ECONOMIC HIGHLIGHTS

U.S. Retail Sales were up 0.2% for January, with non-Auto and non-Gas Retail Sales up 1.2%. E-Commerce Retail Sales were up 2.0% for the fourth quarter of 2018, below the prior quarter's 3.1% gain. Business Inventories were up 0.6% for December 2018, and the downtrend in Business Inventories to Sales was broken, implying that the strong economic growth from early 2016 may be slowing. U.S. Consumer Prices were up 0.2% in February 2019, in line with consensus. For the year, CPI was up 1.5%. Final Demand Producer Prices were up only 0.1% for February, and up 1.9% year -over-year. Durable Goods orders were up 0.4% for January, much better than consensus. Core Capital Goods orders were up 0.8% for the month. Construction Spending was up 1.3% for January, also much better than consensus. New U.S. Single-Family Home Sales came in at a 607,000 annualized rate, approximately in line with consensus. The Empire State Manufacturing Survey came in at a weak 3.7 for March, well below consensus of 10.0. Industrial Production for February was up 0.1%, well below consensus of +0.4%. Capacity Utilization was at 78.2%.

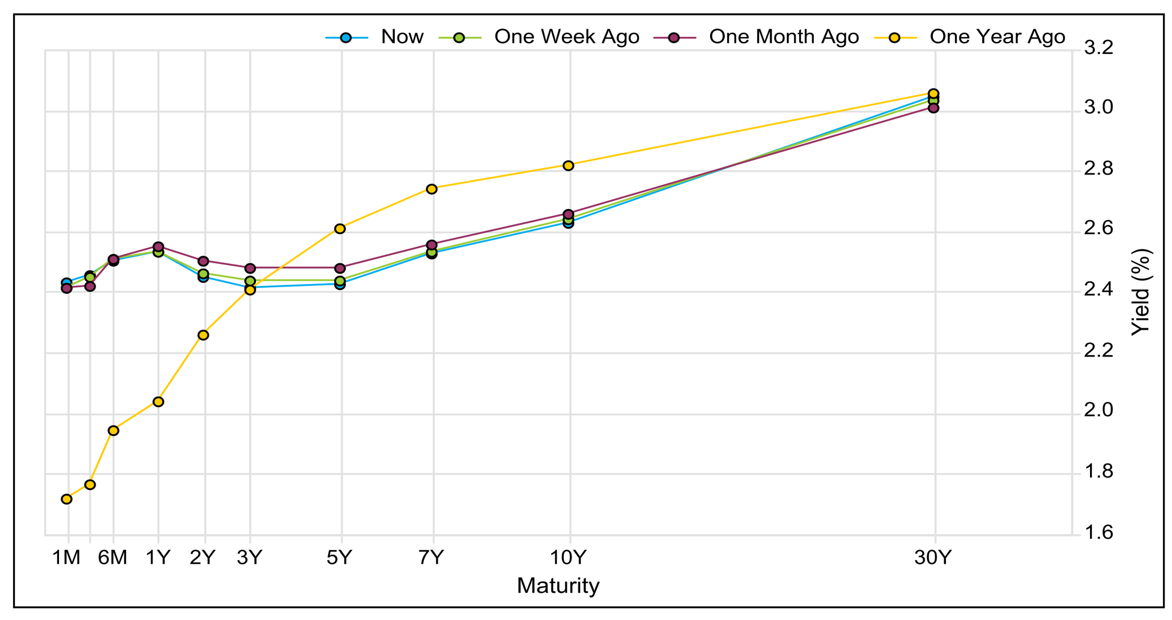
FIXED INCOME

More than a decade after it all began, the Federal Reserve is finally nearing the end of its grand experiment in monetary policy. The Fed, which has been paring its crisis-era debt holdings, may lay out plans to end the program at its meeting this week. Yet in the Treasury market, the close of the quantitative-easing era could open another can of worms. While Fed officials have made it clear they want to go back to owning mostly Treasury securities, as they did before the financial crisis, it's unclear how the central bank will get there or what it will buy. Its current policy, replacing mortgage bonds only when they mature, could take a decade or more. That's led some to advocate outright sales, which the Fed has never done. Then, there's the debate over whether the central bank will favor short-term Treasuries over long-term debt, or simply buy whatever the U.S. Treasury auctions off. The consequences of which part of the curve they choose could ripple through the bond market and beyond. Decisions affecting the composition of the Fed's balance-sheet assets will not only create winners and losers across financial markets, but could also go a long way to help the U.S. government finance its increasing budget deficit. Currently, the Fed holds just under $4 trillion in assets and is paring its bond holdings by a maximum of $50 billion a month. Bond dealers expect the Fed to end its current runoff by December, which will leave it with roughly $3.5 to $3.7 trillion in assets. The Fed reinvests money from its maturing debt holdings in two ways. When replacing Treasuries, it participates in so-called auction add-ons, which enable the central bank to purchase debt alongside the public to finance U.S. government spending. When replacing MBS, it buys debt directly from investors in the open market. One major wirehouse broker predicts the unwind will end in the third quarter, saying demand from the central bank will reduce the Treasury's public borrowing needs by about $350 billion in the coming 12 months. For context, that figure equals roughly 44% of the U.S. government budget deficit for fiscal year 2018. Because the Fed currently doesn't own any T-bills, the weighted average maturity of its Treasury investments is about eight years. That compares with 5.8 years for the market itself. Minutes from its December meeting showed participants discussed either matching the portfolio's average maturity to the market's (for a "more neutral effect on the market") or to shorten it (for "greater flexibility to lengthen maturity" if needed in a downturn).

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.44%	3 mo	2.40%	3 mo	2.58%	3 mo	1.62%
6 mo	2.50%	6 mo	2.44%	6 mo	2.61%	6 mo	1.63%
1 yr	2.51%	1 yr	2.48%	1 yr	2.27%	1 yr	1.66%
2 yr	2.44%	2 yr	2.48%	2 yr	2.68%	2 yr	1.67%
5 yr	2.40%	5 yr	2.44%	5 yr	2.88%	5 yr	1.81%
10 yr	2.59%	10 yr	2.91%	10 yr	3.35%	10 yr	2.23%
30 yr	3.01%	30 yr		30 yr	4.04%	30 yr	3.16%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.85%	11.47%
S&P 500 (Large Cap)	1.46%	13.11%
S&P 400 (Mid Cap)	0.60%	14.38%
Russell 2000 (Small Cap)	0.35%	15.49%
NASDAQ Composite	1.75%	16.16%
MSCI EAFE (International)	1.87%	10.96%
iShares Real Estate	0.79%	14.77%

U.S. equities finished the week with big gains after the second negative week of 2019. The big standouts included Technology and Materials, while Communication Services lagged due to Facebook's weakness and Industrials underperformed with General Electric under pressure. The Dollar is modestly weaker against other major currencies, while Gold ended the week up 0.6% and WTI crude oil down -0.2%.

The week's gain can be credited to the Fed-led policy pivot and trade deal expectations, which are the drivers of the yearly gains, as well as, technical factors such as quadruple witching. Corporate buybacks, benign U.S. inflation, and semiconductor mergers and acquisitions have also been mentioned as market support.

Notable market movers for the week include Broadcom, Inc. (AVGO) +10.6%, Ulta Beauty (ULTA) +9.3%, Marriot International (MAR) +2.4%, Adobe (ADBE) -5.3%, and Tesla (TSLA) -4.0%. Broadcom, Inc. and Ulta Beauty gained due to earnings beating expectations, as well as, Broadcom's guidance was reaffirmed despite market headwinds and Ulta Beauty saw positivity due to meaningful traffic acceleration in a mixed retail environment, loyalty program growth, and new product momentum. Marriot International had their shareholder, Lands & Buildings, seek a board seat, in which they want the company to cull brands and pursue other changes. Adobe beat their earnings expectations, however, their Q1 upside is seen as fairly limited. Tesla had analysts somewhat underwhelmed on the impact of demand regarding their new Model Y electric SUV.

According to data from FactSet Research Systems, the U.S. and China have made "concrete progress" on the text of their trade agreement. Reuters noted President Trump stated that whether a trade deal with China can be reached would probably be known in the next three to four weeks. It is believed that many investors have already priced in a modest trade deal; however, many speculate that a striking trade deal could be a positive surprise to U.S. investors, which would lift the market.

On a global note, China Premier Li has reaffirmed their capacity to use reserve requirements and interest rates to support economic growth. Reuters stated that China's economy is facing additional downward pressure, but Beijing will not let economic growth slip out of a reasonable range. Premier Li has also promised multiple measures to lower funding costs for small and micro firms by 1%. Meanwhile, the Bank of Japan has voted to leave short term rates at -0.1% and long term rates at ~0%. There was a reiteration on forward guidance that policy rates will be kept at extremely low levels for an extended period. Regarding PM May's Brexit deal, Parliament has agreed to back a Brexit delay at least until June 30th, providing PM May's deal passes, or longer if it is rejected. May's defacto deputy Lidington said that if the deal is rejected, the legal default is to leave the EU on March 29th, unless an alternative is agreed upon.

The S&P 500 ended the week up 1.41% following the second down week of 2019 the prior week. The index climbed slightly past its resistance point of 2800, in which it could face more resistance at the 2870 mark. The S&P 500 closed at 2822.

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.

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