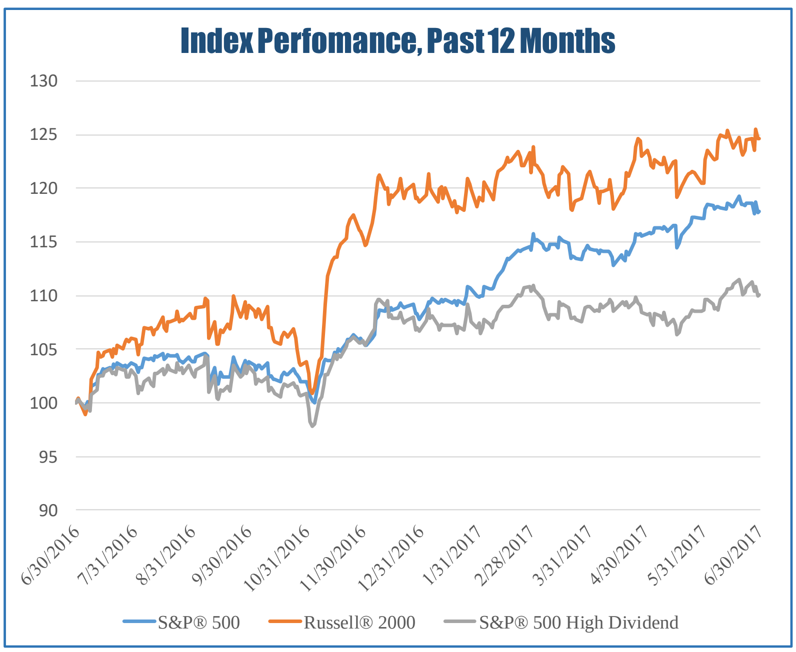
PALOUSE CAPITAL MANAGEMENT, INC.
Quarterly Investment Commentary

Second Quarter 2017

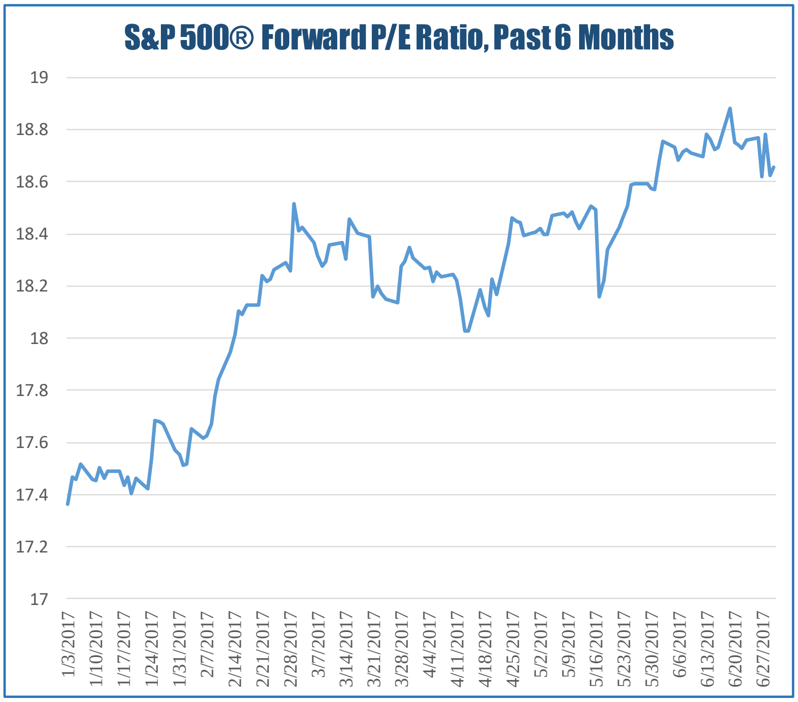
QUARTERLY RECAP				
	Last Quarter	Previous Quarter	YTD	Past Twelve Months
S&P 500®	3.1%	6.1%	9.3%	17.9%
S&P 500® Equal Weighted	2.0%	4.9%	7.0%	15.0%
Russell 2000®	2.5%	2.5%	5.0%	24.6%
S&P 500® High Dividend	1.0%	2.2%	3.2%	10.1%
Consumer Discretionary	2.0%	8.1%	10.2%	15.1%
Consumer Staples	0.9%	5.6%	6.6%	0.3%
Energy	-7.0%	-7.3%	-13.8%	-6.7%
Financials	3.8%	2.1%	6.0%	32.8%
Health Care	6.7%	7.9%	15.1%	10.5%
Industrials	4.2%	4.0%	8.3%	19.6%
Technology	3.8%	12.2%	16.4%	31.9%
Materials	2.6%	5.3%	8.1%	16.1%
Telecom	-8.1%	-5.1%	-12.8%	-15.7%
Utilities	1.4%	5.4%	6.9%	-1.1%
Real Estate	1.8%	2.7%	4.6%	-3.7%
Crude (WTI)	-9.0%	-5.8%	-14.3%	-4.7%
10 Year Treasury Rate	-3.5%	-2.3%	-5.8%	56.7%
30 Year Treasury Rate	-5.8%	-1.8%	-7.5%	24.1%
Dollar Index	-4.7%	-1.8%	-6.4%	-0.5%
Vix	-9.6%	-11.9%	-20.4%	-28.5%

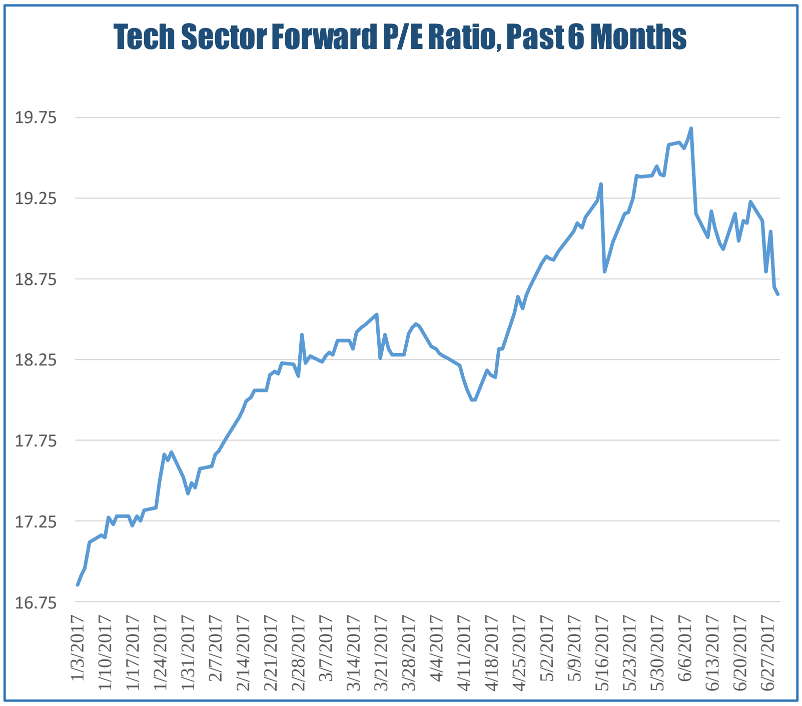


The S&P 500® index ("SPX") rose 3.1% in 2Q17, about half of the previous quarter's gain. The SPX is up about 9% and 18% in the year-to-date and twelve-month time frames, respectively. Small capitalization stocks, as measured by the Russell 2000® index, fared slightly worse than large caps during the quarter - although small caps are still significantly ahead of large caps in the twelve-month time frame. Small cap stocks benefited more strongly from the "Trump rally" than large caps due to their income tax exposure and the higher proportion of bank stocks in small cap indexes (the financials sector is the best performing sector in the past twelve months, slightly ahead of technology). High dividend stocks are significantly trailing the overall market in the past twelve months, possibly from the relative weakness of telecoms, utilities and real estate stocks. A rising interest rate environment in general might also be to blame.

The worst large cap sector in 2Q17 was telecommunications, although the energy sector was again not far behind. Energy is now the worst sector in the year-to-date time frame, down almost 14%. West Texas Intermediate crude is now at $46 per barrel, and it is down an equal amount as the energy sector year-to-date. The best large cap sector in 2Q17 was healthcare, which was up almost 7% on the quarter. Healthcare was stronger near the end of the quarter as details on a prospective replacement for Obamacare became slightly clearer.

Source: Bloomberg. Past performance is not indicative of future results.





The forward price to earnings ("P/E') ratio for the big market has risen considerably since the beginning of the year, continuing on a trend that started back in 2011. The last time the market's forward P/E ratio rose through this current level was back in 1997 as the dot com bubble was gaining momentum. As we have highlighted recently, that gives us a reason to be skeptical of current equity valuations. We do note, however, that multiples are probably "propped up" by the prospect of tax reform and the fact that interest rates are still very low in the historical context. We also point out that technology sector forward P/E multiples had risen especially fast this year, although the recent pullback in that sector has pushed them back down to the sub 19x level. Tech sector forward P/E multiples started the year lower than the broad market, but overtook the big market's multiples a few months into this year.

Recently, some of the central banks outside of the US have indicated that they might be close to raising interest rates and/or reducing their bond buying programs. Among major economies, the US Fed has been alone its gradual path of raising rates. The financial markets have been supported over the last eight years by easy monetary policies, so a potential change in course could be a significant event worth monitoring. This potential change is another reason (in addition to valuations) that make us somewhat cautious on the overall stock market.

Despite the noise in Washington, DC the equity market still appears to assume that the tax and stimulus policies of the Trump Administration will be enacted this year. The next couple months could decide whether there will be enough time to get these policies enacted, so continued delays could weigh on stock prices. The stock market also appears to show little concern over geopolitical and economic risks outside the US as well, which is another reason for some caution.

Conference Call and Podcast

Our clients are invited to our weekly podcast and conference call. In each of these programs, Ken Roberts and Bryn Harman discuss market developments and trends that we observe in our week to week research efforts. Please contact Bryn Harman at bharman@palousecap.com for more information.

Important Disclosures:

Past performance is not a guarantee of future results and there is no assurance that any predicted results will actually occur; actual events and results may differ materially from those discussed herein. The opinions expressed are those of Palouse Capital Management, Inc. (PCM), and are based upon information available at the time of the printing of this report, and subject to change. Furthermore, these opinions are not the opinions of your custodian or broker. The information provided in this report should not be considered a recommendation to invest in a particular security, strategy or purchase or sell securities in a particular industry or sector. There is no assurance that securities or securities within the sectors mentioned in this report will be in a client's portfolio. Holdings are subject to change. This information is not intended to be used as the primary basis of investment decisions nor should it be construed as advice designed to meet the particular investment needs of any specific investor. Approved for investment professional and client use. Small-cap investing typically carries more risk than investing in well-established large cap companies since smaller companies generally have limited product lines and financial resources and a higher risk of failure. Historically, smaller companies' stocks have experienced a greater degree of market volatility than the average stock. PCM's Small/Mid Value Strategy may not be suitable for everyone. The income generated by the securities held in PCM's Large-Cap Value Total Return and Diversified Income strategies may decline. Generally, the prices of fixed income securities decline as interest rates rise. The Diversified Income Strategy may include investments in lower quality, higher yielding fixed income securities which may be subject to great price fluctuation than higher quality fixed income securities. Index returns and other historical data were gathered from resources believed to be reliable; PCM does not guarantee their accuracy. The performance of the indices may be materially different from the individual performance attained for a specific client. The S&P 500 is a capitalization-weighted Index of the prices of common stock of the 500 leading companies representing the leading industries of the US economy, which are actively traded in the United States on the New York Stock Exchange or the NASDAQ. The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the US equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values. The source for all market data is Bloomberg, S&P Dow Jones Indices, and Russell Investments. Information regarding the services provided by PCM is available in Form ADV Part 2, which is available upon request or on PCM's website at www.palousecap.com.

If readers have any questions about anything mentioned in this report please feel free to contact us any time at 800-624-3833. Readers can also refer to our website, www.palousecap.com, for more information and can email PCM's Chief Investment Officer directly at bharman@palousecap.com with any questions. Readers should not assume that any investments in the securities mentioned in this program were or will be profitable or will continue to be held in the future. Pursuant to Rule 206(4)-1(a)(2)(A) we will provide a list of all trades made on behalf of clients in the past year upon request.

All data used to create this report was provided by Bloomberg.

"Market cap" means market capitalization.

"LCV" refers to PCM's Large Cap Value Strategy.

"TR" means our Large Cap Total Return Strategy.

"SMID" means Small to Mid Capitalization and also refers to our Small/Mid Cap Value Strategy in certain contexts.

"ACT" means our All Cap Tilt Strategy.

“SPX” and “the big market” refer to the universe of stocks in the Standard & Poors® 500 Index (“S&P® 500”). The Standard and Poor's 500 Index is a free-float capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic equity market. The S&P 500 equal weighted index is the equal weighted version of the SPX. The S&P High Dividend Yield Index measures the performance of 80 high dividend yield equities within the SPX.

The Russell 3000® Index is a float-adjusted, market capitalization weighted index comprised of equities of the 3000 largest domestic companies. The Russell 2500® index is a subset of the Russell 3000 index comprised of the 2500 smallest cap equities in the Russell 3000 and represents the SMID segment of the domestic equity market. The Russell® 2000 Index is a subset of the Russell 3000 index comprised of the 2000 smallest cap equities in the Russell 3000 index and represents the small cap segment of the domestic equity market.