FLORIDA SAFE INVESTMENT POOL

Economic Update

October 26, 2017

PMA PRUDENT MAN ADVISORS

Economic and Market Commentary

Economic Overview

The U.S economy continues to grow at a steady, but below trend pace. The second estimate for Q2 2017 real GDP growth came in at an annualized rate of 3.0 percent, the best reading in three years. Growth was primarily driven by consumer spending, increases in business investment, exports and federal government spending. Housing investments, state and local government spending detracted from growth. During the month of July, data showed continued pace of growth. However, incoming economic data for month of August suggests some deceleration in economic activity. Job gains were softer than anticipated with moderate wage gains. The economy added 156,000 jobs in August, bringing the monthly average to 176,000 jobs in 2017, slightly below 181,000 and 229,000 jobs in 2016 and 2015, respectively. The unemployment rate rose slightly to 4.4 percent from a 16 year low of 4.3 percent in July. The labor force participation rate remained flat at 62.9 percent, driven by both a decline in employment and rise in unemployment. In general, the labor market remains healthy. Wage growth remained subdued with production and nonsupervisory (group represents 88 percent of the U.S workforce) wages rising only 2.3 percent year-over-year (yoy), a slower pace than last month at 2.5 percent (yoy). Wage growth at 2.3 percent remains below the 4.0 percent pace that has historically caused central bankers to increase rates at a faster pace. As such, we expect the Fed to remain on track with slow gradual pace of rate increases hoping to return to a “normal rate” environment.

Eight times a year, staff at the twelve Federal Reserve Bank districts work together to publish the Beige Book. The report provides anecdotal information regarding current economic conditions in each of the districts. The most recent report, published in July, suggests that overall, the economy continues to grow at a moderate pace. In the coming weeks and months ahead, we expect noisy economic data following the aftermath of hurricanes Harvey and Irma. According to analysts at Moody’s, preliminary estimates for destruction of property damages range from $150 - $200 billion.

Overall, we believe the initial disruption in economic activity will likely be short-lived followed by long-term stimulative effects from rebuilding efforts. Considering the fact that both public and private institutions are operating under easy financial conditions, the Fed will likely look past near-term weakness for policy purposes.

The Federal Reserve Bank has a dual mandate of maximum employment and price stability. Thus far, the Fed has achieved its employment objective and inflation has remained tame. That said, inflation may be creeping up. During the month of August, the Consumer Price Index increased 0.4 percent and 1.9 percent on a yoy basis, the strongest gain in five years. Underlying data shows positive contributions from higher lodging costs, medical care and food. Core CPI, a less volatile number which excludes food and energy rose 0.2 percent in August after rising 0.1 percent in July; remained flat at 1.7 percent on a yoy basis.

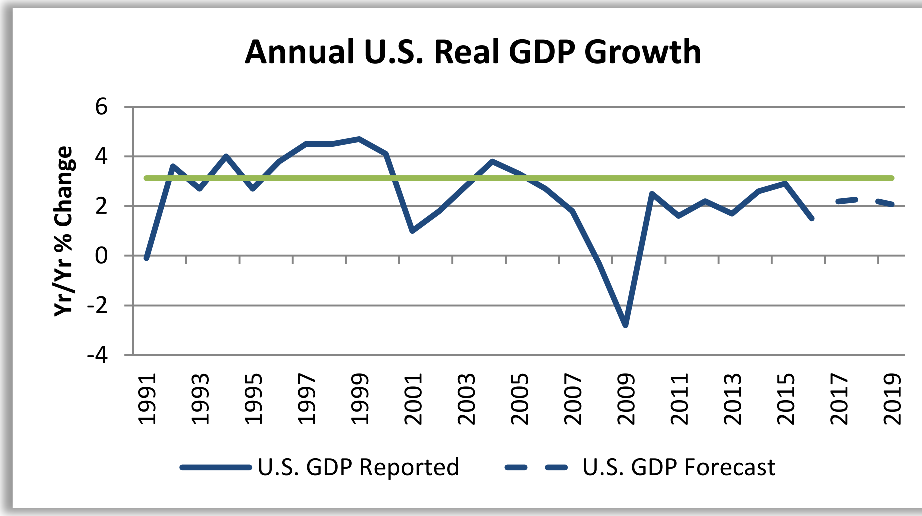
Looking ahead, we continue to look for growth to accelerate beyond the approximate 2.0 percent rate that we have observed throughout the current economic expansion. We believe the U.S economy is entering the late stage of the current business cycle, and as such we expect inflation to move closer in 2018 towards the Federal Reserve’s 2.0 percent target. In addition, the Fed may raise the fed funds rate once more in 2017 and embark on a gradual reduction of its $4.5 trillion balance sheet sometime this fall. As the Fed continues to normalize monetary policy, we expect other economic drivers such as fiscal policy, investment in productivity, higher consumer and business confidence and support from global growth to positively contribute to overall economic growth.

Downside risks to economic growth remain and include further delays in passing pro-growth policies, policy uncertainty, and global geopolitical risks.

Economic Outlook

Annual GDP Growth

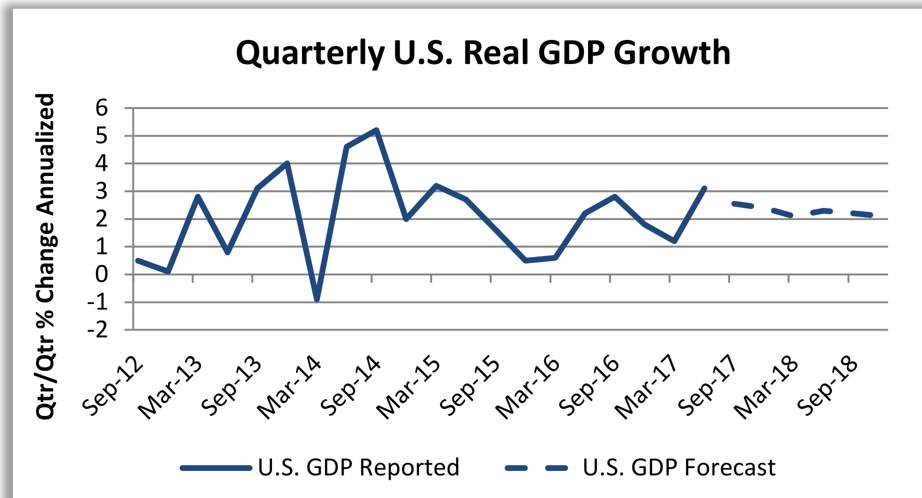
- Full year 2016: 1.5%
- 2017 forecast: 2.2%
- Steady, below trend growth
- U.S. policy uncertainty and global geopolitical risks could be a drag in foreseeable future



Source: Bloomberg

Quarterly GDP Growth

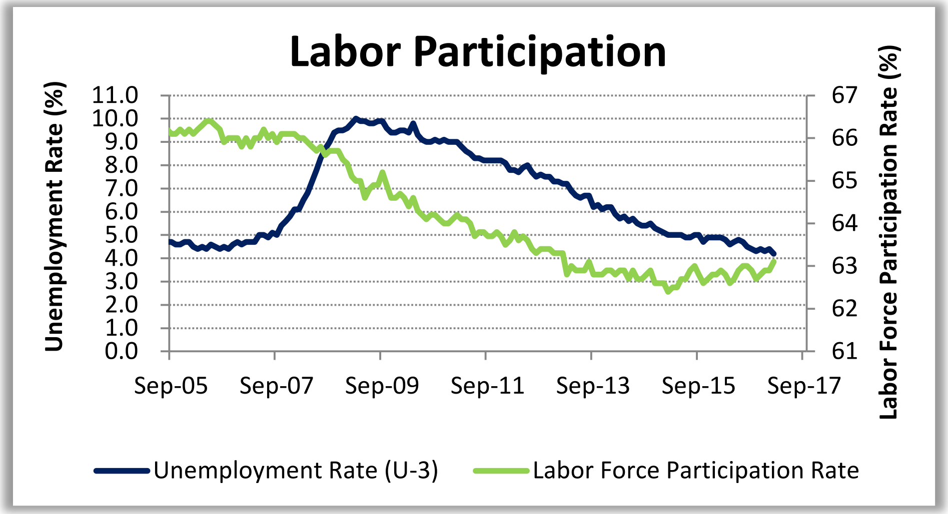
- Q2 2017 3.1% vs. 1.2% prior quarter
- Improved business investment , consumer spending and exports
- Weaker housing investment and state & local government spending
- Focus will be on pro-growth discussions and implementation timelines



Source: Bloomberg

The Fed's Conundrum

- Healthy labor market
- U.S economy at full employment
- Monthly job gains averaging 148K in 2017 vs. 181K in 2016
- Unemployment rate of 4.2% in September, 16-year low
- Core PCE at 1.3% YOY bringing inflation below Fed target
- Employment & inflation levels are key factors in allowing Fed to "normalize" monetary policy



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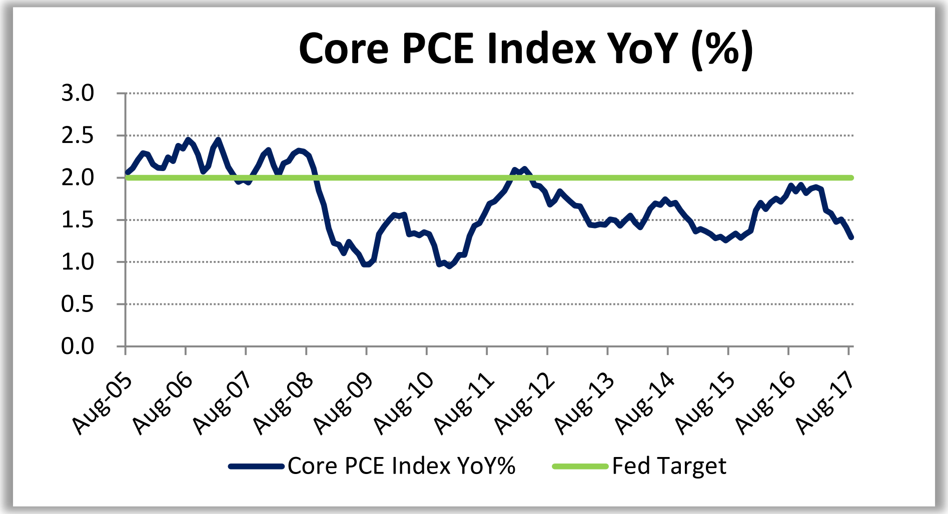

Source: Bloomberg

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