ECONOMIC HIGHLIGHTS

The U.S. Employment Cost Index was up 0.7% for the fourth quarter of 2018, and up 2.9% for the year. The Chicago Purchasing Managers' Index came in at 56.7 in January. This compared with 54.9 for the PMI Manufacturing Index and 56.6 for the ISM Manufacturing Index. New single-family home sales came in at a 657,000 annualized unit rate, much better than the 560,000 unit rate that was expected. Finally, the U.S. Unemployment Rate stood at 4.0% for January, up from 3.9% in December.

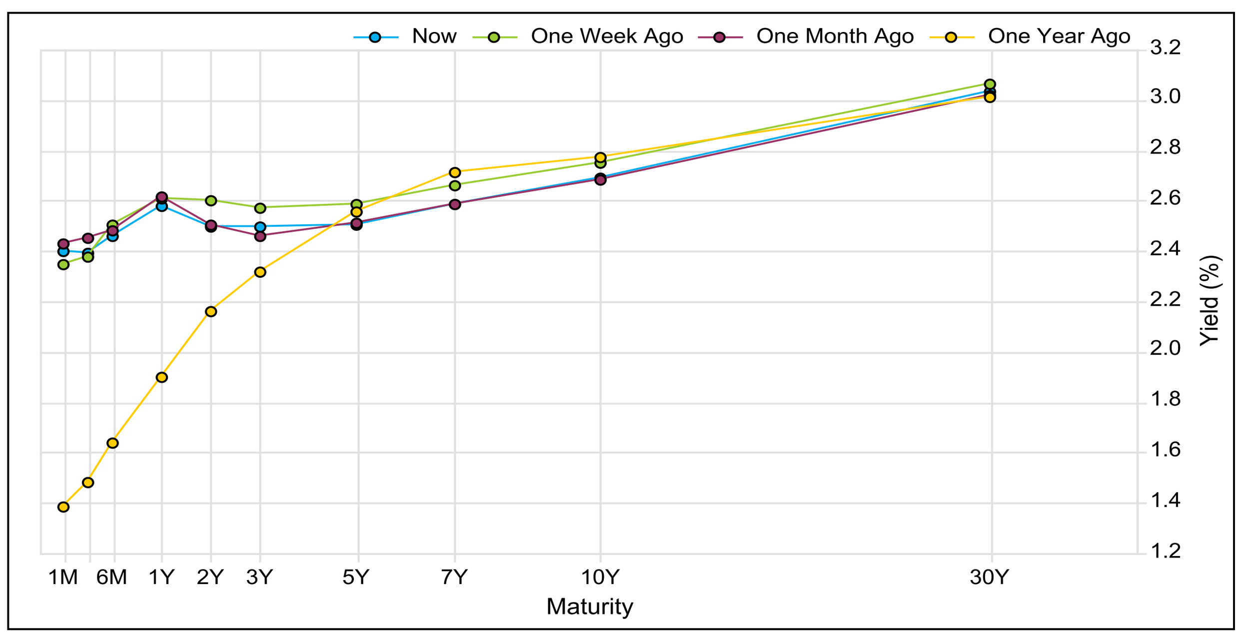
FIXED INCOME

Federal Reserve Bank of St. Louis President James Bullard and Dallas Fed chief Robert Kaplan applauded the central bank's decision to take a pause on interest-rate increases in separate appearances Friday and said patience was the right approach for the U.S. economy. "I think it set us up for a very good couple of years here," Bullard said in a CNBC television interview Friday. Bullard, a monetary policy voter in 2019, has been the most dovish Fed official over the past two years. Kaplan, a fellow dove who votes on policy again next year, said he sees the pause lasting "certainly at least the first couple of quarters," speaking with reporters following a speech in Austin, Texas. Both officials said the Fed might just be taking a temporary breather. Slowing global growth, still-low inflation, and tighter financial conditions have spurred caution at the central bank. "I think this concept of being on hold -- I would like to think that we're out of the business of penciling in further increases that have to be made," Bullard said Friday. "But obviously we will react to data as it comes in. So if the economy performs better than expected or worse than expected going forward, we're willing to move in either direction." Last week the Federal Open Market Committee held rates unchanged and dropped its guidance for more gradual rate hikes, replacing it with an explicit reference to being "patient." Investors took that to mean no rate increase for several months, and interest-rate futures suggest they think a cut is roughly as likely as a hike. "I was concerned coming out of the December meeting that maybe we weren't in the right place -- or we weren't communicating the appropriate stance," Kaplan said. "I think to our credit, we rectified that, to my satisfaction at least, and that's the most important thing to me." Both officials spoke shortly after Labor Department data showed that U.S. employers added 304,000 new jobs in January, while average hourly earnings growth increased just 0.1% from the month before. Kaplan said he's skeptical of the numbers, which may have been impacted by a spike in part-time workers thanks to the government shutdown. Bullard suggested the long-running relationship in which low unemployment spurs faster inflation has broken down. "The feedback from tight labor markets to inflation is extremely weak right now," he said.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.39%	3 mo	2.32%	3 mo	2.53%	3 mo	1.59%
6 mo	2.46%	6 mo	2.33%	6 mo	2.58%	6 mo	1.63%
1 yr	2.56%	1 yr	2.35%	1 yr	2.62%	1 yr	1.69%
2 yr	2.50%	2 yr	2.55%	2 yr	2.71%	2 yr	1.73%
5 yr	2.50%	5 yr	2.55%	5 yr	2.93%	5 yr	1.87%
10 yr	2.68%	10 yr	3.11%	10 yr	3.37%	10 yr	2.34%
30 yr	3.03%	30 yr		30 yr	3.98%	30 yr	3.30%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	2.19%	7.57%
S&P 500 (Large Cap)	2.42%	8.12%
S&P 400 (Mid Cap)	1.44%	10.84%
Russell 2000 (Small Cap)	1.95%	11.45%
NASDAQ Composite	2.53%	9.52%
MSCI EAFE (International)	1.34%	6.60%
iShares Real Estate	1.97%	10.72%

U.S. stocks rallied last week, continuing the recent rebound from the Q4 correction. Since reaching a low on Christmas Eve, the S&P 500 has rallied over 15%. All equity sector groups rose last week with Energy and Communication Services both gaining 3%, followed closely by Real Estate and Consumer Staples.

Breadth readings during the recent rally have been very strong – an encouraging sign for the bulls. Bespoke pointed out in a note last week that the Advance/Decline Line for the index currently sits slightly below the high from early December and only marginally lower from the all-time high from September. This indicator measures the number of stocks each day that are advancing versus those that decline – the more stocks that participate in a rally, the higher the A/D Line rises.

The job market continued to show signs of record strength. The latest Jobless Claims report not only came in lower than expected, but it also dropped below 200K to 199K. Not since November 1969 has a weekly jobless claims print come in below 200K. Bespoke also noted the report marked a record 203 straight weeks that jobless claim have been at or below 300K, 68 straight weeks of at or below 250K readings, and finally one week below 200K.

Emerging market equities garnered lots of press last week as the group closed the week above its 200-day moving average, the first time in almost nine months. SentimenTrader released a study noting that this event is a mixed event for most indexes and sectors, but for emerging market stocks it has been a good sign in the short- to medium-term. In prior times when emerging markets crossed above its 200-day moving average for the first time in at least 3 months returns over the next month averaged a gain of 4.7% with positive returns 93% of the time.

One economic indicator we have been following marked another extreme reading. The latest Consumer Confidence release noted a large drop in consumer expectations toward the future. Current Situation readings stayed largely flat and near the highs of this cycle. The component which measures future expectations declined 13% in December putting it down over 24% from its cycle high in October 2018. Bespoke wrote in a report that in the past, large disconnects between consumers' assessments of present versus the future have historically been a hallmark of the very late stages of an economic expansion, and the current spread is near record highs.

According to data from FactSet, with 46% of the S&P 500 members reporting results – 70% have reported a positive EPS surprise and 62% have reported a positive revenue surprise, in line with prior quarters. The blended earnings growth for the S&P 500 is 12.4% - which if that number proves to be the actual growth for the quarter, it will mark the fifth straight quarter of double-digit earnings growth for the index.

For the week ahead, earnings will again be the main focus for the week and dominate the corporate calendar as Q4 releases continue. Notable reporters include – Sysco, Google, Disney, General Motors, Twitter, and Allstate. It will be a relatively quiet week on the economic front with PMI and PPI numbers and trade balance reports expected here in the U.S.

The rally in the S&P 500 put the index's 200-day moving average in its sites – the 200-day currently stands at 2740 and will present the first line of resistance on any further rallies. Beyond that mark we are watching 2820 and the early-October highs at 2940. Support for the index sits at 2630, 2600, and the Christmas Eve lows of 2351. The index closed last week at 2706.

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 summery 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.