# Dear Clients & Friends of Patriot Investment Management

Global expansion continued to gain momentum in the third quarter, as nearly three-fourths of all countries, including the US, and many developed and emerging economies saw solid, steady growth. The Dow has continued to push higher into record territory, breaking 23,000 for the first time while broad market volatility, inflation and unemployment have remained low. In contrast to the positive outlook for markets, the ongoing divisiveness, scandals and negative press in Washington has derailed much of the administration's ambitious agenda this year. Geo-political events remain the primary risk factor facing markets, from escalating tensions with North Korea, to potential friction with trading partners in North America and China.

US Economy:

Core inflation has increased to 1.7% as oil prices have temporarily spiked in the short-term due to the impact of Hurricanes Harvey & Irma on oil refineries in the Gulf of Mexico. Inflation will further increase towards 2% over the medium-term in the wake of Hurricane Maria and the California wildfires, as the long process of rebuilding begins. The Fed will likely raise the Federal funds rate 0.25% one more time in 2017, supported by a strong labor market and steady economic growth, and are likely to continue to raise rates in 2018, whether or not Janet Yellen stays on past February as Fed Chair. The Fed will also begin unwinding $400 billion per year of Treasuries & mortgage-backed securities, beginning in 2018 through 2020, as they shed a portion of assets from the quantitative easing (QE) programs implemented in response to the financial crisis of 2008.

Corporate earnings are growing at their fastest pace since 2005, excluding the post-crisis rebound, boosted in part by the tech sector. The rise in earnings is gaining momentum, indicating sustained growth in the US economy. 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.

Overall, US fundamentals are strong, and the steady pace of economic growth continues to gain momentum. Systemic factors such as expensive valuations, slow productivity growth and a low interest rate environment will keep returns modest for some time to come.

Global Markets:

Global expansion is gaining momentum as fears of deflation fade, particularly in emerging markets and Europe. Emerging markets continued to outperform US markets, boosted by a weaker dollar and an increase in industrial activity that boosted returns. Europe's economy has been helped by the European Central Bank's (ECB's) accommodative policies, but risks remain if the ECB were to reduce stimulus too soon.

Optimism is increasing for European prospects, as all economies in the Eurozone are improving for the first time since the crisis. However, systemic issues remain, and government officials will need to implement labor and tax reforms that will encourage growth. The UK will likely face challenges and more volatility as they negotiate Brexit trade agreements with the EU.

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 drive growth in global manufacturing and provided a boost to emerging markets. Japan will continue their stimulus program in the near-term, as they seek to escape nearly three decades of deflationary doldrums. China has had some success in reigning in the excess leverage in their financial system, effectively slowing non-bank lending, but could run the risk of losing growth momentum if they reduce their stimulus too quickly. Geo-politically, North Korea is the main concern as a potentially destabilizing event in the region, and creates uncertainty surrounding China's trade relations with the US, as the State Department puts more pressure on Beijing to participate in sanctions.

In Summary:

The US market has continued its rally into the third quarter, even 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. Barring a major geo-political event, the US economy is poised to continue its steady pace of modest growth.

2017 YTD Third Quarter Returns:

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| S&P 500 + dividends | 14.24% |
| Dow Jones Industrial | 13.37% |
| Russell 2000 | 10.94% |
| Emerging Markets | 25.45% |
| EAFE | 17.21% |
| Barclays Aggregate Bond Index | 3.14% |

Returns are price-only unless otherwise noted

10-year Bond yield as of 9/30/17 2.33%

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|---|---|
| Inflation | 1.7% thru September 2017 |
| Unemployment | 4.2% in September 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.