ECONOMIC HIGHLIGHTS

The ISM Non-Manufacturing Index came in at 56.7 for January, while the PMI Services Index came in at 54.2. Both figures are still expansionary and new orders within the indexes also appear expansionary. Otherwise, it was a fairly slow week for meaningful economic data.

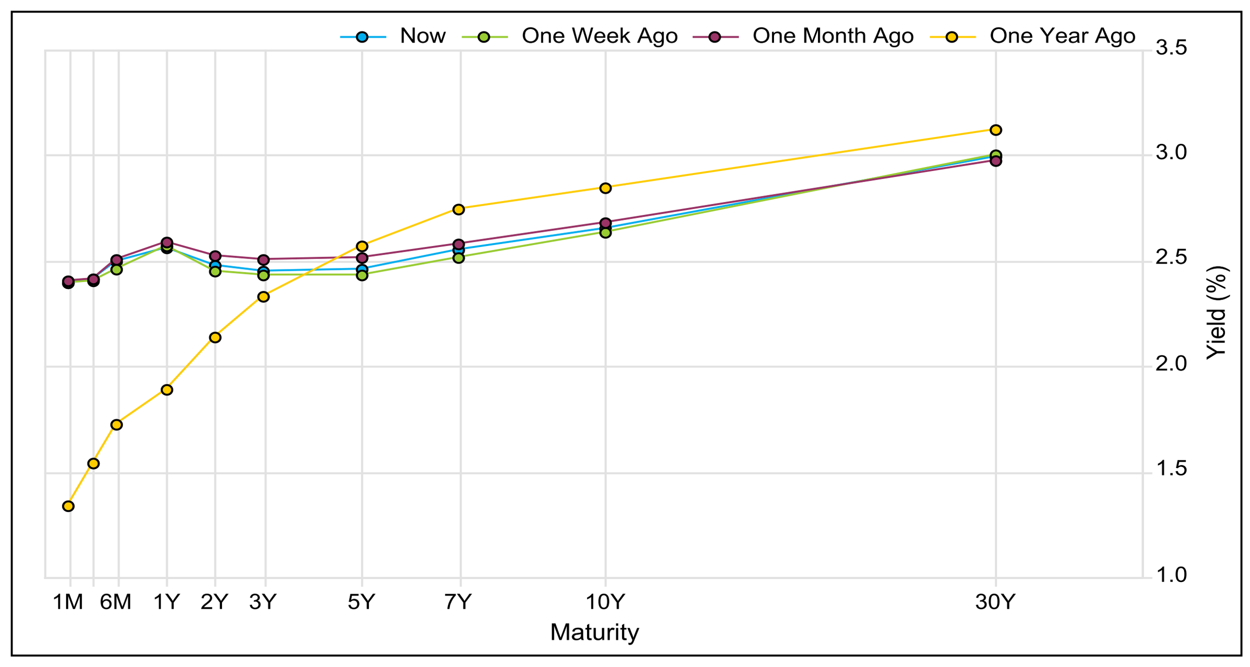
FIXED INCOME

Federal Reserve Bank of San Francisco President Mary Daly suggested that the central bank could decide to use its balance sheet as a routine part of how it guides the economy, not just as a last-ditch measure to deploy in emergencies. "An important question is, should those always be in the toolkit?" Daly said of post-crisis bond-buying programs, popularly called quantitative easing, or QE. "Should you always have those at your ready, or should you think about, those are only tools you use when you really hit the zero lower bound and you have no other things you can do?" Daly, who was speaking with reporters in San Francisco on Friday, said the question is part of the discussion as the Fed rethinks its monetary policy framework and procedures this year, a process that will involve public outreach and a conference in Chicago in June. While officials often say that the balance sheet could be used again in a serious downturn when rates head to zero, they rarely if ever paint it as something other than a last-ditch option. "You could imagine executing policy with your interest rate as your primary tool, and the balance sheet as a secondary tool, but one that you would use more readily," Daly said. "That's not decided yet." The Fed is currently in the process of shrinking its balance sheet, which is swollen from three rounds of large-scale asset purchases during and after the Great Recession, though it has not yet decided how much smaller it will ultimately become. Asked whether she would favor slowing down that shrinking process at some point before its conclusion, Daly said only that such a move -- often referred to as a "taper" -- is a "key part" of ongoing discussions about policy normalization. The Fed said in a January 30 statement that its benchmark federal funds rate would remain the "primary means" of adjusting monetary policy. It also said it "would be prepared to use its full range of tools, including altering the size and composition of its balance sheet" to generate more stimulus than it could achieve just by cutting rates. Officials at that meeting also pivoted to a more dovish policy stance, pledging they could be "patient" in judging the timing of the next adjustment in rates. They left open whether that move would be up or down.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.41%	3 mo	2.28%	3 mo	2.57%	3 mo	1.59%
6 mo	2.49%	6 mo	2.33%	6 mo	2.61%	6 mo	1.62%
1 yr	2.52%	1 yr	2.35%	1 yr	2.66%	1 yr	1.67%
2 yr	2.47%	2 yr	2.51%	2 yr	2.74%	2 yr	1.70%
5 yr	2.44%	5 yr	2.50%	5 yr	2.95%	5 yr	1.86%
10 yr	2.63%	10 yr	3.05%	10 yr	3.39%	10 yr	2.39%
30 yr	2.98%	30 yr		30 yr	3.98%	30 yr	3.33%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.38%	7.91%
S&P 500 (Large Cap)	-0.57%	8.24%
S&P 400 (Mid Cap)	-0.25%	11.51%
Russell 2000 (Small Cap)	-0.72%	11.79%
NASDAQ Composite	-0.61%	10.10%
MSCI EAFE (International)	-1.38%	5.51%
iShares Real Estate	0.71%	12.25%

Equity trading this past week was relatively weak as the U.S. indices declined over the past three consecutive days over concerns of stalling economic growth and trade disputes. Energy, financials, and materials trailed the market sectors, while tech and healthcare outperformed. Utilities ended the week as the only positive sector. The 10-Year Treasury yield slumped a fourth day, while crude held near $53 a barrel and gold futures remained above $1,300 an ounce.

The S&P500 began the week positive, though giving up gains halfway through the week to close negative. Midweek, the index tested its 200-day moving average of 2742 but could not break through the resistance and later fell, closing at 2707.

Global concerns continue to mount after Australia's central bank joined European and British officials in tamping down forecasts, while also, as stated by Bloomberg, "prospects for an extension of the U.S.'s trade détente with China continue to fade."

Shares of Hasbro tumbled after earnings disappointment, while its rival Mattel surged on a positive report. Amazon slid on news of a disagreement between Bezos and President Trump. Other notable market movers include Sketchers (SKX) +15.7%, Motorola Solutions (MSI) +14.5%, and Columbia Sportswear (COLM) +16.9% - the latter two surged higher due to Q4 earnings and beating revenue expectations, and Sketchers due to their Earnings Per-Share being ahead on better GM and SG&A performance.

This week has mostly been devoid of meaningful market directional drivers. The biggest factors impacting the Market positively thus far include the 2019 fundamental narrative being largely unchanged, US-China trade deal expectations, low earnings bar, and strong resilience seen in the economy. The biggest concerns revolve around global growth slowdown and negative earnings revisions.

January saw the Federal Reserve signal that it's done raising rates for a while, with Chairman Jerome Powell stating that the U.S. economy is "in a good place." In his recent media briefing after last month's meeting, Chairman Powell expressed that slowing output in China and Europe, Brexit, trade negotiations between China, and the effects of the government shutdown can all prove to be headwinds to U.S. growth.

Consumer sentiment improves for the first time in five weeks as political tension in Washington ease after the longest government shutdown in US history. The recovery follows a January jobs report showing that the labor market remained strong with solid wage gains that could support consumer spending. Sentiment concerns still focus towards US-China trade policies and global growth slowdown.

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.