FLORIDA SAFE INVESTMENT POOL

Economic Update

January 25, 2018

PMA PRUDENT MAN ADVISORS

Economic Commentary

Economic Overview

The current U.S. economic expansion represents the third longest expansion since 1900. For the year 2017, economic activity is on pace to surpass the current expansion average growth of about 2.2% per year. Third quarter gross domestic product grew at a 3.3% annualized rate following a 3.1% gain during the second quarter. The strong number was a surprise to the markets following localized slowdowns caused by major storms in Texas and Florida. Underlying data showed positive contributions from consumer spending, inventory investment, business investment, state and local government spending, and exports. Business spending has been a key driver of growth in the last two quarters; primarily supported by accommodative financial conditions and positive business sentiment. Growth detractors included housing investment and imports. Thus far, a combination of economic and market based indicators suggest that economic activity in the U.S will likely be sustained around current levels in 2018. A few potential boosts to economic growth in the next few years could come from fiscal policy and a strengthening global economy. While the potential economic impact of tax reform is highly uncertain, we anticipate an increase in short-term economic growth albeit with higher budget deficits in the long-run.

Leading U.S. economic indicators continue to support stable domestic growth in the year ahead. Overall improvements include increased business and consumer confidence, a tightening labor market, and a stronger manufacturing sector. Housing market indicators and consumer credit remain below trend but show positive momentum. The December jobs report showed the economy added 148,000 jobs. Sectors that contributed positively to the jobs report include health care and construction. The unemployment rate remained at 4.1%, the lowest in 17 years and well below the long term average of 6.2%. The labor force participation rate of 62.7% remains stubbornly steady and is in line with readings over the past three years. As long as job creation continues to exceed the flow of new entrants to the labor market (80,000 to 100,000 jobs a month), the unemployment rate is likely to remain low.

Inflation remained well contained once again in 2017. While deflationary forces have remained persistent since the financial crisis, we do see inflation pressures building somewhat in the year ahead. In December, the year-over-year headline Consumer Price Index (CPI) grew by 2.1% spurred by higher shelter and food costs. Headline CPI in 2017 matched the increase in 2016. Core CPI (excluding food and energy) rose to 1.8% in December on a monthly increase of 0.3%. The Core Personal Consumption Expenditure (PCE) index, the Fed's preferred gauge of inflation, came in at 1.5% for November, well below the Fed's 2% target. In the near term, we expect to see a slight pick-up in wage and price inflation, supported by tighter labor markets and overall global growth.

Despite mixed inflation data, the Federal Open Market Committee (FOMC) raised the target range for the Feds Funds rate by 0.25% to a range of 1.25% to 1.50% on December 13th. In their meeting statement, they cited solid economic growth, driven by job gains and a continued drop in the unemployment rate despite hurricane related disruptions. The Fed currently forecasts three hikes in 2018, a more rapid pace than what the bond market currently anticipates. While economic fundamentals will ultimately determine the pace of tightening, moving the Fed Funds target range above 2% could prove problematic for the economy and the markets.

Overall, we expect the U.S economy to continue experiencing modest economic growth with full employment and slightly higher inflation in 2018. Primary risks to our outlook include geopolitical concerns, policy uncertainty and market cycle considerations.

RESEARCH FUNDAMENTALS

- Tighter Monetary Policy
- US Tax Reform Impact
- Changing Inflation Expectations
- Corporate Credit Cycle
- Geo Political Risks

Economic Projections	2018
US Real GDP	2.50%
US Headline CPI	2.25%
US Unemployment Rate	4.30%

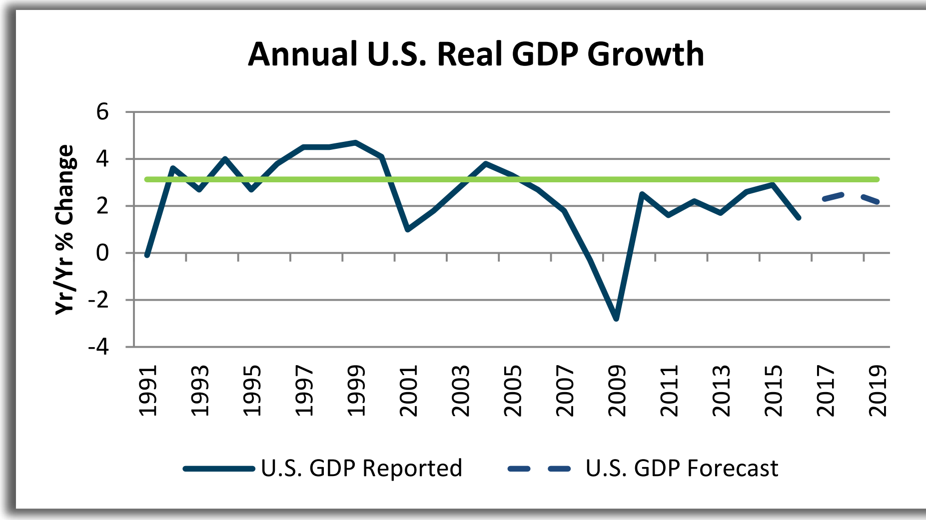
Economic Outlook

Annual GDP Growth

- Full year 2016: 1.5%
- 2017 Forecast: 2.3%
- Long term growth expected to remain below 3% long-term average
- Business and consumer spending remain the primary source of growth in 2017

Quarterly GDP Growth

- Q3 2017 3.2% vs. 3.1% prior quarter
- Q4 2017 Forecast: 2.7%
- Improved business investment , consumer spending, state & local government spending, and exports
- Weaker housing investment and imports
- Focus will be on impact from pro-growth tax reform



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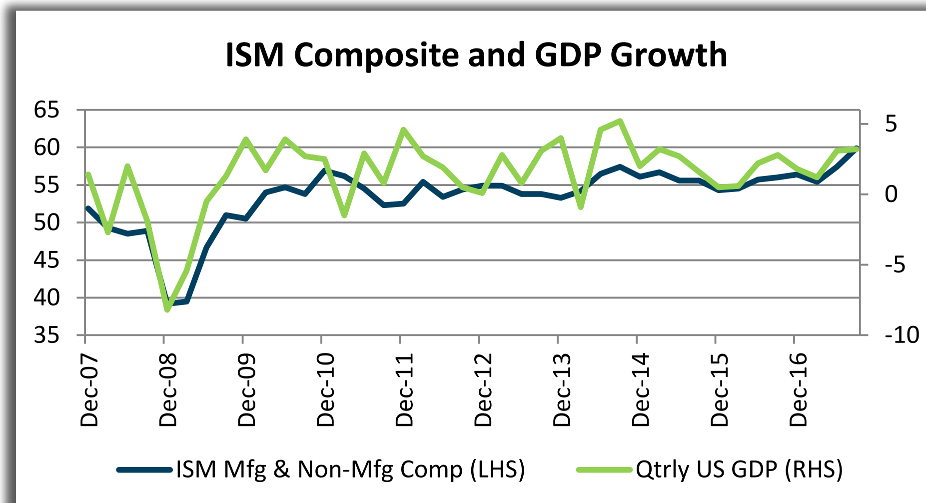

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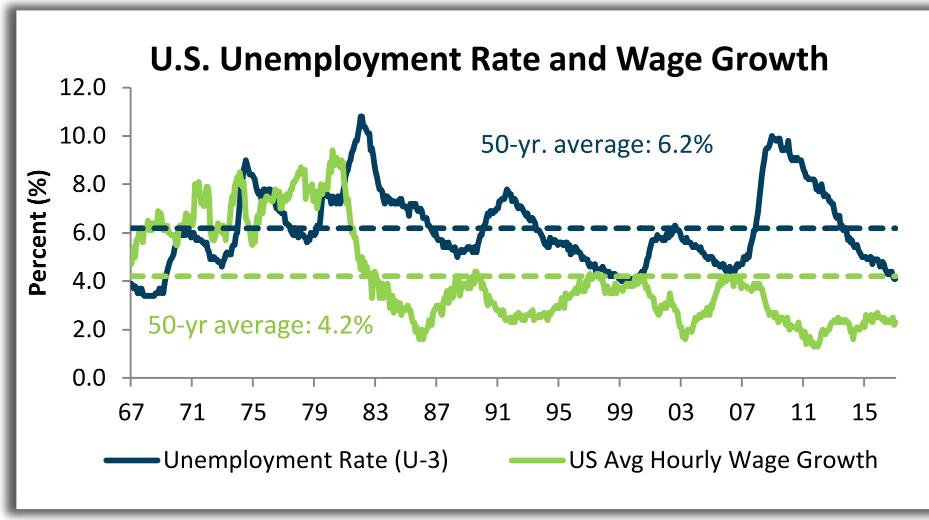
Healthy Economic Indicators

- Healthy labor market
- U.S. economy at full employment
- Monthly job gains strong in 2017, but below 2016 levels
- Unemployment rate of 4.1% in December; 17-year low
- Core PCE at 1.5% YOY, bringing inflation below Fed target
- Economic fundamentals will determine pace of future Fed hikes



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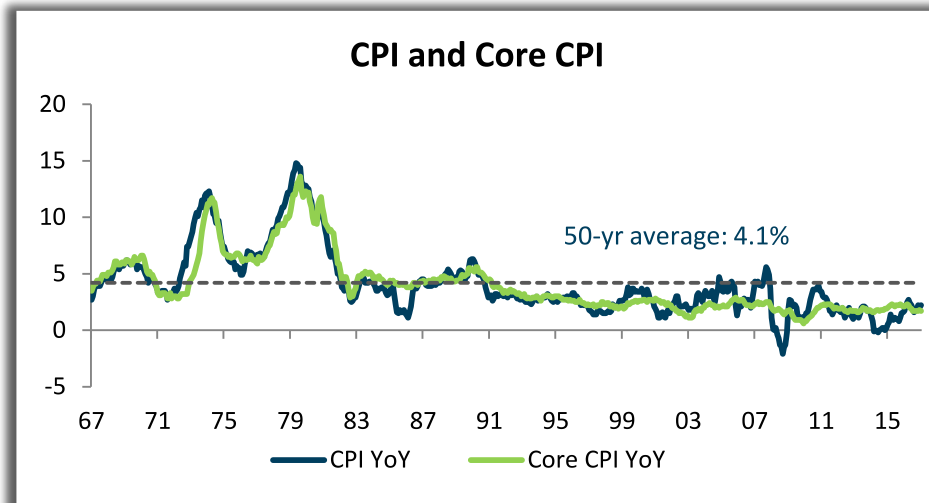

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