ECONOMIC HIGHLIGHTS

U.S. Retail Sales for April were down 0.2% from up 1.7% in March. Industrial Production was also down, at -0.5% for April versus having been up 0.2% for March. Capacity Utilization was at 77.9% versus 78.5% in March. The NAHB homebuilder confidence average came in at 66 for May, up from 56 in December, but below the January 2018 peak of 74. Finally, the U.S. Index of Leading Economic Indicators was up 0.2% in April, versus +0.3% in March.

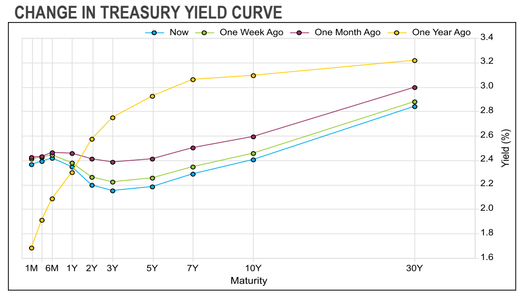
FIXED INCOME

The Treasury market enters the week with yields hovering near their 2019 lows, leaving bond bulls emboldened as the standoff between the United States and China drags on. With a trade deal between the world's two largest economies moving further out of view as global economic growth is slowing, and political tensions building in Europe, Treasuries continue to be a safe haven for investors looking for stability among the various global issues confronting the markets. Short-term yields are hovering at the lowest in over a year as confidence grows that the Federal Reserve will cut interest rates by the end of the year, while yields on longer dated maturities have only been slightly lower this year than their current levels. With China appearing less willing to resume meaningful talks with the United States, it all brings into question the Wall Street consensus that ten-year yields will end the year meaningfully higher. The benchmark ten-year yield closed last week's trading at 2.39%, compared to its 2019 low of 2.34% set in March. Two-year yields touched 2.15% last Wednesday, the lowest since February 2018. China's state media signaled at the end of last week that Beijing has a lack of interest in resuming trade talks with the U.S. under the current threat to escalate tariffs. The continued lack of progress with the trade talks supports lower rates and a steeper yield curve according to Bank of America Corp. strategists Bruno Braizinha and Ralph Axel. When it comes to the market's angst with the trade talks, there appears to be little relief in sight. Some traders are hopeful some meaningful progress will be made at the upcoming G-20 meeting in Japan next month when President Trump and Chinese President Xi Jinping are scheduled to have talks about the state of trade between the two countries. This week, traders will gain fresh insight into the state of America's housing market and purchases of big-ticket items. Minutes from the Fed's last meeting will be released Wednesday and there will be many Fed members doing speaking engagements this week, including Chairman Jerome Powell. Fed funds futures currently imply the central bank's benchmark rate will fall to 2.09% by the end of 2019, signifying more than a quarter-point rate cut. Fed officials most recent quarterly forecasts projected no change in 2019 and a quarter-point increase in 2020 for fed funds.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.37%	3 mo	2.32%	3 mo	2.50%	3 mo	1.51%
6 mo	2.41%	6 mo	2.33%	6 mo	2.50%	6 mo	1.53%
1 yr	2.33%	1 yr	2.28%	1 yr	2.51%	1 yr	1.56%
2 yr	2.20%	2 yr	2.23%	2 yr	2.50%	2 yr	1.58%
5 yr	2.17%	5 yr	2.20%	5 yr	2.69%	5 yr	1.64%
10 yr	2.39%	10 yr	2.63%	10 yr	3.14%	10 yr	1.87%
30 yr	2.83%	30 yr		30 yr	3.83%	30 yr	2.72%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	1.82%	11.49%
S&P 500 (Large Cap)	1.77%	14.98%
S&P 400 (Mid Cap)	0.74%	14.29%
Russell 2000 (Small Cap)	0.88%	14.43%
NASDAQ Composite	2.27%	18.31%
MSCI EAFE (International)	1.50%	10.19%
iShares Real Estate	1.38%	18.23%

U.S. stock markets finished strong near the end of the week. With Monday opening as one of the largest declines since January, the S&P 500 rallied to end the week up 2.18%. Information Technology (+3.7%) and Communication Services (+3.34%) led the sectors, while Utilities (-.24%) were the only sector to finish negative. Gold finished down -2.00% while WTI Crude ended strong with returns of 2.82%.

Cisco (CSCO) proved to be one of the bigger market movers of the week by gaining ~ 10% for the week. On the company's conference call Wednesday, it was noted that Cisco sees very minimal impact from the White House decision to raise the tariff rate on ~$200B of Chinese imports from 10% to 25%. Analysts also added that it is baked into the better-than-feared guidance it provided. The computer company credited longstanding supply chain optimization efforts and pricing adjustments. In terms of the former, they pointed out that while it still has some manufacturing happening in China, it has generally reduced its exposure. CFO also told Reuters only ~3% of company's revenue comes from China, where a growth slowdown has seen a drag on some other big tech names.

Amongst the talk of tariffs, Walmart's (WMT) CFO said today that while the company has mitigation strategies that have been in place for months, increased tariffs will still increase prices for consumers. CNBC noted that the company sources about two-thirds of its goods domestically (largely a function of massive food business), while remaining one-third comes from overseas, including China. These comments accompanied a well-received, margin-driven earnings beat, while the comp and e-commerce growth also reported solid numbers. Yesterday, Macy's (M) reiterated its FY guidance, but also said tariffs on the final tranche of Chinese imports would have an adverse impact on the consumer.

The WSJ discussed continued momentum behind corporate buybacks, in which they noted the more than 80% of S&P 500 companies that have reported Q1 results repurchased $180B worth of stock in first three months of 2019, on pace to be second-highest amount on record going back to 1998. They added momentum is expected to continue, particularly with the recent trend of companies getting more aggressive on market pullbacks. It was noted that this dynamic may suggest companies do not view market volatility as indicative of a fundamental deterioration. Goldman Sachs pointed out that corporate buybacks will remain the biggest source of demand this year and offset supply from IPOs.

Initial jobless claims prove to be better than forecasted when the numbers came it at 212K, vs consensus 225K and prior 228K. April housing starts registered 1.235M SAAR vs the 1.217M consensus and are up 5.7% m/m but down 2.5% y/y. Single-family unit starts are down 4.2% m/m but 2-4 unit starts show a strong increase. April building permits are up 0.6% m/m but down 5.0% y/y. The May Philadelphia Fed index registered 16.6, which is positive against the consensus for 9.0 and April's 8.5. New orders slowed to 11.0 from April's 15.7. Firms remained optimistic but it was noted that responses largely came prior to recent ramp in trade tensions.

Federal Reserve Governor Brainard said in his speech that it is important to achieve inflation and inflation expectations on a sustained basis around the Fed's 2% target. Governor Brainard argued that softer inflation may not entirely be due to labor market slack or to transitory shocks, as well as highlighted some likely softening in the underlying trend. She added that if inflation got modestly above 2% for a couple of years, the Fed could use the opportunity to communicate that a mild overshooting is consistent with its goals. Governor Brainard also pointed out that given flat Phillips Curve, one should not assume monetary policy will act to restrain financial cycle as much as previously, encouraging use of countercyclical tools instead.

The S&P 500 had a strong week of earnings as the index finished up 2.18% for the week. The index started the week down the most since January, in which it was seen to retest the support levels near the 2800 mark. It then bounced and has rallied throughout the rest of the week. The S&P 500 index closed at 2875.

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.