PATRIOT
INVESTMENT
MANAGEMENT

Dear Clients & Friends of Patriot Investment Management

After 2017's stellar, near-perfect performance against a benign backdrop, we are seeing a return to a more normal volatility pattern in the markets, fueled by concerns that the announcement of U.S. tariffs may result in a trade war with China. Synchronized global expansion has continued through the first quarter, with emerging economies pulling slightly ahead amidst a mostly flat quarter due to the increased volatility. Last month, Congress passed a $1.3 trillion spending bill, which, coupled with the new tax legislation, should provide incentive for businesses to increase capital investments. The first quarter also saw continued growth in corporate earnings, and unemployment and inflation have remained low.

US Economy:

Inflation increased to 2.4% in March, moving into the low end of the normal range after years of lingering deflationary concerns. Unemployment remains low, holding steady at 4.1%. The Fed raised the Federal funds rate 0.25% in March, marking the sixth rate increase since the financial crisis began, and plans to raise rates twice more in 2018.

Corporate earnings remain healthy, supported by low inflation and sustained global growth. The new spending bill and lower corporate tax rates represent the largest U. S. stimulus in decades to occur during a growth phase of the economy, and is projected to boost GDP growth over the next couple of years. Bond yields are expected to gradually rise, but will likely stay below their historical averages as structural factors will keep the economy in a low interest rate environment for the foreseeable future.

Global Markets:

The synchronization in global expansion continued through the first quarter, particularly in emerging markets, which have been boosted by a weaker dollar and stronger economic growth.

Europe's economy has been helped by the European Central Bank's (ECB's) accommodative policies, but growth has been tempered by a strong euro as the major economies in the Eurozone are now in a mid-cycle expansion. The UK, on the other hand, continues to face challenges as Brexit negotiations with the EU are moving slowly, with key issues still unresolved.

In Asia, Japan's prospects continue to improve amid tight labor markets as consumer spending and 2020 Olympic investment picks up. China's financial systems reforms to date have proven effective in moderating lending rates, and they are poised for more growth this year, although additional reforms will be needed to maintain their momentum in the long-term. Concerns over whether trade negotiations with the U. S. should turn negative is the main risk factor for the region in the near-term.

In Summary:

2018 has begun with a return to a more normal volatility pattern as proposed trade tariffs with China have given the markets some consternation. Low inflation and low unemployment, along with recent tax cuts and spending increases should encourage business investment and GDP growth. Barring a major geo-political event, the US economy is poised to continue on a steady pace of modest growth, but is unlikely to repeat its double-digit performance in 2018.

2018 First Quarter Returns:

S&P 500 + dividends	-0.76%
Dow Jones Industrial	-2.49%
Russell 2000	-0.08%
Emerging Markets	1.07%
EAFE	-1.53%
Barclays Aggregate Bond Index	-1.46%

Returns are price-only unless otherwise noted

10-year Bond yield as of 03/29/18	2.74%

Inflation	2.4% thru March 2018
Unemployment	4.1% in March 2018

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.