

October, 2016

2016 Third Quarter Update

Review: Global equity markets posted positive returns in the third quarter. The S&P 500 rose 3.3% due to price/earnings multiple expansion on the expectation that interest rates will remain low. Performance, however, was uneven across sectors and individual stocks as more interest rate sensitive securities outperformed. This disparity was compounded by investors seeking fixed income alternatives in higher dividend paying equities.

Despite softening economic growth and poor earnings fundamentals, the MSCI EAFE Index, including Europe and Japan, gained 5.4%, continuing to recoup earlier losses from the announcement of Brexit, as Great Britain's actual exit from the European Union is now expected to be protracted. The Bank of Japan added additional fiscal measures to existing monetary stimulus. Emerging markets continued to bounce after falling 15% in 2015. The MSCI Emerging Markets Index rose 6.9% as some investors perceived early signs of a commodity rebound and a weaker U.S. dollar strengthened local currencies.

In fixed income, the Barclays Aggregate Taxable Bond Index returned 0.5% as the additional yield for credit risk over U.S. Treasurys was enough to offset higher U.S. Treasury interest rates. Conversely, yield compensation was insufficient for tax-exempt investors and the Barclay's Municipal Bond Index returned -0.3%.

Period	3Q16	2Q16	1Q16	2015
S&P 500	3.3%	2.5%	1.4%	1.4%
EAFE*	5.4%	-1.2%	-3.0%	-0.8%
Emerging Markets	6.9%	0.8%	5.7%	-14.9%
Barclays U.S. Aggregate Bond	0.5%	2.2%	3.0%	0.6%

*Europe, Australia, Far East

Domestic Economy: The most recent Federal Reserve revision to second quarter U.S. GDP raised estimated growth from 1.1% to 1.4% due to better consumer spending. Payroll gains continue to be solid. During the third quarter, the economy added an average of 199,000 new jobs.

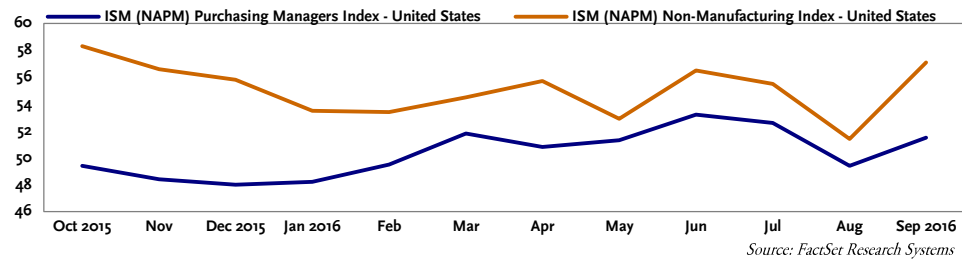
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The most recent upturn in both the ISM Manufacturing and Services PMIs is also encouraging:



We expect the U.S. economy to grow approximately 2% in the near term. Personal consumption expenditures and residential investment appear resilient. Corporate spending, which to date has been a drag on growth, should pick up as consumer demand encourages corporations to address heretofore deferred business investments. Inflationary pressures are slowly building. The Consumer Price Inflation Index, excluding the volatile food and energy components, is now rising at an annual rate of over 2% with non-discretionary costs like healthcare and rent rising more quickly.

International Economies: Eurozone growth should remain sluggish at 1-1.5% as double digit unemployment in the peripheral countries and soft exports remain a headwind. Japan's economy is still struggling to grow even 1%. Monetary policy has failed so far to generate enough consumer spending to create "escape velocity" for their demographically-challenged economy. Emerging markets, which at 4% represent the best relative global growth opportunity, are still heavily dependent on a slowing China and resilient India to offset ongoing deep recessions in Latin America and a growth-challenged Russia.

Strategy: On a relative basis, equities continue to offer a better risk-return profile than fixed income, where low coupons provide little protection against principal loss when interest rates rise. We also prefer U.S. equities to non-domestic alternatives due to the best combination of sustainable economic growth and best insulation from a stronger U.S. dollar. Our analysis suggests that the S&P 500 as a whole appears fairly valued although low interest rates have boosted some sector valuations to unattractive levels while others still offer solid growth opportunities. We seek to identify companies with attractive and sustainable business models, strong managements, and solid balance sheets that can deliver steady earnings growth over time. Given the potential for higher volatility over the short term due to the current global economic and political uncertainties, temporary market dislocations should provide opportunities to purchase the stocks of these companies at attractive prices.