FLIPPIN, BRUCE & PORTER, INC.
INVESTMENT COUNSEL

April 2017

If the first 70 days of the Trump Administration are emblematic of the next four years, things in Washington--and on Wall Street--should be very interesting. Financial markets seemed to trade in line with headlines coming out of DC; when the Trump agenda appeared likely to move forward in Congress, stocks rallied and bonds fell, lifting yields. Conversely, when there were doubts or setbacks, such as the failure to "repeal and replace" Obamacare, stocks and bonds reversed. At the end of the day, however, stocks delivered another strong quarter, while bond market returns were just barely in positive territory for the period.

We continue to believe that some of the key promises made by President Trump on the campaign trail will be enacted even with the health care reform setback. We have already seen the President sign a number of executive orders designed to reduce government regulations. Furthermore, we believe tax cuts, infrastructure spending and repatriation of cash will make it through Congress in some form. Each of these initiatives should be beneficial to the U.S. economy and should boost corporate earnings over time. Even with headwinds from poor weather in the first part of this year, there are signs that economic activity may already be picking up. We saw a surprisingly strong jobs report in February, recent pending home sales were 5.5% higher than last year, and The Conference Board's consumer confidence measure for March spiked to levels not seen since December 2000. On balance, economic growth is likely to strengthen in the second half of 2017. Having said that, we remain somewhat cautious about the equity market outlook given that the S&P 500 has advanced more than ten percent since the election last fall. Simply put, we believe that some of the benefits of the pro-growth policies of the Trump Administration are already priced into the market. Longer term, however, we remain favorably disposed to stocks, as we believe the market is in a multi-year bull market phase that still has room to run.

Following its meeting in mid-March, the Federal Reserve's Open Market Committee (the Fed) raised interest rates for only the third time since the recession of 2008. The move was widely expected. The Fed under Janet Yellen has consistently telegraphed its intentions prior to its meetings and, true to form, there were no surprises coming out of its most recent meeting. Interest rates pulled back near the end of the quarter, yet remain well above levels seen last year. For example, the 10-year Treasury yield was approximately 1.8% before the election and stands at 2.4% now, down a bit from its recent high of 2.6%. We continue to expect interest rates to trend higher as GDP growth accelerates in the back half of the year. We also anticipate further increases to the fed funds rate this year.

Value stocks were among the market leaders in 2016, but the trend reversed in the first quarter of this year. The S&P 500, which has a sizable growth stock component, advanced 6.1%, while the Russell 1000 Value benchmark generated a 3.3% return. The results in your portfolio reflected this trend, showing modest growth after last year's strong gains. Twelve month returns remain quite favorable.

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With stocks near record highs, cash levels have risen as we sold some positions, reduced weightings or had call options exercised. We are constantly searching for investment opportunities to add to your portfolio, but we believe patience will be rewarded as few attractive return opportunities are currently present when considering return versus risk. As opportunities arise, we will work the cash level down, thus improving the portfolio's return profile and increasing the dividend yield for future cash flows.

For additional firm wide information please visit our website at www.fbpinc.com or call us at 1-800-851-3804. As always we appreciate your continued interest in our firm.

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