



# Industrials Monthly

## Sector Update

May 2017

**\*\*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

April brought a resumption to a strong early-2017 for the Industrials sector, as measured by the Industrial Select Sector SPDR ETF (XLI). The XLI advanced 1.97% last month; the S&P 500 large cap index rallied 0.91% and the iShares Russell 2000 (small cap) Index Fund (IWM) gained 1.15%. 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.

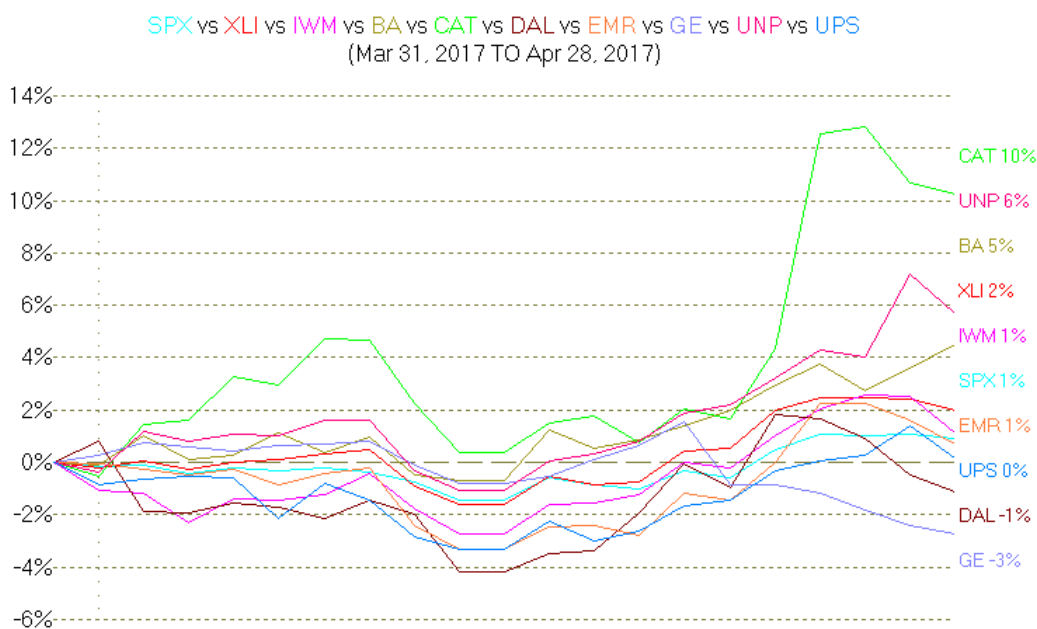
Performance for our coverage was about in line with the sector last month, with four of our six names advancing in April (**Exhibit 2**). Having drifted lower for much of 2017, Multi-Color Corp was our top performer, while FELE led our group to the downside, slumping in the aftermath of Q1’17 results.

Year-to-date through May 17, the XLI has underperformed the S&P by about 50bps due mostly to a soft March, although the Industrials sector has comfortably outpaced small-cap stocks. Performance is somewhat checkered amongst our coverage, which is skewed toward SMID-cap names (**Exhibit 3**).

Past performance is no guarantee of future results.

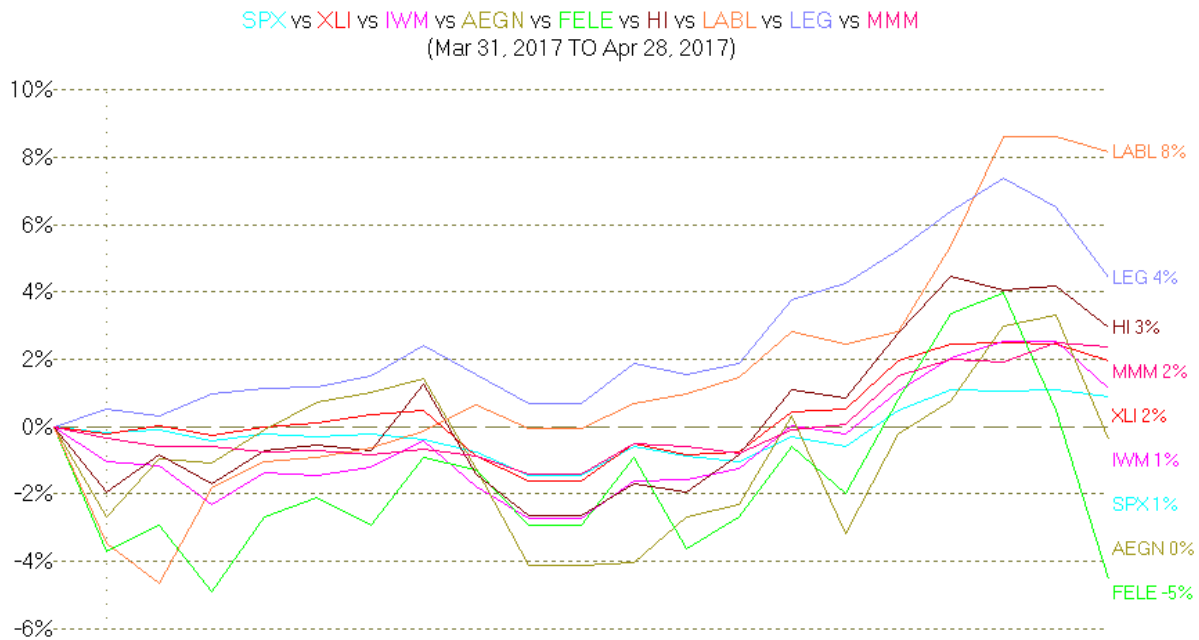
Since our prior *Industrials Monthly* we have been quite active, publishing on each of our companies at least once as we worked through earnings season, with the exception of LABL that reports on May 30. We downgraded Aegion to Neutral ahead of earnings, citing a developing lack of catalysts; this move leaves our entire coverage group Neutral-rated: AEGN, FELE, HI, LABL, LEG and MMM.

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



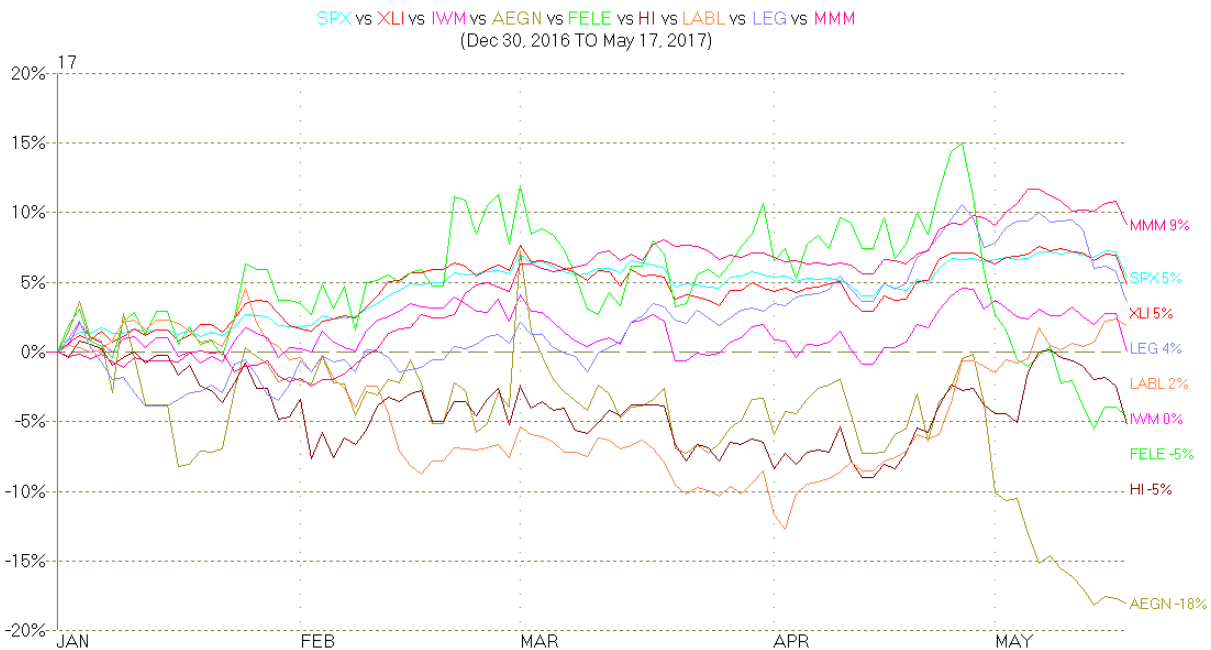
**Source: Baseline** SPX-S&P 500 Index; XLI-Industrials sector ETF; IWM-Russell 2k Index ETF; BA-Boeing; CAT-Caterpillar; DAL-Delta; EMR-Emerson; GE-General Electric; UNP-Union Pacific; UPS-United Parcel Svc. \*Note: It is not possible to invest directly in an index\*

**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**

The Industrials sector posted its third month of outperformance this year in April, reversing weakness in March prior to earnings. As measured by the XLI, the sector advanced 1.97%, which outpaced the 0.91% rally for the S&P 500. Performance for small-cap stocks outpaced large stocks for the first time this year in April, although all three buckets (small-mid-large) trailed the XLI last month. The Russell 2000 small-cap index and Russell mid-cap index rallied 1.15% and 0.79% last month, respectively.

Multi-Color Corp is scheduled to release fiscal Q4/FY 2017 (period ending 3/31/17) results on Tuesday, May 30, following the Memorial Day holiday. Otherwise, earnings season has been complete for our Industrials coverage for a couple of weeks. Through our cycle of 5 reports, the beat/meet/miss tally of EPS versus consensus expectations came in at 3/1/1, although FELE's 'miss' was by just a penny. Qualitatively, the cycle went much as we anticipated, with constructive commentary exiting the fourth quarter seemingly holding up through the first few months of the year. Forex concerns were a net headwind, but impact was less pronounced than in some other recent quarters, and we identify organic strength from Q1 both across consumer-facing (i.e. LEG's Furniture Group) and heavy-industry (i.e. MMM's Industrial segment) portions of the global economy.

Amongst our three 'beat' quarters (MMM, LEG, HI), the best report was likely delivered by Hillenbrand or 3M Company. EPS growth was higher at Hillenbrand, at 9.9% for the first quarter; however, MMM managed to beat our Street-high projection across what is a deep pool comprising consensus for the St. Paul-based mega-cap. Execution at both companies remains very good, in our view, and we continue to look for entry points into both stocks.

FY 2017 EPS expectations for our 31-company composite group total \$193.83, which is about \$5 above expectations from mid-April ahead of Q1 earnings season; this figure suggests yr/yr growth of 5.1%. Rising in tandem, FY 2018 expectations indicate yr/yr growth of 11.7% for the out-year, which is unchanged from January 1 of this year but over a higher base.

We continue to de-emphasize our prior stance of favoring US-centric names, and at this point, merely look to the most compelling and resilient growth companies, geography-agnostic. A White House engulfed in political turmoil has, in our view, made it less likely for us see meaningful progress on issues such as immigration, trade and tax reform, where we see risk/reward as skewed in favor of domestic firms. An item that has not changed is our affinity for the Defense industry, and we further note that recent FX moves (sharply weaker dollar) bode well for our evolving outlook, should recent trends hold and/or extend in the coming months.

We are reiterating our Marketweight allocation recommendation for the Industrials sector as we trade through May. Sentiment toward the political narrative for the sector has soured while we have been a bit skeptical over the past couple of months, in our view, although to the extent this risk factor has been mitigated, we do not see an obvious positive catalyst to take over. Economic data is fine from our vantage point, perhaps offset by stagnant oil prices, and while we liked Q1 earnings, we are still a couple of months away from another season emerging as a potential catalyst. Our composite group is currently trading at average multiples of 19.9x/18.6x/16.6x based on 2016/2017E/2018E EPS.

With our entire coverage Neutral-rated at this juncture, our 'best idea' relating to the Industrials sector is a suggestion that investors stay patient (preserve buying power), and/or trim gains as potentially justified by any number of investor-specific reason. Although we not necessarily calling for a pullback in any of our specific coverage group, we do like the idea of holding some cash with the idea of capitalizing on any entry points that may present themselves over the summer, a historically weaker season for equities.

**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 - \$194.84, Neutral)** 5/10/17—3M Company announced an agreement to sell its tolling and automated license/number plate recognition business, which is a part of the Traffic Safety and Security Division, within the Safety & Graphics segment. The business has annualized sales of about ~\$40MM, and the transaction is projected to be complete by the third quarter.

**Hillenbrand, Inc. (HI - \$36.35, Neutral)** 5/3/17—Management raised the low end of adjusted EPS guidance for the full fiscal year 2017 by a nickel, to a new range of \$2.00-\$2.10. HI earned \$2.00 in 2016.

**3M Company (MMM - \$194.84, Neutral)** 5/1/17—MMM completed the sale of its Identity Management Business. As discussed and disclosed during the company's April 26 conference call, Q2 will hold a +\$0.55/share gain-on-sale benefit.

**3M Company (MMM - \$194.84, Neutral)** 4/26/17—MMM raised FY 2017 EPS guidance to a range of \$8.70 to \$9.05, a hike of \$0.25 on both ends; however, this includes and reflects a lower expected effective tax rate (we quantify at circa +\$0.10 of EPS benefit), and a gain-on-sale (with some offsets) that should provide another \$0.05-\$0.10 of (net) EPS upside according to management. Organic sales guidance for 2017 was raised to +2% to +5% (from +1% to +3%).

**Franklin Electric Co, Inc. (FELE - \$37.10, Neutral)** 4/10/17—FELE announced three separate acquisitions of US-based groundwater distribution firms, for aggregate purchase consideration of \$89MM. Purchases of 2M in Montana, Western Hydro in California, and the purchase of Drillers Service, Inc. in North Carolina are all expected to close by the end of Q2'17. Collectively, the acquired companies will be operated as Headwater Companies, LLC, and will represent a third reportable segment for FELE.

**3M Company (MMM - \$194.84, Neutral)** 4/5/17—MMM filed an intellectual property infringement lawsuit alleging patent, trademark and copyright violations against K2 Concepts and China-based Phoenix Automotive Refinishing. The impetus for the suit surrounds alleged mimicking of technology from MMM's Auto Aftermarket Divisions, with Phoenix-made products being sold/marketed in the US by K2.

**3M Company (MMM - \$194.84, Neutral)** 4/3/17—MMM filed suit against Amphenol Corporation, alleging patent infringement of two separate patents titled 'Shielded Electrical Cable.' The technology is most applicable in high-performance computing environments.

**3M Company (MMM - \$194.84, Neutral)** 3/16/17—MMM announced a definitive agreement to acquire Scott Safety from Johnson Controls (JCI—\$41.33, Not Rated) for ~\$2B. Scott specializes in a range of products for law enforcement/armed forces, fire fighters, chemical workers, homeland defense operations, and the oil & gas industry. The purchase price represents 13x TTM EBITDA (according to JCI), or 11x adjusted forward EBITDA starting from the deal's 2H'17 expected closing date (according to MMM). The deal is projected to be \$0.10 dilutive on a GAAP EPS basis in its first year of operations, but \$0.10 accretive on an adjusted pro forma basis.

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

		Actual // Estimate																		
Company	Ticker	Price 17-May-17	Target		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.			
			Price	Rating					FY'16	FY'17E	FY'18E							FY'16	FY'17E	FY'18E
Aegion Corp	AEGN	\$ 19.41	--	Neutral	1,221.9	655.9	1.1x	38.0	\$1.11	<u>\$1.24</u>	<u>\$1.35</u>	17.6x	15.6x	14.3x	16.4x	-7%	8.2x	0.0%	6.9	193,709
Franklin Electric	FELE	\$ 37.10	--	Neutral	949.9	1,720.8	2.7x	20.0	\$1.66	<u>\$1.78</u>	<u>\$2.04</u>	22.4x	20.9x	18.2x	21.4x	-2%	12.2x	1.2%	13.5	193,865
Hillenbrand	HI	\$ 36.35	--	Neutral	1,538.4	2,315.2	3.4x	50.0	\$2.00	<u>\$2.08</u>	<u>\$2.25</u>	18.1x	17.5x	16.1x	15.0x	0%	11.1x	2.3%	21	249,680
3M Company	MMM	\$ 194.84	--	Neutral	30,109.0	116,163.6	10.7x	51.0	\$8.16	<u>\$8.78</u>	<u>\$9.31</u>	23.9x	22.2x	20.9x	19.1x	5%	14.6x	2.4%	44.8	1,865,680
Leggett & Platt	LEG	\$ 50.61	--	Neutral	3,749.9	6,768.8	6.0x	47.0	\$2.49	<u>\$2.58</u>	<u>\$2.76</u>	20.3x	19.6x	18.4x	20.7x	17%	12.6x	2.8%	30.5	1,114,073
Multi-Color Corp.	LABL	\$ 79.05	--	Neutral	870.8	1,339.6	3.5x	58.0	\$3.22	<u>\$3.47</u>	<u>\$3.78</u>	24.5x	22.8x	20.7x	17.7x	11%	11.8x	0.3%	17	60,296
Averages:							4.6x	44.0				21.1x	19.8x	18.1x	18.4x	4.00%	11.7x	1.5%	22.3	

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 17-May-17	Revenue TTM (\$MM)	Mkt Cap (\$MM)	Price/ Book	LTD/ Cap. (%)	Consensus EPS			5-Yr Avg P/E	3-Yr Avg EPS Growth	Current EV/ EBITDA	Div. Yld.	Div. Payout (%)	30-day Avg. Vol.			
							FY'16	FY'17E	FY'18E							FY'16	FY'17E	FY'18E
Aegion Corp	AEGN	\$ 19.41	1,253.2	655.9	1.1x	38.0	\$1.11	<u>\$1.31</u>	<u>\$1.39</u>	17.5x	14.8x	14.0x	16.4x	-7%	8.2x	0.0%	0	193,709
Franklin Electric	FELE	\$ 37.10	951.7	1,720.8	2.7x	20.0	\$1.66	<u>\$1.80</u>	<u>\$2.07</u>	22.3x	20.6x	17.9x	21.4x	-2%	12.2x	1.2%	24	193,865
Hillenbrand	HI	\$ 36.35	1,551.1	2,315.2	3.4x	50.0	\$1.96	<u>\$2.05</u>	<u>\$2.26</u>	18.5x	17.7x	16.1x	15.0x	0%	11.1x	2.3%	41	249,680
3M Company	MMM	\$ 194.84	30,385.0	116,163.6	10.7x	51.0	\$8.16	<u>\$8.95</u>	<u>\$9.56</u>	23.9x	21.8x	20.4x	19.1x	5%	14.6x	2.4%	55	1,865,680
Leggett & Platt	LEG	\$ 50.61	3,771.8	6,768.8	6.0x	47.0	\$2.49	<u>\$2.63</u>	<u>\$2.87</u>	20.3x	19.2x	17.6x	20.7x	17%	12.6x	2.8%	56	1,114,073
Multi-Color Corp	LABL	\$ 79.05	906.4	1,339.6	3.5x	58.0	\$2.99	<u>\$3.49</u>	<u>\$3.83</u>	26.4x	22.7x	20.6x	17.7x	11%	11.8x	0.3%	6	60,296

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 17-May-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.
							FY'16	FY'17E	FY'18E												
<b>Aero &amp; Defense</b>																					
Boeing	BA	\$ 178.78	92,915.0	109,499.0	-	92.0	\$7.28	<u>\$9.39</u>	<u>\$10.24</u>	24.6x	19.0x	17.5x	17.4x	-8%	14.6x	3.2%	66	2,903,524			
General Dynamics	GD	\$ 192.01	31,070.0	58,129.5	5.1x	21.0	\$9.88	<u>\$9.80</u>	<u>\$10.62</u>	19.4x	19.6x	18.1x	14.4x	12%	12.6x	1.7%	31	1,071,445			
Lockheed Martin	LMT	\$ 269.24	49,274.0	78,164.7	51.7x	90.0	\$12.38	<u>\$12.52</u>	<u>\$14.11</u>	21.7x	21.5x	19.1x	15.8x	5%	13.4x	2.7%	57	906,210			
Northrup Grumman	NOC	\$ 246.32	24,819.0	43,007.2	7.5x	57.0	\$11.50	<u>\$12.35</u>	<u>\$13.54</u>	21.4x	19.9x	18.2x	14.9x	12%	13.1x	1.6%	30	812,749			
Raytheon	RTN	\$ 157.30	24,306.0	46,070.0	4.4x	35.0	\$6.91	<u>\$7.48</u>	<u>\$8.39</u>	22.8x	21.0x	18.7x	15.5x	5%	13.0x	2.0%	41	1,624,540			
<b>Rails</b>																					
CSX	CSX	\$ 49.47	11,152.0	45,831.3	3.8x	48.0	\$1.81	<u>\$2.28</u>	<u>\$2.74</u>	27.3x	21.7x	18.1x	15.4x	0%	11.7x	1.6%	38	7,698,697			
Norfolk Southern	NSC	\$ 112.12	10,043.0	32,576.9	2.6x	44.0	\$5.62	<u>\$6.34</u>	<u>\$7.04</u>	20.0x	17.7x	15.9x	15.4x	-6%	10.0x	2.2%	41	1,688,294			
Union Pacific	UNP	\$ 106.56	20,244.0	86,718.0	4.2x	42.0	\$5.08	<u>\$5.74</u>	<u>\$6.42</u>	21.0x	18.6x	16.6x	17.5x	-3%	10.5x	2.3%	45	3,345,383			
<b>Airlines</b>																					
American Airlines	AAL	\$ 44.92	40,370.0	22,646.6	5.7x	87.0	\$6.44	<u>\$4.77</u>	<u>\$5.37</u>	7.0x	9.4x	8.4x	10.4x		5.9x	0.9%	8	6,934,373			
Delta Airlines	DAL	\$ 47.74	38,237.0	34,887.0	2.7x	39.0	\$5.31	<u>\$5.20</u>	<u>\$5.89</u>	9.0x	9.2x	8.1x	9.3x	22%	5.5x	0.0%	17	8,710,927			
United Continental	UAL	\$ 76.18	36,781.0	23,968.0	2.3x	55.0	\$8.73	<u>\$7.12</u>	<u>\$8.40</u>	8.7x	10.7x	9.1x	12.4x	25%	4.6x	0.0%	0	4,674,016			
Southwest Airlines	LUV	\$ 57.04	20,482.0	35,094.1	4.0x	25.0	\$3.75	<u>\$3.82</u>	<u>\$4.71</u>	15.2x	14.9x	12.1x	16.9x	31%	7.5x	0.7%	11	4,471,501			
<b>Shipping, Air/Ground</b>																					
C.H. Robinson	CHRW	\$ 67.84	13,484.6	9,589.9	7.3x	28.0	\$3.59	<u>\$3.59</u>	<u>\$3.84</u>	18.9x	18.9x	17.7x	21.4x	10%	11.6x	2.7%	49	1,559,769			
Fed Ex	FDX	\$ 187.49	57,591.0	49,967.8	3.7x	49.0	\$10.81	<u>\$11.93</u>	<u>\$13.60</u>	17.3x	15.7x	13.8x	17.6x	19%	7.7x	0.9%	13	1,611,083			
J.B. Hunt	JBHT	\$ 83.52	6,655.9	9,296.7	6.6x	41.0	\$3.74	<u>\$3.97</u>	<u>\$4.54</u>	22.3x	21.0x	18.4x	24.6x	9%	9.7x	1.1%	24	1,173,883			
UPS	UPS	\$ 102.87	61,803.0	70,900.8	17.3x	97.0	\$5.77	<u>\$5.95</u>	<u>\$6.44</u>	17.8x	17.3x	16.0x	19.6x	9%	9.3x	3.2%	55	2,755,142			
<b>Machinery</b>																					
Caterpillar	CAT	\$ 100.14	38,898.0	58,730.7	4.4x	63.0	\$3.44	<u>\$4.06</u>	<u>\$5.17</u>	29.1x	24.7x	19.4x	15.5x	-28%	-	3.1%	76	5,554,474			
Cummins	CMI	\$ 153.31	17,807.0	25,779.8	3.6x	19.0	\$8.54	<u>\$9.44</u>	<u>\$10.45</u>	18.0x	16.2x	14.7x	14.4x	1%	10.0x	2.7%	45	1,574,237			
Deere	DE	\$ 113.23	24,946.8	36,069.5	5.5x	77.0	\$4.81	<u>\$4.92</u>	<u>\$5.63</u>	23.5x	23.0x	20.1x	12.5x	-29%	14.6x	2.1%	52	2,155,883			
Paccar	PCAR	\$ 63.38	16,069.1	22,239.9	3.2x	47.0	\$3.85	<u>\$3.69</u>	<u>\$4.18</u>	16.5x	17.2x	15.2x	15.3x	2%	7.2x	1.6%	26	2,051,493			
<b>Electric Components</b>																					
Eaton	ETN	\$ 76.18	19,582.0	34,258.1	2.3x	31.0	\$4.22	<u>\$4.64</u>	<u>\$5.11</u>	18.1x	16.4x	14.9x	14.6x	-3%	12.7x	3.2%	54	2,315,393			
Emerson Electric	EMR	\$ 57.99	17,416.0	37,407.3	4.9x	33.0	\$2.98	<u>\$2.60</u>	<u>\$2.88</u>	19.5x	22.3x	20.1x	16.7x	-11%	10.9x	3.3%	68	3,740,437			
Rockwell Automation	ROK	\$ 153.74	6,057.2	19,771.0	8.9x	38.0	\$5.93	<u>\$6.64</u>	<u>\$7.22</u>	25.9x	23.2x	21.3x	17.9x	-1%	14.9x	2.0%	47	1,108,430			
United Technologies	UTX	\$ 119.58	57,702.0	96,365.0	3.4x	44.0	\$6.61	<u>\$6.58</u>	<u>\$7.05</u>	18.1x	18.2x	17.0x	15.9x	-2%	11.1x	2.2%	40	2,908,835			
<b>Conglomerates</b>																					
Danaher	DHR	\$ 81.90	18,707.1	56,779.6	2.4x	30.0	\$4.25	<u>\$3.92</u>	<u>\$4.29</u>	19.3x	20.9x	19.1x	16.0x	8%	14.2x	0.7%	13	3,094,503			
General Electric	GE	\$ 27.41	123,508.0	239,146.3	3.2x	58.0	\$1.50	<u>\$1.63</u>	<u>\$1.89</u>	18.3x	16.8x	14.5x	16.9x	-4%	15.5x	3.5%	63	31,218,920			
Honeywell	HON	\$ 129.94	39,272.0	98,909.6	5.1x	39.0	\$6.53	<u>\$7.09</u>	<u>\$7.72</u>	19.9x	18.3x	16.8x	17.0x	9%	12.7x	2.0%	39	3,189,020			
3M Corp	MMM	\$ 194.84	30,385.0	116,163.6	10.7x	51.0	\$8.16	<u>\$8.95</u>	<u>\$9.56</u>	23.9x	21.8x	20.4x	19.1x	5%	14.6x	2.4%	55	1,865,680			
Parker Hannifin	PH	\$ 152.91	11,490.2	20,382.0	4.0x	37.0	\$6.45	<u>\$7.89</u>	<u>\$8.89</u>	23.7x	19.4x	17.2x	16.2x	-2%	11.7x	1.7%	34	1,223,749			
<b>Other</b>																					
Illinois Tool Works	ITW	\$ 134.78	13,796.0	46,708.1	10.2x	63.0	\$5.64	<u>\$6.35</u>	<u>\$7.03</u>	23.9x	21.2x	19.2x	18.6x	11%	14.4x	1.9%	44	1,372,562			
Waste Management	WM	\$ 70.73	13,873.0	31,100.2	5.8x	63.0	\$2.92	<u>\$3.18</u>	<u>\$3.47</u>	24.2x	22.2x	20.4x	20.0x	9%	10.9x	2.4%	56	1,450,245			
Averages: [BA thru WM]					6.9x	49.8				19.9x	18.6x	16.6x	16.3x	3.6%	11.2x	2.0%	39.9				

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						March	June	Sept	Dec						March	June	Sept	Dec	
	FY'11	FY'12	FY'13	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E				
<b>Dollar Index (DXY)</b>	<b>76.51</b>	<b>80.58</b>	<b>81.44</b>	<b>82.55</b>	<b>96.26</b>	97.41	94.48	95.78	99.87	<b>96.88</b>	100.76	99.63	97.64	97.64					
\$ strength / (weakness)	-5.8%	5.3%	1.1%	1.4%	16.6%	2.5%	-1.6%	-0.6%	2.2%	0.6%	3.4%	5.5%	1.9%	-2.2%					
LAST UPDATE: 5/18/2017															Q2 avg thru 5/17 spot @ 5/18				
<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%	\$ 1.081 -4.3%	\$ 1.111 -0.5%	\$ 1.111 3.0%					
Average ISPr 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 -1.1%	CAD 1.325 3.6%	CAD 1.323 -3.6%	CAD 1.353 5.0%	CAD 1.364 4.6%	CAD 1.364 2.2%					
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%	\$ 0.749 0.4%	\$ 0.744 -2.0%	\$ 0.744 -0.7%					
Average GBP£ 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%	\$ 1.275 -11.5%	\$ 1.301 -0.9%	\$ 1.301 4.8%					
Average ISPr 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 2.3%	CHF 1.004 1.2%	CHF 0.999 2.9%	CHF 0.979 0.4%	CHF 0.979 -2.3%					
Average ISPr in Jap Yen¥ : 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%	¥ 111.18 2.7%	¥ 110.84 8.3%	¥ 110.84 1.1%					
<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%	\$ 0.31807 12.6%	\$ 0.30303 -1.7%	\$ 0.30303 -0.2%					
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%	\$ 0.07462 12.0%	\$ 0.07396 4.0%	\$ 0.07396 2.9%					
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%	\$ 0.0532 -3.9%	\$ 0.0525 -1.6%	\$ 0.0525 4.3%					
Average ISPr in S.Korea Won₩ (\$ 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%	₩ 1,133.4 -2.5%	₩ 1,131.7 1.0%	₩ 1,131.7 -2.5%					
Average ISPr 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%	3.612 TL 24.7%	3.630 TL 22.4%	3.630 TL 9.8%					
Average ISPr 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 64.4 -3.7%	INR 64.9 -3.1%	INR 64.9 -3.8%					
Average ISPr 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%	¥ 6.892 5.6%	¥ 6.891 3.4%	¥ 6.891 0.6%					
Average ISPr 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 56.93 -13.6%	RUB 57.92 -10.3%	RUB 57.92 -8.1%					

Sources: Bloomberg Terminal, Thomson One, Hilliard Lyons calculations

MONTHLY ECONOMIC STATISTICS

Macro Data--MONTHLY	2015			2016			2017			2018			2019			2020			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
	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	Feb '17	Mar '17	Apr '17
<b>LAST UPDATE Check: 5/17/2017</b>																			
<b>Business Spending</b>																			
Cap Gds Orders, x-A&Def, Seas Adj m/m	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%	0.8%	0.2%	0.1%	0.5%	
<b>Consumer Spending</b>																			
Durable Goods, Real (FRED)--seas Adj	1483.2	1532.5	1534.8	1518.7	1528.9	1527	1555.9	1555.6	1571.4	1606.7	1583.3	1623.2	1644.2	1636.1	1664.4	1640.4	1642.4	1630.3	
Non-Durable Goods, Real (FRED)--seas Adj	2447.2	2458.4	2465.8	2470.0	2465.8	2477.8	2499.9	2506.3	2510.0	2501.5	2501.0	2504.8	2515.3	2521.6	2531.5	2531.2	2529.4	2536.0	
<b>Energy</b>																			
US Oil & Gas Rig Count, Mo Avg	791	760	714	654	532	478	437	407	417	449	481	509	544	580	634	683	744	789	853
Year/Year change	-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%	39.8%	65.1%	95.3%
Oil Price: Refinery Acq Cost, \$/bbl	\$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	\$48.66	\$49.99	\$51.11	\$48.54	
<b>Interest Rates &amp; Money</b>																			
Corporate BAA to AAA spread, in bps	139	140	149	145	138	131	117	103	103	94	92	90							
2-yr Treasury Note-month end	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%	1.22%	1.27%	1.28%
30-yr T-Bond-month end	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%	2.97%	3.02%	2.96%
2-yr -- 30-yr spread, bps	224	214	199	196	189	181	185	181	172	156	152	158	172	191	186	186	175	175	168
<b>Labor Markets</b>																			
Unemployment Rate, avg	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%	4.7%	4.5%	4.4%
Monthly non-Farm Payrolls (in 000s)				+237k	+225k	+153k				+252k	+167k	+173k	+135k	+164k	+155k	+216k	+232k	+79k	+211k
<b>Misc Macro</b>																			
Index of Leading Indicators (LEI), mthly chg	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%	0.2%	0.6%	0.6%	0.5%	0.4%	
ISM Non-Manufacturing Index	58.3	56.6	55.3	53.5	53.4	54.5	55.7	53.6	56.1	54.9	51.7	56.6	54.6	56.2	56.6	56.5	57.6	55.2	57.5
<b>Prices &amp; Costs</b>																			
CPI: Core, % chg yr/yr	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%	2.3%	2.2%	2.0%	1.9%
PCE Price Index: Core, % chg y/y	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%	1.8%	1.8%	1.6%	
<b>Production</b>																			
ISM Total Index--PMI	49.4	48.4	48.0	48.2	49.5	51.8	50.7	51.0	52.8	52.3	49.4	51.7	52.0	53.5	54.5	56.0	57.7	57.2	54.8
Durable Goods Orders, total, Seas Adj m/m	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%	-0.9%	2.4%	2.4%	0.9%	
<b>Retail Sales</b>																			
Retail & Food Sales, nom % chg y/y (seas Adj)	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%	4.4%	6.0%	5.1%	4.8%	4.5%
R&F Sales, x-Auto, nom % chg y/y (seas Adj)	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%	3.6%	5.8%	5.5%	4.9%	4.5%
<b>Trade &amp; Currencies</b>																			
ISM Export Orders Index (seas adj'd)	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	55.0	59.0	
Exports to China, \$B	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	10.1	9.8	9.6	
<b>Transportation</b>																			
Rails: Carloads Origin, in 000s	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	1,044.0	1,283.5	1,023.3
Rails: Intermodal Origin, in 000s	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	1,068.4	1,298.2	1,052.0
Rails: Cars + Intermodal, in 000s	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	2,112	2,582	2,075
Total Year/Year change	-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%	4.2%	5.5%	5.2%
TTINNSAVTrk Tonnage Index, seas Adj	132.8	134.8	134.7	134.3	142.7	136.6	135.3	139.3	137.1	134.2	140.8	131.9	131.6	142.7	134.9	138.9	138.8	137.5	

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, 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	June	Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March			
	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	Q1'17
<b>US Real GDP Growth—Q/Q-seas adj</b>	4.0%	5.0%	2.3%	2.4%	2.0%	2.6%	2.0%	0.9%	2.6%	0.8%	1.4%	3.5%	2.1%	1.6%	0.7%
Yr / Yr Change	3.2%	1.9%	-1.7%	0.7%	3.2%	-1.4%	-3.0%	-1.4%	0.2%	-1.2%	-1.2%	1.5%	1.2%	-1.0%	-0.1%
<b>LAST UPDATE Check: 5/17/2017</b>															
<b>WORLDWIDE NEWS</b>					*CA port closure			*Dec: 1st Fed rate hike		*6/23--Brexit vote	*TUR coup	*US Prez election	*Rio Olympics	*Dec: 2nd Fed hike	*Mar: 3rd Fed hike
<b>US Real GDP Drivers</b>															
Consumption	2.6%	2.5%	3.1%		1.6%	1.9%	1.8%	1.5%		1.1%	2.9%	2.0%	2.4%		0.2%
Government Spending	0.0%	0.5%	-0.1%		0.5%	0.6%	0.3%	0.2%		0.3%	-0.3%	0.1%	0.0%		-0.3%
Investment	1.8%	1.5%	0.5%		1.6%	0.2%	0.4%	-0.4%		-0.6%	-1.3%	0.5%	1.5%		0.7%
Trade Balance	-0.4%	0.5%	-1.1%		-1.7%	-0.1%	-0.5%	-0.5%		0.0%	0.2%	0.9%	-1.8%		0.1%
TOTAL	4.0%	5.0%	2.3%		2.1%	2.6%	2.0%	0.9%		0.8%	1.4%	3.5%	2.1%		0.7%
<b>Business Spending</b>															
Cap Gds Order, x-A&Def, Seas Adj m/m	-1.4%	4.8%	-0.6%		-2.2%	-3.1%	-4.9%	-2.3%		-4.4%	-4.1%	-3.3%	1.0%		0.3%
Industrial Equip, Seas Adj Annual Rt	5.1%	6.2%	5.5%		1.9%	1.9%	-1.4%	3.8%		2.7%	2.1%	2.9%	1.8%		6.4%
<b>Consumer Spending</b>															
Durable Goods, Real	5.9%	7.0%	7.5%		7.3%	5.9%	5.6%	5.3%		4.3%	4.8%	6.1%	7.9%		8.0%
Non-Durable Goods, Real	2.2%	2.2%	2.3%		2.4%	2.6%	3.1%	2.4%		2.3%	3.0%	2.1%	2.6%		2.5%
TTM Consumer Bankruptcies, in '000s	970.0	935.4	909.8		885.0	854.7	835.2	819.8		808.7	793.9	781.1	770.8		770.9
Household Debt Service Ratio	9.99%	9.95%	9.92%		10.01%	9.96%	9.97%	9.99%		10.00%	9.99%	10.00%	9.98%		
<b>Energy</b>															
US Oil & Gas Rig Count, Qtrr Avg	1,852	1,903	1,911		1,380	909	866	755		554	420	480	586		739
Year/Year change	5.2%	7.6%	8.7%		-22.5%	-50.9%	-54.5%	-60.5%		-59.8%	-53.7%	-44.6%	-22.4%		33.3%
Oil Price: Refinery Acq Cost, \$/bbl	\$101.09	\$96.36	\$73.78		\$47.97	\$57.43	\$47.58	\$40.61		\$30.78	\$42.18	\$42.90	\$46.52		\$49.88
<b>Interest Rates &amp; Money</b>															
Corporate BAA to AAA spread, in bps	60	62	86		93	94	116	143		138	108	92			
2-yr Treasury Note	0.42%	0.52%	0.54%		0.60%	0.61%	0.69%	0.84%		0.84%	0.77%	0.73%	1.06%		1.23%
30-yr T-Bond	3.44%	3.26%	2.97%		2.55%	2.89%	2.96%	2.96%		2.72%	2.57%	2.28%	2.89%		3.01%
2-yr – 30-yr spread, bps	302	274	243		195	227	227	212		189	179	155	183		179
<b>Labor Markets</b>															
Unemployment Rate, avg	6.2%	6.1%	5.7%		5.6%	5.4%	5.2%	5.0%		4.9%	4.9%	4.9%	4.7%		4.7%
<b>Misc Macro</b>															
Index Lead Indictors, Approx total chg	1.6%	1.9%	1.3%		0.4%	1.8%	-0.1%	0.7%		0.0%	0.5%	0.6%	1.0%		1.5%
ISM Non-Manufacturing Index	56.1	57.7	57.5		57.0	56.5	58.2	56.9		53.8	55.1	54.4	55.8		56.4
<b>Prices &amp; Costs</b>															
CPI: Core, % chg yr/yr	1.9%	1.8%	1.7%		1.7%	1.8%	1.8%	2.0%		2.2%	2.2%	2.2%	2.1%		2.2%
PCE Pre Idx: Core, %chg y/y	1.6%	1.6%	1.4%		1.3%	1.3%	1.3%	1.4%		1.6%	1.6%	1.7%	1.7%		1.7%
<b>Production</b>															
ISM Total Index--PMI	55.5	56.5	56.6		53.2	52.6	51.0	48.6		49.8	51.8	51.2	53.3		57.0
Change in Real Inventories, 2009\$B	55.2	66.8	76.9		114.4	93.8	70.9	56.9		40.7	-9.5	7.1	49.6		10.3
Durable Goods Orders, tot, Seas Adj m/m	0.3%	1.1%	-1.3%		1.5%	0.0%	-1.6%	0.0%		0.8%	-1.3%	1.4%	-0.2%		1.9%
<b>Retail Sales</b>															
Retail & Food Sales, nom % chg y/y (seas adj)	4.8%	4.7%	4.4%		2.9%	2.1%	2.3%	2.0%		2.7%	2.7%	2.6%	4.2%		5.3%
R&F Sales, x-Auto, nom % chg y/y (seas adj)	4.2%	4.2%	3.8%		1.6%	1.0%	1.3%	0.9%		2.4%	3.0%	2.4%	3.8%		5.4%
<b>Trade &amp; Currencies</b>															
ISM Export Orders Index (seas adj'd)	56.0	53.8	52.8		48.5	50.3	47.0	48.7		48.5	52.8	52.3	53.5		56.2
Exports to China, \$B Qtrly total	27.5	28.2	36.9		28.2	27.7	28.1	32.1		25.2	26.0	28.2	36.4		29.5
<b>Transportation</b>															
Rails: Carloads Origin, in 000s	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		3,324.1
Rails: Intermodal Origin, in 000s	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		3,387.7
Rails: Cars + Intermodal, in 000s	7,285	7,886	7,143		6,935	7,107	7,255	6,678		6,483	6,525	6,813	6,767		6,712
Year/Year change	6.6%	12.5%	-3.3%		8.8%	-2.4%	-8.0%	-6.5%		-6.5%	-8.2%	-6.1%	1.3%		3.5%
Trucking Tonnage Index, seas Adj	127.6	130.9	132.6		133.4	132.7	133.8	134.1		137.9	137.2	135.6	136.4		138.4

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 an eighth consecutive month in April, with a PMI print of 54.8 marking the lowest read of 2017 while still comfortably above the 50-bogey. We expect some level of our ‘pent up activity’ thesis post-election has worked itself out, but still believe a less tentative business climate prevails as we work through the middle stages of Q2. The yield curve flattened slightly in April, with the 2-yr and 30-yr notes ending the month at 1.28% (from 1.27%) and 2.96% (from 3.02%), respectively; rates have held fairly steady over the first couple weeks of May.

The US Bureau for Economic Analysis’ advance estimate for Q1’17 US GDP growth came in at 0.7%, indicating a reduced pace of seasonally adjusted growth versus a final Q4’16 read of 2.1%. Having said that, grumblings over measurement techniques applicable to first quarters have persisted for a few years now, and the 0.7% is still subject to revisions in May and June. Parsing current data, Consumption is the driver we find most puzzling, with this primary contributor of GDP responsible for its lowest level of consolidated growth (just +0.2%) since Q4 of 2009. More constructive, in our view, Private Investment remained a positive contributor for a third sequential quarter.

From our vantage point, disappointing Q1 GDP, along with slowing PMIs in April, flagging energy prices and stubbornly low long rates, all corroborate our consistent view that US stocks have been more sensitive to the Trump narrative than has the underlying US economy. Net, we believe the economy is on a bit better footing than at this point last year; however, we again relay skepticism that investor optimism can persist indefinitely should tax and regulatory reform remain elusive. Somewhat offsetting this dour top down view, we were actually pleased with Q1 earnings across most of the stock market.

March inflation reverted back to early-2016 levels of change, with the PCE Price index (ex-food & energy) measuring 1.6%, 20bps below levels in January and February, and the lowest yr/yr read since July of last year. Core-CPI for April at 1.9% is the metrics lowest read since October 2015. April payrolls data of +211,000 was a nice rebound from March, which was revised down to +79,000; the unemployment rate slid 10bps sequentially to 4.4% as of the most recent report.

**CURRENCY PRICE COMMENTARY**

Mid-way through the second quarter, we calculate the US Dollar is on pace to be stronger yr/yr by the largest amount since Q4’15; however, this is partially due to a difficult comparison last year and does not much account for a very recent slide across just the past few days. We estimate the Dollar Index (DXY) has averaged about 5.5% stronger Q2-to-date versus Q2’16, which flows in close approximation to the Euro/Dollar pair (4.3%). As noted, the USD has mostly weakened as of late, following a DXY break back below 100; we believe political discourse has had an impact in recent sessions.

Amongst our developed region pairs, USD strength against the British Pound is still stark on a yr/yr basis; however, the Pound has strengthened versus the USD for a couple of months now, despite the UK continuing to barrel toward Brexit. Similarly in recent weeks, the dollar has slid against the Japanese Yen and Euro, with the latter recently breaking out above what was a resilient range of \$1.05 and \$1.10.

From an equity investing perspective, our view toward forex concerns remains neutral at this point. We are encouraged that the USD seemingly peaked early in the year in proximity to Trump’s inauguration, but acknowledge likely headwinds to 2017 revenue on a yr/yr basis if current prices hold.

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* 5/18/17: May Sector Update.

*Hillenbrand, Inc.* (HI - \$36.35, Neutral) 5/4/17: Strong Q2'17 Results from HI; Reiterating Neutral Rating.

*Aegion Corp.* (AEGN - \$19.41, Neutral) 5/3/17: In Line Q1'17 Gets AEGN Off to Positive Start in 2017.

*Aegion Corp.* (AEGN - \$19.41, Neutral) 5/1/17: Downgrading to Neutral on Lower Estimates, Waning Catalysts.

*Franklin Electric Co., Inc.* (FELE - \$37.10, Neutral) 5/1/17: Addendum to Q1 Update; Clarifying Potential Headwater Contribution.

*Franklin Electric Co., Inc.* (FELE - \$37.10, Neutral) 4/28/17: Disappointing Q1'17 for FELE, but with Qualifiers.

*Leggett & Platt* (LEG - \$50.61, Neutral) 4/28/17: Q1'17 Results from LEG; Reiterating Neutral Rating.

*3M Company* (MMM - \$194.84, Neutral) 4/25/17: Q1'17 Results from MMM; Reiterating Neutral Rating.

*Industrials Monthly* 4/19/17: April Sector Update.

*3M Company* (MMM - \$194.84, Neutral) 3/16/17: \$2B Agreement to Acquire Scott Safety.

*Industrials Monthly* 3/14/17: March Sector Update.

*Multi-Color Corp.* (LABL - \$79.05, Neutral) 2/8/17: Mixed Fiscal Q3'17 Shows Growth but Misses Expectations.

*Additional information is available upon request.*

*Prices and all price sensitive data as of Wednesday, May 17, 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**

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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>Rating</b>				
<b>Buy</b>	32	26%	13%	88%
<b>Hold/Neutral</b>	79	64%	8%	92%
<b>Sell</b>	12	10%	0%	100%

*As of 8 May 2017*

**Other Disclosures**

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