ECONOMIC HIGHLIGHTS

Retail Sales were up 0.1% for February, less Autos and Gas—the figure was up 0.2%. The Consumer Price Index was up 2.7% year-over-year for February with a core reading of +2.2%. Industrial Production was flat for February, and Capacity Utilization was stuck at 75.4%. The Index of Leading Indicators made a strong showing of +0.6% for February. Finally, the FOMC raised interest rates another 0.25% with a targeted Fed Funds range of 0.75% to 1.00%. The FOMC indicated that it expected another two rate hikes this year at a measured pace.

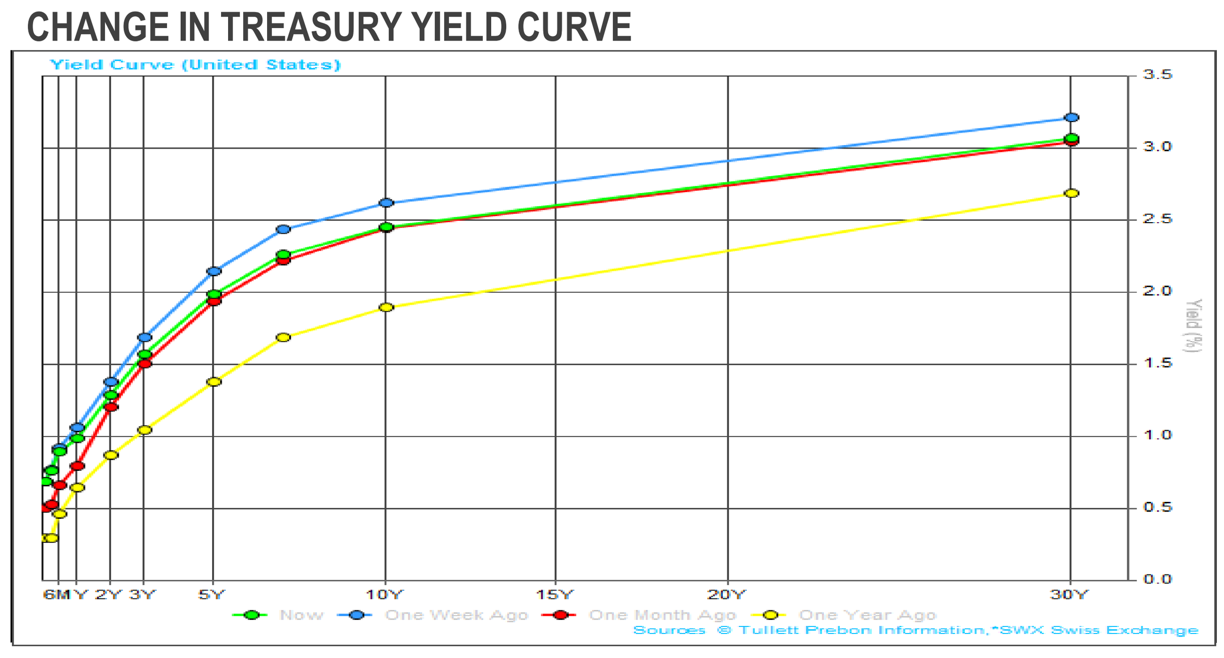
FIXED INCOME

U.S. Treasuries rose in price last week as a gauge of U.S. consumer inflation expectations tumbled, and as European bonds erased losses spurred by hawkish comments from a European Central Bank official. Yields were lower by two to four basis points across the curve at the end of trading on Friday in New York, with the ten-year note down by four basis points to end the day at 2.50%, according to Bloomberg Bond Trader data. The ten-year traded as low as 2.484% earlier in the week, the lowest since March 6, extending the rally sparked by the Federal Reserve's dovish interest-rate forecasts last Wednesday. Yields reached session lows after a University of Michigan survey found that consumers' expected inflation readings for the next five years fell to 2.2% in March, the lowest since 1980. Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt falls. States and local municipalities plan to issue $8.76 billion of bonds over the next 30 days, according to data compiled by Bloomberg. Municipalities have announced $8.21 billion of redemptions and an additional $8.25 billion of debt matures in the next 30 days, compared with the $17.3 billion total that was scheduled a week ago. Issuers from New York have the most debt coming due with $1.65 billion, followed by California at $1.16 billion and Wisconsin with $490.8 million. Investors added $41 billion to mutual funds that target municipal securities in the week ended March 8, compared with an increase of $327 million in the previous period, according to Investment Company Institute data compiled by Bloomberg. Assets of exchange-traded funds that buy municipal debt increased by $87 million to $25.04 billion in the latest week.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	0.73%	3 mo	0.80%	3 mo	1.19%	3 mo	0.74%
6 mo	0.86%	6 mo	0.74%	6 mo	1.28%	6 mo	0.81%
1 yr	0.98%	1 yr	1.00%	1 yr	1.39%	1 yr	0.90%
2 yr	1.32%	2 yr	1.42%	2 yr	1.72%	2 yr	1.15%
5 yr	2.02%	5 yr	2.03%	5 yr	2.53%	5 yr	1.82%
10 yr	2.50%	10 yr	3.04%	10 yr	3.40%	10 yr	2.67%
30 yr	3.11%	30 yr		30 yr	4.28%	30 yr	3.77%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.08%	6.47%
S&P 500 (Large Cap)	0.28%	6.72%
S&P 400 (Mid Cap)	1.23%	4.57%
Russell 2000 (Small Cap)	1.97%	2.79%
NASDAQ Composite	0.70%	9.90%
MSCI EAFE (International)	1.93%	7.79%
iShares Real Estate	2.17%	1.64%

The S&P 500 rebounded from the prior week's small loss to end last week with positive returns. Sector returns were mixed with seven of the eleven groups posting positive returns led by Real Estate, Telecom, and Utilities, while Financials, Health Care, and Industrials led decliners.

Bond proxies did well last week with dividend-oriented stocks and sectors (as noted above) performing particularly well after bond yields fell following the Federal Reserve's rate decision on Wednesday. The 10-year Treasury ended the week at 2.50% down from a high on Monday near 2.60% - making the dividend income paid by REITs, Telecom, and Utility stock relatively more attractive.

Crude oil stabilized last week finishing largely unchanged. The sideways move last week put the brakes on its recent slide. Over the last month crude has fallen from a high of $54 to its Friday's closing price of $48—fueled in main part from worries surrounding a global increase in inventories.

It was reported on Tuesday that activist investor Bill Ackman and his Pershing Square hedge fund sold its remaining shares of Valeant Pharmaceuticals. The fund sold 27.2 million shares around $11 a share, representing an estimated $4 billion loss for the fund.

Bespoke noted in a report last week that through March 15, the S&P 500 is up 6.03% year-to-date—marking the 23rd time since World War II the index has been up at least 5% through the first 50 trading days. In the prior 22 cases, the index has gone on to trade higher over the remainder of the year 21 times—posting an average return of 12%. The only year in which the index traded lower was in 1987.

For the S&P 500, last week's modest performance did little to change support and resistance levels. We will continue to watch 2365, 2290, and 2175 as short, intermediate, and longer term support. The S&P 500 finished last week at 2378.

For the week ahead most headlines will likely be focused on exogenous factors such as the continued debates in Washington regarding the outcome of the latest health care legislation, budget proposal, and potential tax reform bills. One thing to keep an eye on as we move into the spring, several major global powers has key elections this year. The Dutch general elections were last week, France's presidential election is set for late-April, and Germany's federal elections are slated for September.

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	Neutral
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Favorable
Real Estate	Favorable
Commodities	Unfavorable

Below is a summery of our current stance on most asset classes:

Cash - Holding as little as possible given the miniscule yields in money market instruments. Any exposure is for defensive positioning.
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 spread products.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened; however, still remain attractive versus Treasuries.
International Bonds - Emerging market bonds offer good diversification qualities while providing higher yield opportunities relative to domestic fixed income.
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 has reemerged as a more favorable style and should be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure along with a value tilt is preferred. 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. Recent relative performance versus developed markets support the stronger fundamental backdrop and positions have been added.
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. Although, volatility will be higher and commodities will be susceptible to short-term price shocks, if used in conjunction with other asset classes, risk can be reduced substantially to a diversified portfolio. However, used alone is not recommended as the short-term outlook is not favorable.

Sources of statistical information are Bloomberg and Ned Davis Research.