

Economic growth in the second quarter has pushed markets higher, but not without the volatile market swings which we have been experiencing since February. The volatility first started with wage inflation fears, and now has shifted to trade concerns and regulatory risk in technology. The war of words between the U.S. and China regarding trade has escalated, with the hopes of a compromise before proposed tariffs are put in place. Van Leeuwen & Company is staying focused on economic fundamentals, such as positive economic growth, strong earnings outlooks, and historically low interest rates, which could fuel growth for the remainder of the year.

MARKET UPDATE

Listed below are the quarterly total returns for the S&P 500 Index, NASDAQ Composite Index, the Russell 2000 Index, the Barclays U.S. Aggregate Bond Index, the MSCI EAFE Index, and the MSCI Emerging Market Index for period ending June 30, 2018.

Market	1st Qtr. Total Return	2nd Qtr. Total Return	YTD Total Return
S&P 500 Index	-0.76%	3.43%	2.65%
NASDAQ Composite Index	2.59%	6.61%	9.37%
Russell 2000 Index	-0.08%	7.75%	7.66%
Barclays U.S. Aggregate Bond Index	-1.46%	-0.16%	-1.62%
MSCI EAFE Index	-1.53%	-1.24%	-2.75%
MSCI Emerging Market Index	1.42%	-7.96%	-6.66%

INTEREST RATES – The Federal Reserve (Fed) raised interest rates by a quarter of a percent in June and are leaning toward two more rate hikes by year-end. Household spending is up and growth is favorable, signaling that the economy is doing well and on pace with the Fed's expectations and has set the stage for continued rate hikes, which would put further downward pressure on the bond market.

INFLATION – U.S. inflation rates hit a six-year high and the Fed predicts inflation will run slightly above its target rate of 2% through 2020, but still well below the long-term average of 3.76% since WWII. The path of inflation will figure into the Fed's thinking on the rate of increases for the second half of 2018 and into 2019.

EMPLOYMENT – We continue to see the labor market tightening, leaving employers with limited qualified candidates to hire. The increase of 223,000 jobs in May is a sign of a growing economy, though some analysts feel that these jobs are for part-time or limited hour industries, skewing the numbers and making the data appear better. Overall, this is still a positive sign for the economy.

HOUSING – Research suggests a strong job market and rising wages have contributed to an increase in housing demand. Pending home contracts, an indicator of strong housing growth, rose 3.1% in the second quarter. This is a positive sign for the economy, but there is still a concern with the impact of the new tax law changes on the housing market.

OIL – In June, OPEC met in Vienna and agreed to increase production by 1 million barrels per day, which should help stabilize oil prices. We have seen a steady rise in oil since the beginning of the year, and the effects of rising fuel costs are starting to be reflected in some earnings. Carnival Corporation cited during their earnings call, that higher fuel costs will be a headwind for them going forward.

CONSUMER SPENDING – Consumer spending, which accounts for 69.2% of the U.S. GDP, is picking up after a slow start in 2018. Sales of all goods, excluding fuel and autos, is expected to advance 4.8% in 2018, the best gain in seven years. E-commerce, in particular, is also doing well and is expected to grow 15%. These are positive signs for a strong consumer and resilient economy.

WASHINGTON UPDATE

President Trump and North Korean leader Kim Jong Un made history on June 12th, by signing an agreement at the conclusion of the historic Singapore Summit. The leaders agreed to:

- 1) establish new relations for peace and prosperity,
- 2) build a lasting and stable peace regime on the Korean Peninsula,
- 3) reaffirm an April 2018 commitment toward denuclearization of the Korean Peninsula, and
- 4) commit to recovering POW/MIA remains.

Congress improved some Medicare benefits as part of the recent budget bill. The cost of some expensive cancer, arthritis, and other drugs were shifted from Medicare Part B to Part D. This is a big concern for those who do not have a supplemental plan because these medicines would not be covered under traditional Medicare.

Due to the new tax law changes, some states have begun combating the federal rules with their own state workarounds. For example, New Jersey is starting a program where you can re-purpose your state and local tax dollars (SALT) to be used for special municipal programs or charity. Although, this would be a reprieve for some taxpayers, the IRS has already issued a letter fighting these new workarounds. At this time, it does not appear that these workarounds will be acceptable to the IRS anytime soon.

FACTORS INFLUENCING MARKETS

Tariffs moving forward for Canada, China, European Union, and Mexico. Tariffs on imported steel and aluminum that were granted a reprieve in March, are now moving forward. The largest tariffs have been aimed at China, with the first wave intended to begin July 6th. A 25% tariff will be applied to \$34 billion worth of goods and the second wave, with no implementation date, will be applied to \$16 billion worth of goods. U.S. trade partners are responding in-kind with their own tariffs which could affect business in the U.S. This tit-for-tat mentality is a lose-lose for everyone and will continue to add volatility in the global markets until a resolution is reached.

A federal judge approved the AT&T and Time Warner merger. This was a setback for the Department of Justice (DOJ), which tried to block the deal. Both companies claimed that combining their assets was necessary in the current media environment. This ruling is paving the way for other potential mergers within many industries, most notable 21st Century Fox, Comcast and Disney, and T-Mobile and Sprint, among many others. The expectation is that more mergers and acquisitions will start proceeding based on this ruling, which could provide future opportunities.

We remain generally positive about the U.S. stock market through the end of the year. The volatility that was expected at the beginning of the year still remains a constant in the market. Tariffs will be one of the largest drivers of market performance for the foreseeable future, and until some of the trade disputes get resolved, the volatility could continue.

Issues with North Korea have seemed to subside since the meeting between President Trump and Kim Jong Un. Although there was no tangible evidence of anything changing in the Korean Peninsula, this meeting was the first step in strengthening relations with North Korea. Any additional news, good or bad, on the North Korean front could have an impact on markets going forward.

The Fed's potential fourth rate hike in 2018, which is expected in December – if at all, could put additional pressure on the bond market. We have seen bonds struggle throughout 2018, and we expect this to continue through the end of the year.

Digital privacy fears will continue to rise and will be an ongoing concern for government regulators, companies, and consumers alike. Anticipation that government regulations will come forward, which could impact companies who collect and sell the public's information. This could potentially cause greater volatility in the markets, especially in technology.

The U.S. stock market has been generally directionless in the second quarter. Low share volume on the exchanges signals that there is little conviction, up or down, from investors. This will be something to watch going into the remainder of the year. Our expectation is that volume will pick up, and a trend will begin to develop. This could reduce some of the big swings we have been seeing in the market.

Van Leeuwen & Company continues to see the underlying fundamentals in the economy as strong and believe there is room for growth in the U.S. stock market. We are focused on the strong economic fundamentals, as well as other political uncertainties while maintaining a positive outlook for market gains in 2018.

***** IMPORTANT REMINDER - IRS WARNING ABOUT PHONE SCAMS *****

The IRS reminds taxpayers to be mindful of potential tax-related criminal activities, as fraudsters continue to devise new and creative tax scams designed to outmaneuver a more conscientious public. The latest phone scam are from criminals claiming to be calling from a local IRS Taxpayer Assistance Center (TAC). The IRS *NEVER* asks for money over the phone, the IRS *NEVER* asks you for your debit or credit card number, and the IRS *NEVER* dictates a specific method of payment. The IRS *NEVER* makes threats to bring in local police, immigration officers or other law enforcement agencies to arrest you. To further understand about this phone scam and how to protect yourself, please visit <https://www.irs.gov/newsroom/irs-security-summit-partners-warn-of-new-twist-on-phone-scams-crooks-direct-taxpayers-to-irsgov-to-verify-calls>.

Congressman Josh Gottheimer Meeting - In April, Ken, Jason, and Meg met with Congressman Josh Gottheimer, (D-NJ). The Congressman has been instrumental in moving forward legislation for New Jersey residents focusing on taxes and re-installing the SALT¹ deduction. In addition, Ken was asked to share his perspective about the Department of Labor's (DOL) fiduciary rule and the impact surrounding new tax reform to you, the financial services industry, and employees of small business.

¹ *This deduction provides the ability to deduct state and local taxes (SALT), taxpayers avoid being taxed twice on the same income. Additionally, the deduction on property taxes, along with deduction on mortgage interest, provides a strong incentive for homeownership. The sales tax deduction provides similar incentives for encouraging spending — which facilitates economic growth.*

Auburn University - Women's Philanthropic Board Spring Symposium - In April, Ken and Jason were invited to Auburn University's Annual Women's Philanthropic Board Spring Symposium. The symposium is designed to inspire, empower, and educate women. Van Leeuwen & Company met with educators of the University to assist in establishing a new curriculum focused on women and the financial services industry. Keynote speakers for the event included Ms. Jane Goodall and Ms. Brie Williams.

BLOCs Annual Scholarship Dinner - The Business Leadership Organized by Catholic Schools (BLOCs) Annual Scholarship Dinner, held in Philadelphia, was attended by Jason and Meg. The organization is supported by individuals, companies, and foundations, whose mission is to bridge businesses and Catholic schools providing financial assistance to families, bolster school infrastructures, and expand educational opportunities. Van Leeuwen & Company is proud to have introduced this organization to clients as individual contributors, offering them certain tax credits.

Mr. Van Leeuwen Goes to Washington – In May, Ken visited the nation's capital and met members of Congress from Arizona, California, Indiana, Maine, New Jersey, South Carolina, Washington, and Speaker of the House. Topics discussed were the Senior Investor Protection Act, the Single Standard of Conduct Act, and the Small Business Retirement Plans Act. The Senior Investor Protection Act objective is to implement and pass guidelines to enhance the protection for our senior investors and provide advisors with tools that will help protect investors. These tools may be temporary holds on suspicious transactions allowing time for investigation, permission to contact trusted friends/family when concerns arise, and support for reporting suspicious abuse or exploitation, and immunity for such actions. The Single Standard of Conduct Act objective is create a single standard of conduct for financial advice, clearing the path for a best interest standard. The Small Business Retirement Plans Act objective is to ensure employees they have access to objective assistance from trusted advisors working toward achieving their retirement goals, and making it easier for small business owners to establish workplace retirement savings plans and to increase retirement plan start up tax credits.

Blackstone Event - In May, Jason attended *Blackstone University*, where Mr. Byron Wien was the Keynote Speaker. Mr. Wien, Vice Chairman of Private Wealth Solutions Group, where he acts as senior adviser to both the Firm and its clients in analyzing economic, social and political trends to assess the direction of financial markets and help guide investment and strategic decisions, shared his views on alternative investments. Mr. Wien's previous professional experiences also includes Chief Investment Strategist for Pequot Capital and Chief (later Senior) U.S. Investment Strategist for Morgan Stanley.

LPL Financial Board Meeting – In May, Ken was one of the first LPL Financial Advisor to address the LPL Financial Board during their annual meeting. Ken shared his perspective and involvement as Chair of the LPL PAC Advisory Board. The PAC Advisory Board regularly engages with Congress on legislative issues affecting clients and the financial services industry as a whole, hoping to facilitate change as necessary for the benefit of clients and small businesses.

2018 Van Leeuwen & Company Summer Internship Program - In June, we welcomed Anthony DiCarlo from the University of Notre Dame, Jason Mays from the University of Arizona, and returning intern, Allaire Myer from Clemson University. In addition to learning about financial services, the interns will take part in several Due Diligence meetings with some of our partners, MacKay Municipal Managers, Alkeon Capital Management, and J.P. Morgan Asset Management.

Stock Option Planning Conference – Jason attended a one-day conference in Boston which focused on advanced planning strategies when working with corporate executives. Topics included stock options, restricted stocks, and corporate compensation trends. In addition, the conference identified how to protect clients who are overly concentrated in stocks, various tax considerations, and new regulation for employees of publicly traded companies.

Advisory Leaders Forum - By exclusive invitation, Ken attended the LPL Advisor Leaders Forum at the Wharton School, University of Pennsylvania in Philadelphia. This engaging forum provided new insights, innovative tools and resources, and thought leadership focused on this year's theme - comprehensive planning in the 21st Century. Guest speakers included distinguished professors; Dr. Richard Marston, who discussed key decision making for high-net-worth investors, Dr. Olivia Mitchell, who discussed global perspectives on an aging population, Dr. Keith Niedermeier, who discussed speaking about cognitive elements and the psychology surrounding multiple generations, and Dr. Patti Williams, who discussed client-focused experiential branding.

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The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. The Russell 2000 Index is an index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. These are publicly held companies incorporated in America as measured by total market capitalization, and represent approximately 98% of the American public equity market. The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds. The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia.

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