ROCKLAND TRUST Where Each Relationship Matters®

July 2017

Dear Investors:

I hope you all enjoyed your Fourth of July. America's birthday has always felt like the official start to summer for my family. We spend the holiday down in Falmouth with good friends, fresh lobster rolls, and the town's annual firework display. The Falmouth Firework Committee dedicates hours upon hours of their time carefully preparing for the event each year. Experts will tell you that a successful firework show is a balance of quality, variety, and safety, just like our investment process at Rockland Trust.

We believe that investing in high quality businesses, not trading stocks, is the key to outperforming a benchmark over time. Our strategy emphasizes diversification and downside protection with a steady approach that doesn't waver in the face of short-term disruptions and distractions. We also serve our clients in a fiduciary capacity which means that we have an obligation to understand, control, and minimize risk.

Over the past three months, the market has generated significant buzz. The Dow hit a record high; we have watched a few intensely popular, "must-own" tech stocks lose momentum and rebound; and the markets remain reactive to the possibility of policy change under the new administration. Let's take a look.

Traditional Asset Class Returns Q2:2017			
Asset Class	**Benchmark**	**Q2**	**YTD 2017**
US Stocks	S&P 500	3.09%	9.34%
US Gov't Bonds	Bbg Barc US Intermediate Gov't	0.66%	1.20%
Cash	3 Month T-Bill	0.20%	0.30%

US Economy

Despite mediocre economic data, the US economy continues to show signs of resiliency. GDP growth was relatively weak in the first quarter at +1.4%. The unemployment rate continues to decline, reaching 4.3% in May- its lowest level in sixteen years. Core inflation has remained below the Fed's target of 2%, due to a number of factors that the Federal Reserve has deemed "one-off reductions in certain categories" (i.e. price wars between Telecom providers & oversupply in the auto industry). A key question going forward is whether or not the recent inflation dip we saw in May is transitory in nature (as the Fed has suggested). The Fed raised short-term rates in June despite weak inflation data; however, if Q2 growth and inflation data remain weak, the Fed could be forced to stop its gradual rate hiking process.

US Stocks

U.S. equities performed well in the quarter and continued their strong year. Despite strong absolute performance for the S&P 500 year-to-date (+9.34%), U.S. equities continue to lag their international (MSCI EAFE +13.81%) and emerging market (MSCI EM +18.43%) counterparts. It is worth noting that the earnings growth of globally oriented U.S. businesses was double that of their domestically-focused counterparts in the first quarter.

Healthcare was the best performing sector this quarter, as a failed attempt by the Senate to vote on the Republican health care bill caused healthcare stocks to climb in June. After a mediocre start to the year, financial stocks rallied in June after the Federal Reserve announced that all 34 banks passed their quantitative & qualitative assessments for the first time since they were implemented.

The Telecom and Energy sectors have significantly underperformed and are the only two sectors in negative territory for the quarter and year-to-date. The weakness in telecom is the result of intense price competition in the space. Energy stocks have struggled this year due to rising OPEC (Organization of the Petroleum Exporting Countries) oil production which has driven oil prices down.

US Bonds

During the second quarter, the yield curve continued to flatten. The Fed's rate hike on June 15th (the second of the year) continued to raise short term rates while yields on the longer end of the curve (greater than 10 years) declined. Longer term interest rates were driven down by two things: strong domestic and international demand for U.S. Treasuries and low investor optimism for the potential of fiscal stimulus. When making policy decisions, the Fed closely monitors the shape of the interest rate yield curve and inflation expectations as these can be an indicators of investors' confidence in the state of the economy.

As of June 30th, the yield on the ten year treasury was at 2.30%. This was significantly higher than this time last year following the Brexit vote at 1.47%, but still lower than it was at the start of 2017 at 2.44%. Because bond prices move inversely to bond yields, the majority of the bond market posted positive returns for both the second quarter and year to date. In both instances, longer maturity bonds outperformed short maturity bonds. The bond market now looks ahead to the Fed's plan for reducing its balance sheet as announced at the June meeting.

Diversifying Asset Classes

Asset Class	Benchmark	Q2	YTD 2017
Foreign Stocks	MSCI EAFE	6.12%	13.81%
Emerging Markets Stocks	MSCI Emerging Markets	6.27%	18.43%
US Mid Cap Stocks	Russell Mid-Cap	2.70%	7.99%
US Small Cap Stocks	Russell 2000	2.46%	4.99%
REITs	MSCI US REIT	1.65%	2.66%
Commodities	Bloomberg Commodity	-3.00%	-5.26%
MLPs	Alerian MLP	-6.35%	-2.66%
Managed Futures	Morningstar US Managed Futures	-2.79%	-2.59%
Foreign Bonds	Citigroup Non-USD WGBI	3.81%	5.91%
Emerging Market Bonds	JPM EMBI Global	2.21%	6.20%
US Inflation Protected Bonds	BbgBarc US Treasury TIPS	-0.40%	0.85%
Floating Rate Loans	Credit Suisse Leveraged Loan	0.75%	1.96%
US High Yield Bonds	BbgBarc US Corp High Yield	2.17%	4.93%
Convertible Bonds	BofAML Convertible Bonds	2.82%	8.73%

Developed and emerging market equity classes kept their top performing status in the second quarter aided by improving economic prospects globally as well as lower valuations relative to the U.S. market. The MLPs and Bloomberg Commodity Index continued to decline due, in large part, to the sell-off in crude oil throughout the year.

Conclusion

There will always be a hot trend to chase in the market and, inevitably, there will be a sector that is performing well and a few that are underperforming. It's important that we continue our discipline of balancing quality, variety, and safety. After all, one spark can only light up the sky for so long, but a well-designed and carefully planned firework display can easily become a treasured summer tradition. As always, I thank you for the trust you place in me and the IMG team.

Sincerely,

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