AVE MARIA MUTUAL FUNDS

MARKET COMMENTARY – Q3 2017

The Stock Market

Remarkably, despite North Korea, Charlottesville, three hurricanes and Congress' failure to enact new healthcare insurance legislation, the U.S. stock market posted its eighth consecutive quarterly advance. For the three months ended September 30th, the S&P 500 Index rose 4.48% (CHART 1). The Index's year-to-date return was 14.24%.

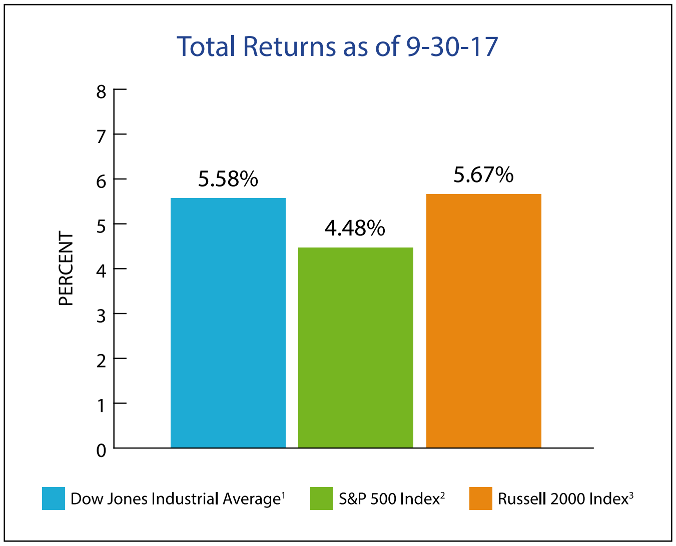

Chart 1

SOURCE: MORNINGSTAR DIRECT

Global equity markets were also strong, reflecting rising investor confidence in global economic growth. The best performing U.S. market sectors in the quarter were Information Technology, Energy, and Telecommunications. Laggards included mostly defensive sectors, such as Consumer Staples, Healthcare and Real Estate.

In the long run, corporate profit growth drives higher dividends and higher stock prices. In the U.S., the mid-cycle pause in profit growth (CHART 2) is clearly behind us.

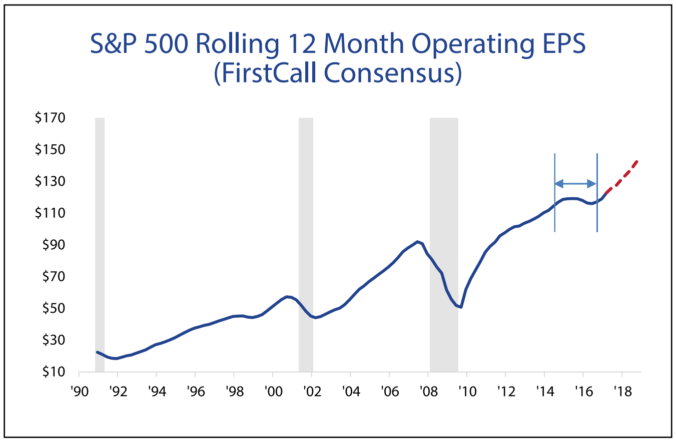

Chart 2

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" — OCTOBER 2, 2017

When reported, third quarter trailing twelve-month S&P 500 profits will likely be up about 8%, and we expect a similar gain in the fourth quarter. Profits are expected to grow mid-single digits in 2018, but could do better (POSSIBLY DOUBLE DIGITS) if pro-growth tax reforms are enacted. Year-over-year, S&P 500 dividends were up 8% in the quarter, reflecting corporate directors' confidence in the future.

Past performance does not guarantee future results. You cannot invest directly in an index.
[1] The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.
[2] The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.
[3] The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.

The Bond Market

The third quarter ended with bond yields little changed. Ten-year Treasuries yielded 2.33% vs. 2.30% at mid-year, although yields briefly dropped to near 2% early in the quarter. The Federal Reserve deferred rate increases due to mixed economic signals, hurricanes and indications that current inflation is running below their 2% target (CHART 3).

The Fed announced that in October, it will begin reversing years of Quantitative Easing with a modest $10 billion monthly reduction in their balance sheet. These monthly reductions are scheduled to gradually increase until they reach $50 billion. The Fed also signaled a probable Fed Funds rate hike in December, followed by possible further hikes in 2018. Central Banks around the world remain highly accommodative, while the peak of easy money seems to have passed, at least in the U.S. History has shown (CHART 4) that the equity markets can continue to rise as the Fed raises rates.

The normalization of Fed Policy should be a positive, after years of quantitative easing. Meanwhile, corporate bond credit spreads in the U.S. continued to tighten and are now as low as they were pre-financial crisis, indicating increased confidence in the sustainability of the economic recovery.

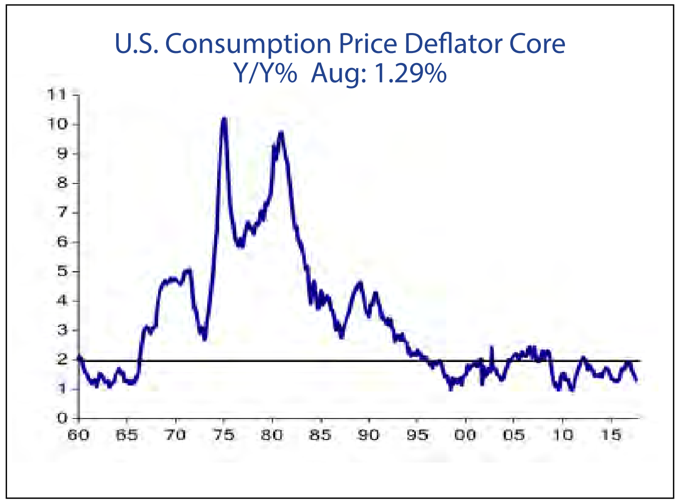

Chart 3

SOURCE: EVERCORE ISI

"WEEKLY ECONOMIC REPORT" — OCTOBER 1, 2017

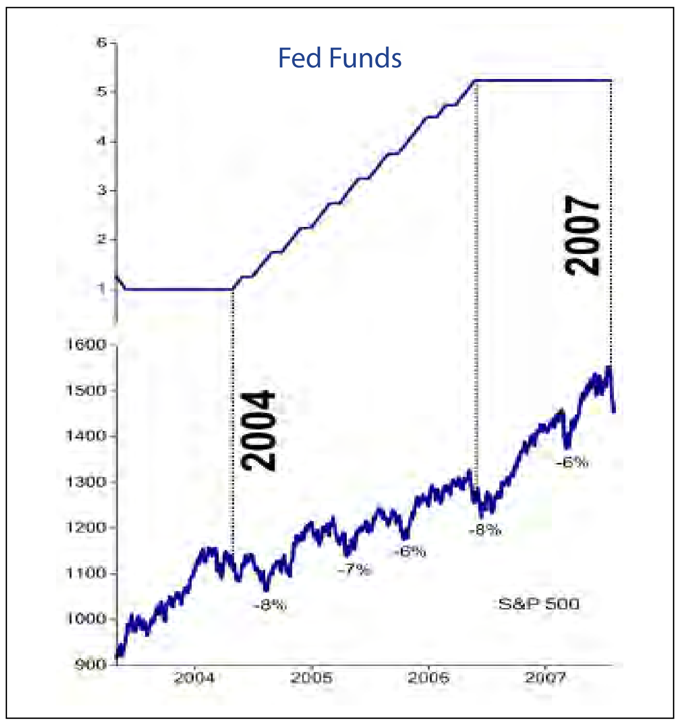

Chart 4

SOURCE: EVERCORE ISI

"WEEKLY ECONOMIC REPORT" — SEPTEMBER 25, 2017

Past performance does not guarantee future results.

The Economy

The outlook for the U.S. economy remains positive. Third quarter real GDP likely rose about 2.5%, in concert with broadening growth in the world's major economies. We expect more of the same going into 2018 supported by many favorable elements. The U.S. consumer has seen his net worth improve by 8% over the last year, as home and stock prices have risen (CHART 5).

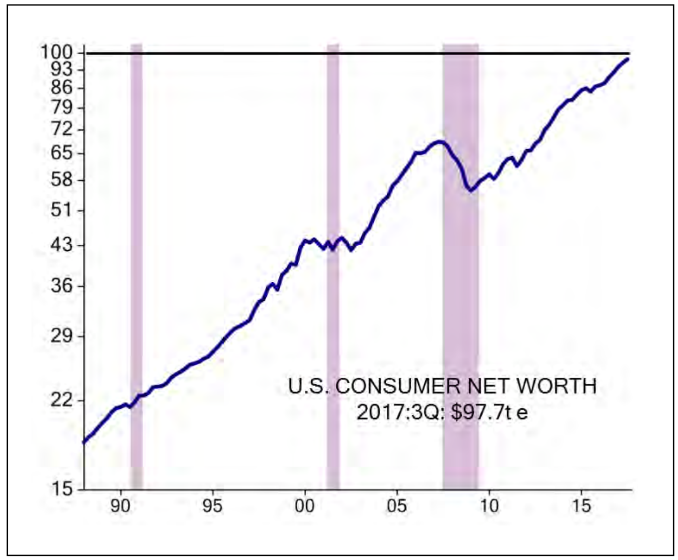

Chart 5

SOURCE: EVERCORE ISI
"WEEKLY ECONOMIC REPORT" — SEPTEMBER 25, 2017

This in turn has bolstered consumer confidence and spending. U.S. oil production is again growing, as drilling efficiencies and lower costs allow producers to profit from $50 oil. The Trump Administration is rapidly lifting the heavy hand of regulation, especially for the financial and energy industries. Corporate profits are rising and the U.S. dollar has declined about 7% versus our trading partners, which should aid U.S. competitiveness at least in the short run. The hurricanes temporarily hurt the economy in August and September, but rebuilding efforts should boost growth in the fourth quarter and beyond. For example, U.S. auto sales were surprisingly strong in September, as storm damaged vehicles were replaced. Some form of pro-growth tax reform/reduction is likely by the first quarter of 2018. One note of caution is the rising levels of debt in both the private and public sectors. While rising debt is not a predictor of recession, if one does occur, the consequences for those over-reliant on debt could be severe. We continue to focus on companies with solid balance sheets in our bond and stock portfolios.

Politics

The list of domestic and global political problems continued to grow in the third quarter. Congress' failure to enact healthcare insurance legislation can only be seen as a major failure after seven years of Republican promises to repeal and replace Obamacare. Focus has now shifted to tax reform. In order to pass tax legislation without Democratic support, Congress must first pass a budget allowing reconciliation instructions to pass tax legislation with just 51 Senate votes. If reconciliation doesn't happen, the probability of tax legislation passing before mid-term elections is near zero. We are optimistic, but time is of the essence. With President Trump's approval rating still below 40%, Republicans are at risk of losing their Congressional majorities come next November.

Geopolitical risks abound. President Trump's speech at the United Nations certainly made headlines. North Korea persists in their quest to become a nuclear power and Trump is apparently taking a path of confrontation versus the containment strategy of his predecessors. Who knows where this will lead. His declaration that the Iranian Nuclear Deal "is an embarrassment to the United States, and I don't think you've heard the last of it…believe me" increases the probability that he will not recertify the deal when it comes up for review in mid-October. The Kurd's vote for independence from Iraq resulted in economic sanctions from both Iraq and Turkey and further turmoil in the Middle East. Saudi Arabia's King recently visited Russia for the first time to discuss oil production. Tougher economic sanctions against Venezuela are also likely. The Administration continues to be hounded by the ongoing investigation of Russian influence during the election, staff resignations, and un-presidential tweets.

That the markets shrug off these developments is a testament to easy money, low inflation, rising profits, reduced regulation and expectation of pro-growth tax reform.