2017 Weekly Portfolio Manager Commentary

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ECONOMIC HIGHLIGHTS

The PMI Services Index and the ISM Non-Manufacturing Indexes are still expansionary, averaging 53.6 and 56.9 for May, respectively. In addition, it looks like there was some decent inflationary rumblings in some of the price data of these indexes.

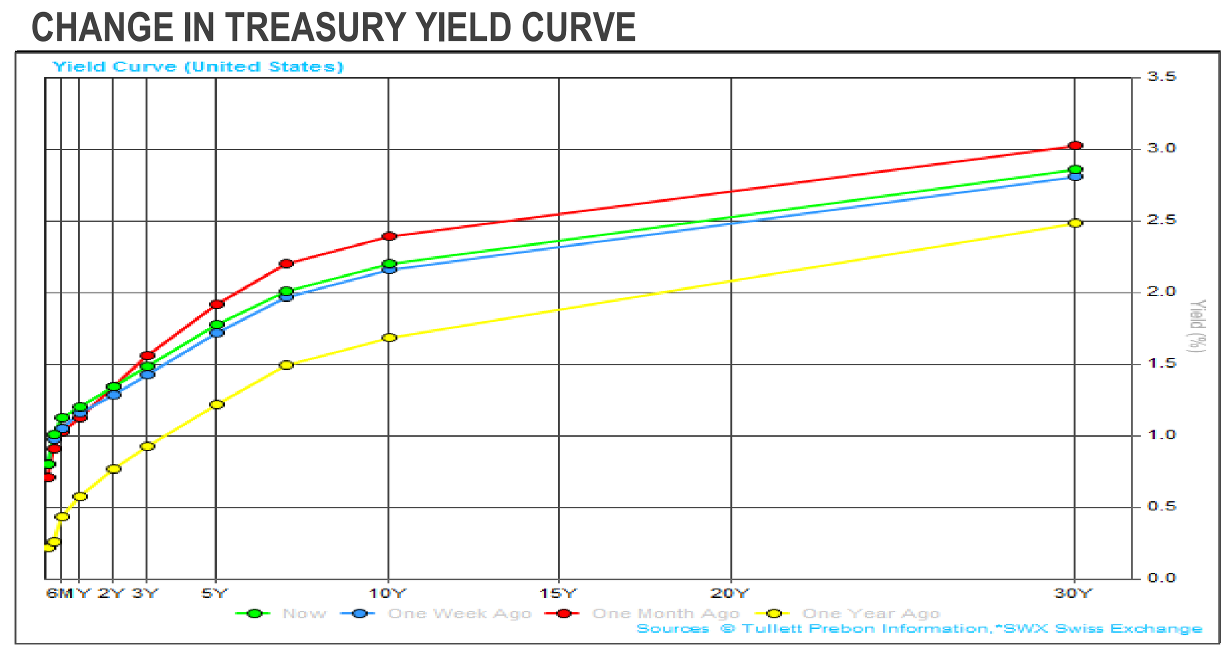
FIXED INCOME

Look around the $14 trillion U.S. Treasury market, and you'd be hard-pressed to find anything to suggest investors are even remotely concerned about the possibility of a selloff. Bond yields keep falling, bullish bets have soared and volatility has all but vanished. At the same time, traders foresee inflation subdued for decades and seem to have bought into the idea the Federal Reserve will take its time to trim crisis-era bond investments. Bill Gross, who runs the $2 billion Janus Henderson Global Unconstrained Bond Fund, said last week that U.S. financial markets are at the highest level of risk since before the 2008 financial crisis. Of course, Wall Street's best and brightest have been sounding the alarm for years now, only to see yields keep falling. And while it's questionable whether bond traders could have foreseen all the seemingly unrelated reasons beyond monetary policy and the U.S. economy (bad weather, China's slowdown, plunge in oil prices, Brexit, etc.) that have conspired to keep Treasuries in demand, the simple fact remains that the bull case is still intact. Just a few months ago, it seemed as if the bears would finally be vindicated. The Trump reflation trade was on and bond luminaries like Gross and Jeffery Gundlach were debating when to call the selloff and outright bear market. Yet after reaching 2.63 % in March, ten-year yields once again retreated. Some dogged forecasters are convinced this time will be different. A dozen or so in Bloomberg's latest survey say ten-year yields will reach or exceed three percent by year-end. Such a sell-off would inflict losses that rival what investors suffered during the "taper tantrum" in 2013.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.00%	3 mo	1.02%	3 mo	1.24%	3 mo	0.71%
6 mo	1.12%	6 mo	1.07%	6 mo	1.31%	6 mo	0.76%
1 yr	1.19%	1 yr	1.16%	1 yr	1.41%	1 yr	0.82%
2 yr	1.34%	2 yr	1.39%	2 yr	1.67%	2 yr	0.97%
5 yr	1.77%	5 yr	1.74%	5 yr	2.28%	5 yr	1.38%
10 yr	2.20%	10 yr	2.65%	10 yr	3.03%	10 yr	2.11%
30 yr	2.86%	30 yr		30 yr	3.95%	30 yr	3.25%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.33%	8.89%
S&P 500 (Large Cap)	-0.27%	9.61%
S&P 400 (Mid Cap)	0.41%	6.52%
Russell 2000 (Small Cap)	1.18%	5.32%
NASDAQ Composite	-1.53%	15.96%
MSCI EAFE (International)	-1.35%	14.86%
iShares Real Estate	0.08%	4.97%

Stocks largely shrugged off major geopolitical headlines – London terror attacks over the prior weekend, the Comey testimony on Capitol Hill Thursday and the surprising election results in the U.K. on Friday – to finish the week mixed. The S&P 500 and Nasdaq ended the week lower while mid and small cap stocks posted gains, along with Developed International markets.

Financials were the best performing of the eleven major sector groups last week – rising over 3% on the week. The group got a boost on Thursday after the House passed the Financial Choice Act which seeks to undo significant parts of the Dodd-Frank financial regulations passed in 2010.

Consumer Discretionary was the worst performing group last week – weighed down by the continued underperformance of the retailing sector. The retailers as a group are down nearly -8% versus the S&P 500 which is up almost 10%. Year-to-date some of the more notable decliners in the retail group are – Macy's (-37%), J.C. Penny (-43%), Bed, Bath, & Beyond (-15%), and Under Armour (-20%).

Bespoke released a report largely refuting the recent narrative that 2017 has been a year of narrow leadership in driving the positive market returns. They note that 106 stocks in the S&P 500 are up more than 20% this year, which is nearly four times the number of stocks that are down 20%. There are 228 stocks that are up over 10% - nearly triple the number that is down 10%. Lastly, there are 244 stocks in the S&P 500 that are outperforming the index so far this year – that is essentially half the index that is up more than the broad average. Those facts hardly support the notion that this year has been one of narrow leadership.

For the week ahead, consensus expectations are that the Federal Reserve raises their benchmark interest rate. Any more moves for the remainder of 2017 are not quite as certain – Fed futures right now are showing a 50/50 chance of another rate hike past the June meeting.

The S&P 500 closed last week at 2431 – which keeps support levels from the prior week in play. Those levels stand at 2400 which marks the top of the March to May consolidation range and a little lower at 2280 which is the 200-day moving average. A 5% pullback from Friday's levels would put the index around 2310.

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.