ECONOMIC HIGHLIGHTS

Housing starts were down 14.5% for December relative to consensus estimates. Wildfires in the West explained at least a portion of the weakness. Starts of single-family homes were not down nearly as much as multi-family units. U.S. Real GDP for the fourth quarter of 2018 was up 2.6%, with the price index up 1.8% on an annualized basis. The PMI and ISM Manufacturing Indexes were still mildly expansionary, at 53 and 54 respectively. Finally, Personal Income was up 1.0% for December, with the CORE PCE Price Index up 1.9% on an annualized basis.

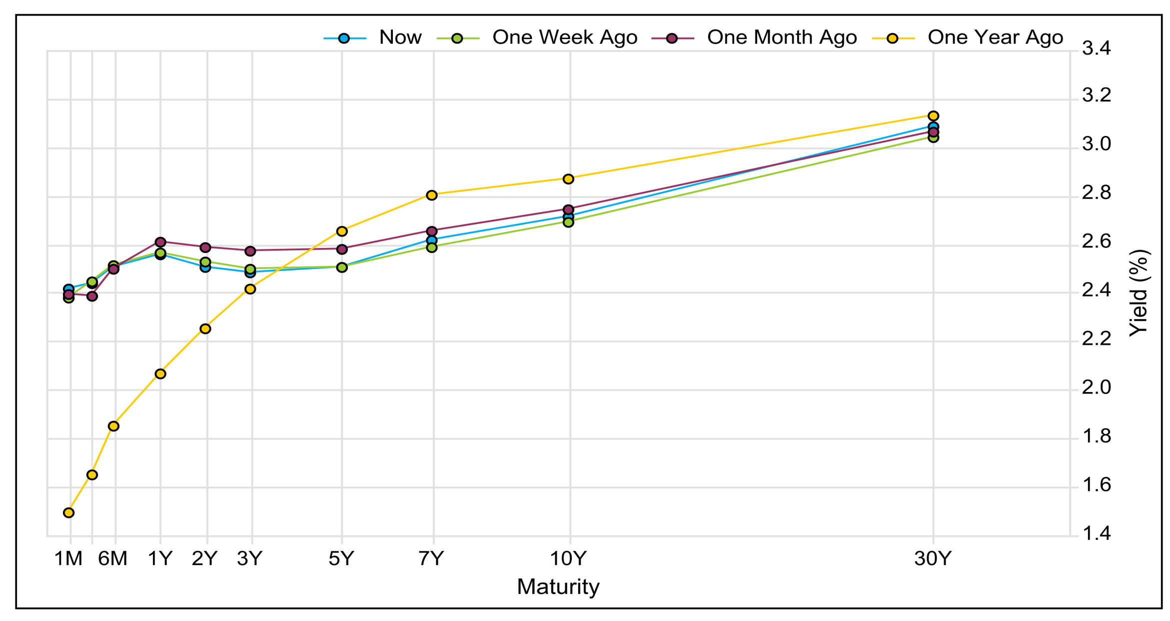
FIXED INCOME

The Federal Reserve Bank of New York has quizzed some primary dealers about a potential new tool for managing interest rates as the central bank prepares to halt its balance-sheet unwind, according to people familiar with the discussions. The New York Fed's markets group has sought feedback on how an instrument that keeps money-market rates from rising too far above the central bank's target range should be designed, and how it would impact markets. That's according to three people who attended meetings on the issue, who asked not to be identified because they're not authorized to discuss them. Primary dealers are firms that transact directly with the Federal Reserve in its implementation of monetary policy. It's the New York Fed's responsibility to implement the Federal Open Market Committee's monetary policy decisions in financial markets and in doing so it regularly speaks with market participants about a range of issues to understand what they're thinking, according to a New York Fed spokesperson. The conversations are part of ongoing preparations for a probable end later this year to the Fed's roll off of bond holdings. The process will complete the gradual shrinking of its balance sheet, which ballooned to $4.5 trillion in the aftermath of the financial crisis of 2008-2009 as the Fed bought assets to lower borrowing costs. The Fed's balance sheet now stands at about $4 trillion. Minutes of December's policy meeting indicated that some officials expressed an interest in learning more about possible options for new ceiling tools to provide firmer control of the policy rate. An account of January's meeting mentioned a year-end spike in rates for repurchase agreements, which occurred during a reduction in overnight lending as market participants shored up balance sheets for regulatory purposes. This saw the highest repo rates since 2001. The Fed's benchmark rate is currently managed in a target range of 2.25% and 2.50%. To manage rates, the Fed pays interest on excess reserves, currently set at 2.40%, and on reverse repurchase agreements, currently set at 2.25%. One possibility for providing a ceiling could be a standing Fed facility at which it would offer funds. The Fed markets group also inquired as to where the rate should be set relative to the interest on excess reserves rate, and how frequently the operations should be conducted, whether daily or only at quarter-end and year-end, according to people familiar with the discussions.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.43%	3 mo	2.32%	3 mo	2.59%	3 mo	1.60%
6 mo	2.50%	6 mo	2.33%	6 mo	2.63%	6 mo	1.62%
1 yr	2.54%	1 yr	2.35%	1 yr	2.68%	1 yr	1.64%
2 yr	2.56%	2 yr	2.59%	2 yr	2.75%	2 yr	1.67%
5 yr	2.56%	5 yr	2.61%	5 yr	2.97%	5 yr	1.82%
10 yr	2.76%	10 yr	3.13%	10 yr	3.44%	10 yr	2.30%
30 yr	3.13%	30 yr		30 yr	4.06%	30 yr	3.28%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.18%	12.10%
S&P 500 (Large Cap)	0.32%	12.26%
S&P 400 (Mid Cap)	-0.36%	16.06%
Russell 2000 (Small Cap)	0.09%	18.08%
NASDAQ Composite	0.57%	14.69%
MSCI EAFE (International)	0.48%	9.94%
iShares Real Estate	-0.47%	12.05%

The week ended on a positive note as U.S. futures moved higher and the Nasdaq is on track for its 10th straight week of gains. The biggest market driver included U.S./China trade, which outweighed the weakening economic data released mid-week. Tech, Energy, and Healthcare led the sectors, as Consumer Staples, Materials, and REITs all finished lower. Gold finished the week down 1.3%, and WTI crude was negatively impacted by the low U.S. Manufacturing data, which stoked concerns over global energy demand. This data led to a 2.5% decline in oil.

Both Personal Income and Spending missed estimates, while the ISM Manufacturing index fell to 54.2% from 56.65%, the slowest pace of expansion in more than two years. According to data from Marketwatch, new orders, production, and employment fell in February; however, even if the economy slowed toward the end of 2018 and potentially early into 2019, the U.S. is still growing at a steady pace. The Fed recently decided to stop raising U.S. interest rates, and the tension easing prospects of reaching a trade deal with China are rising. These could provide tailwinds that could boost growth in the spring.

Notable market movers included Acadia Healthcare Company (ACHC) +15.67%, Foot Locker (FL) +6%, which all beat on Earnings Per Share, and Gap (GPS) + 16.2%, which announced plans to separate into two companies: Old Navy and new company that will house core Gap brand, Athleta, Banana Republic, Intermix, and Hill City. Notable decliners included Tesla (TSLA) -7.8% which involved CEO Musk stating the he does not expect profitability in Q1, and Nutanix (NTNX) – 32.7%, who saw revenue guidance well below estimates.

The biggest theme investors have seen affecting the Market lately have all been tied to U.S./China trade. According to data from both Reuters and Marketwatch, it is believed that President Trump and Premier Xi Jinping could sign a final trade deal as soon as mid-March. This information alone outweighed the weakening economic data that was also released this week. Stocks were further supported by a report from the U.S. Commerce Department showing tame inflation pressures and U.S. personal income falling for the first time in more than three years. It is believed that modest inflation lends support to the Federal Reserve's decision to be patient on hiking rates.

Fed Chairman Powell's semiannual monetary policy testimony had little effect on the market. Fed Chair Powell stressed the central bank's newly established patience mantra, which was nothing unexpected. The bulk of the interest was on Powell's comments that he expects the Fed will end its balance sheet runoff later this year and will have an announcement soon, which led some to believe the Fed could outline a plan as early as March. Powell stated that he believes a reasonable estimate of the Fed's future reserves is ~$1T plus a buffer and that the Fed is not considering raising its inflation target.

After the decline in December, the S&P500 has been seen edging higher. A few weeks into January, the index was able to break its resistance level around 2645 and has continued to climb up into the present. Following the past week of gains, the S&P500 closed at 2796, which is right at its resistance level of 2800.

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.