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Winfield Quarterly

April 2017

Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

US equity markets continued their upward trend in the first quarter of 2017. The Dow Jones Industrial Average (DJIA) returned 5.2%, its sixth straight quarter of gains, while the Standard & Poor's 500 (S&P 500) gained 6.1%. The technology-laden NASDAQ climbed 10.1%, its best quarter since 2013, while the small capitalization Russell 2000 Index rose 2.5%. Perhaps one of the most notable trends in first quarter US equity performance was the rotation out of stocks that worked in the last few months of 2016 into those that didn't. The Trump Rally that we discussed in our January *Market Commentary* anticipated a number of near-term policy changes that would benefit the banking, energy, and industrial sectors of the US economy. While these sectors outperformed in November and December of 2016, all three lagged in the first quarter of 2017 as policy implementation stalled in Washington. The S&P 500 Industrials Index, which was supposed to benefit from increased infrastructure spending, rose 4%; financials, which would benefit from scaled-back regulation, advanced just 2.1%; and energy fell 7.3%. Conversely, many of the sectors that underperformed at the end of 2016 led the US equity markets higher during the first quarter, with the most notable sector, technology, gaining 12%. Arguably, the rotation out of what had worked and into what hadn't has discounted a number of excesses from the initial Trump Rally.

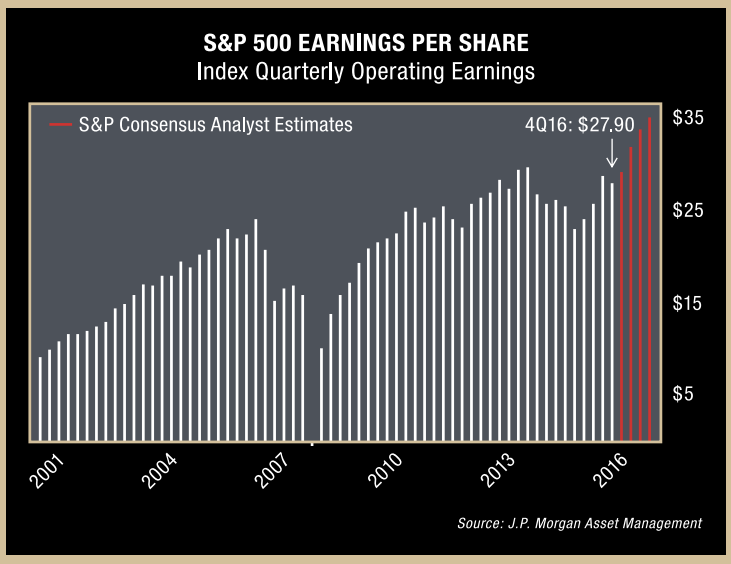
Even without legislative changes, the US economy appears poised to deliver stronger GDP growth in 2017 than 1.6% growth recorded in 2016. According to *The Wall Street Journal's* survey of economists, US GDP average growth estimates are 2.4% in 2017 and 2.5% in 2018. Economic data underscore the relative health of the US economy:

Labor market – the unemployment rate fell to 4.5% at the end of March, and the monthly change in nonfarm payrolls (a good leading economic indicator) rebounded from lower readings in the fourth quarter of 2016. As of the end of February, the three month average of jobs gained rose to 209,000 jobs per month versus 148,000 jobs gained per month as of December.

Household income and wealth – aggregate US household net worth stood at $92.8 trillion at the end of 2016, which is 37% above its pre-crisis peak. Importantly, real wage gains have begun to broaden in the first quarter of 2017 as sustained job growth has led to income gains for US middle class households.

Consumer sentiment – in January, the University of Michigan's Index of Consumer Sentiment hit 98.5, its highest level since 2004. According to the survey's chief economist, Richard Curtin, "The continued strength in consumer sentiment has been due to optimistic views on three critical components: higher incomes and wealth, more favorable job prospects, and low inflation expectations. In an earlier era, growth of 3.0% was below average and a cause for concern, now growth above 2.5% represents an optimistic outlook. Overall, the data indicate that real consumer spending will advance by 2.7% in 2017."

Increased economic activity should result in accelerating corporate profits which are the lifeblood for equity prices. The chart below shows the history of S&P 500 quarterly earnings since 2001 including a 2017 forecast.



The most notable reading on the chart is the fourth quarter of 2008 when S&P 500 operating earnings were *negative*. Since the earnings collapse of the Great Recession, S&P 500 quarterly earnings have climbed rapidly. Lower US GDP growth, falling energy prices, and slowing international activity particularly in China contributed to relatively flat quarterly earnings in the past two years. The consensus forecast for S&P 500 earnings for all of 2017 is $129. This estimate is 8% above the $119 reported in 2016 which would represent some of the fastest earnings growth in recent years.

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International equity markets rose as well in the first quarter of 2017, reversing the negative trend of 2016. After falling 2.4% for all of last year, the MSCI Europe, Australasia, and Far East (EAFE) Index advanced 7.5% during the first quarter. Returns were driven by macroeconomic and fundamental improvements that included stable-to-rising commodity prices, a fragile but sustained global recovery, stronger corporate earnings, and a lack of overtly negative US policy action.

Bonds finished the quarter largely unchanged from the end of 2016 despite the Federal Open Market Committee's (FOMC) decision to raise the federal funds rate for the third time since the end of the Great Recession. In the first three months of 2017, the Barclays Aggregate bond Index returned 0.8% after dropping 3.0% in the fourth quarter of 2016. The benchmark 10-year Treasury bond yield ended the quarter at 2.40% versus 2.45% at the end of December. As we discussed in our January *Market Commentary*, we continue to expect ongoing challenges to fixed income investing as the global economy improves.

In the coming quarters, we expect investors to remain focused on fiscal stimulus as the global economy recovers. Any progress on tax policy, improved trade, or infrastructure spending should add to investor optimism and corporate earnings. On the other hand, we would expect failure at any level of implementation of the proposed changes to stifle the Trump Rally. US equities appear fairly valued as the forward price to earnings ratio for the S&P 500 Index stood at 18.2x at the end of the quarter which is above the 40-year median level of 13.8x. International equity valuations appear more attractive on a relative basis. The MSCI Emerging Markets Index trades at 12.5x earnings, while MSCI Japan (14.1x), MSCI United Kingdom (14.6x), MSCI Europe (15.1x) and MSCI World (16.9x) indices are trading at levels 10% - 50% cheaper than the S&P 500 by comparison. Although international equities may involve additional uncertainties including geopolitical conflict and currency fluctuations, from a relative analysis, the asset class offers potential opportunities at current valuations.

BROKERAGE & FUND FEES

For many years, improvements in technology and increased competition have driven down broker/dealer commissions and fund management fees. In February alone, Charles Schwab & Co. cut trading commissions twice – first from $8.95 to $6.95, then again to $4.95 in order to match Fidelity's new rates. Fund expense ratios have followed a similar trend, with many major mutual fund and ETF providers racing to offer the most competitive pricing. In the long term this should benefit investors, who now have cheaper access to the markets. Please contact us if you are interested in learning more about brokerage & fund fees.

FIRM BROCHURE

In March, Winfield filed an updated Firm Brochure with the United States Securities and Exchange Commission (SEC). This brochure provides information about the qualifications and business practices of our company. Clients of Winfield received a copy of the Firm Brochure at the end of the first quarter. Information about Winfield is also available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 108969.

MARKET PERFORMANCE

	2016	2017 YTD
Dow Jones	16.5%	5.2%
S&P 500	12.0%	6.1%
Nasdaq	8.9%	10.1%
Russell 2000	21.3%	2.5%
MSCI EAFE	-2.4%	7.5%
Barclays Agg	2.6%	0.8%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements

ENDOWMENTS AND FOUNDATIONS

- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS

- Customize investment portfolios to lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to lessen risk of concentrated assets

RETIREES

- Customize investment portfolios with the option of drawing income
- Management of IRAs, trusts and taxable accounts

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