ECONOMIC HIGHLIGHTS

U.S. Construction Spending was down 0.6% for December 2018, however for the year, spending was up 1.6%. The PMI and ISM Services Indexes were still nicely expansionary for February, at 56 and 59, respectively. U.S. Non-Farm Productivity was up nicely, at a 1.9% annual rate for the fourth quarter 2018, slightly above long-term normalized levels of 1.8%. Unit Labor Costs were up a reasonable 2.0% for the quarter on an annualized basis. Finally, the U.S. Unemployment Rate was 3.8% for February, a bit better than the 4.0% rate for January.

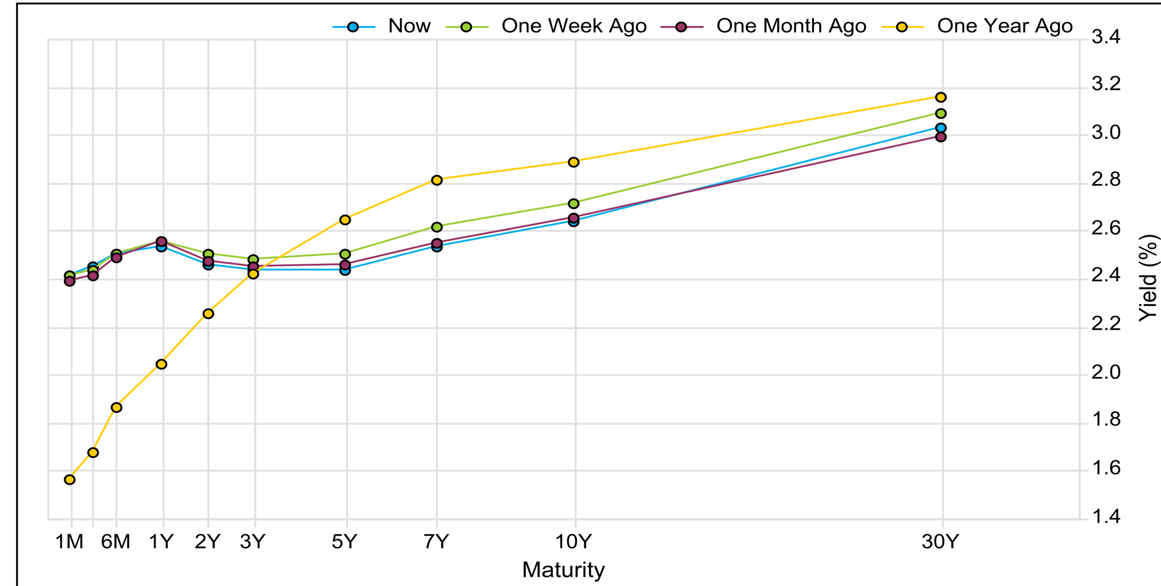
FIXED INCOME

A gauge of U.S. economic health closely watched by the Federal Reserve is flashing warning signs for the second time this year. The near-term forward spread, which reflects the difference between the forward rate implied by Treasury bills six quarters from now and the current three-month yield, fell back below zero during trading last Friday for the first time since early January. While it did end the day slightly back into positive territory, a negative reading indicates market expectations on monetary policy easing during the next year to 18 months. The last time this indicator moved below zero marked the first time that's happened in ten years, and preceded Chairman Jerome Powell's signals that the central bank was in no rush to hike interest rates. Gary Kirk, a partner and portfolio manager at TwentyFour Asset Management LLP in London said "The near-term forward spread is a guide on how the market perceives Fed policy and despite the dot-plots; the market is currently expecting a rate cut in 2020." The Fed has referenced the indicator more frequently in its policy discussions since economists highlighted its power in predicting recessions in July of last year. The central bank's rate-setting committee noted in minutes from its January meeting that the spread "was in the lower end of its historical distribution" during the month. Traders watch yield-curve implied measures closely to provide early warning signs of U.S. economic health. The decline in the near-term forward spread comes after disappointing Chinese trade data released last week and dialed-back growth forecasts from the European Central Bank and the OECD earlier in the week. Whether the Fed sparks fear of a policy error from any further rate increases is "a classic late-cycle conundrum," according to Kirk. The spread between the two-year and ten-year Treasury note, another closely watched indicator known for its power in predicting recessions, remains in positive territory but is trading close to levels last seen in 2007. A paper released by the Federal Reserve last July argued that the near-term forward spread was a more statistically-meaningful indicator when it comes to predictive powers for possible downturns in the economy.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.44%	3 mo	2.32%	3 mo	2.59%	3 mo	1.59%
6 mo	2.51%	6 mo	2.33%	6 mo	2.62%	6 mo	1.61%
1 yr	2.52%	1 yr	2.35%	1 yr	2.66%	1 yr	1.63%
2 yr	2.46%	2 yr	2.51%	2 yr	2.70%	2 yr	1.65%
5 yr	2.43%	5 yr	2.48%	5 yr	2.91%	5 yr	1.78%
10 yr	2.63%	10 yr	3.00%	10 yr	3.38%	10 yr	2.24%
30 yr	3.01%	30 yr		30 yr	4.04%	30 yr	3.22%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-1.39%	9.67%
S&P 500 (Large Cap)	-1.74%	9.84%
S&P 400 (Mid Cap)	-2.84%	12.18%
Russell 2000 (Small Cap)	-3.32%	13.12%
NASDAQ Composite	-2.21%	11.89%
MSCI EAFE (International)	-1.48%	7.89%
iShares Real Estate	-0.27%	12.20%

U.S. Equities ended the week on their worst weekly performance of 2019, although it should be noted the S&P 500 has had only one down week so far this year. Defensive sectors were among the top performer this week while Energy, Consumer Discretionary, and Healthcare are among the laggards. To end the week, the U.S. Dollar showed weakness compared to two other major currencies, the Yen and Euro. Meanwhile, Gold ticked up .9% and WTI Crude oil fell 2.6%.

The U.S. economy was a big focus at the end of the week after the nonfarm payrolls report came in at 20K in February, well below the estimated 180K increase. The unemployment rate fell to 3.8%, which beat the expected 4.0% rate, and average hourly earnings growth came in at .4% m/m and 3.4% y/y.
According to data from FactSet, the recent market weakness can be credited to overbought conditions following the large bounce over the past couple of months. Along with this information, it is believed the Market seems to have already priced in the majority of the U.S. -China trade impact. The Q1 earnings season is looming with the S&P 500 Earnings Per Share expected to contract following five straight quarters of double-digit growth.

Notable Market movers include Big Lots (BIG) +13.6%, WageWorks Inc. (WAGE) +7.2%, Costco Wholesale Corporation (COST) +5.1%, National Beverage Corp. (FIZZ) -14.7%, American Outdoors Brands (AOBC) -12.4%, and Netflix (NFLX) -.85%. The notable gainers hike are mostly due to beating earnings, while there were specifically cited improvements in fresh foods and robust fuel sales for Costco. A few companies such as American Outdoor Brands were negatively impacted by, as analysts noted, “soft retail demand and a lack of fear based buying.” Netflix was downgraded to a neutral from a buy at Buckingham, with other factors such as stock’s sensitivity to a decline in the S&P 500, concerns over new competitive threats, and a recent CMO departure affecting the stock.

Concerns of a global growth slowdown, along with relatively weaker economic data, could potentially influence a Fed pivot. After the notable decline at the end of 2018, the Fed was seen to soften their stance on Fed rate increases, in which they took a much more patient “wait and see” policy. This led to an expected single rate hike in 2019. However, due to concerns of global slowdown and lower than expected economic numbers in the U.S., the Fed could potentially pivot and consider a rate decrease if future sluggishness continues.

U.S. stocks had their worst week since the substantial start of 2019. The S&P 500 index fell throughout the week, which saw its first weekly decline year to date. Eyes will continue to be on the oncoming economic data amongst concerns of a global slowdown, as well as, how the Federal Reserve will react to such data. The S&P 500 closed at 2743.

ASSET ALLOCATION

CURRENT SENTIMENT	
Cash	Neutral
Short Fixed Income	Neutral
Intermediate Fixed Income	Neutral
Inflation-Adjusted Fixed Income	Unfavorable
High Yield Fixed Income	Neutral
International Fixed Income	Unfavorable
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Neutral
Real Estate	Neutral
Commodities	Unfavorable

Below is a summary of our current stance on most asset classes:

Cash - Neutral weighting now that Fed Funds rate is above 2%. Any exposure is for defensive positioning or liquidity needs.
Short Term Bonds - Relative to Intermediate Bonds, the reduced duration is preferable given the outlook for higher interest rates.
Intermediate Term Bonds - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain present in floating rate securities.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened considerably and do not warrant exposure to unnecessary credit risk when compared to Treasuries.
International Bonds - Foreign bonds offer good diversification qualities and higher yield opportunities, however, risks have been elevated recently and investment should be made cautiously.
Equity Income - High quality and higher-dividend-paying companies remain attractive for long-term investors given their favorable risk-adjusted profile and current yield curves.
Large Cap Stocks - A favorable weighting is recommended. Growth continues to be a more favorable style and should be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure remains an attractive market capitalization. Mid cap stocks continue to provide the "sweet spot" of market capitalization - large enough to provide stability, but small enough to be more nimble.
Small Cap Stocks - In broad market corrections, small cap stocks will suffer most with increased volatility. However, a recent divergence of relative strength between small caps and large caps warrants a neutral exposure.
International Stocks - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight to neutral weight is recommended.
Emerging Market Stocks - Stronger balance sheets, less debt, and better growth potential make emerging markets more fundamentally attractive than developed countries longer-term. However, trade uncertainty and dollar strength provides a headwind for EM in the near term.
Real Estate - Pricing has stabilized and long-term valuations appear attractive. Real Estate has performed well of late and should continue to be a strong alternative to other asset classes.
Commodities - Global demand should support higher prices if the global recovery remains on track. Volatility will be higher and commodities will be susceptible to short-term price shocks, however, if used in conjunction with other asset classes, risk can be reduced substantially within a diversified portfolio. Used alone though is not recommended as the short-term outlook is not favorable.

Sources of statistical information are Bloomberg and Ned Davis Research.
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