Dear Clients & Friends of Patriot Investment Management

Returns have been muted for 2018 year to date, as we have seen increased volatility from escalating trade tensions between the U.S., China, the European Union, Canada and Mexico. Synchronized global expansion is showing signs of divergence, with emerging economies lagging behind due to a stronger dollar and the increased volatility. The new tax legislation passed earlier this year is encouraging businesses to increase capital investments, and fundamentals remain strong. The second quarter also saw continued growth in corporate earnings, and unemployment and inflation have remained at historically low levels.

U.S. Economy:

Core inflation rose to 2.3% in June, as increased global demand and tightening supplies for oil translated into higher fuel costs. Unemployment remains low, holding steady at 4.0%. The Fed raised the Federal funds rate 0.25% in June, marking the seventh rate increase since the financial crisis began, and plans to raise rates twice more in 2018. The increase in short-term rates has strengthened the dollar and improved returns for cash investments.

Corporate earnings remain healthy, supported by low inflation and sustained growth, as stimulus from lower corporate tax rates encourage companies to engage in investor-friendly activities, such as stock buy-backs, increased dividends, and mergers and acquisitions. Economic fundamentals remain strong, but we can likely expect more volatility in the months ahead, driven by headlines and geo-political events.

Global Markets:

The synchronization in global expansion that helped drive the stellar performance in 2017, particularly in emerging markets, is showing signs of divergence as a stronger dollar and the uncertainty surrounding international trade relationships has dampened prospects for global markets.

Europe's economic prospects have faltered as geopolitical risks have increased, and trade disputes with the U.S. and the UK ahead of Brexit have arisen. The European Central Bank's (ECB's) accommodative policies have been tempered by a stronger dollar and weak bank balance sheets have suppressed loan demand. The UK continues to face challenges as Brexit looms, with little consensus both within the country and with the EU as several key issues remain unresolved.

In Asia, Japan's prospects continue to improve as they have largely been spared from any threats of tariffs and may even profit from the ongoing trade conflict between the U.S. and China, as they supply both countries with key components for tech manufacturing. China's financial systems reforms to date have proven effective in moderating lending rates, and they are poised for more growth this year, as the government cracks down on non-bank lending. China's economy will likely remain resilient in the face of intensifying trade conflict with the United States, as slower, steadier growth is driven more by consumption than investment activity, as they continue to re-tool their economy.

<u>In Summary:</u>

Muted returns and increased volatility from trade conflicts and other geo-political events have dominated the landscape in 2018, even as U. S. fundamentals remain strong. Low inflation and low unemployment, combined with corporate tax cuts and a stronger dollar should encourage more business investment and higher GDP growth. Barring a major geo-political event, the U.S. economy is poised to continue on a steady pace of modest growth for the remainder of 2018.

<u>2018 YTD Second Quarter Returns:</u>

S&P 500 + dividends	2.65%
Dow Jones Industrial	-1.81%
Russell 2000	7.66%
Emerging Markets	-7.68%
EAFE net return	-2.75%
Barclays Aggregate Bond Index	-1.62%

Returns are price-only unless otherwise noted

10-year Bond yield as of 06/29/18	2.85%

Inflation	2.3% thru June 2018
Unemployment	4.0% in June 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.