%	
<b>PCE Prc Idx: Core, %chg y/y</b>		1.3%	1.3%	1.3%	1.4%		1.6%	1.6%	1.7%	1.8%		1.8%	1.5%	1.4%	1.5%	
<b>Production</b>																
<b>ISM Total Index--PMI</b>		53.2	52.6	51.0	48.6		49.8	51.8	51.2	53.3		57.0	55.8	58.6	58.9	
<b>Retail Sales</b>																
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%	5.7%	
<b>Trade &amp; Currencies</b>																
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	57.0	
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		
<b>Transportation</b>																
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	3,371.5	
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	3,579.3	
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	6,951	
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%	2.7%	
Trucking Tonnage Index, seas Adj		133.4	132.7	133.8	134.1		137.9	137.2	135.4	136.7		138.4	139.5	142.6	147.6	

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 16<sup>th</sup> consecutive month in December, with a PMI print of 59.7 that was the second best read of 2017, trailing only September's 60.8. December payrolls data of +148,000 was below much of 2H'17, although net revisions to September/October/November have been positive. December unemployment held at 4.1% month/month, and more/less declined across 2017 from a peak of 4.8% in January.

The 2-yr and 30-yr notes ended December at 1.89% (+11 bps) and 2.74% (-9 bps), respectively, with the 85 basis point spread marking the tightest month-end margin since prior to 2011 (as far back as we have logged). The FOMC hiked its Fed Funds rate by +25 bps to a target range of 1.25%-1.50% at last month's meeting, meeting market expectations, and marking the fifth rate hike this cycle.

The US Bureau for Economic Analysis' advance estimate for Q4'17 US GDP growth was initiated at 2.6% in late-January. Growth is indicated to have slowed from annualized rates of 3.1% in Q2 and 3.2% in Q3 on a seasonally adjusted basis. The Consumption component of GDP had its best contribution of the year to close out 2017 (+2.6% contribution), while positive impacts from both Private Investment and Government Spending were offset by Net Imports (-1.1% contribution).

Incremental inflation data points over the past few weeks remained benign, with the PCE Price index (ex-food & energy) measuring 1.5% for December, unchanged month/month. Core-CPI for December at 1.8% ticked up from 1.7% in November. We believe rising wage pressures and raw materials costs could reignite some level of inflation in 2018.

Our current and holistic view of the US political economy remains positive, and we believe the US economy is on stable footing as we move into 2018. 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

With December closing out the year, we calculate the US Dollar Index (DXY) averaged 0.3% weaker across 2017 versus 2016, punctuated by an average level of 93.69 in Q4'17, which by our calculation, was 6.2% weaker than Q4'16. The greenback has mostly weakened since our last monthly in late-December, with comments from both Treasury Secretary Steve Mnuchin and President Donald Trump at the World Economic Forum in Davos, Switzerland, drawing attention to the slide. At press time the DXY is currently positioned at ~89.4, over 11% below the average level from Q1'17. In our view, comps remain particularly favorable for at least the first half of 2018, over which the DXY averaged 99-100.

Amongst our developing region pairs last year, the USD was weakest against the Russian Ruble, although a dollar still fetches more than double the ruble it did just a few years ago; we expect firming energy prices influenced this trade last year. Inversely, the USD was strongest against the Turkish Lira in 2017, due in part in our view, to political issues.

From an equity investing perspective, our view toward forex concerns remains constructive, especially with acute dollar weakness to start 2018, which could be reflected in model revision as we progress through Q4'17 earnings season. Early indications point to FX having a net positive impact to Q4'17 revenues. 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* 1/29/18: January Sector Update.

*3M Company* (MMM - \$258.63, Buy, \$285 TP) 1/25/18: Record Q4'17 at MMM; Hike to 2018 Guidance.

*3M Company* (MMM - \$258.63, Buy, \$285 TP) 1/24/18: Upgrading Rating to Buy.

*Multi-Color Corp.* (LABL - \$78.00, Long-term Buy, \$105 TP) 1/8/18: Upgrading to Long-term Buy.

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

*Aegion Corp.* (AEGN - \$25.59, Neutral) 12/21/17: Downgrading to Neutral.

*Hillenbrand, Inc.* (HI - \$45.55, Neutral) 12/14/17: Thoughts from Investor Day; Reiterating Neutral.

*Hillenbrand, Inc.* (HI - \$45.55, Neutral) 11/17/17: Solid Q4'17 Results from HI; Reiterating Neutral.

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

*Multi-Color Corp.* (LABL - \$78.00, Long-term Buy, \$105 TP) 11/7/17: Mixed Q2'18 for LABL; Reiterating Neutral Rating.

*Aegion Corp.* (AEGN - \$25.59, Neutral) 11/2/17: Resilient Q3'17 from AEGN; Reiterating Buy Rating and Raising Price Target to \$30.

*Leggett & Platt* (LEG - \$47.83, 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 - \$45.90, Neutral) 10/24/17: Mixed Q3 Results for FELE; Reiterating Neutral.

*Additional information is available upon request.*

*Prices and all price sensitive data as of Friday, January 26, 2018, 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
<b>Buy</b>	31	28%	10%	90%
<b>Hold/Neutral</b>	75	67%	9%	91%
<b>Sell</b>	6	5%	0%	100%

*As of 8 January 2018*

**Other Disclosures**

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