VAN LEEUWEN & COMPANY, LLC

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QUARTERLY NEWSLETTER

The 4th quarter of 2016 concluded with Donald J. Trump elected as 45th President of the United States. He is expected to concentrate on the U.S. and global economies with an "America First" attitude focusing on trade initiatives, immigration enforcement and choosing his advisors. Time will tell whether or not Mr. Trump's strategic plans will be beneficial for the country. Until then, Van Leeuwen & Company remains steadfast in our objective to take advantage of opportunities presented in the market.

KEY POINTS

- ✓ DONALD J. TRUMP ELECTED 45TH PRESIDENT OF THE UNITED STATES
- ✓ STOCKS RALLIED IN THE 4TH QUARTER WHILE AN IMPROVING GLOBAL ECONOMY SET THE TONE FOR 2017
- ✓ OIL PRICES STABILIZED AND OPEC MEMBERS AGREED ON PRODUCTION LIMITS
- ✓ FEDERAL RESERVE'S INTEREST RATE HIKE

FACTORS INFLUENCING GLOBAL MARKETS

Stocks rallied in the 4th quarter while an improving global economy set the tone for 2017. To quote Shakespeare, "All's well that ends well." The majority of market gains during 2016 came in the 4th quarter. This quarter was boosted by the unexpected victory of Donald J. Trump and the possibility of tax cuts, lessening regulations, and rising infrastructure spending growing out of that surprise win.

The Barclays U.S. Aggregate Bond Index declined during the 4th quarter, but remained positive for the year. There was some turbulence caused by the unexpected election results and the Federal Reserve's decision to raise rates in December. Going forward it is expected that there will be 3 to 4 rate hikes in 2017 further putting pressure on bond prices.

Oil prices stabilized and OPEC agreed on production limits. For the first time in eight years OPEC agreed not to produce as many barrels of oil. The cut in production was a result of an oversupply of oil and the falling prices of crude. This was an attempt to stabilize the price of oil at levels that still allow oil companies to make a profit.

In a highly anticipated event, the Federal Reserve increased the U.S. interest rate for the 2nd time in 10 years. This increase will cause a ripple effect on the cost of borrowing for consumers and businesses who wish to access credit. The cost of borrowing for auto loans and mortgages will increase based on higher interest rates, and businesses will face higher costs tied to expanding their operations and funding payrolls. This increase should benefit banks and other institutions who generate more revenue when rates are higher.

European stocks underperformed the S&P 500. There is some good news for Europe who posted stronger than expected GDP and had falling unemployment rates, despite political unrest. Confident British households preparing for the holiday shopping season contributed to the stronger than expected GDP growth. Unemployment rates were the lowest since 2007 as a result of solid job creation in the 4th quarter. There is still uncertainty in European markets due to upcoming elections in France and Germany and the impending trade discussions.

Looking Ahead

The U.S. economy ended 2016 in relatively good shape. There was robust job gains and solid growth in consumer spending. Investors were optimistic that the combination of a rollback in regulations, increased infrastructure spending, and lower tax rates would lead to stronger economic growth. Looking forward to 2017, we see some key areas of focus.

Inflation

Inflation is an important factor in making investment decisions. Currently, the inflation rate in the U.S. is still below long-term average. The Federal Reserve has indicated a target inflation rate of 2% by the end of 2017. Tax cuts and government spending are two of the largest catalysts that the current administration can control to achieve the target inflation rate.

Interest Rate

The general consensus is that the Federal Reserve will raise rates 3 to 4 times in 2017. We see that the rates will rise gradually over time in a thoughtful and controlled manner. Going forward this will put more pressure on bond prices and other income oriented investments.

Global Considerations

Conditions across the world remain uncertain. There are a number of issues that could escalate and spill over into U.S. markets. Political and economic concerns remain in the United Kingdom, continental Europe, Japan, China and various other parts of the globe. As we have experienced over the last year, political fears can significantly impact the market in the short term. Russia and the Middle East remain wild cards, and any escalation in tensions could spook investors.