October 2017

Dear Investors:

Friday, September 22nd marked the first day of fall. This is a little bit confusing for me as I sit here writing this letter in 75 degree weather, but for those of us who are still desperately clinging onto summer, it is sadly time to let go.

Despite the uncharacteristic weather, it is hard to ignore the changing of the seasons. The sun rises well after we do and the days continue to get shorter. We can't predict the market with any more accuracy than we can predict the weather and we can't control the economy any more than we can control the changing of the seasons.

While we don't know what will happen in the near term, we do know that building a well-diversified portfolio, periodically rebalancing, and avoiding irrational herd behavior are some of the best ways that you can weather any unexpected storms and continue to meet your goals in the long-term.

U.S. Economy

The S&P 500, NASDAQ Composite, and Russell 2000 indices each hit all-time highs during the last day of trading in September. With third quarter earnings results on the horizon, it appears that investors continue to remain focused on the political and economic environment. The Russell 2000 Index, which focuses on U.S. small-cap stocks, was the best performing U.S. index (+6.24%) in September, partly due to a renewed focus in Washington on tax reform. Due to their domestic focus, many small cap companies pay higher relative tax rates and are thought to benefit the most from the proposed reduction in corporate taxes.

Expansion in the U.S. continues to grind at a slow and steady pace, with the economy still growing around 2% per year on average in year nine of the expansion. The U.S. economy lost 33,000 jobs in the aftermath of the hurricanes, resulting in the first decline since September 2010. Despite a decline in job growth, average hourly wages rose last month and the unemployment rate declined to 4.2%, the lowest level since February 2001.

Recent statements by several members of the Federal Reserve, including Chairwoman Janet Yellen, point to continued hawkishness from the Fed. The Fed appears intent on continuing to gradually increase benchmark interest rates and deleverage their balance sheet, regardless of stubbornly low levels of inflation. Despite the Fed's actions, U.S. interest rates have remained at historically low levels as investors continue to view the U.S. as a safe haven.

Traditional Asset Class Returns Q3:2017			
Asset Class	**Benchmark**	**Q3**	**YTD 2017**
US Stocks	S&P 500	4.48%	14.24%
US Gov't Bonds	Bbg Barc US Intermediate Gov't	0.34%	1.55%
Cash	3 Month T-Bill	0.25%	0.56%

U.S. Stocks

In absolute terms, U.S. stocks had another strong quarter and continue their strong year. The S&P 500 was up +4.48% this quarter and is up +14.24% year-to-date. On a relative basis, U.S. stocks lagged their international counterparts in the third quarter and continue to lag year-to-date. International developed stocks (MSCI EAFE) were up +5.40% this quarter and are up +19.96% year-to-date. Emerging market stocks (MSCI EM) continue to be the best performers returning +7.89% in third quarter and +27.78% year-to-date.

Information Technology was the best performing sector this quarter (+8.65%) and continues to be the best performing sector in 2017 (+27.36% YTD). The strong Tech performance in third quarter is partly attributed to the semiconductor industry. The increased use of Artificial Intelligence in a number of industries including smart phones, electric & autonomous vehicles, manufacturing, and banking has driven increased demand for semiconductor chips.

Consumer Staples was the worst performing sector this quarter (-1.35%) due to poor performance from consumer packaged food manufacturers. Hyper-competition in the grocery and food space, in part due to Amazon's entrance into the space with their purchase of Whole Foods, has put pressure on retailers who have in turn begun to put pressure on food manufacturers to lower their prices.

Year-to-date, the Telecom and Energy sectors continue to be the worst performers in the S&P 500 (-4.69% and -6.63% respectively). The Telecom sector has been challenged due to intense price competition within the space and Energy stocks have struggled this year due to weakness in oil prices. Despite YTD weakness, Energy stocks had a strong month in September (+9.94%) due to the U.S. hurricanes which shut down a number of refineries. This resulted in lower supply and therefore higher oil & gasoline prices.

U.S. Bonds

The third quarter had modest yield increases across the yield curve. The quarter initially had declines in yield resulting from the severe hurricanes experienced across the country and geopolitical tensions with North Korea. The decline in yield was reversed in September with signs of improvement in the U.S. and Global economy and a hawkish tone from Fed Chair Janet Yellen after Septembers Fed meeting. The Federal Reserve will begin reducing its balance sheet in October and is forecasting one additional rate hike in December. As of September 30th, the ten year treasury was at 2.33%, still lower than it was at the start of the year (2.44%). Despite the yield increases in September, the bond market posted positive returns for the quarter and continues to have positive returns year-to-date.

Diversifying Asset Classes

Asset Class	Benchmark	Q3	YTD 2017
Foreign Stocks	MSCI EAFE	5.40%	19.96%
Emerging Markets Stocks	MSCI Emerging Markets	7.89%	27.78%
US Mid Cap Stocks	Russell Mid-Cap	3.47%	11.74%
US Small Cap Stocks	Russell 2000	5.67%	10.94%
REITs	MSCI US REIT	0.93%	3.61%
Commodities	Bloomberg Commodity	2.52%	-2.87%

MLPs	Alerian MLP	-3.05%	-5.62%
Managed Futures	Morningstar US Managed Futures	0.44%	-2.07%
Foreign Bonds	Citigroup Non-USD WGBI	2.57%	8.63%
Emerging Market Bonds	JPM EMBI Global	2.38%	8.73%
US Inflation Protected Bonds	BbgBarc US Treasury TIPS	0.86%	1.72%
Floating Rate Loans	Credit Suisse Leveraged Loan	1.06%	3.04%
US High Yield Bonds	BbgBarc US Corp High Yield	1.98%	7.00%
Convertible Bonds	BofAML Convertible Bonds	4.67%	13.81%

Emerging markets kept their top performing status in the third quarter aided by improving economic prospects globally as well as lower valuations relative to the U.S. market. The MLPs continued to decline due, in large part, to the sell-off in crude oil throughout the year.

Conclusion

It's funny how warm a 75 degree day feels in the fall. If we can learn one lesson from the weather, it is that we should be prepared for anything! We feel the same way about investing.

At Rockland Trust, we pride ourselves on designing portfolios for our clients that can endure different market cycles. Our disciplined approach to investing in high-quality stocks and downside protection has not wavered in the face of short-term gains. We are committed to helping you meet your long-term goals whether that's putting your children through college, saving enough for a comfortable retirement, or leaving a lasting legacy.

Thank you for your continued confidence.

Sincerely,

David B. Smith, CFA
Chief Investment Officer
Investment Management Group