

2017 Third Quarter Review

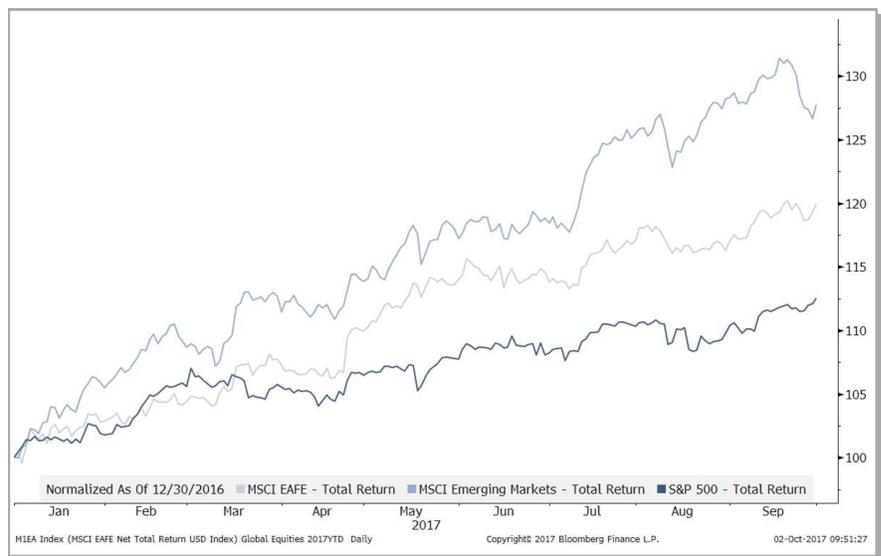
Strong equity market performance continued this quarter, once again led by both international and emerging market securities. So far this year, emerging market stocks are up 28.1% and international developed stocks are up 20.5%. The S&P 500, though up 14.2%, has lagged international markets by a wide margin.

The 2017 market rally has been supported by economic fundamentals. For the first time since 2007, all the world's largest economies are seeing economic expansion. The Purchasing Managers' Indexes (PMI) for the United States and the four largest economies in Europe continue to indicate expansion in the manufacturing sector.

China's growth has also stabilized, with the latest GDP figures showing growth of 6.9% year-on-year. This favorable economic backdrop led to strong growth in corporate earnings. Emerging market company earnings are up 21.6% year-on-year. Firms in international developed markets increased earnings by 18% year-over-year and earnings for S&P 500 companies in aggregate are up 11.2%.

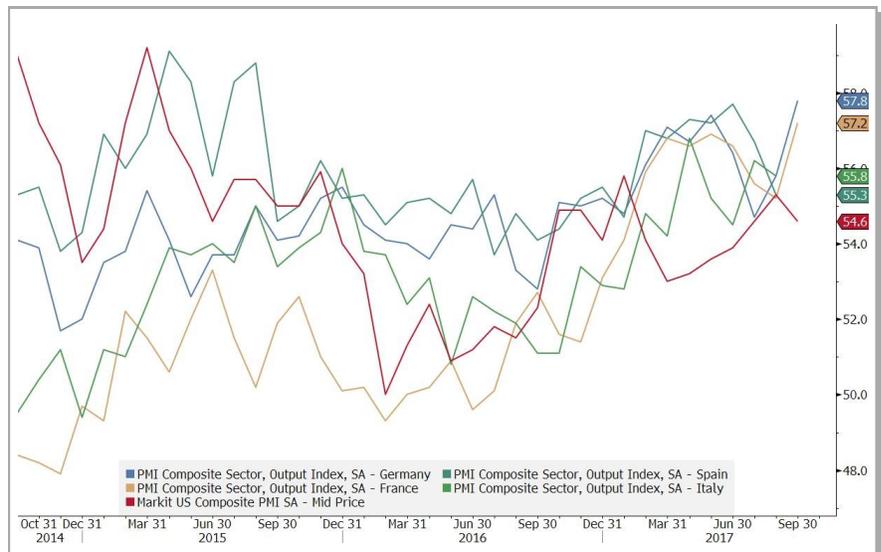
Despite this positive economic backdrop many investors are understandably concerned about current political events. The recent increase in political turmoil, as reflected in recent readings of the Global Economic Policy Uncertainty Index, warrants attention.

Global Stock Market Returns Year-to-Date Through September 30, 2017



Source: Bloomberg

Purchasing Managers Indices for U.S. and Key European Countries



Source: Bloomberg

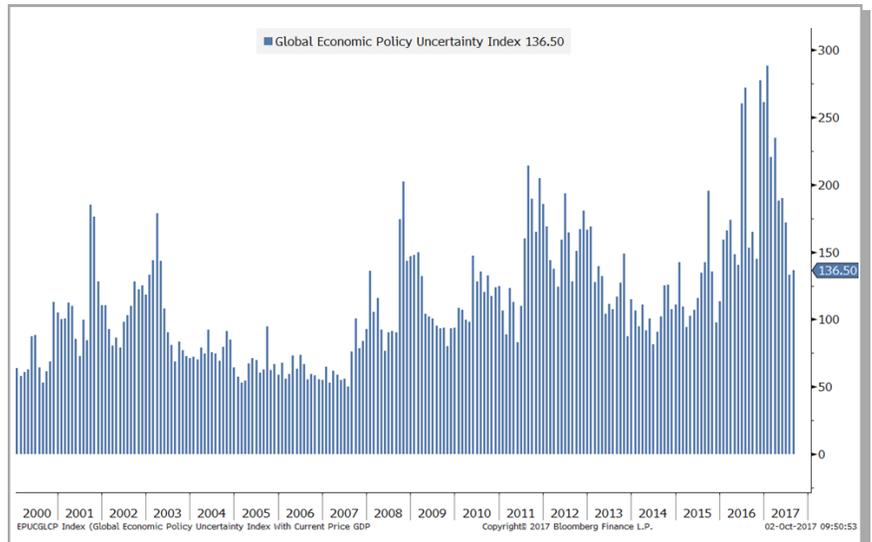
Investors are faced with a variety of risks, from potential conflict with North Korea to populist unrest in Europe and the U.S. to the impact of natural disasters such as Hurricanes Harvey and Irma. Though it is important to follow the latest headlines, investors should focus on structural factors and trends as the key building blocks in portfolio construction. Many near-term risks are inherently unpredictable, and the best way to prepare for infrequent and unexpected events is to ensure that a portfolio is strategically positioned at an appropriate level of risk. Given the strong recent stock market performance, this is a good time to consider whether a portfolio may be over-risked, as another crisis in the future is inevitable.

When crisis occurs, investors look for a policy response from a few key decision makers. In the 2008 crisis, it was the actions of the U.S. Federal Reserve, pumping liquidity into the global financial system, that initially stabilized the global economy. United States fiscal policy has been limited by political gridlock, so monetary policy has been the main channel for policy response to economic events. As the U.S. dollar is still the global reserve currency, U.S. monetary policy heavily influences global policy.

The massive fiscal stimulus from China in 2008 helped to spark a global recovery. The 2008 Chinese fiscal stimulus in response to the financial crisis was 13.4% of China's GDP, compared to 6% in the U.S. China is now 15% of the global economy, second only to the U.S., therefore how China responds to the next economic slowdown will be pivotal.

These two critical power centers of the global economy will be shortly undergoing a transition in personnel:

Global Political Uncertainty Index



Source: Bloomberg

- The Federal Reserve** will undergo a major transition. On September 6th, Stanley Fischer, the Vice Chairman of the Federal Reserve, announced his retirement. In February, Janet Yellen's term as Chairman ends. This means that President Trump has the opportunity to fill five vacancies out of seven positions on the Board of Governors of the Federal Reserve System. There are no clear cut favorites to replace Janet Yellen and the President has not articulated a clear philosophy with regard to monetary policy. Consequently, both the near-term pace of interest rate hikes as well as how the Federal Reserve responds during the next recession is yet to be determined.
- China** will select its new Politburo at the 19th National Congress of China's Communist Party this October, and each Politburo member will serve for five years. Most investors will use the 19th Party Congress to gauge how much power President Xi consolidates. Many wish to see President Xi gain more power as he will be more capable of implementing necessary economic reforms. This summer, the International Monetary Fund stated that current

strong growth “comes at the cost of further large and continuous increases in private and public debt, thus increasing downside risks in the medium term”. Unfettered economic growth has led to dangerous pollution levels. According to a World Health Organization study in 2016, China is the world’s deadliest country for outdoor air pollution. In addition, over half of China’s groundwater has been deemed unsafe according to Chinese officials. President Xi may prioritize long term social stability and choose to rein in credit growth, increase environmental regulations and target a more sustainable trajectory to the detriment of near-term targets. Alternatively, he may opt to only make minor changes to current policies and trade near-term results for long-term risks. The path China embraces will signal how China is likely to react in a future economic downturn.

Given the current strength of the global economy, it is unlikely that the U.S. will experience a recession soon. But when the next economic slowdown comes, the reaction of the Federal Reserve and China’s leaders will be of paramount importance. Investors should closely follow the current transitions at both the Federal Reserve and the Chinese Politburo, as these decision makers will likely be in place for the next downturn.

As the year draws to a close, this is a good time to review your personal situation and assess what level of risk is appropriate to reach your long-term goals with peace of mind. The best way to effectively prepare for an unexpected crisis is to be sure that you understand and are comfortable with the level of exposure in your portfolio.

For More Information

Choate Investment Advisors offers objective, independent, institutional-quality investment management tailored to the needs of each client. With \$4.8 billion in assets under management*, Choate Investment Advisors ranks as one of the leading independent investment advisors in the country. Choate Investment Advisors offers comprehensive, integrated wealth management to high net worth individuals and families, providing a range of well-diversified investment strategies across the risk spectrum. Our open-architecture approach and substantial assets allow us to select from a wide array of asset classes and to work with the highest quality investment vehicles. As a subsidiary of Choate Hall & Stewart, our clients receive world-class estate tax planning and other family office services.

If you have any questions, please contact your Choate Investment Advisors team.

Tamer M. Alamuddin, CFA 617-248-4822 | talamuddin@choate.com
Geraldine L. Alias 617-248-4044 | galias@choate.com
Henry Dormitzer 617-248-2123 | hdormitzer@choate.com
Kara M. Hayhurst 617-248-4070 | khayhurst@choate.com
Erin E. Kerr, CFA 617-248-4716 | ekerr@choate.com
Courtney L. King 617-248-5258 | cking@choate.com

Todd M. Millay, Managing Director 617-248-4770 | tmillay@choate.com
Harrison T. Odaniell 617-248-4901 | hodaniell@choate.com
Harison S. Sidhu, CFA, FRM 617-248-5217 | hsidhu@choate.com
Rebecca Touchette 617-248-4011 | rtouchette@choate.com
Christine R. Wright 617-248-2125 | cwright@choate.com
Hideyoshi D. Watanabe 617-248-2112 | hwatanabe@choate.com
Wenyu Xiong, CFA 617-248-4089 | wxiong@choate.com

*AUM is as of 9/30/17.

© Copyright 2017 CHOATE INVESTMENT ADVISORS LLC

This report is prepared by Choate Investment Advisors LLC (CIA), a subsidiary of Choate, Hall & Stewart LLP. CIA is registered as an investment advisor with the Securities and Exchange Commission. The information contained in this report has been obtained and derived from publicly available sources believed to be reliable, but CIA cannot guarantee the accuracy or completeness of the information. This report is for information purposes only and should not be construed as an offer to buy or sell any security. None of the information contained in this report constitutes, or is intended to constitute, a recommendation of any particular security or trading strategy or a determination by CIA that any security or trading strategy is suitable for any specific person. To the extent any of the information contained herein may be deemed to be investment advice, such information is impersonal and not tailored to the investment needs of any specific person.