MIDDLETON & COMPANY, INC.

Investment Update

January, 2018

2017 Fourth Quarter Update and 2018 Outlook

Review: Global markets finished the year on a strong note underpinned by steady earnings growth, stable interest rates and investor confidence. Equity and fixed income volatility remained exceptionally low. An important contributing factor to volatility expectations is the sense that incoming Federal Reserve Chairman Jay Powell will continue outgoing Chairman Janet Yellen's measured approach to interest rate hikes.

Period	4Q17	2017	2016
S&P 500	6.6%	21.8%	12.0%
MSCI EAFE* **	4.3%	25.6%	1.5%
MSCI Emerging Markets**	7.5%	37.8%	11.6%
Barclays U.S. Aggregate Bond	0.4%	3.5%	2.7%
Barclays Muncipal Bond	0.8%	5.5%	0.3%

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

Economy: Synchronized global growth continues to be a tailwind for equities, driven by expectations of higher consumer and business spending. U.S. Real GDP grew 3.2% in the third quarter. Growth for the fourth quarter is projected at a somewhat slower 2.8%. Consumer spending through the third quarter, as measured by PCE, is growing at 3.7%. Inflation remains below the Federal Reserve's 2% target with the PCE Deflator currently running at 1.8%.

Overseas, developed markets growth continues to ramp up. The European Commission is forecasting 2.3% real GDP growth for Europe in 2017, revised higher from 1.7% last spring. Japan grew at an annualized rate of 2.5% in the third quarter, substantially higher than the preliminary estimate of 1.4%. Emerging Markets growth still remains the best globally. The IMF currently forecasts 4.9% growth for developing countries in 2018, with China projected to slow somewhat to 6.5% from 6.7% in 2017.

An ongoing development that continues to merit close monitoring is the size and pace of the Federal Reserve's balance sheet reduction, as well as the anticipated number of interest rate hikes. The U.S. Treasury yield curve flattened dramatically in 2017, with short interest rates rising while

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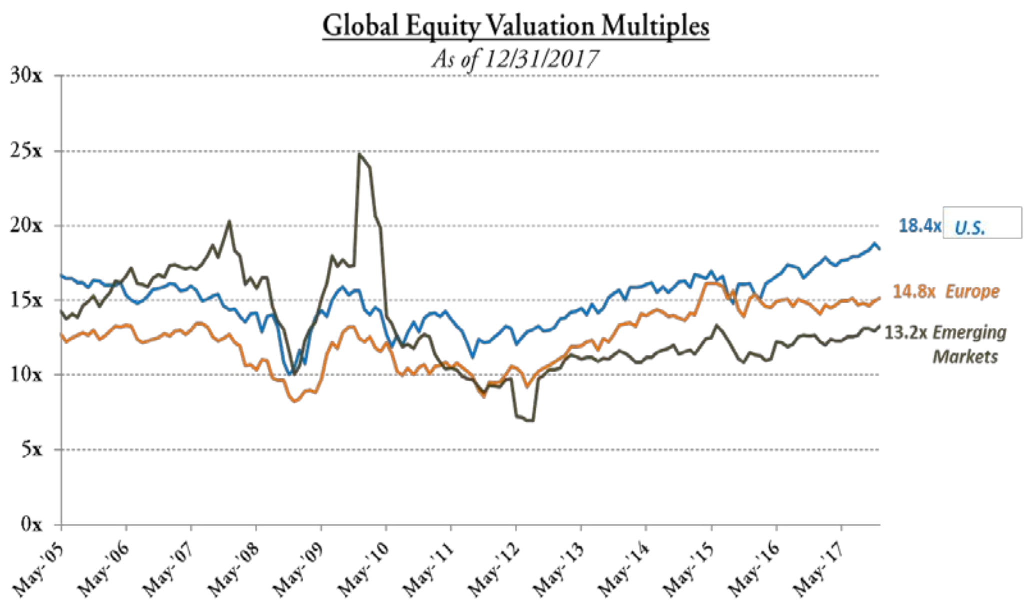
longer rates held steady or fell. The direction of interest rates in 2018 will be a key factor in gauging the market's outlook for growth and inflation.

There has been much discussion about the relatively higher valuation of the S&P 500 versus overseas equities markets, in particular the European, Australasia and Far East Index (EAFE) and Emerging Markets. The S&P 500 currently trades at 18.3x 2018 earnings estimates while Europe (14.8x) and Emerging Markets (13.2x) trade at lower multiples. However, the S&P 500 has a higher mix of innovative growth sectors, such as Information Technology and Healthcare, and less representation in Financials and Deep Cyclicals.

Global equity valuations have diverged over last several years



Source: FactSet

Strategy: We expect 2018 corporate earnings to rise, as an uptick in global economic growth encourages consumer spending and business capital investment. Implemented tax cuts will be a modest tailwind for earnings. Middleton currently expects S&P 500 earnings to grow 11%, with dollar strength or weakness an important variable, given that 43% of the index revenues are derived from overseas. Equities, with their combination of price appreciation and dividends, continue to offer better risk-adjusted returns versus only income from bonds, which also carry exposure to principal loss as interest rates rise. Despite having the best relative economic growth, emerging market equity valuations are at risk to higher interest rates and volatility. Thus we remain U.S. equity-centric, but are continuing to closely monitor both domestic and non-domestic valuations.