VAN LEEUWEN & COMPANY, LLC
VOLUME 4, ISSUE 1, MARCH 31, 2018

The return of volatility was the big story for this quarter as the index suffered its first 10% correction since January 2016. Stocks fell slightly, losing 0.8% on a total return basis and ending a streak of nine quarterly wins for the S&P 500 Index. Weakness was driven by several components that led to the return of market volatility: worries of inflation, rising interest rates, and uncertainty in Washington. These issues were enough to give investors pause beginning in February, but opportunities may be present for those investors who are able to weather short-term volatility.

MARKET UPDATE

Listed below are the quarterly total returns for the S&P 500 Index, NASDAQ Composite Index, and the Barclays U.S. Aggregate Bond Index, period ending March 31, 2018.

Market	1st Qtr. Total Return
S&P 500 Index	-0.76%
NASDAQ Composite Index	2.59%
Barclays U.S. Aggregate Bond Index	-1.46%
MSCI EAFE Index	-1.53%
MSCI Emerging Market Index	1.42%

INTEREST RATES – The Federal Reserve (The Fed) wants to stay ahead of any inflation that rising wages and an overheating economy may generate. As anticipated, on March 21st The Fed raised interest rates by one quarter of a percent and it is expected to raise rates again in June and December this year. These scenarios would put the federal funds rate at 2.25% heading into 2019. Any deviation of these interest rate expectations may potentially contribute to market volatility.

INFLATION – Building off of 2017, inflation continued to climb throughout the first quarter. Many economists expect housing prices to increase 3.1%, medical care to go up 2.5%, food prices expected to increase 1.4%, and other services to go up 3.3%. It is anticipated that higher inflation is here to stay.

EMPLOYMENT - U.S. employers hired at record speed in February and unemployment was at a 17-year low of 4.1%. Consumer sentiment remains strong, its highest level since 2004, and the solid labor market and growth expectations are trying to offset concerns about tariffs and stock market volatility.

HOUSING - Sales of existing homes rebounded in February, and pending home contracts rose 3.1%, an indicator of strong housing growth. Research suggests, a strong job market and rising wages contributed to an increase in housing demand for millennials.

OIL - Oil prices rose during the first quarter to $64, up $13.46 per barrel over last year this time, $50.54. West Texas Intermediate Crude (WTI), the producer of OPEC, and other suppliers look to continue to withhold output for the remainder of the year and potentially into 2019[1].

[1] Reuters, *'Oil prices rise as OPEC seen continuing supply cuts through 2018'*, March 28, 2018; https://uk.reuters.com/article/global-oil/oil-prices-rise-as-opec-seen-continuing-supply-cuts-through-2018-idUKL3N1RB1NL

Washington Update

Like the stock market, the Administration remains volatile with a revolving door of key advisors. The departure of Gary Cohn (Director of National Economic Council), Rex Tillerson (U.S. Secretary of State), H.R. McMaster (National Security Adviser), and David Shulkin (Secretary of Veterans Affairs) are among the most notable. These changes brought continued volatility to the markets as the key advisors were seen as shrewd businessmen able to keep Trump on point.

In a move to make the U.S. more competitive in the global market place, the President proposed tariffs on steel and aluminum. This has created tensions with our largest trading partner, creating a back and forth of new tariffs, with no end in sight. Although this may be just an attempt at political posturing to force global leaders to renegotiate prior agreements, the effects on the market are tough to ignore.

During the first quarter the House passed an infrastructure spending package of $1.5 trillion in new investments over the next 10 years. The goal is to shorten approval time for projects to less than 2 years, address unmet rural infrastructure needs, empower state and local authorities, and educate the American workforce for the future. The proposal released by the White House, which has been supported by the House of Representatives faces an uncertain future with the Senate.

While the world was eagerly anticipating a meeting between President Trump and Kim Jong Un, the North Korean leader secretly traveled to Beijing to meet with Chinese President Xi Jinping. This meeting was an attempt to strengthen their relationship and to discuss potential conversations with the United States. If Kim Jong Un agrees to meet with the White House, and if he is committed to denuclearization, as he claims, the geopolitical map may be changed for the better.

Factors Influencing markets

Jerome H. Powell took the reins as the new Federal Reserve Chair succeeding Janet Yellen with a list of challenges. These challenges were compounded by periods of market volatility with the S&P 500 down more than 4% on his first day. Powell's outlook for the economy is positive, which has strengthened since December, adding that he has little concern about a recession at this time. "The next couple of years look quite strong." Powell said, commenting on the economic outlook and the risk of recession. His comments suggest he still thinks the Fed should increase interest rates three times in 2018, although his optimism may open the door to the possibility of more rate increases in 2019.

Tax reform is still contributing to earnings growth. As the earnings reports came in throughout the quarter, there was a clear theme. Repatriation and a lower rate is expected to jump start earnings per share (EPS) growth, but the unknown is by how much? Some S&P 500 companies are estimating a high single digit EPS growth just from tax reform. Additionally, some companies expect these effects to trickle into 2019.

Many U.S. companies have announced their plans for spending additional cash created as a result of tax reform. For example, Exxon Mobil plans to invest $50 billion in the U.S. over the next five years. The oil giant says this investment will create "thousands" of new jobs, in addition, Pfizer also announced plans for a five-year $5 billion investment, which will include the expansion of U.S. manufacturing efforts. Disney announced plans to give more than 125,000 employees a cash bonus of $1000, and they have invested $50mm in an education program to cover tuition for hourly employees. If these companies follow through with their announcements, it could infuse new money into the economy and help foster growth.

Technology privacy and regulatory concerns. The most recent data breech announcement from Facebook is an overall systemic problem concerning technology. This debate will continue and will affect companies who collect "big data".

LOOKING AHEAD

One of the largest contributors to short-term volatility is the newly announced tariffs. Until a resolution is reached, short-term volatility potentially remains. In February, the U.S. added 313,000 more jobs, which kept unemployment at 4.1%[2]. This strong jobs report adds a clear message that the economy is moving in the right direction. Contributing to the better than average report was warmer weather, increased construction, and higher retail sales.

In addition, wages are continuing to rise and consumers are seeing more money in their paychecks. These economic indicators support growth in the market and are further supported by Warren Buffet's comments in his annual Berkshire Hathaway Shareholder Letter, "In America, equity investors have the wind at their back."

Even with the recent volatility, Van Leeuwen & Company continues to see the underlying fundamentals in the economy as strong, and we still see room for growth in the U.S. stock market. In addition, we are focused on inflation, rising interest rates and other political uncertainties while maintaining a positive outlook for market gains in 2018.

[2] Patricia Cohen, '*U.S. Added 313,000 Jobs in February. Here's What That Means',* New York Times (New York), March 9, 2018

HAPPENINGS AT VAN LEEUWEN & COMPANY

Goldman Sachs Asset Management invited Van Leeuwen & Company to the New York Stock Exchange in mid-January. There, we participated in a discussion on current economic, environment, and potential implications to the equity and fixed income markets. Speakers included Candice Tse, Vice President, Rajiv Jain, Chief Investment Officer, Kathryn Koch, Managing Director, Fundamental Equity Product Management and Steve Sachs, Managing Director, ETFs. In addition, we had the distinct pleasure being on the floor during the New York Stock Exchange's closing bell ceremonies.

Samantha Azzarello, Vice President and Global Market Strategist with J.P. Morgan Asset Management Global Market Insights Strategy Team visited Van Leeuwen & Company in late January to share their perspective on the market and economic insight. As a frequent guest on CNBC she was also profiled in the February Kiplinger's Annual Forecast Issue.

LPL PAC Advisory Board speaking engagements. As LPL PAC Advisor Board Chair, Kenwas invited to speak at several LPL Conferences to apprise LPL Advisors regarding the Department of Labor's impact on the on the financial services industry and regulations affecting clients.

2018 Van Leeuwen & Company Summer Internship Program. We are pleased to announce this summer's internship class will be students representing the University of Arizona, Clemson University, and University of Notre Dame. The interns will be with us from May through the early part of August. We hope that you will have the opportunity to meet them.

Artisan Partners invited Van Leeuwen & Company to discuss the changing dynamics of emerging markets and its outlook for 2018. The discussion was led by Ed Su, Associate Portfolio Manager of Artisan's Developing World Team.

Joshua Feuerhman, Managing Director and Senior Client Portfolio Manager with J.P. Morgan Investment Management Team visited Van Leeuwen & Company in mid-February to share their perspective on global economic growth, employment, and a strong housing market.

Van Leeuwen & Company recently subscribed to FactSet. FactSet is a leading research platform which creates flexible, open data and software solutions providing access to financial data and analytics that Van Leeuwen & Company is able to use in order to make crucial investment decisions on behalf of our clients.

Welcome Keval Virag Shah! On March 23rd, Virag and his wife Shaili welcomed their new baby boy weighing in at 8lbs. and 20" long. Mother and baby are doing just fine!

Let Us Know What You Think

As part of our ongoing communication, we invite you to share your comments regarding the quarterly newsletter by visiting info@vanleeuwenco.co.