



# Industrials Monthly

## Sector Update

November 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

October saw a slowdown for Industrials, as measured by the Industrial Select Sector SPDR ETF (XLI). The XLI advanced 0.75% last month versus an S&P 500 rally of 2.22%; the iShares Russell 2000 (small cap) Index Fund (IWM) logged a 0.73% gain. Index-ETF performance and a potential ‘stock of interest’ from each of our 7 major sub-sectors [Aerospace & Defense, Rails, Airlines, Shipping, Machinery, Electric Components, and Conglomerates] is depicted in **Exhibit 1**. Our full industry comp table is on page 8.

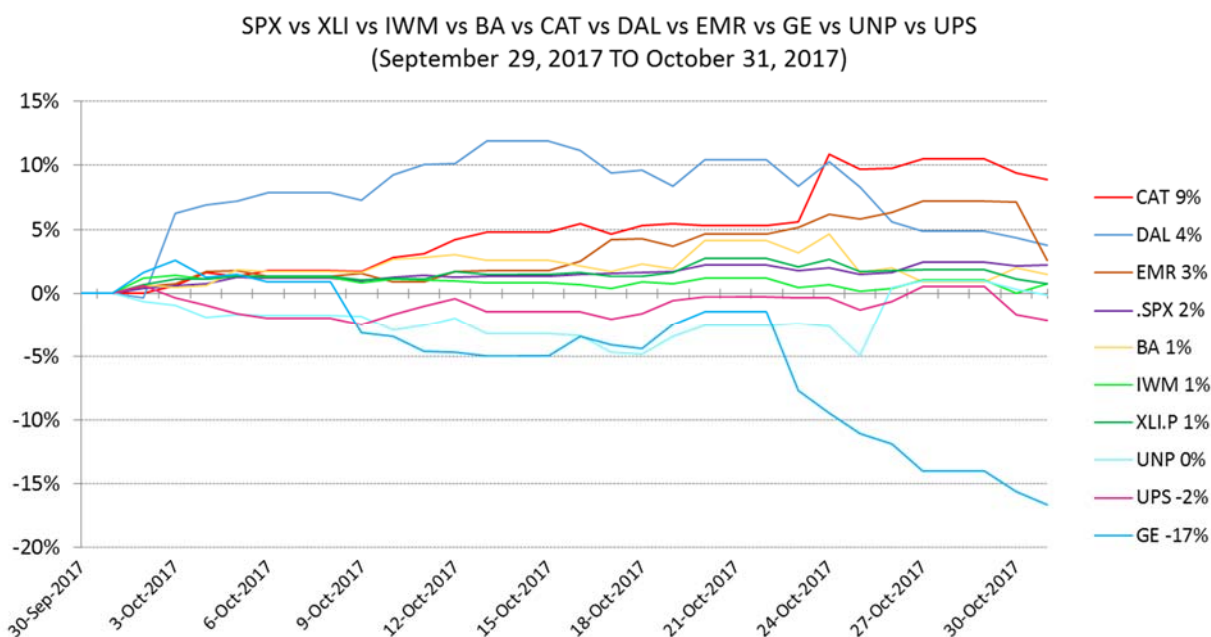
Performance for our coverage was mixed last month, although 4 of our 6 names outpaced the XLI; on average the group was up 2.15% (**Exhibit 2**). 3M Company (MMM) was far and above our strongest name in October on the back of what we view as its best earnings report since the crisis.

YTD through 11/9, the S&P 500 has outperformed the XLI by ~40bps, as last month’s run (likely earnings related) has now turned the tables. Both the Industrials sector and large-caps have outpaced SMID-caps, although interest in tax reform in recent weeks may have brought back some enthusiasm (**Exhibit 3**).

Past performance is no guarantee of future results.

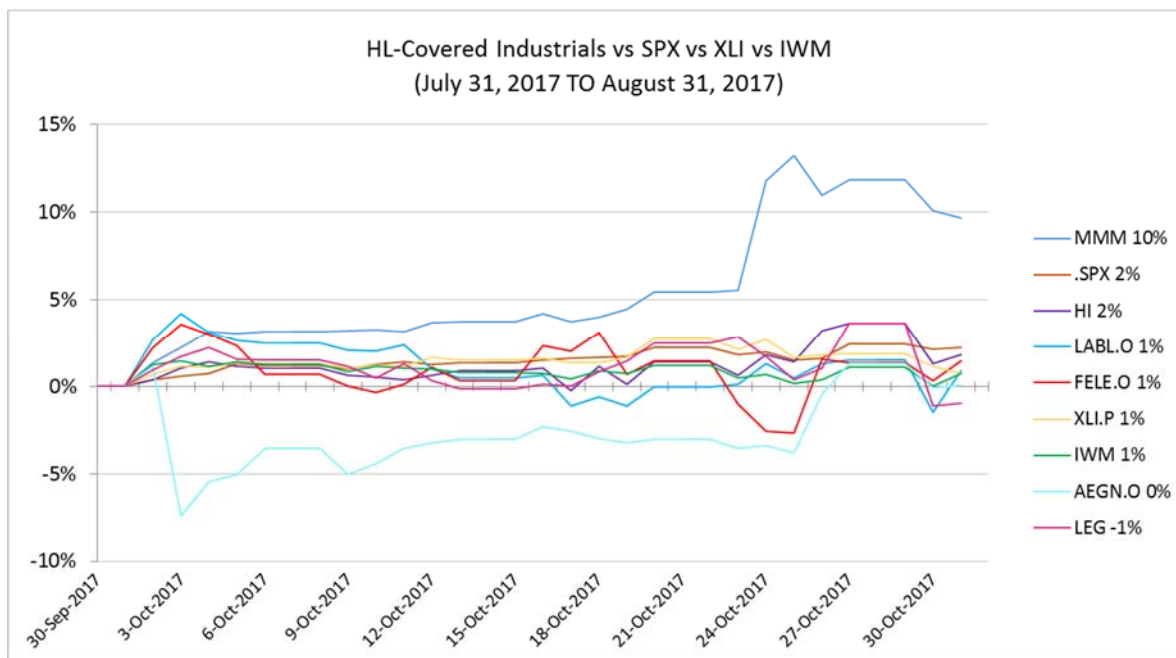
Since our prior *Industrials Monthly*, we have published on almost all of our names as we traverse earnings season. We have been generally pleased with reports thus far, although we anticipated a strong season and as such have largely maintained our outlooks. Of note, we increased our price target for AEGN to \$30 (from \$26) following their resilient quarter. As we move through the tail end of Q3 earnings season, we assign a Long-term Buy rating to LEG and a Buy rating to AEGN; the balance of our coverage group remains Neutral-rated: FELE, HI, LABL and MMM.

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



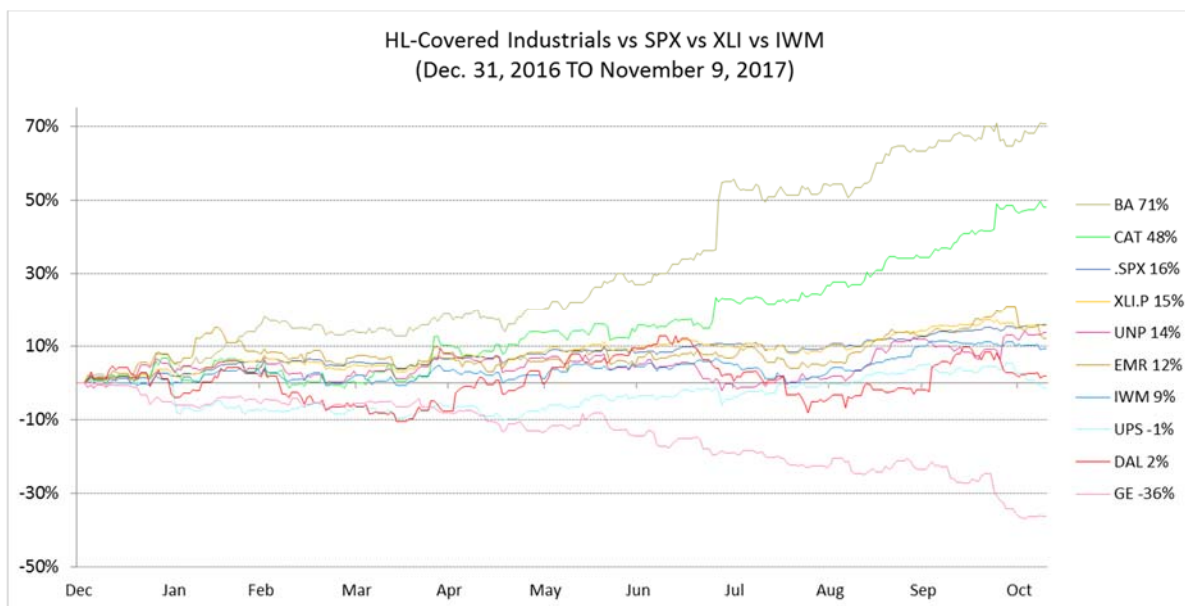
**Source:** Thomson Reuters SPX-S&P 500 Index; XLI-Industrials sector ETF; IWM-Russell 2k Index ETF; BA-Boeing; CAT-Caterpillar; DAL-Delta; EMR-Emerson; GE-General Electric; UNP-Union Pacific; UPS-United Parcel \*Note: It is not possible to invest directly in an index\*

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



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

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



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

## SECTOR COMMENTARY AND OUTLOOK

October was positive for the Industrials sector (March remains the only negative month) as measured by the XLI. The sector advanced 0.75% last month, but trailed the 2%+ gain for the S&P 500; Industrials have outperformed in 7 of 10 months thus far in 2017. Reversing some of the exuberance of tax reform that propelled September performance, the Russell 2000 small-cap index advanced just fractionally in October after rallying over 6% in the prior month.

From our vantage point, news flow has been constructive for the Industrials sector across earnings season, in large part due to the reports themselves. With 67 of 70 Industrials components of the S&P 500 having released calendar-Q3 results, 85% of reporting companies have either met or beat consensus EPS expectations; 69% of companies have bettered the Street's target for revenue. From our vantage point, the sector continues to benefit from a stabilized energy sector, and what has been a nascent recovery for many of the base material and chemical industries. More broadly, Q3 results for the sector held, on average, positive sales impact for FX translation, and the global sector seems to be benefiting from a nearly uniformly positive global economy. The US hurricanes were of note; however, they seem to be driving negligible lasting shocks across the US economy.

FY 2017 EPS expectations for our 31-company composite group total \$200.41, up about \$3 m/m and a high watermark for this year. Current expectations suggest yr/yr growth in 2017 of 8.9%, after earnings declined by 1.5% in 2016. FY 2018 and 2019 expectations indicate yr/yr growth for our composite of 8.9% and 12.2%, respectively; composite estimate totals for the out years did not rise by as much as 2017 expectations.

The potential for tax reform has re-entered the investment conversation quite heavily over the past several weeks, with prevailing wisdom seemingly pegging domestic-oriented firms as the more likely beneficiaries versus multi-nationals. Nonetheless, we retain our positive (relative) view toward global firms as we work through Q4, opting to fade the optimism and embrace the skepticism, which includes shouldering the risk that import tariffs actually survive Congress. We still favor the most resilient growth companies above all else, geography agnostic, but maintain a view that a weaker dollar is our preferred macro theme of emphasis. An item that has not changed is our affinity for the Defense industry, which we have been stressing as a multi-year investment theme dating back to our first *Industrials Monthly* issues in early-2016, and has likely gained additional attention in recent days alongside Trump's visit to Asia. We still like Defense's leverage to traditional warfare technologies and the DoD budget; however, we also see long-term upside from cyber security evolutions and a renewed interest in 'Space Race 2.0'.

We are reiterating our Marketweight allocation recommendation for the Industrials sector as we trade through November. Earnings season was quite strong, but similar to exiting Q2, we worry that profit taking could be a prescient theme as we move past the cycle of reports. Due to some levitation in earnings expectations, valuation does not change much month over month; our composite group is currently trading at average multiples of 22.9x/20.6x/18.7x based on 2016/2017E/2018E EPS.

Aegion Corp (AEGN) proves to be a fleeting 'top pick' for us, with the stock having rallied nearly 20% since reporting Q3 results just over one week ago. Displacing AEGN this month as our current top pick in the space is Leggett & Platt (LEG), which popped on a better than expected Q3 report, but has since weakened. Earnings are likely to be down at Leggett this year; however, much of the downside is attributable to steel price inflation, which the company has a long history of passing along to customers with a 2-3 quarter lag. LEG is a member of the S&P 500 Dividend Aristocrats, and has raised its dividend for 46 consecutive years.

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

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

**Multi-Color Corp. (LABL - \$73.60, Neutral)** 11/6/17—With two quarters left in the fiscal year (ending March 2018), LABL dropped core EPS guidance to a range of \$3.80-\$3.90, from \$4.00.

**Aegion Corp (AEGN - \$27.11, Buy)** 11/2/17—AEGN announced a \$40MM share repurchase program for 2018, which is additional to the current \$40MM program set to conclude at the end of the year.

**Multi-Color Corp. (LABL - \$73.60, Neutral)** 11/2/17—LABL closed its ~\$1.3B acquisition of Constantia Flexibles. The combined pro-forma company is expected to generate approximately \$1.7B in annual revenue, which is nearly double LABL's fiscal 2017 revenue. Additionally with the close, Executive Vice President and Head of Constantia Labels, Mike Henry now becomes LABL's CEO-elect with full transition expected in January 2018.

**Leggett & Platt (LEG - \$45.72, Long-term Buy, \$66 TP)** 10/27/17— Management raised the low end of FY adjusted 2017 EPS guidance by \$0.05 to \$2.45-\$2.50, on sales of \$3.95B-\$4.00B (raised low-end by \$0.05B).

**3M Company (MMM - \$229.83, Neutral)** 10/24/17—3M increased full year 2017 EPS guidance to \$9.00 - \$9.10 from \$8.80 - \$9.05, which is a GAAP number that includes several cents of special benefit we expect to hit in Q4; FY organic sales are now expected to be +4% to +5%, an effective 100bps hike.

**Franklin Electric Co. (FELE - \$43.75, Neutral)** 10/24/17—FELE narrowed FY 2017 EPS guidance from \$1.87-\$1.97 to \$1.88-\$1.92, an effective cut of \$0.02 to the mid-point.

**3M Company (MMM - \$229.83, Neutral)** 10/4/17—MMM announced completion of its \$2B acquisition of Scott Safety from Johnson Controls (JCI—\$41.00, Not Rated). Scott was added to MMM's Personal Safety Division within the Safety & Graphics segment; the maker of breathing apparatus systems and gas/flame detection systems had revenues of \$575MM for the TTM ending 9/30/17.

**3M Company (MMM - \$229.83, Neutral)** 10/3/17—MMM announced it completed the sale of its electronic monitoring business to the global private equity advisory firm Apax Partners. The \$200MM divestiture was announced back in June and represents annual sales of around \$95MM; 3M expects to record a gain-on-sale benefit of \$0.12/share in Q4 as a result of the transaction.

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

		Actual // Estimate																			
Company	Ticker	Price 8-Nov-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	\$ 27.11	\$ 30	Buy	1,310.0	881.8	1.8x	37%	\$1.11	<u>\$1.12</u>	<u>\$1.42</u>	24.5x	24.2x	19.2x	16.9x	-4.7%	9.4x	NULL	-7%	257,317	
Franklin Electric	FELE	\$ 43.75	--	Neutral	1,076.3	2,038.6	2.9x	19%	\$1.66	<u>\$1.88</u>	<u>\$2.12</u>	26.4x	23.2x	20.7x	22.2x	-1.2%	14.9x	0.98%	13%	173,918	
Hillenbrand	HI	\$ 39.65	--	Neutral	1,576.0	2,499.1	3.6x	47%	\$2.00	<u>\$2.08</u>	<u>\$2.24</u>	19.8x	19.1x	17.7x	15.4x	0.0%	11.0x	2.07%	19%	300,509	
3M Company	MMM	\$ 229.83	--	Neutral	30,996.0	136,888.6	11.3x	49%	\$8.16	<u>\$8.99</u>	<u>\$9.27</u>	28.2x	25.6x	24.8x	20.4x	6.7%	16.5x	2.04%	45%	1,962,542	
Leggett & Platt	LEG	\$ 45.72	\$ 66	LTB	3,863.0	6,026.7	5.2x	46%	\$2.49	<u>\$2.47</u>	<u>\$2.78</u>	18.4x	18.5x	16.5x	20.2x	17.4%	12.4x	3.15%	30%	1,022,265	
Multi-Color Corp.	LABL	\$ 73.60	--	Neutral	929.2	1,254.5	3.0x	56%	\$3.22	\$3.61	<u>\$3.80</u>	22.9x	20.4x	19.4x	18.5x	19.0%	11.1x	0.27%		52,700	
Averages:							4.6x	42.4%				23.3x	21.8x	19.7x	18.9x	6.21%	12.5x	1.7%			

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 8-Nov-17	Revenue TTM (\$MM)	Mkt Cap (\$MM)	Price/ Book	LTD/ Cap. (%)	Consensus EPS			5-Yr Avg P/E	3-Yr Avg EPS Growth	Current EV/ EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.			
							FY'16	FY'17E	FY'18E								FY'16	FY'17E	FY'18E
Aegion Corp	AEGN	\$ 27.11	1,310.0	881.8	1.8x	37.0%	\$1.10	<u>\$1.05</u>	<u>\$1.31</u>	24.6x	25.7x	20.7x	16.9x	-4.7%	9.4x	NULL	0.0%	4.5%	257,317
Franklin Electric	FELE	\$ 43.75	1,076.3	2,038.6	2.9x	19.3%	\$1.66	<u>\$1.90</u>	<u>\$2.11</u>	26.4x	23.0x	20.7x	22.2x	-1.2%	14.9x	1.0%	21.8%	1.2%	173,918
Hillenbrand	HI	\$ 39.65	1,576.0	2,499.1	3.6x	47.5%	\$2.01	<u>\$2.07</u>	<u>\$2.26</u>	19.7x	19.2x	17.5x	15.4x		11.0x	2.1%	41.9%	1.7%	300,509
3M Company	MMM	\$ 229.83	30,996.0	136,888.6	11.3x	48.7%	\$8.16	<u>\$9.09</u>	<u>\$9.63</u>	28.2x	25.3x	23.9x	20.4x	6.7%	16.5x	2.0%	50.5%	1.5%	1,962,542
Leggett & Platt	LEG	\$ 45.72	3,863.0	6,026.7	5.2x	46.2%	\$2.49	<u>\$2.47</u>	<u>\$2.74</u>	18.4x	18.5x	16.7x	20.2x	17.4%	12.4x	3.1%	56.2%	3.9%	1,022,265
Multi-Color Corp	LABL	\$ 73.60	929.2	1,254.5	3.0x	55.5%	\$3.22	\$3.61	<u>\$3.89</u>	22.9x	20.4x	18.9x	18.5x	19.0%	11.1x	0.3%	5.8%	4.4%	52,700

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 8-Nov-17	Revenue TTM (\$MM)	Mkt Cap (\$MM)	Price/ Book	LTD / Cap. (%)	Consensus EPS			FY'17E	FY'18E	FY'19E	5-Yr Avg P/E	3-Yr Avg EPS Growth	Current EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
							FY'17E	FY'18E	FY'19E										
<b>Aero &amp; Defense</b>																			
Boeing	BA	\$ 265.57	91,310.0	158,167.8	nm	88.4%	<u>\$10.19</u>	<u>\$11.09</u>	<u>\$12.98</u>	26.1x	24.0x	20.5x	18.5x	1%	14.2x	2.1%	51.6%	1.3%	3,030,653
General Dynamics	GD	\$ 202.62	30,929.0	60,498.9	5.2x	21.1%	<u>\$9.84</u>	<u>\$10.53</u>	<u>\$11.44</u>	20.6x	19.2x	17.7x	15.6x	12.0%	13.3x	1.7%	31.2%	0.8%	968,345
Lockheed Martin	LMT	\$ 315.64	49,663.0	90,504.8	43.1x	89.9%	<u>\$13.09</u>	<u>\$13.40</u>	<u>\$15.52</u>	24.1x	23.6x	20.3x	17.4x	9.0%	15.2x	2.5%	58.4%	0.8%	988,269
Northrup Grumman	NOC	\$ 303.30	25,566.0	52,798.0	8.1x	57.3%	<u>\$13.12</u>	<u>\$13.44</u>	<u>\$15.36</u>	23.1x	22.6x	19.7x	15.9x	13.4%	15.0x	1.3%	28.1%	1.1%	650,993
Raytheon	RTN	\$ 187.83	24,803.0	54,299.2	5.0x	33.5%	<u>\$7.61</u>	<u>\$8.29</u>	<u>\$9.40</u>	24.7x	22.7x	20.0x	17.0x	7.7%	14.8x	1.7%	41.2%	1.1%	1,399,260
<b>Rails</b>																			
CSX	CSX	\$ 51.49	11,582.0	46,017.8	4.2x	47.7%	<u>\$2.22</u>	<u>\$2.70</u>	<u>\$3.14</u>	23.2x	19.1x	16.4x	16.7x	-0.4%	11.0x	1.6%	39.1%	2.1%	5,768,769
Norfolk Southern	NSC	\$ 129.33	10,372.0	37,007.6	2.9x	42.3%	<u>\$6.48</u>	<u>\$7.10</u>	<u>\$7.80</u>	20.0x	18.2x	16.6x	16.4x	-1.3%	10.5x	1.9%	38.1%	1.2%	1,564,735
Union Pacific	UNP	\$ 117.80	20,958.0	92,728.5	4.9x	40.8%	<u>\$5.80</u>	<u>\$6.51</u>	<u>\$7.24</u>	20.3x	18.1x	16.3x	18.1x	2.5%	10.9x	2.1%	41.7%	1.3%	3,259,097
<b>Airlines</b>																			
American Airlines	AAL	\$ 46.37	41,396.0	22,188.0	5.6x	79.9%	<u>\$4.64</u>	<u>\$4.99</u>	<u>\$5.75</u>	10.0x	9.3x	8.1x	7.2x	25.2%	6.0x	0.9%	10.1%	5.4%	5,128,184
Delta Airlines	DAL	\$ 50.06	40,457.0	35,691.4	2.5x	31.6%	<u>\$5.04</u>	<u>\$5.57</u>	<u>\$6.11</u>	9.9x	9.0x	8.2x	9.8x	19.2%	5.1x	2.4%	18.2%	2.0%	6,864,214
United Continental	UAL	\$ 58.92	37,350.0	17,455.2	1.9x	52.7%	<u>\$6.32</u>	<u>\$6.49</u>	<u>\$7.56</u>	9.3x	9.1x	7.8x	12.0x	45.0%	4.5x	NULL	0.0%	4.3%	6,191,389
Southwest Airlines	LUV	\$ 54.01	20,973.0	32,048.9	3.6x	24.6%	<u>\$3.56</u>	<u>\$4.46</u>	<u>\$4.83</u>	15.2x	12.1x	11.2x	15.8x	49.6%	6.6x	0.9%	12.9%	1.5%	4,968,541
<b>Shipping, Air/Ground</b>																			
C.H. Robinson	CHRW	\$ 80.63	14,324.6	11,319.3	8.5x	19.4%	<u>\$3.32</u>	<u>\$3.71</u>	<u>\$3.97</u>	24.3x	21.8x	20.3x	21.2x	10.6%	14.4x	2.2%	53.5%	13.6%	1,753,347
Fed Ex	FDX	\$ 220.50	60,953.0	59,126.6	3.6x	48.1%	\$12.30	<u>\$12.46</u>	<u>\$15.12</u>	17.9x	17.7x	14.6x	17.9x		8.6x	0.9%	16.3%	2.0%	1,127,027
J.B. Hunt	JBHT	\$ 104.36	6,920.5	11,453.7	7.8x	41.1%	<u>\$3.72</u>	<u>\$4.47</u>	<u>\$5.17</u>	28.0x	23.4x	20.2x	24.7x	9.1%	12.0x	0.9%	24.0%	2.1%	958,516
UPS	UPS	\$ 113.13	63,974.0	97,487.7	nm	75.1%	<u>\$6.01</u>	<u>\$6.50</u>	<u>\$6.95</u>	18.8x	17.4x	16.3x	19.7x	8.0%	14.2x	2.9%	79.9%	1.2%	2,485,939
<b>Machinery</b>																			
Caterpillar	CAT	\$ 137.29	42,140.0	81,678.4	5.2x	45.6%	<u>\$6.40</u>	<u>\$7.81</u>	<u>\$9.10</u>	21.4x	17.6x	15.1x	17.5x	-16.1%	14.2x	2.3%	91.2%	2.6%	3,775,346
Cummins	CMI	\$ 171.38	19,455.0	28,443.5	3.7x	17.4%	<u>\$10.23</u>	<u>\$11.56</u>	<u>\$12.66</u>	16.7x	14.8x	13.5x	15.3x	3.1%	12.3x	2.5%	42.1%	2.3%	1,112,648
Deere	DE	\$ 134.64	28,239.6	43,259.4	5.0x	56.2%	<u>\$6.48</u>	<u>\$7.13</u>	<u>\$8.30</u>	20.8x	18.9x	16.2x	13.4x		13.3x	1.8%	39.8%	4.2%	1,788,156
Paccar	PCAR	\$ 70.52	18,072.5	24,795.5	3.1x	55.6%	<u>\$4.19</u>	<u>\$4.65</u>	<u>\$4.96</u>	16.8x	15.2x	14.2x	15.4x	5.3%	9.8x	1.4%	40.4%	1.8%	2,390,574
<b>Electric Components</b>																			
Eaton	ETN	\$ 79.05	20,058.0	35,359.1	2.1x	28.9%	<u>\$4.60</u>	<u>\$5.16</u>	<u>\$5.63</u>	17.2x	15.3x	14.0x	15.6x	0.6%	12.0x	3.0%	37.1%	1.4%	2,487,306
Emerson Electric	EMR	\$ 62.52		40,014.0	4.6x	28.3%	\$2.64	<u>\$2.89</u>	<u>\$3.21</u>	23.7x	21.6x	19.5x	17.7x	-11.0%	13.0x	3.1%	73.5%	1.4%	3,067,094
Rockwell Automation	ROK	\$ 193.78	6,182.4	24,873.4	11.4x	27.6%	\$6.76	<u>\$7.41</u>	<u>\$8.26</u>	28.7x	26.1x	23.5x	19.4x	3.1%	19.4x	1.7%	49.4%	1.5%	736,520
United Technologies	UTX	\$ 120.28	58,816.0	96,052.0	3.2x	40.7%	<u>\$6.61</u>	<u>\$6.84</u>	<u>\$7.46</u>	18.2x	17.6x	16.1x	16.8x	2.1%	10.9x	2.3%	41.0%	1.5%	2,793,108
<b>Conglomerates</b>																			
Danaher	DHR	\$ 93.24	17,828.3	64,858.2	2.6x	27.4%	<u>\$3.99</u>	<u>\$4.34</u>	<u>\$4.72</u>	23.4x	21.5x	19.8x	17.1x	1.8%	18.6x	0.6%	15.6%	0.7%	2,627,100
General Electric	GE	\$ 20.12	123,780.0	174,482.4	2.3x	48.7%	<u>\$1.07</u>	<u>\$1.14</u>	<u>\$1.39</u>	18.8x	17.6x	14.5x	17.9x	-3.1%	14.6x	4.8%	109.5%	1.4%	75,447,491
Honeywell	HON	\$ 146.86	39,676.0	111,881.3	5.3x	34.5%	<u>\$7.10</u>	<u>\$7.79</u>	<u>\$8.46</u>	20.7x	18.8x	17.4x	17.6x	9.9%	13.7x	2.0%	39.8%	1.3%	2,458,643
3M Corp	MMM	\$ 229.83	30,996.0	136,888.6	11.3x	48.7%	<u>\$9.09</u>	<u>\$9.63</u>	<u>\$10.36</u>	25.3x	23.9x	22.2x	20.4x	6.7%	16.5x	2.0%	50.5%	1.5%	1,962,542
Parker Hannifin	PH	\$ 184.87	12,029.3	24,624.7	4.7x	43.7%	\$8.11	<u>\$9.50</u>	<u>\$10.55</u>	22.8x	19.5x	17.5x	17.5x	7.9%	15.9x	1.4%	32.9%	1.5%	705,917
<b>Other</b>																			
Illinois Tool Works	ITW	\$ 157.65	14,084.0	54,010.7	10.8x	59.4%	<u>\$6.68</u>	<u>\$7.20</u>	<u>\$7.73</u>	23.6x	21.9x	20.4x	19.7x	15.8%	15.8x	2.0%	39.6%	1.8%	1,079,459
Waste Management	WM	\$ 81.84	14,293.0	35,536.3	6.7x	60.8%	<u>\$3.20</u>	<u>\$3.48</u>	<u>\$3.78</u>	25.6x	23.5x	21.7x	20.9x	10.6%	11.5x	2.1%	40.2%	1.2%	2,124,618
Averages: [BA thru WM]					6.5x	45.7%				20.6x	18.7x	16.8x	17.0x	8.5%	12.5x	2.0%	41.5%	2.2%	

Source: Company reports and Thomson Reuters

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



Data Points

CURRENCY PRICES—listed prices reflect average within specified period

blue = \$ terms

purple = Foreign terms

Currency Worksheet						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	Q2'17	Q3'17	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	98.39	93.54	94.89					
\$ 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%	-5.0%					
LAST UPDATE: 11/8/2017														spot @ 11/8					
<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%	\$ 1.159 7.5%					
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 1.344 1.7%	CAD 1.254 -6.6%	CAD 1.243 -0.9%					
Avg Aussie\$ Price : AUD/USD (\$ strength) / weakness	\$ 1.033 12.2%	\$ 1.036 0.3%	\$ 0.969 -6.5%	\$ 0.902 -6.8%	\$ 0.752 -16.7%	\$ 0.723 -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%	\$ 0.768 2.5%					
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%	\$ 1.280 -11.1%	\$ 1.309 -0.4%	\$ 1.311 5.5%					
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 0.985 1.5%	CHF 0.963 -1.3%	CHF 0.999 -0.3%					
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%	¥ 111.14 2.6%	¥ 111.00 8.4%	¥ 113.55 3.6%					
<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%	\$ 0.30696 1.1%					
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%	\$ 0.07082 -1.4%					
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%	\$ 0.0524 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%	₩ 1,130.1 -2.8%	₩ 1,132.7 1.1%	₩ 1,112.3 -4.2%					
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%	3.578 TL 23.5%	3.513 TL 18.4%	3.860 TL 16.8%					
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 64.5 -3.6%	INR 64.2 -4.1%	INR 64.9 -3.7%					
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%	¥ 6.854 5.0%	¥ 6.672 0.1%	¥ 6.625 -3.2%					
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 57.14 -13.3%	RUB 58.95 -8.7%	RUB 59.15 -6.1%					

Sources: Bloomberg, Thomson Reuters, Hilliard Lyons calculations

MONTHLY ECONOMIC STATISTICS

Macro Data--MONTHLY	Q2		Q3			Q4			2016	Q1			Q2			Q3			Q4
	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16		Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17
<b>LAST UPDATE Check: 11/8/2017</b>																			
<b>Business Spending</b>																			
Cap Gds Orders, x-A&Def, Seas Adj m/m	-4.0%	-3.5%	-5.6%	-2.8%	-1.5%	0.5%	1.7%	0.8%		0.2%	0.1%	0.0%	0.3%	0.8%	-0.1%	1.3%	1.4%	1.7%	
Durable Goods Orders, total, Seas Adj m/m	-2.9%	-4.3%	3.6%	0.2%	0.3%	5.0%	-4.7%	-0.9%		2.4%	1.4%	2.4%	-0.8%	0.0%	6.4%	-6.8%	2.1%	2.0%	
<b>Consumer Spending</b>																			
Durable Goods, Real (FRED)--seas Adj	1555.6	1571.4	1606.7	1583.3	1623.2	1644.2	1637.7	1664.6		1638.2	1643.4	1660.4	1671.4	1677.5	1684.5	1707.5	1684.0	1743	
Non-Durable Goods, Real (FRED)--seas Adj	2506.3	2510.0	2501.5	2501.0	2504.8	2515.3	2535.4	2539.8		2537.8	2530.0	2552.7	2560.1	2572.0	2567.6	2572.5	2579.8	2588.2	
<b>Energy</b>																			
US Oil & Gas Rig Count, Mo Avg	407	417	449	481	509	544	580	634		683	744	789	853	893	931	953	947	940	922
Year/Year change	-54.2%	-51.6%	-48.2%	-45.5%	-40.0%	-31.2%	-23.7%	-11.2%		4.5%	39.8%	65.1%	95.3%	119.2%	123.4%	112.4%	96.8%	84.7%	69.5%
Worldwide Crude Production, MM/day	79.01	79.72	80.36	79.84	80.2	81.27	82.3	81.73		80.75	80.93	80.41	79.9	80.44	81.09	81.25			
Oil Price: Refinery Acq Cost, \$/bbl	\$42.88	\$45.96	\$43.26	\$42.70	\$42.73	\$46.85	\$44.06	\$48.66		\$49.99	\$51.24	\$48.65	\$49.47	\$48.34	\$45.17	\$46.32	\$48.19	\$50.23	
<b>Interest Rates &amp; Money</b>																			
Corporate BAA to AAA spread, in bps	103	103	94	92	90														
2-yr Treasury Note-month end	0.82%	0.73%	0.67%	0.74%	0.77%	0.86%	1.11%	1.20%		1.19%	1.22%	1.27%	1.28%	1.28%	1.38%	1.34%	1.33%	1.47%	1.60%
30-yr T-Bond-month end	2.63%	2.45%	2.23%	2.26%	2.35%	2.58%	3.02%	3.06%		3.05%	2.97%	3.02%	2.96%	2.87%	2.84%	2.89%	2.73%	2.86%	2.88%
2-yr -- 30-yr spread, bps	181	172	156	152	158	172	191	186		186	175	175	168	159	146	155	140	139	128
<b>Labor Markets</b>																			
Unemployment Rate, total 16+	4.7%	4.9%	4.9%	4.9%	4.9%	4.8%	4.6%	4.7%		4.8%	4.7%	4.5%	4.4%	4.3%	4.4%	4.3%	4.4%	4.2%	4.1%
Monthly non-Farm Payrolls (in 000s)	+43k	+297k	+291k	+176k	+249k	+124k	+164k	+155k		+216k	+232k	+50k	+207k	+145k	+210k	+138k	+208k	+18k	+261k
<b>Misc Macro</b>																			
Index of Leading Indicators (LEI), mthly chg	-0.2%	0.2%	0.5%	-0.2%	0.3%	0.2%	0.2%	0.6%		0.6%	0.5%	0.4%	0.2%	0.3%	0.6%	0.3%	0.4%	-0.2%	
ISM Non-Manufacturing Index	53.6	56.1	54.9	51.7	56.6	54.6	56.2	56.6		56.5	57.6	55.2	57.5	56.9	57.4	53.9	55.3	59.8	60.1
<b>Prices &amp; Costs</b>																			
CPI: Core, % chg yr/yr	2.2%	2.2%	2.2%	2.3%	2.2%	2.1%	2.1%	2.2%		2.3%	2.2%	2.0%	1.9%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
PCE Price Index: Core, % chg y/y	1.6%	1.6%	1.6%	1.7%	1.7%	1.8%	1.8%	1.8%		1.9%	1.9%	1.6%	1.6%	1.5%	1.5%	1.4%	1.3%	1.3%	
<b>Production</b>																			
ISM Total Index--PMI	51.0	52.8	52.3	49.4	51.7	52.0	53.5	54.5		56.0	57.7	57.2	54.8	54.9	57.8	56.3	58.8	60.8	58.7
US Industrial Production Index	102.76	103.12	103.22	103.15	102.99	103.17	102.95	103.77		103.46	103.70	103.92	105.05	105.01	105.25	105.10	104.34	104.64	
Total Year/Year change	-1.5%	-0.8%	-1.2%	-1.3%	-1.2%	-0.8%	-0.4%	0.8%		0.0%	0.4%	1.4%	2.1%	2.2%	2.1%	1.8%	1.2%	1.6%	
<b>Retail Sales</b>																			
Retail & Food Sales, nom % chg y/y (seas Adj)	2.2%	2.8%	2.4%	2.2%	3.3%	4.2%	3.9%	4.4%		6.0%	5.1%	4.8%	4.6%	4.1%	3.4%	3.5%	3.5%	4.4%	
R&F Sales, x-Auto, nom % chg y/y (seas Adj)	2.6%	3.2%	2.1%	2.1%	3.1%	4.0%	3.9%	3.6%		5.8%	5.5%	4.9%	4.7%	3.8%	2.7%	3.4%	4.1%	4.6%	
<b>Trade &amp; Currencies</b>																			
ISM Export Orders Index (seas adj'd)	52.5	53.5	52.5	52.5	52.0	52.5	52.0	56.0		54.5	55.0	59.0	59.5	57.5	59.5	57.5	55.5	57.0	56.5
Exports to China, \$B	8.5	8.8	9.2	9.4	9.6	12.7	12.1	11.6		10.1	9.8	9.6	9.8	10.2	9.7	10.0	10.9	10.8	
<b>Transportation</b>																			
Rails: Carloads Origin, in 000s	1,186.8	1,020.8	1,025.4	1,348.0	1,068.6	1,067.0	1,319.0	973.6		996.6	1,044.0	1,283.5	1,023.3	1,286.1	1,066.0	1,019.2	1,343.4	1,044.6	1,065.8
Rails: Intermodal Origin, in 000s	1,280.8	1,064.2	1,002.4	1,327.3	1,040.9	1,075.8	1,319.2	1,011.9		1,021.1	1,068.4	1,298.2	1,052.0	1,339.4	1,113.6	1,058.4	1,401.1	1,080.4	1,144.2
Rails: Cars + Intermodal, in 000s	2,468	2,085	2,028	2,675	2,110	2,143	2,638	1,986		2,018	2,112	2,582	2,075	2,625	2,180	2,078	2,744	2,125	2,210
Total Year/Year change	14.3%	-23.1%	-7.9%	-5.7%	-4.8%	-3.2%	1.2%	6.9%		0.5%	4.2%	5.5%	5.2%	6.4%	4.5%	2.5%	2.6%	0.7%	3.1%
TTINNSAV Trk Tonnage Index, seas Adj	139.3	137.1	134.2	137.7	134.4	131.6	142.7	134.9		138.9	138.8	137.4	135.4	144.7	138.4	139.1	145.7	144.4	

Source: American Trucking Assoc.; Assoc. of American Railroads; Census Bureau; Energy Information Administration; Institute for Supply Mgmt; US Fed; US Treasury; US Bureau of Economic Analysis

Blue: metrics and values expressed in terms of % change, negative % change is bright red

Purple: metrics and values expressed as a percentage of a separate metric, Dark Red: index values that indicate contraction (i.e. ISM <50)

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

Macro Data—QUARTERLY	March	June	Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec			
	FY'14	Q1'15	Q2'15	Q3'15	Q4'15	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E
<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%	3.0%	
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%	0.2%	
<b>LAST UPDATE Check: 11/8/2017</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	*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%	1.6%	
Government Spending		0.3%	0.6%	0.2%	0.1%		0.3%	-0.2%	0.1%	0.0%		-0.1%	0.0%	0.0%	
Investment		2.1%	0.1%	0.3%	-1.1%		-0.7%	-0.5%	0.4%	1.3%		-0.2%	0.6%	1.0%	
Trade Balance		-1.6%	0.0%	-0.8%	-0.3%		-0.3%	0.3%	0.4%	-1.6%		0.2%	0.2%	0.4%	
TOTAL		3.2%	2.7%	1.6%	0.5%		0.6%	2.2%	2.8%	1.8%		1.2%	3.1%	3.0%	
<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%	1.5%	
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%	-0.9%	
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%	
<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%	6.2%	
Non-Durable Goods, Real		2.4%	2.6%	3.1%	2.4%		2.3%	3.0%	2.1%	2.5%		2.1%	1.9%	2.4%	
TTM Consumer Bankruptcies, in '000s		885.0	854.7	835.2	819.8		808.7	793.9	781.1	770.8		770.9	772.6	767.7	
Household Debt Service Ratio		9.93%	9.89%	9.92%	9.82%		9.82%	9.83%	9.88%	9.95%		9.92%	9.91%		
<b>Energy</b>															
US Oil & Gas Rig Count, Qtrr Avg		1,380	909	866	755		554	420	480	586		739	892	947	
Year/Year change		-22.5%	-50.9%	-54.5%	-60.5%		-59.8%	-53.7%	-44.6%	-22.4%		33.3%	112.3%	61.5%	
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	\$48.25	
<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%	1.60%
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%	2.88%
2-yr -- 30-yr spread, bps		195	227	227	212		189	179	155	183		179	158	145	128
<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%	4.4%	4.3%	4.1%
<b>Misc Macro</b>															
Index Lead Indictrs, Approx total chg		0.4%	1.8%	-0.1%	0.7%		0.0%	0.5%	0.6%	1.0%		1.5%	1.1%	0.5%	
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	60.1
<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%	
PCE Prc Idx: Core, %chg y/y		1.3%	1.3%	1.3%	1.4%		1.6%	1.6%	1.7%	1.8%		1.8%	1.5%	1.3%	
<b>Production</b>															
ISM Total Index--PMI		53.2	52.6	51.0	48.6		49.8	51.8	51.2	53.3		57.0	55.8	58.6	58.7
Change in Real Inventories, 2009SB		132.2	105.6	96.2	68.2		40.6	12.2	17.6	63.1		1.2	-0.3		
<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%	3.8%	
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%	4.0%	
<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	
Exports to China, SB 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	
Rails: Intermodal Origin, in 000s		3,289.7	3,570.5	3,556.2	3,292.5		3,339.6	3,373.4	3,370.6	3,406.9		3,387.7	3,505.0	3,539.9	
Rails: Cars + Intermodal, in 000s		6,935	7,107	7,255	6,678		6,483	6,525	6,813	6,767		6,712	6,880	6,947	
Year/Year change		8.8%	-2.4%	-8.0%	-6.5%		-6.5%	-8.2%	-6.1%	1.3%		3.5%	5.4%	2.0%	
Trucking Tonnage Index, seas Adj		133.4	132.7	133.8	134.1		137.9	137.2	135.4	136.4		138.4	139.5	143.1	

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

Blue: metrics and values expressed in terms of % change, negative % change is bright red

Purple: metrics and values expressed as a percentage of a separate metric

Dark Red: index values that indicate contraction (i.e. ISM <50)

## ECONOMIC COMMENTARY

ISM data indicated expansion (>50) in the US manufacturing sector for a 14<sup>th</sup> consecutive month in October, with a PMI print of 58.7 just off September's read of 60.8, which was the metric's highest level since 2004. Aside from some lingering materials shortages/bottlenecks and some inflationary pressure on select raw materials, the US macro economy seems to be showing few lasting effects of Hurricanes Irma and Harvey. October payrolls data of +261,000 is positioned to be the strongest month over month gain of 2017, although the Bureau of Labor and Statistics attributes much of the strength to reversing the hurricane impacts to September; unemployment slipped 10 bps to 4.1% last month.

The 2-yr and 30-yr notes ended last month at 1.60% (+13 bps) and 2.88% (+2 bps), respectively, with the 128 basis point spread marking the tightest month-end margin of 2017 thus far. Despite curve flattening since the FOMC held its Fed Funds rate stable at 1%-1.25% in September, market-implied odds suggest a ~90% probability of an additional hike at the December meeting.

The US Bureau for Economic Analysis' advance estimate for Q3'17 US GDP growth was unveiled at 3.0% in late-October. Growth is indicated to have slowed slightly on a seasonally adjusted basis from an annualized rate of 3.1% in Q2'17, although the initial glimpse at Q3 generally surpassed expectations. Consumption is poised to be the biggest driver of growth in the quarter, although Private Investment is indicated to be 'most improved' relative to Q2.

Incremental inflation data over the past few weeks remain benign, with the PCE Price index (ex-food & energy) measuring 1.3% for September. Core-CPI for September at 1.7% (5<sup>th</sup> month in a row) keeps the metric at its lowest read since May 2015.

Our current and holistic view of the US political economy remains positive. We are more than comfortable with recent economic data, while legislative gridlock and a static regulatory climate prevail. Where there is some movement in Washington seems to be on Tax Cuts, which on average we see as constructive.

## CURRENCY PRICE COMMENTARY

Should current prices hold, we calculate the US Dollar Index (DXY) would average about 5.0% weaker versus average prices in Q4'16, which is accelerating weakness versus the -2.3% average we deduced for Q3'17. The greenback has mostly strengthened since our last monthly was published in mid-October, but comps remain particularly favorable for both the fourth quarter of this year and the first quarter of next year; furthermore, the dollar has still more/less been weak for most of this year (after peaking in January post-election). In our view, there are few noteworthy narratives in the forex arena at this point.

Amongst our developing region pairs, the Turkish Lira has demonstrated some of sharpest recent volatility; the Lira has already lost ~10% of value (at the current spot), versus the average price from Q3. Over the past five years, the Lira has lost more than half of its value versus the USD. The Mexican Peso has dipped sharply in recent session as well, going counter trend to what has been prevalent post-election.

From an equity investing perspective, our view toward forex concerns remains constructive, although from a timing standpoint we expect most models are fairly up to date with Q3 earnings season just coming to completion. FX impact to Q3 revenues was both positive and roughly in line with our modeled expectations across our portfolio of covered names, which we gauge to have been similar to reports across the broader universe of US multi-nationals. Projecting current prices forward, we see potential for dollar weakness to be a tailwind to revenue over each of the next three quarters, especially Q4'17 and Q1'18.

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 (₽):** 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* 11/9/17: November Sector Update.

*Multi-Color Corp.* (LABL - \$73.60, Neutral) 11/7/17: Mixed Q2'18 for LABL; Reiterating Neutral Rating.

*Aegion Corp.* (AEGN - \$27.11, Buy, \$30 TP) 11/2/17: Resilient Q3'17 from AEGN; Reiterating Buy Rating and Raising Price Target to \$30.

*Leggett & Platt* (LEG - \$45.72, 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 - \$43.75, Neutral) 10/24/17: Mixed Q3 Results for FELE; Reiterating Neutral.

*3M Company* (MMM - \$229.83, Neutral) 10/24/17: Strong Q3'17 from MM; Reiterating Neutral Rating.

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

*3M Company* (MMM - \$229.83, Neutral) 10/5/17: Adjusting Model for Closing of Scott Safety Acquisition.

*Aegion Corp.* (AEGN - \$27.11, Buy, \$30 TP) 8/4/17: Hurricanes and Restructuring Update Offer Attractive Entry Point; Upgrading to Buy Rating.

*3M Company* (MMM - \$229.83, Neutral) 10/3/17: Several Items to Address Ahead of Q3 Earnings; Estimates Rise but Reiterating Neutral Rating.

*Industrials Monthly* 9/20/17: September Sector Update.

*Leggett & Platt* (LEG - \$45.72, Long-term Buy, \$66 TP) 9/14/17: Revising Estimates on Lowered Guidance; Reiterating Long-term Buy.

*Industrials Monthly* 8/24/17: August Sector Update.

*Multi-Color Corp.* (LABL - \$73.60, Neutral) 8/8/17: Down Fiscal Q1'18 for LABL, but as Expected; Reiterating Neutral Rating.

*Hillenbrand, Inc.* (HI - \$39.65, Neutral) 8/3/17: Good Q3'17 Results from HI; Reiterating Neutral.

*Additional information is available upon request.*

*Prices and all price sensitive data as of Wednesday, November 8, 2017, close*



**Analyst Certification**

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

**Important Disclosures**

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

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

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

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
<b>Rating</b>				
<b>Buy</b>	32	29%	13%	88%
<b>Hold/Neutral</b>	73	65%	7%	93%
<b>Sell</b>	7	6%	0%	100%

*As of 8 November 2017*

**Other Disclosures**

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