MIDDLETON & COMPANY, INC.

Investment Update

October, 2017

2017 Third Quarter Update

Review: In the third quarter of 2017, major global equity markets were supported by sustained economic growth, reasonable earnings and stable inflation expectations. Volatility remained exceptionally low. In the U.S., the Federal Reserve formally announced the size and pace of balance sheet reduction. In Europe, the September German general election returned pro-business Angela Merkel to another term as Chancellor. Returns were positive across all major asset classes:

Period	3Q17	Year-to-Date	2016
S&P 500	4.9%	14.2%	12.0%
MSCI EAFE* **	5.5%	20.5%	1.5%
MSCI Emerging Markets**	8.0%	28.1%	11.6%
Barclays U.S. Aggregate Bond	0.9%	3.1%	2.7%
Barclays Muncipal Bond	1.1%	4.7%	0.3%

*Europe, Australia, Far East
**MSCI returns are in U.S. Dollars

Economy: The synchronized global growth that we discussed last quarter continued in the third quarter. The U.S. economy strengthened with second quarter GDP rebounding to 3.1% after a tepid 1.2% increase in the first quarter. Consensus projections forecast full year 2017 GDP growth of 2.1%. Consumer spending picked up in the second quarter after a soft first quarter but is on a slower pace than last year. The pace of business capital expenditures are still exceeding depressed 2016 levels. Inflation remained well below the Federal Reserve's 2% target with their preferred Core Personal Consumption Expenditure rate at 1.5% despite increasing wage pressures.

Eurozone economic activity expanded with GDP increasing 2.6% in the second quarter and the European Central Bank (ECB) remained in an accommodative stance. A continuation of the commodity rally from last year, plus a weak dollar for most of the quarter, allowed Emerging Markets to post robust 5.1% economic growth in the second quarter.

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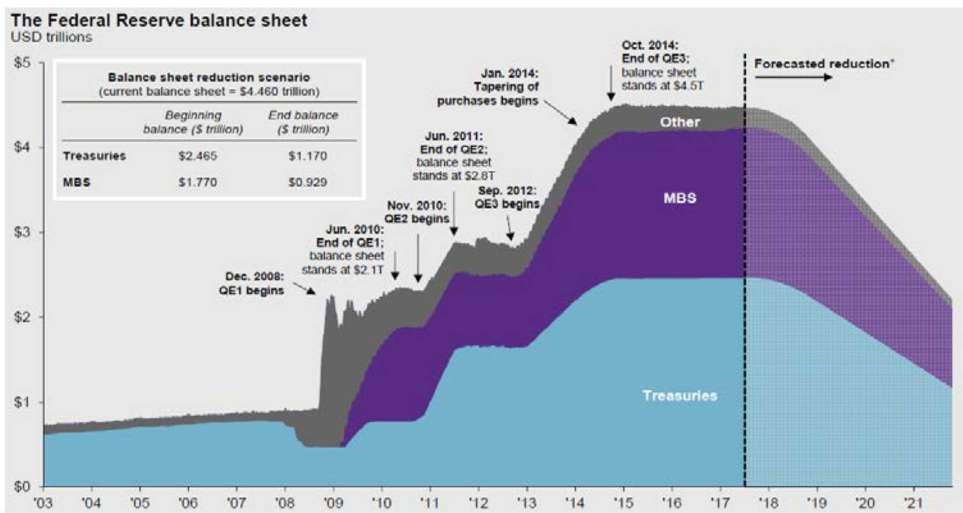
Low and stable interest rates continue to play an important part in valuation assumptions and the Federal Reserve's asset purchase program that has expanded its balance sheet has been an important influence. The chart below from JP Morgan Asset Management depicts the Federal Reserve's planned monthly balance sheet reduction, which begins modestly and accelerates over the next year. To lessen potential volatility, the Federal Reserve has prioritized transparency with market participants. Given the lack of historical precedent, however, this balance sheet normalization bears close monitoring in the coming months.



Source: Federal Reserve, FactSet, J.P. Morgan Asset Management.
*Balance sheet reduction assumes reduction from current level, beginning October 2017 and lasting four years, concluding in October 2021. Reduction of Treasuries and MBS is per FOMC guidelines from the June 2017 meeting minutes: Treasury securities will be reduced $6 billion per month initially and reduction rate will increase in steps of $6 billion at three-month intervals over 12 months until reaching $30 billion per month; MBS will be reduced $4 billion per month initially and reduction rate will increase in steps of $4 billion at three-month intervals over 12 months until reaching $20 billion per month; Other assets are reduced in proportion. Forecasts do not take into account months where maturing assets do not exceed the stated cap nor do they consider the reinvestment of principal or interest repayment in excess of the stated cap.
Guide to the Markets – U.S. Data are as of June 30, 2017.

J.P.Morgan
Asset Management

Strategy: Global economic growth remains in an upturn, supporting rising corporate earnings. Consensus forward estimates are modeling further S&P 500 earnings gains, projecting an 8% increase for 2018. Given the small cushion bond coupons offer to inflation, equities as an asset class continue to offer better risk-adjusted returns due to their total return potential from both price appreciation and dividends. However, we continue to closely monitor economic data, interest rates, and valuations for indications of changing conditions.