WINFIELD
ASSOCIATES

Winfield Quarterly

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Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

Volatility returned to the equity markets in the first quarter of 2018. Tax reform enthusiasm pushed equity markets to record highs in January, but concerns over inflation and the threat of tariffs raised volatility at the end of the quarter. Both the Dow Jones Industrials Average (DJIA) and S&P 500 declined for the period, returning -2.0 % and -0.8%, respectively, while the NASDAQ Composite, heavily weighted to technology, gained 2.6%. The S&P 500 technology sector rose 3.5% followed by the consumer discretionary sector, led by Amazon (up 23.8%), which gained 3.1%. The financial sector, supported by rising interest rates and prospects of easing bank regulations, continued to rise in January and early February, but finished the quarter down -1.0%. The telecom and consumer staples sectors posted the weakest returns for the quarter, down -7.5% and -7.1%, respectively. Despite strong starts to 2018, overseas equity markets also fizzled in March as the MSCI Europe, Australasia, Far East (EAFE) Index returned -1.7% in the quarter while the MSCI Emerging Market Index cut its early quarter gains to finish up only 1.42%.

The Chicago Board Options Exchange Volatility Index (VIX) captures the expected range of movement over the next year in the S&P 500 index expressed in percentage points. A higher reading demonstrates investor pessimism while a lower reading indicates relative optimism in the month ahead. Over the past five years, the VIX has averaged 14.60. For most of 2017, the VIX traded in a range from 10 to 14, demonstrating unusually low volatility and strong investor optimism. On July 26, 2017, the VIX hit an all-time intraday low of 8.86 as economic data and second quarter 2017 corporate earnings confirmed strong growth. In comparison, the VIX hit an all-time high of 80.86 on November 20, 2008, rightfully predicting extreme financial uncertainty in the weeks ahead. Low volatility prevailed in 2017 as there were only eight days where the S&P 500 was either up or down 1%. In contrast, during the first quarter of 2018, we experienced 23 days of the S&P 500 up or down 1%, resulting in a rapid spike in the VIX to 41.06 on February 9. Volatility has since fallen to a range of 15 to 25 over the past several weeks, but clearly market temperament has swung from complacency to concern.

The most recent bout of volatility stems from the escalation of trade tensions between the US and its global trading partners. We believe the prospects of a full-blown "trade war" are low and that the United States desires negotiated, balanced trade deals, especially with China. Despite elevated volatility, the economic environment and outlook remain stable as consensus forecasts still predict a healthy 3% US GDP growth rate in 2018.

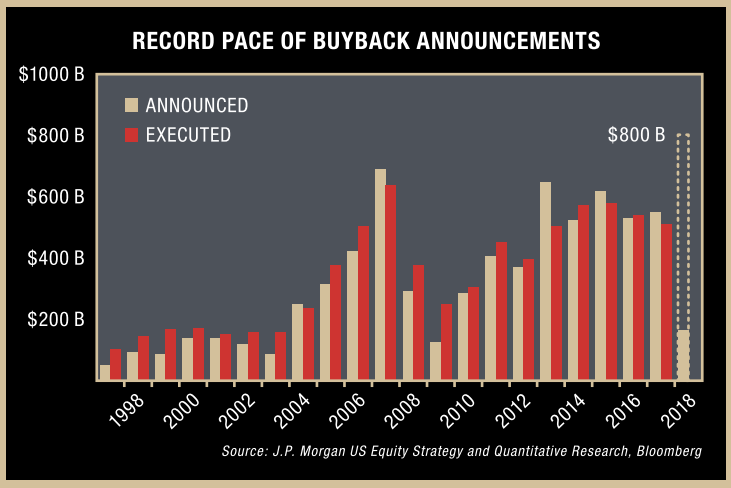
The following data support a vibrant economy:

- ***Labor market –*** Nonfarm payrolls averaged a heathy 202,000 per month in the first quarter. The unemployment rate has held steady at 4.1% for the past six months, and weekly initial jobless claims have remained below 250,000.

- ***Consumer Sentiment –*** The University of Michigan Consumer Sentiment for March reached its highest peak since 2004 with most of the gains coming from the households with income in bottom third. This is evidence of both the benefit of the boost in existing paychecks and optimism around future income growth.

- ***Business Sentiment ISM and Non-ISM –*** The manufacturing and service sectors continue to expand as captured in March ISM (59.3) and non-manufacturing ISM (58.8) readings above 50. Importantly, new orders in both indices were above 59.5 - indicating further economic activity.

Consensus earnings estimates have also steadily risen. First quarter earnings growth is expected to be up 17.3% year over year and all eleven S&P 500 sectors are predicted to report year-over-year earnings growth. According to FactSet, the S&P 500 is now expected to report full year earnings growth of 18.5% and revenue growth of 6.7%. The combination of a strong economy, lower tax rates and share buybacks (discussed below) contribute to this favorable earnings outlook. Looking to 2019, earnings are forecast to be up another 10% - an attractive growth rate considering no incremental benefit from lower taxes (unlike 2018). Based on the quarter end S&P 500 close of 2,641, the market trades at a reasonable 16.7x multiple on consensus earnings of $157.77.



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Share buyback activity is on track for a record year. The previous chart shows share buyback activity from 1997 to 2018. Through March 2, corporations had already made 98 share repurchase announcements in 2018 exceeding $200 billion. According to JP Morgan, buybacks are forecast to hit a record $840 billion for the full year – a 60% increase over $530 billion in 2017. Repatriation of overseas cash, lower taxes, and stronger earnings growth should bolster buyback activity. We expect corporate buyback demand to support equity prices throughout the remainder of the year.

Fixed income assets were weak during the quarter as the January average hourly earnings report was higher than expected. Bond investors also remained cautious as the new Fed Chairman Jerome Powell took over for Janet Yellen. While most pundits expect Powell to continue the policies of the previous Fed chair, he faces unique challenges including the unwinding of the Federal Reserve's $4.5 trillion balance sheet. The 10-year US Treasury began the year at 2.41%, peaked at 2.95% in February, and closed the quarter at 2.74%. The Federal Open Market Committee (FOMC) raised the fed funds rate by an expected 25 basis points at its March meeting and reconfirmed its forecast for two more rate increases in 2018. Importantly, Chairman Powell has indicated a continuation of the central bank's data driven approach implemented under Yellen as opposed to a shift in strategy. The Barclays Aggregate Bond Index declined -1.5% in the quarter against the rising rate environment backdrop. As we discussed in our January *Market Commentary*, our expectations for fixed income are tempered as the Federal Reserve tightens monetary policy.

For the remainder of 2018, we expect corporate earnings growth and share buybacks to support equity valuations in the US. We remain optimistic about the global economy, but we believe policy risk has increased due to growing fiscal deficits, the potential for more hawkish monetary policy, and protectionist tensions. Our focus will remain on positioning portfolios appropriate to clients' investment objectives and risk tolerance as conditions change.

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.

ESTATE PLANNING DOCUMENTS

Organizing important documents should be the first step to comprehensive estate planning. Winfield's web portal offers a secure, cloud-based document storage vault for copies of your most important estate planning documents.

MARKET PERFORMANCE

	1Q 2018	2017
Dow Jones	-2.0%	28.1%
S&P 500	-0.8%	21.8%
Nasdaq	2.6%	29.6%
Russell 2000	-0.1%	14.6%
MSCI EAFE	-1.7%	25.0%
Barclays Agg	-1.5%	3.5%

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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