Dear Clients & Friends of Patriot Investment Management

The New Year is off to a good start as the overall economic outlook for 2017 is positive. An ambitious agenda of deregulation, tax reform and fiscal spending from the new administration combined with strengthening fundamentals has pushed the post-election market rally into record-setting territory. The Dow passed 20,000 for the first time in January, and volatility has been muted for now. Global expansion is gaining momentum as the US, developed and many emerging economies are likely to see steady, modest growth. Most of the risks facing the markets are geo-political this year, as legislative battles in Congress, Trump's unpredictability, pivotal elections in the UK and Eurozone, and the fast pace of unfolding world events such as in Syria and North Korea will drive headlines.

US Economy:

Inflation has increased to 2.4% as energy prices have risen and low unemployment continues to put upward pressure on wages. As expected, the Fed raised the Federal funds rate 0.25% again in March, and we expect them to raise rates an additional two to three more times in 2017. As the economy reaches the Fed's long-awaited targets, we can expect the pace of rate hikes to increase towards their long-term goal of 3% sometime in 2019.

Corporate profits have rebounded from their early 2016 lows, but legislative uncertainty will create a mixed bag going forward – as wages increase, profit margins will be compressed as the Fed tightens rates, and corporate interest expense rises. On the other hand, a cut in corporate tax rates would boost profit growth. Bonds will be challenged as rates increase, due to high demand for income from an aging population and tightening spreads, but cash will become more attractive.

Overall, US fundamentals are strong, and the likelihood of an economic slowdown in the near-term is remote. Investors can expect modest positive returns going forward, as high valuations and slow productivity growth from an aging workforce will mute returns.

Global Markets:

Global expansion is gaining momentum as fears of deflation fade, particularly in the Eurozone and Japan. Emerging markets outperformed the US markets for the first time in years as a worldwide recovery in industrial activity lifted returns. Globally, government bonds have long durations with very low yields, creating interest rate risk for those seeking income. As most developed markets have moved past the recovery phase into a modest growth cycle, geo-political risks remain, while the influence of a rise in populism on a global scale may be beginning to fade.

Volatility and uncertainty in the Eurozone will be driven by political events this year, as the UK made their formal Brexit notification in March, and France, Germany and the Netherlands are all facing national elections. The EU has largely recovered, with an increase in manufacturing and industrial activity, but the UK will likely face challenges and more volatility as they negotiate the terms of Brexit, and plan to hold another surprise election in June, intended to strengthen the government's Brexit mandate.

In Asia, both China and Japan's prospects continue to improve as well, as their central banks have effectively managed their stimulus programs. This stimulus has helped to spur growth in global manufacturing and provided a boost to emerging markets. Japan is moving away from deflationary fears as inflation and corporate earnings are rising, and China's economic data shows increased momentum across a number of sectors. However, the uncertainty surrounding trade relations with the US and the large increase in corporate leverage over the past few years remains a risk factor for China's financial stability.

<u>In Summary:</u>

The US market has continued its rally into the first quarter, but has been more subdued as the new administration has experienced setbacks and challenges in implementing some of the more ambitious parts of their agenda. Global expansion is gaining momentum as markets move into the growth phase of the economic cycle. Going forward, we at Patriot remain guardedly optimistic in our outlook for the year, as global fundamentals strengthen, but political uncertainties remain, and will drive volatility. The US economy is poised for a steady pace of modest growth, and barring a major geo-political event, the likelihood of a major market downturn is remote.

<u>2017 First Quarter Returns:</u>

S&P 500 + dividends	6.07%
Dow Jones Industrial	4.56%
Russell 2000	2.47%
Emerging Markets	11.14%
EAFE	7.25%
Barclays Aggregate Bond Index	0.82%

Returns are price-only unless otherwise noted

10 year Bond yield as of 3/31/17 2.40%

Inflation	2.4% thru March 2017
Unemployment	4.5% in March 2017

Thank You!

We value the confidence and trust you have placed with us, and we welcome your questions and comments. Our goal is to be our clients' trusted resource for all things financial.

Do you know someone who could benefit from our expertise? We appreciate your introductions and the opportunity to help your family, friends and colleagues meet their financial goals.