ECONOMIC HIGHLIGHTS

The U.S. PMI Manufacturing Index and ISM Manufacturing Index came in at 55.6 and 59.3 for March, respectively. Factory Orders remained strong in February, up 1.2% for the month. The U.S. PMI Services Index and ISM Non-Manufacturing Index came in at 54.0 and 58.8 for March, respectively. Finally, the U.S. Unemployment Rate remained at 4.1% for March.

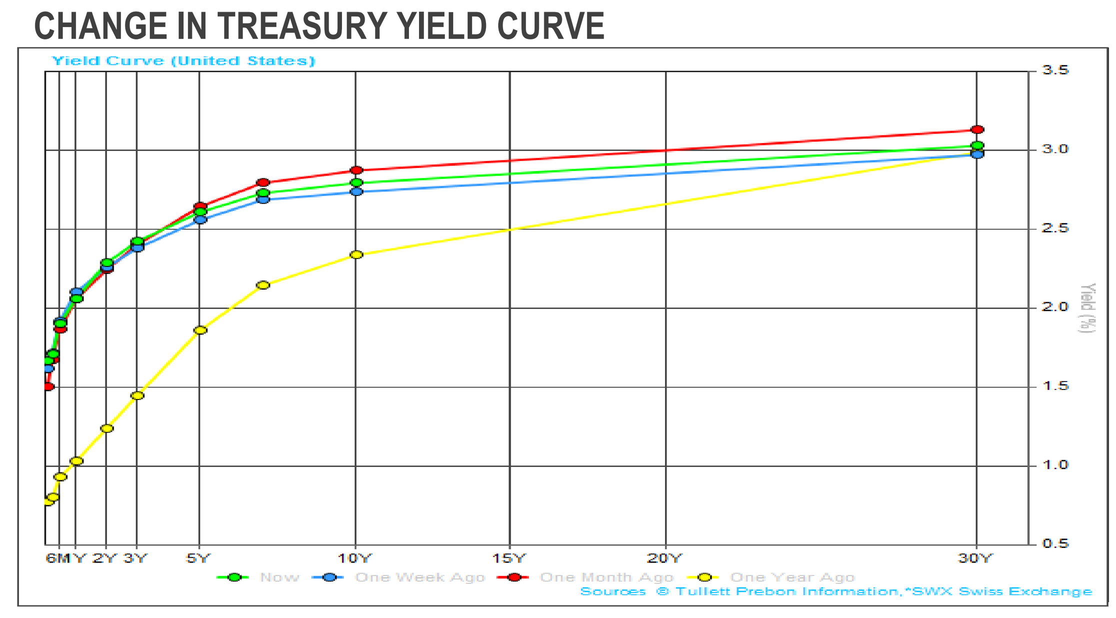
FIXED INCOME

The world's biggest bond market has managed to gulp down a swelling deluge of issuance in recent months. But this week could drive home that an even bigger wave is ahead. This week the Congressional Budget Office is set to release its latest projection for the U.S. budget deficit. Last June, before the tax overhaul and Congress's decision to ramp up spending over the next two years, the estimate was for a $563 billion shortfall in fiscal 2018, rising to $689 billion the following year. Both of these figures are expected to climb, which would put the onus on the Treasury Department to bridge the shortfall with more borrowing. Of course, the trajectory of the national debt is already plenty clear -- it's tripled in the past decade. And that phenomenon will play out again this week when the U.S. issues a combined $64 billion in three-, ten- and thirty-year obligations, up $8 billion from January. "The CBO report will certainly restart the conversation on how high deficits are going to be in the coming years," said Gennadiy Goldberg, senior U.S. rates strategist at TD Securities. "The market still hasn't caught on to the fact that deficits in the 2019 fiscal year are going to be immensely higher that this year." The impact of supply is evident in the shape of the yield curve. The U.S. is increasing the size of shorter-maturity note auctions at a faster pace than sales of longer-dated obligations, helping drive the spread between two- and ten-year securities toward the narrowest in more than a decade. For holders of bills, the issuance is working in their favor. After rising steadily since mid-2017, rates have stabilized on the expectation that Treasury will reduce bill sales as tax receipts flow in. Once that revenue intake ebbs, however, it remains to be seen how officials will meet the funding gap. It all adds up to more debt, and that's why bond traders are focusing on the CBO's fresh deficit forecast, to see just how much they'll have to absorb. The bond market is likely to use the report as a "sanity check."

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.71%	3 mo	1.77%	3 mo	2.28%	3 mo	1.46%
6 mo	1.89%	6 mo	1.79%	6 mo	2.35%	6 mo	1.51%
1 yr	2.05%	1 yr	1.90%	1 yr	2.45%	1 yr	1.58%
2 yr	2.27%	2 yr	2.24%	2 yr	2.69%	2 yr	1.72%
5 yr	2.59%	5 yr	2.51%	5 yr	3.14%	5 yr	2.11%
10 yr	2.77%	10 yr	3.07%	10 yr	3.66%	10 yr	2.68%
30 yr	3.02%	30 yr		30 yr	4.05%	30 yr	3.60%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.67%	-2.62%
S&P 500 (Large Cap)	-1.38%	-2.10%
S&P 400 (Mid Cap)	-1.31%	-2.07%
Russell 2000 (Small Cap)	-1.05%	-1.11%
NASDAQ Composite	-2.10%	0.47%
MSCI EAFE (International)	-0.40%	-1.29%
iShares Real Estate	-0.42%	-6.46%

The threat of a potential trade war with China and a disappointing jobs report on Friday weighed on equities last week. The S&P 500 ended the week lower, albeit well off the intra-week lows. For the week, Industrials, Technology, and Health Care led markets lower as their membership contains companies that would be impacted the most should any proposed tariffs be formally put in place.

Monday's decline pushed the S&P 500 below its 200-day moving average for the first time in 442 trading days dating back to June 2016. Bespoke noted in a report this streak is the sixth longest going back to 1928. They also wrote that the 2.23% drop on Monday was the worst start to any April since 1929.

Breadth readings continue to decline indicating the underlying health of the market is not in great shape. Specifically, the number of stocks in the S&P 500 that are now below their 50-day moving average stands at 17% according to data from Bespoke. It should come as no surprise the defensive Utilities sector is holding up well in this correction, with 86% of its members trading above their 50-day moving averages.

This correction, while painful, is still well above the median correction going back to 1945 according to Bespoke. Median corrections for the S&P 500 see a decline of roughly 15% over a period 153 calendar days. For this correction to reach median territory it would need to fall another 5%. Also, it has only lasted 66 days, well below the median duration.

Ned Davis published a report which put the first quarter performance from the S&P 500 into historical context. They noted that Q1 was the first negative quarter since Q3 2015. Also of interest is that after eight trading days of 1% moves in either direction for all of 2017, the S&P posted 23 such days in Q1, and five -2% moves. All of this after the S&P posted its best January in 21 years.

Shares of Amazon fell last week, declining -3% on Friday alone. The company caught the ire of President Trump who said on Friday he would take a serious look at policies to address "unfair business advantages". A Reuter's article noted that President Trump stated Amazon was not operating on a fair playing field and pointed to the low levels of sales tax they were paying.

For the week ahead, the early part of the week is fairly quiet on the news front – that all changes on Thursday and Friday when first quarter earnings season begins with banks starting to report. Notable reports include but are not limited to Bed, Bath, and Beyond, JPMorgan, Wells Fargo, PNC Financial, and BlackRock.

Last week's decline took the S&P 500 back to the major support level we have been noting in these comments over the past few months of 2580. We would want any potential future declines to hold that level. Rallies will encounter resistance at 2700, 2765, and 2840. The index finished last week at 2604.

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	Neutral
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Favorable
Real Estate	Favorable
Commodities	Unfavorable

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

Cash - Holding as little as possible given the miniscule yields in money market instruments. Any exposure is for defensive positioning.
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 spread products.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened; however, still remain attractive versus Treasuries.
International Bonds - Emerging market bonds offer good diversification qualities while providing higher yield opportunities relative to domestic fixed income.
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 has reemerged as a more favorable style and should be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure along with a value tilt is preferred. 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. Recent relative performance versus developed markets support the stronger fundamental backdrop and positions have been added.
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. Although, volatility will be higher and commodities will be susceptible to short-term price shocks, if used in conjunction with other asset classes, risk can be reduced substantially to a diversified portfolio. However, used alone 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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