ECONOMIC HIGHLIGHTS

In March, the ISM Manufacturing Index was an expansionary 57.2, and the PMI Manufacturing Index was at 53.3. Factory Orders were also reasonable for February, up 1.0% and in line with consensus. Construction spending was up 0.8% for February and up 3.0% year-over-year. The ISM Non-Manufacturing Index was at 55.2 for March, and the PMI Services Index was at 52.8 for March. Overall strength in the U.S. economy appears moderate. The most recent FOMC minutes were released, and pretty much all of the 17 members were in favor of the most recent rate hike. None of the members seemed too concerned about inflationary pressures. Finally, the U.S. Unemployment Rate fell to 4.5% from 4.7% last month.

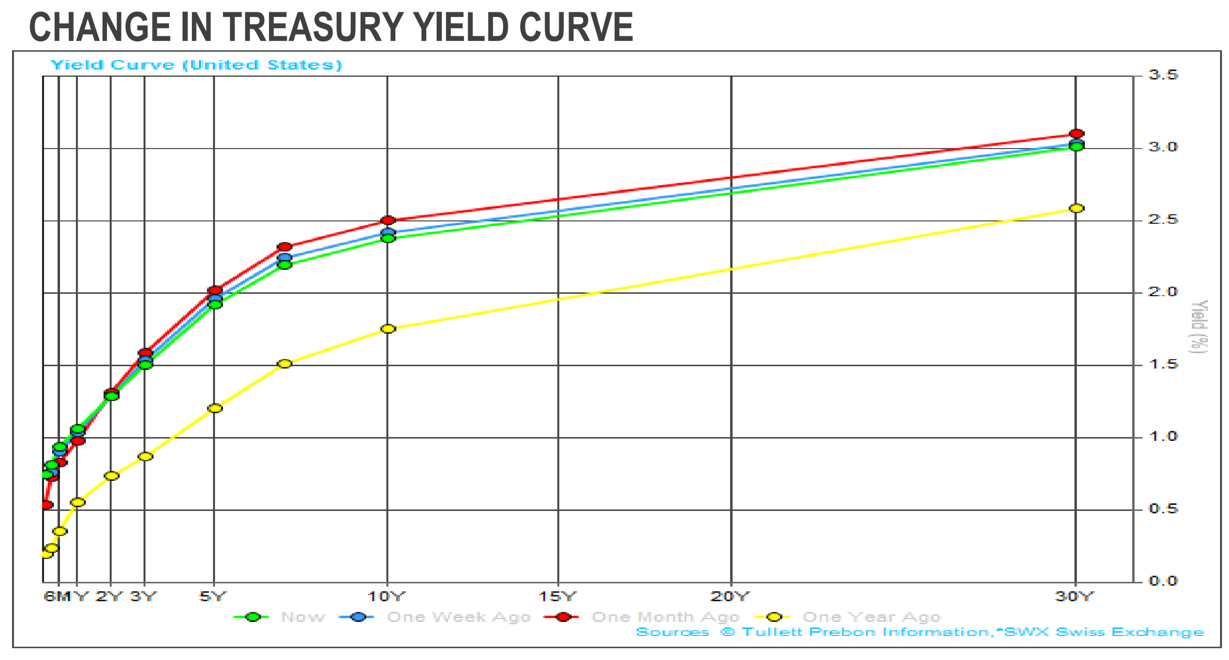
FIXED INCOME

Even with the bond market's muted response to the Federal Reserve's plan to begin winding down its almost $4.3 trillion portfolio of mortgage and Treasury securities, there are plenty of reasons why the calm probably won't last. Out of style for almost a decade, volatility may be on its way back if you take a closer look at the mechanics of the Treasury and mortgage markets. Despite the Fed's mantra of seeking to carry out its policy shift in a "gradual and predictable manner," analysts say the effects of ending the reinvestment of the proceeds from maturing securities will still be felt. While the three rounds of Fed asset purchases that became known as quantitative easing sapped volatility, former Fed Chairman Ben Bernanke's comments in May 2013 that the central bank was considering scaling back purchases showed how quickly that can change. The so-called taper tantrum sent yields surging. As the Fed begins to unwind, here is one big reason why there may be an upswing in volatility. The Fed owns $1.77 trillion of agency mortgage-backed securities, about 31% of the market. As the central bank's MBS holdings begin to roll off, mortgage spreads to Treasuries are going to have to widen to adjust for the additional supply, which some analysts estimate will begin at around $5 billion a month. Since the Fed concluded quantitative easing in October 2014, the spread between Fannie Mae 30-year current coupon and Treasuries has been sitting between 90 and 114 basis points, below its historical average of about 137 basis points. Mortgage spreads may widen five to ten basis points once the market prices in a certainty for tapering investments and another 10 to 20 basis points over the longer term, according to Citigroup Inc.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	0.82%	3 mo	0.82%	3 mo	1.19%	3 mo	0.74%
6 mo	0.93%	6 mo	0.77%	6 mo	1.28%	6 mo	0.81%
1 yr	1.06%	1 yr	0.98%	1 yr	1.38%	1 yr	0.87%
2 yr	1.29%	2 yr	1.38%	2 yr	1.67%	2 yr	1.06%
5 yr	1.51%	5 yr	1.56%	5 yr	2.41%	5 yr	1.60%
10 yr	2.38%	10 yr	2.89%	10 yr	3.23%	10 yr	2.38%
30 yr	3.01%	30 yr		30 yr	4.15%	30 yr	3.47%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.02%	5.21%
S&P 500 (Large Cap)	-0.24%	5.81%
S&P 400 (Mid Cap)	-0.76%	3.15%
Russell 2000 (Small Cap)	-1.52%	0.90%
NASDAQ Composite	-0.55%	9.53%
MSCI EAFE (International)	-0.75%	7.08%
iShares Real Estate	0.83%	3.85%

The S&P 500 spent last week consolidating gains amassed in the week prior. Geopolitics and a weaker than expected employment report were center stage, however equity markets largely shrugged off the worrisome news and ended the week only marginally lower. Notable events included an overnight cruise missile attack on strategic targets in Syria, while domestically, Friday saw a weaker than expected employment report where the economy was shown to have added only 98,000 jobs in March, well below the 180,000 that was expected.

Sector returns for the week fell decisively in favor of defensive sectors such as Consumer Staples, Utilities, and HealthCare, while cyclical sectors such as Consumer Discretionary and Technology posted declines. Through the first quarter of 2017, Technology, HealthCare, and Consumer Discretionary are the clear winners, while Energy is the only sector to finish the quarter lower.

Shares of Kate Spade fell about -13% on Tuesday after the company said it would take more time to negotiate its sale after a bid from Coach. Michael Kors remains the other suitor and has continued to express interest in the acquisition.

Since April 15 falls on a weekend, Americans have until April 18 to file their 2016 taxes. Bespoke issued a report last week noting that since 1955, the period leading up to tax day has historically been positive for stocks. Over that time period, the S&P 500 has averaged a return of 0.71% with positive returns 69% of the time in the two weeks leading up to the tax deadline.

Equity markets took note of the release of the latest Federal Reserve meeting minutes on Wednesday. The minutes showed that balance sheet normalization was one of the key areas of focus. A shrinking of the central bank's $4.5 trillion balance sheet signaled the prospect of a drop in global liquidity.

The sideways market action last week did little to change key support and resistance levels noted in these comments in prior weeks. Short, intermediate, and longer term support still stands at 2340, 2290, and 2175, respectively. The all-time closing high of 2395 would still stand as the first resistance level. Last week, the S&P 500 finished at 2355.

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.