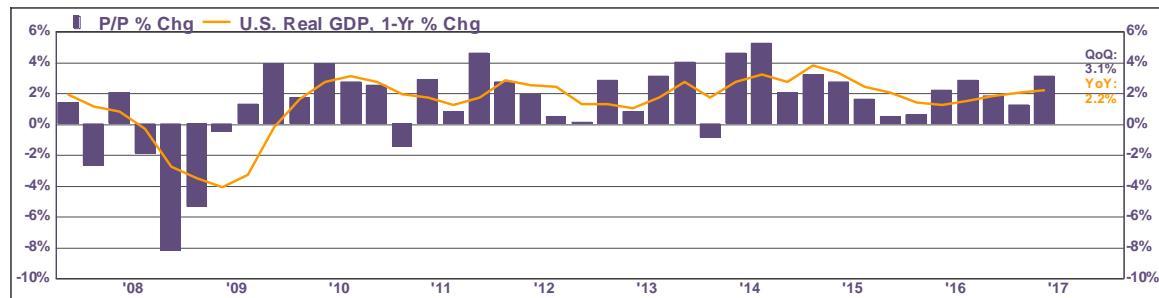


## The Economy

For the first time since First Quarter 2015, the Bureau of Economic Analysis reported the U.S. economy grew at a +3.1% annualized pace in Second Quarter 2017. Business investment led the way, rising at an annual rate of +3.9%. Capital equipment spending rose +8.8% and has been a bright spot within the business investment segment the past couple of quarters. Increases in equipment spending is important as it signals businesses are more optimistic about the economy and are willing to expand production.

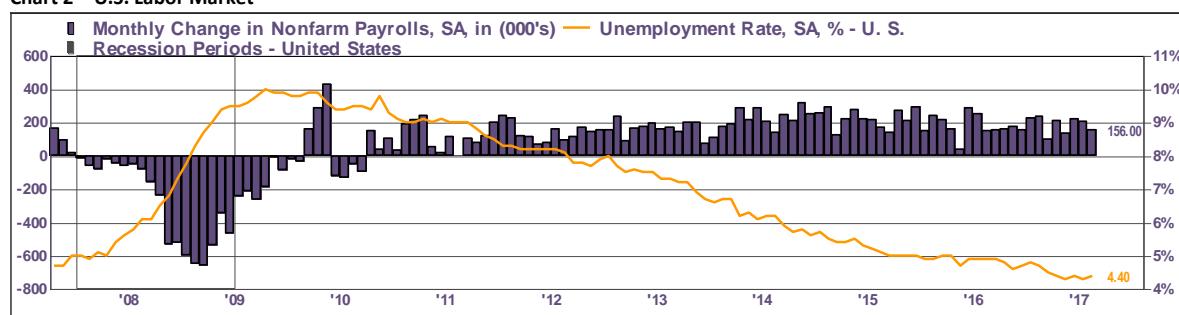
Chart 1 – U.S. Real GDP



One area likely driving this business optimism is consumer spending, which rose +3.3% in Second Quarter 2017. Consumer spending, which accounts for 70% of the U.S. economy, is being supported by solid fundamentals of high confidence levels, rising home prices, all-time highs in the U.S. stock markets and consistent labor market gains and improving wages.

Monthly labor market gains have been positive since October 2010 and according to the Census Bureau's American Community Survey, household real median income in 2016 rose 2.4% to a level of \$57,617, which was the fourth consecutive yearly increase. Michigan's 2016 real median income stands at \$52,492. The state and metropolitan areas with the largest real median income were Maryland and San Francisco at \$78,945 and \$96,677 respectively. This is the first time in many years that the Washington D.C. metro area has been surpassed. The Washington D.C.-Arlington-Alexandria metro area real median income stands at \$95,843.

Chart 2 – U.S. Labor Market



Although economic data trends in the third quarter have remained at modest levels, temporary downward revisions are likely due to Hurricanes Harvey and Irma. In a recent speech, Atlanta Federal Reserve Bank President Raphael Bostic cited, "his bank estimates Hurricanes Harvey and Irma may lower third-quarter growth by a percentage point, and that the loss will be made up in the fourth as recovery

and rebuilding efforts ramp up.” The underlying trends of the U.S. economy remain positive and in the near-term should continue to be supportive of continued economic and corporate earnings growth.

## Capital Markets

Speaking of earnings, one of the key drivers of market direction is expected earnings growth, and earnings growth has been a vital component to the prolonged stock market rally for nearly nine years. According to FactSet’s Earnings Insight report, consensus estimates for S&P 500 earnings growth in 2017 and 2018 is +9.6% and +11.1% respectively. Equity market valuation levels are trading moderately above historical valuation averages and frequently reaching all-time highs, markets can continue to be supported by expected economic and earnings expansion.

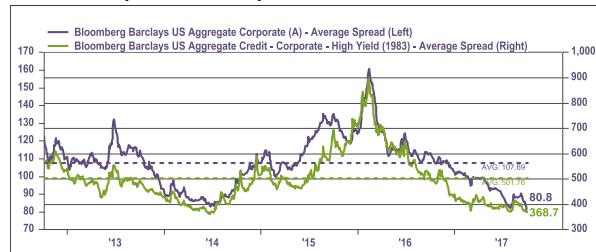
Despite some major weather related and geopolitical headline events, third quarter stock market returns were solidly higher. Emerging Markets lead the way advancing (+7.9%) followed by the NASDAQ (+6.1%), Russell 2000 (+5.7%), Dow Jones Industrials (+5.6%) and Developed International (+5.4%). Bond returns in the quarter were muted as Treasury yields were basically unchanged. The BBG/Barclays Aggregate Index rose slightly (+0.9%) while the BBG/Barclays Intermediate Gov’t Corporate Index rose (+0.6%).

**Table 1 – Index Total Returns – 9/29/2017**

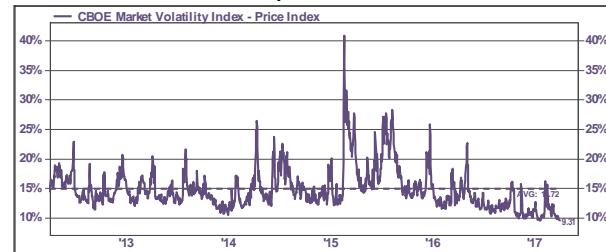
Equity	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
MSCI Emerging	-0.40	7.89	27.78	22.46	4.90	3.99	1.32
NASDAQ	1.11	6.06	21.67	23.68	14.41	17.27	10.38
MSCI Developed	2.49	5.40	19.96	19.10	5.04	8.38	1.34
Dow Jones Industrial	2.16	5.58	15.45	25.45	12.35	13.57	7.72
S&P 500	2.06	4.48	14.24	18.61	10.81	14.22	7.44
Russell 2000	6.24	5.67	10.94	20.74	12.18	13.79	7.85
S&P 400	3.92	3.22	9.40	17.52	11.18	14.43	9.00
Fixed Income	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
Barclays High Yield	0.90	1.98	7.00	8.88	5.83	6.36	7.84
Barclays Michigan Muni	-0.56	1.04	4.69	1.07	3.38	3.29	
Barclays Municipal	-0.51	1.06	4.66	0.87	3.19	3.01	4.52
Barclays Municipal 5-Year	-0.69	0.68	3.87	1.14	1.98	1.93	3.81
Barclays Aggregate	-0.48	0.85	3.14	0.07	2.71	2.06	4.27
Barclays Inter Gov’t/Credit	-0.45	0.60	2.34	0.23	2.13	1.61	3.64
Commodity	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
Bloomberg Commodity	-0.15	2.52	-2.87	-0.29	-10.41	-10.47	-6.83

Investor complacency is currently high as evidenced by low stock market volatility levels and tight corporate credit spreads. Over the next few months, the ultimate outcome of 2017 congressional fiscal policy reforms and budget battles will likely test or continue investor complacency. U.S. tensions with North Korea have largely been discounted by the market, however, their provocative actions remain a significant risk to the region and the world.

**Chart 3 – Corporate Credit Spreads**



**Chart 4 – S&P Market Volatility**



There has been and always will be short-term issues and events to worry about from a financial and investment perspective and, as always, we advocate the importance of having a sound, prudent and disciplined long-term investment plan to weather these short-term “noise” events for they typically are just that, short-term.

Prepared by Perry Adams – VP - Senior Investment Officer – West Shore Bank

Sources: FactSet, Census Bureau – American Community Survey, Wall Street Journal, U.S. Dept. of Commerce - Bureau of Economic Analysis

This publication is for informational purposes only and reflects the current opinions of West Shore Bank. Information contained herein is believed to be accurate, but cannot be guaranteed. Opinions represented are not intended as an offer or solicitation with respect to the purchase or sale of any security and are subject to change without notice. Statements in this material should not be considered investment advice, a forecast or guarantee of future results. To the extent specific securities are referenced herein, they have been selected by the author on an objective basis to illustrate the views expressed in the commentary. Such references do not include all material information about such securities, including risks, and are not intended to be recommendations to take any action with respect to such securities. Indices are unmanaged, do not reflect the deduction of any fees normally associated with an investment management account, including investment advisory fees. Indices are not available for direct investment. This publication has been prepared without taking into account your objectives, financial situation or needs. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation or needs. **Past performance is no guarantee of future results.** This publication is the property of West Shore Bank and is intended for the sole use of its clients, consultants, and other intended recipients. It should not be forwarded to any other person. Contents herein should be treated as proprietary information. This material may not be reproduced or used in any form or medium without express written permission.

**INVESTMENTS: NOT FDIC INSURED - NO BANK OR FEDERAL GOVERNMENT GUARANTEE – MAY LOSE VALUE**