ECONOMIC HIGHLIGHTS

The U.S. Purchasing Managers' Index and the ISM Manufacturing Index came in at 50.5 and 52.1 for May, barely expansionary. Construction Spending was flat for April, worse than expected. Factory Orders for April were -0.8%. The PMI Services and ISM Non-Manufacturing Indexes came in at 50.9 and 56.9 for May, a mixed picture. Finally, the U.S. Unemployment Rate for May was 3.6%, flat with April.

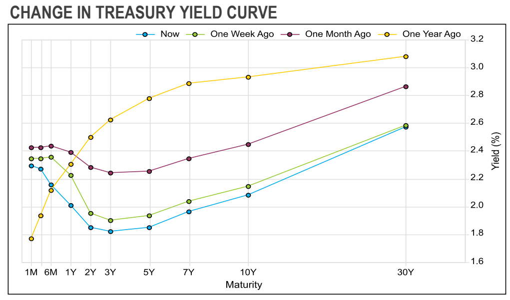
FIXED INCOME

It appears the bond market is sending a message to the Federal Reserve that interest rates need to be cut soon, as the backdrop of weakening growth and tepid inflation may outweigh any potential easing of trade tensions in the coming days. Many traders are starting to believe that a quarter-point rate cut by the end of July as an almost certainty. At the beginning of this week, we will know whether tariffs on Mexican goods will be in place. President Donald Trump said late last week there's a "good chance" of a deal with Mexico, but improvement on that front may not move the needle much as negotiations with China are still looming. Other data being released this week could also confirm that inflation remains tame, and with Fed officials entering a blackout period before their June policy meeting next week, they will have no opportunity to respond to any market reaction. Traders' conviction that easing is inevitable only grew after Friday's jobs report for May which showed that U.S. employers added the fewest workers in three months and wage gains slowed. Benchmark ten-year yields traded as low as 2.05% last Friday, the lowest since September 2017. The current inversion in the yield curve between three-month bills and the ten-year note is around 20 basis points, a worrisome sign for some investors due to the history of curve inversion and potential recession on the horizon. Some traders expect about 70 basis points of easing by the Fed by the end of 2019, which would mean potentially unwinding three of last year's four rate hikes. Most Fed watchers' base case is that the central bank stands pat in June before more likely cutting rates in July. Chairman Jerome Powell opened the door to a possible rate cut last week when he said the Fed "will act as appropriate to sustain the expansion." Wednesday will be the release of the latest inflation numbers as measured by the consumer price index. The consensus forecast, as surveyed by Bloomberg, if for an annual increase of 1.9% in May, down from 2% in April. Price volatility has returned to the fixed income markets as measured by Bank of America Corp's MOVE Index, a measure of anticipated price swings in Treasuries, as it surged last week to its highest since January 2017.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.27%	3 mo	2.26%	3 mo	2.31%	3 mo	1.34%
6 mo	2.14%	6 mo	2.24%	6 mo	2.30%	6 mo	1.36%
1 yr	1.97%	1 yr	2.09%	1 yr	2.28%	1 yr	1.38%
2 yr	1.85%	2 yr	1.91%	2 yr	2.23%	2 yr	1.39%
5 yr	1.85%	5 yr	1.90%	5 yr	2.41%	5 yr	1.47%
10 yr	2.08%	10 yr	2.33%	10 yr	2.88%	10 yr	1.80%
30 yr	2.57%	30 yr		30 yr	3.64%	30 yr	2.72%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	4.75%	12.67%
S&P 500 (Large Cap)	4.75%	15.68%
S&P 400 (Mid Cap)	3.82%	14.57%
Russell 2000 (Small Cap)	3.05%	12.92%
NASDAQ Composite	5.61%	17.27%
MSCI EAFE (International)	2.81%	11.53%
iShares Real Estate	2.22%	19.81%

U.S. Equity has bounced quite well the past week, returning ~4.70%. The main market driver responsible was the removal of Mex ico's tariff threat and the M&As. Information Technology (+7.88%) was the sector leader with Utilities offering the lowest return (+1.99%), though all sectors ended positively. Gold ended the final day down 1%, while WTI Crude oil finished the week up 1.95%.

President Trump tweeted Friday that tariff threats against Mexico have been indefinitely suspended, after Mexico agreed to ta ke strong measures to "steam the tide migration" as reported by FactSet, and that details will be released shortly.

Bloomberg noted that Treasury Secretary Mnuchin said he had "candid" and "Constructive" talks on trade issues with PBOC Gover nor Yi. The Treasury Secretary stated that if China wants to come back to the table and have an agreement, the U.S. will negotiate, otherwise, the US will m ove forward with more tariffs.

The NY Times reported that China recently summoned big technologies like Microsoft, Dell, Samsung, and SK Hynix to warn that they could face dire consequences if they cooperate with Trump administration's ban on sales of key American technology to Chinese companies. Added that involv ement of three government bodies suggested high level of coordination from the very top of China's leadership structure. Washington Post noted that the People's Daily reported Sunday China is creating a system to protect its technology. The Global Times newspaper said the plan is clearly related to recent reports Ch ina would develop its own list of foreign entities that it regards as "unreliable."

United Technologies has agreed to combine its aerospace business with Raytheon in an all-stock deal to create a new company valued at ~$120B. The deal, which is estimated to drive more than $1B in cost synergies by end of fourth year, is not expected to trigger antitrust opposition giv en limited overlap. Salesforce.com is also to acquire Tableau Software in an all-stock deal valued at 15.7B, including debt.

The WSJ *Heard* column discussed how an increase in expectations for a Fed rate cut drove a big rally in stocks last week. However, the column added that if the Fed does ease, markets should be more worried than elated. The article pointed out that while a surprise rate cut in January 2001 sent the NASDAQ up 14% on a single day, there was still a recession ahead and the NASDAQ fell 57% before hitting a bottom in October 2002. While the Fed rate cu t in September drove the biggest percentage gain in the DJIA since 2003, just a year later, the US was deep in financial crisis. Also downplayed comparisons t o soft landings in 1995 and 1998 as economy now faces risks from trade disputes and policy uncertainty, which are emanating from US this time around.

The S&P 500 started the week off with large gains, as it broke through resistance levels of ~2780. The large cap index finish ed the week with strong consistent gains, as it rallied past this resistance level to end near its 50-day moving average. The S&P 500 finished at 2873.

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, a n 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 di versified portfolio. Used alone though is not recommended as the short-term outlook is not favorable.