FINANCIAL CORPORATION

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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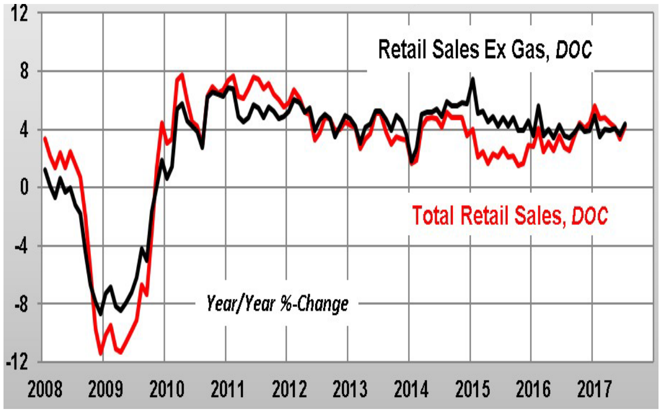
STRONG SALES DRIVE SPENDING

The continuing contraction in demand for department stores and other chain stores contributes to a view that retail sales and consumer spending are weak. Drilling down, we note that total retail sales as measured by the Census Bureau did slow to 2% during 2015. But retail sales excluding gas and core retail sales (which are defined as ex gas, auto and building related) continued to grow strongly. Growth of GAFO chain store (General merchandise, Apparel, Furniture and Other) sales have slumped badly, falling 1.7% in 2016 and rising just 1.4% in the past year. Still, online shopping has caused (and more than made up for) the slump in GAFO chain stores. Internet sales rose 7.8% in 2015 and surged 14.6% in 2016. Web sales rose 11.5% in the past year.

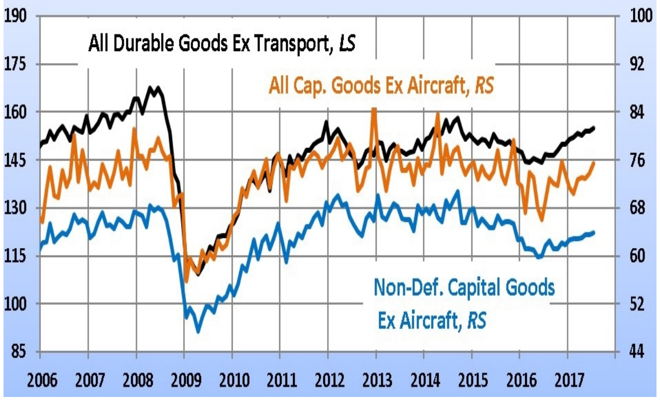
RETAIL SALES



BUSINESS ORDERS POINT UPWARD

In the past year, the topping out of the dollar and stronger growth in the global economy brought about a recovery in orders that already has started to translate into shipments that boosted business investment in the first half of 2017. All Durable Goods Orders Ex Transport Equipment grew 4.3% in the quarter ending in July. Orders were up 6.3% in the past year and are close to a cyclical high. Non-Defense Cap Goods Orders Ex Aircraft, a proxy for business investment, grew at a 4.6% rate in the July quarter. Orders rose 5.1% in the past year. All Cap Goods Orders Ex Aircraft — including Defense — grew a stronger 11.7% in the period. Orders jumped a strong 9.3% in the past year. We expect these trends to translate into solid GDP numbers in 2H17.

DURABLE & CAP GOODS ORDERS

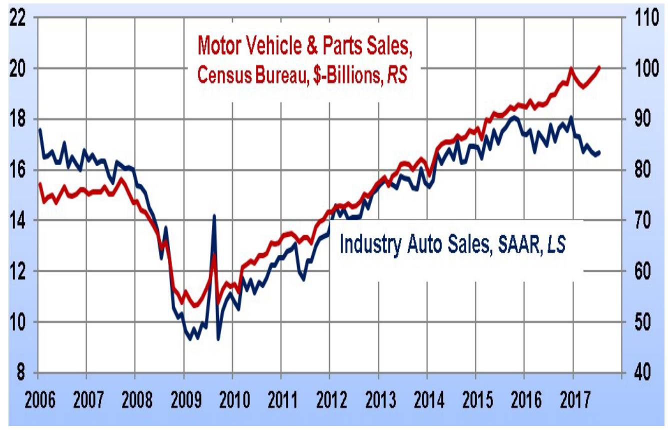


ECONOMIC HIGHLIGHTS (CONTINUED)

AUTO SPENDING REMAINS STRONG

The auto industry annual selling rate (SAAR) has fallen sharply this year. Still, the broad Census Bureau Retail sales report shows that consumers continue to buy cars and light trucks at a strong pace. We think the divergence owes to the purchase of larger, more-expensive vehicles. Unit sales have trended sideways since 2015. Overall, the pace of unit sales has slowed in the past year, falling 6.0% — down from a 1.3% rise in the previous year. But spending on cars and parts surpassed $100 billion (annual rate) in July, an all-time high. The pace of auto spending has picked up in the past year, rising 5.7% — stronger than the 4.4% rise the year before. We look for the auto industry to remain a driver of economic growth in the quarters ahead.

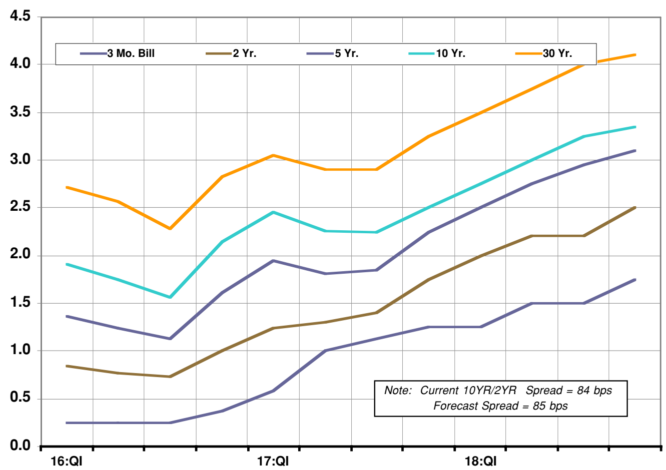
AUTO SALES VS. SPENDING ON CARS & PARTS



CENTRAL BANK SPELLS OUT ITS PLANS

The Fed plans to begin unwinding its three quantitative easing programs and reducing its $4.5 trillion balance sheet. How? By allowing $10 billion of holdings to roll off each month without reinvestment, and by increasing the amount by $10 billion each quarter to a maximum of $50 billion. While keeping short-term interest rates unchanged, the Fed was optimistic on the economy and signaled an additional interest-rate increase in 2017. We don't think the QE unwinding will have much of an impact on the markets. At even $50 billion/month, it would take the FOMC 7.5 years to return its Reserve Bank Credit to the pre-existing 4% trend. We also are not surprised that the central bank is ready to continue raising short-term interest rates. In our view, the economy is strong enough to handle another rate hike.

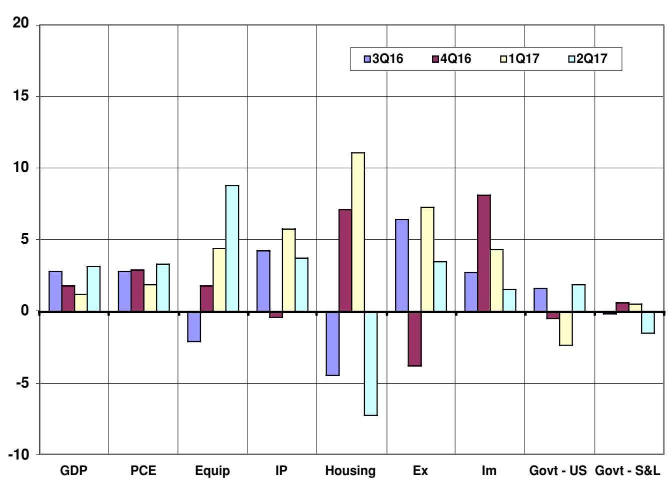
ARGUS INTEREST RATE OUTLOOK (%)



2Q GDP GROWTH FINAL AT 3.1%

The U.S. Department of Commerce announced its third and final estimate for 2Q17 GDP growth is 3.1%. The primary drivers to the growth, which was above the Fed's near-term targets, were capital investments into Equipment and Structures; Exports; Defense Spending, and the all-important Personal Consumption Expenditures category. Segments that lagged were State and Local Government Spending and Residential. The 2Q growth rate was the best reading since 1Q15. Given trends in employment and the dollar, along with still-low interest rates, we look for solid growth in 2H17. For the balance of the year, we think overall growth will average in the 2.5% range, up from the 2.0% average in 2016. At the 2.5% pace of growth, we would anticipate one more Fed rate hike this year.

GDP GROWTH DRIVERS

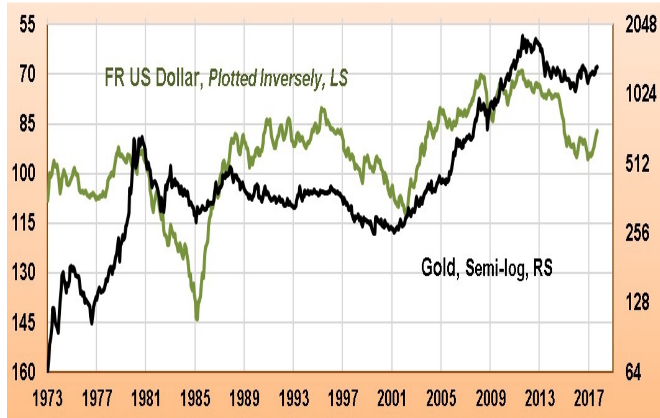


FINANCIAL MARKET HIGHLIGHTS

GOLD PRICES ON THE MEND

The peak and a near-10% decline of the Fed's Major Trading Partners U.S. dollar index has helped reverse drops in inflation indicators. Gold has risen 27% from its December 2015 low, recovering almost 90% of its 2014-15 decline. CRB Raw Industrial Materials and Metals prices have risen 30% and 67%, respectively, from lows in Nov. '15 and Jan. '16 — reversing 82% and 91% of the respective 2014-15 drops in these commodities. Crude oil has almost doubled from its $26/bbl. low in Feb. 2016, making up about 30% of its drop in 2014-2016. Looking ahead, we expect the greenback to remain under pressure as global economies recover. This should be a favorable backdrop for gold and other materials companies.

GOLD & THE US DOLLAR



VOLATILITY INDEX BACK IN VIEW

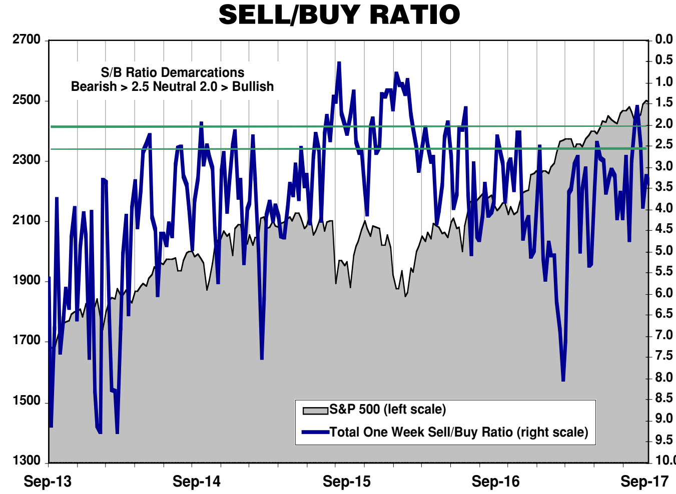
The VIX Volatility Index is near an all-time low, implying extraordinary complacency. The current bull market is 103 months old. The S&P 500 has risen almost 270% since March 2009. A study by Butler, Philbrick, Gordillo & Assoc. concluded the average bull market since 1871 lasted 72 months — so this bull is old. During the average period, the S&P 500 has climbed more than 200%. But measuring the period from 1940 to the present, we find the average bull market has lasted 96 months, while the S&P 500 has gained 231%. Compared against that, the current bull may still have legs. But we wouldn't expect equities to continue straight higher, as the low VIX signals too much complacency.

VOLATILITY INDEX (WEEKLY CLOSE)

INSIDERS SENTIMENT UPDATE

The most-recent metrics from Vickers' Stock Research, reflecting activity in the trading week ended on September 22, shows a short-term decline in overall insider sentiment. That said, the volume of trading also slowed. On a scale where neutral sentiment lies between 2.0 and 2.5, and anything above 2.5 is bearish, Vickers' Total One-Week Sell/Buy Ratio currently stands at 3.35 sales transaction for each purchase transaction. In the week prior, the ratio was 3.18:1. The current one-week dip in sentiment has not had a meaningful impact on the longer-term (eight-week) sell-buy ratios. As well, the Vickers Insider Index, which takes a six-month look at insider sentiment, continues to offer a benign view — with a current reading of -11.20. That result is within a neutral range that spans from +5 to -14.

S&P500 VS. TOTAL ONE WEEK SELL/BUY RATIO



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
2-Oct	ISM Manufacturing	September	58.80	57.00	58.00	NA
	Construction Spending	August	-0.6%	0.3%	0.4%	NA
4-Oct	ISM Non-Manufactuing	September	55.30	56.00	55.50	NA
5-Oct	U.S. Trade Balance	August	-$43.7	-$42.0	-$42.7	NA
	Factory Orders	August	-3.3%	1.0%	1.0%	NA
6-Oct	Nonfarm Payrolls	September	156k	165k	85k	NA
	Private Payrolls	September	165k	155k	73k	NA
	Unemployment Rate	September	4.4%	4.4%	4.4%	NA
	Average Hourly Earnings	September	0.1%	0.1%	0.3%	NA
	Average Workweek	September	34.4 hrs.	34.4 hrs.	34.4 hrs.	NA
	Consumer Credit	August	$18.5 B	$18.75 B	$15.54 B	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
16-Oct	Empire State Manufacturing	October	24.40	NA	NA	NA
17-Oct	Import Price Index	September	0.6%	0.4%	NA	NA
	Industrial Production	September	0.9%	0.5%	NA	NA
	Capacity Utilization	September	76.1%	76.2%	NA	NA
18-Oct	Housing Starts	September	1180k	1185k	NA	NA
	FOMC Beige Book	NA	NA	NA	NA	NA
19-Oct	Leading Economic Indicators	September	0.4%	0.5%	NA	NA
20-Oct	Existing Home Sales	September	5.53mm	5.55mm	NA	NA

** Preliminary*
*** Advance*
^Final