ECONOMIC HIGHLIGHTS

U.S Producer Prices rose 0.2% in April, while Core Producer Prices rose 0.4%. U.S. Consumer Prices rose 0.3% in April, while Core Consumer Prices rose 0.1%. Otherwise a relatively slow week for economic data.

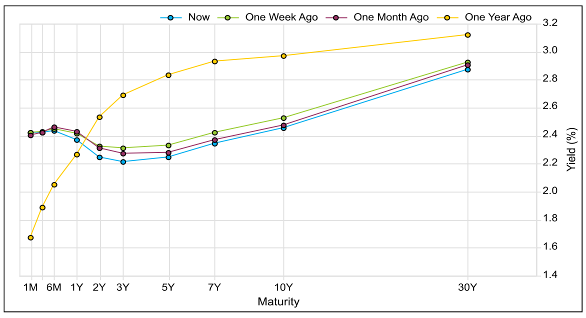
FIXED INCOME

The escalation of the U.S. -China trade conflict has heightened investor focus on the upcoming breakdown of the Federal Reserve's assets for fresh signs that the Asian nation may be trimming its Treasury holdings. The notion of China, the world's biggest foreign holder of U.S. government debt, stepping back from Treasuries in retaliation against President Donald Trump's negotiation tactics was already raised last week by a lackluster benchmark note auction. That, like in past episodes of angst with China as well as Russia, has many on Wall Street eyeing if the Fed's Thursday release will reveal that its coffers of Treasuries held for foreign central banks slid. The Fed report will detail its balance sheet and include the amount of U.S. government bills, notes and bonds it holds in custody for foreign central banks. For the week ended May 8, custody holdings fell $670 million to $3.06 trillion. That is down from $3.08 trillion in March and a record $3.11 trillion a year ago. While the figures don't give a breakdown of who's buying or selling, traders often speculate which nation is driving the change. "We've seen this before ahead of possible confrontations with the U.S. -- foreign central banks moving their custody holdings," said Sebastien Galy, senior macro strategist at Nordea Investment Funds. "The message, if we see declines, is that they are moving their assets to cash given they expect the conflict to last for several months." Last Wednesday's ten-year debt auction had a low participation by a category of bidders that includes foreign and international monetary authorities. Yet most saw low yields as the likely culprit for the below-average overall demand. Separate data from the U.S. Treasury, which comes out with an over one-month lag, shows that China's Treasury debt rose in February -- a third straight increase. The amount currently held remains well below a record $1.32 trillion that China held in custody in 2013. At the close of trading last week, yields across the curve were lower by around five basis points as volatility in the equity markets led a flight to quality trade into the safety of fixed income securities.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.42%	3 mo	2.30%	3 mo	2.54%	3 mo	1.58%
6 mo	2.43%	6 mo	2.36%	6 mo	2.54%	6 mo	1.60%
1 yr	2.36%	1 yr	2.32%	1 yr	2.56%	1 yr	1.63%
2 yr	2.27%	2 yr	2.34%	2 yr	2.56%	2 yr	1.65%
5 yr	2.26%	5 yr	2.29%	5 yr	2.74%	5 yr	1.69%
10 yr	2.47%	10 yr	2.70%	10 yr	3.19%	10 yr	1.92%
30 yr	2.89%	30 yr		30 yr	3.87%	30 yr	2.70%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-1.72%	12.17%
S&P 500 (Large Cap)	-1.67%	15.77%
S&P 400 (Mid Cap)	-2.16%	16.89%
Russell 2000 (Small Cap)	-2.58%	17.15%
NASDAQ Composite	-2.49%	19.77%
MSCI EAFE (International)	-1.36%	11.14%
iShares Real Estate	-0.56%	16.76%

It was a rather rough week for U.S. stocks as the S&P 500 index saw some of its worst losses since the beginning of the year, in which the main focus was on U.S. and China trade talks. Most sectors finished lower, with Materials and Tech being the biggest laggards and Energy with the most upside. Gold finished up .71% for the week and WTI crude settled relatively flat.

Politico released an article on Wednesday discussing how U.S. companies are bracing for a huge jump in costs as tariffs on $200B of consumer products and other goods from China are set to more than double on Friday. The article pointed out that after Friday, roughly half of the $505B U.S. imported from China would be subject to 25% tariffs. U.S. companies will be forced to either eat the added costs or pass it to their customers. Separately, the WSJ noted that more than $40B of items purchased directly by consumers, including furniture, handbags, clothing, Christmas decorations and others, would be impacted. Previously, only about $1B worth of consumer imports faced tariffs so high.

Thursday afternoon's U.S.-China trade meeting brought U.S. stocks off of their morning lows after President Trump noted that he received a letter from Premier Xi which encouraged both sides to work together. President Trump added that he and Xi may speak by phone and that the presence of lead negotiator Liu He is a sign that a deal is still possible for the week. The President also noted that his administration has begun the paperwork for 25 sanctions on $325 in additional Chinese goods. These comments came after President Trump's statements the night before regarding China "breaking their deal" by backing away from areas of agreement.

In remarks at a Fed listening session, Fed Governor Lael Brainard said she wants to hear more about whether Fed bond purchases could be used to set targeted levels for longer-term rates if short-term rates again reach zero. Fed Governor Brainard also mentioned the Fed may find the best option is to enhance its existing tools. However, according to Bloomberg and Reuters, recent press focus described the high bar for Fed policy framework changes. Fed Vice Chair Clarida also noted that the Fed won't pre-judge the outcome of the policy framework review. If the bank remains happy with the fed funds system, it isn't looking to change the fed funds target strategy.

China exports fell 2.7% y/y in April following 14.2% bounce in March, worse than consensus for a 3.0% increase. Some of the blame went to seasonal factors and payback effects from recent front-loading to avoid reduction in VAT rebates. By region, exports to US and Japan fell sharply, while shipments to EU rose moderately However, imports surprised to the upside, increasing 4.0% (first gain in five months) vs expectations for a 2.1% decline. Some thoughts data should make Beijing reluctant to dial back on policy support measures, particularly with renewed ramp in trade tensions and continued to signs of sluggish external demand.

April's PPI is up 0.2% m/m, which is level with the consensus and a dip from March's 0.6% monthly rise. The PPI report is also up 2.2% y/y. The release noted advances in good's prices are largely due to energy, which rose 1.8% in April in compared to a 0.2% decline in food prices. Services prices were driven by a sharp rise in portfolio management prices, which were up 5.3% m/m. Core PPI is up only 0.1% m/m against consensus for a 0.2% rise and the 0.3% prior-month increase, and the Initial jobless claims for the latest week is at 228K/ This is lower than the prior week's 230K but above the consensus for 215K.

A few notable earnings reports include that of Disney and Fox Corporation. Disney (DIS) reported Q2 results ahead of their estimates, but shares were lower on a weaker Median and Networks performance. It was noted that there was strong Hulu growth and upside from Disney+ streaming service, but the noted content and technology expenses are outpacing revenue growth. Analysts also noted concern about cord cutting, with Media Networks comprising ~50% of positive OI. Fox Corporation (FOXA) is higher after reporting first results following its spinoff, according to Bloomberg news. Cable network and broadcast TV segments provided upside, with retransmission fees well ahead of estimates. The company also announced a deal with Stars Group and a move into domestic sports betting.

U.S. Stocks have struggled the past week with the S&P 500 index falling from its previous highs of ~2954. The index seemed to hit resistance, which was found right after breaking its all-time high of ~2940. This shows the index was unable to breakthrough and use this previous high as a level of support, in which the index fell to its 50-day moving average to only bounce off this level of support. The S&P 500 index closed at 2881.

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.