ECONOMIC HIGHLIGHTS

U.S. Factory Orders were down 0.5% for February—in line with forecasts. The Consumer Price Index was up 0.4% for March after having been up 0.2% for February. Core CPI was more tame at +0.1%. Finally, Producer Prices were up 0.6% for March after having been up 0.1% in February.

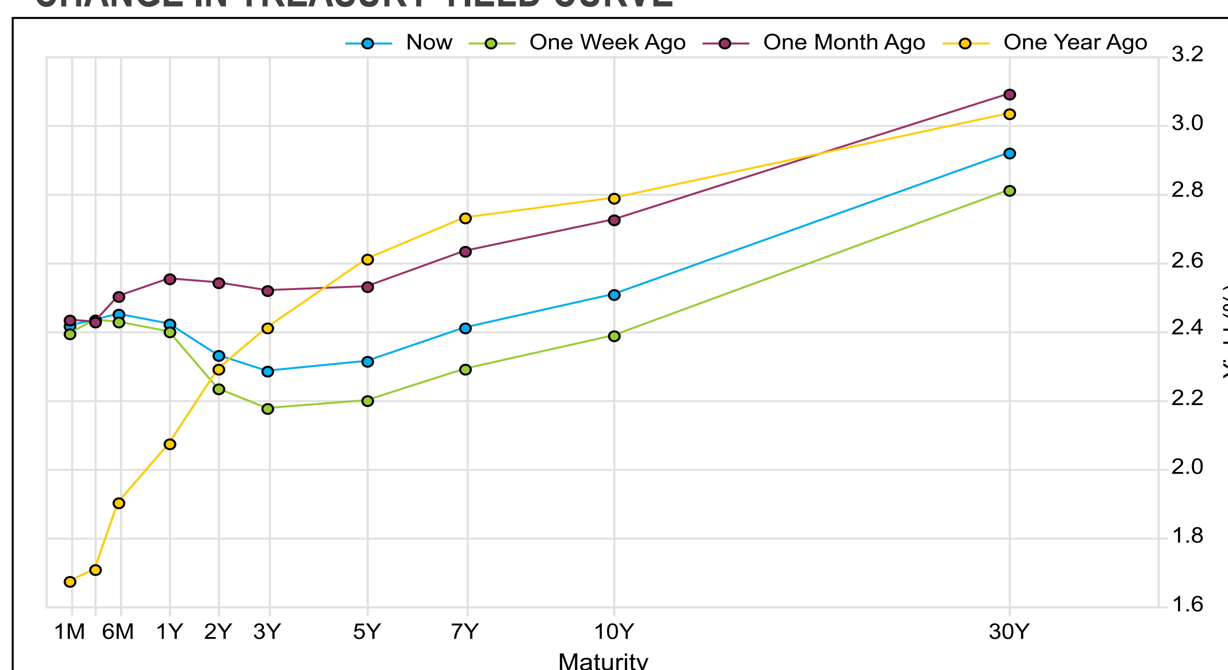
FIXED INCOME

Behind the rally in global debt markets, some long-time market watchers are warning there could be potential trouble ahead. While easy money policy by the Federal Reserve and other central banks have encouraged investors to move money into bonds, two developments could make buyers vulnerable to painful losses, they say. One is the sheer amount of ultra-low yielding debt, which means investors have almost no buffer in the event yields begin to rise and prices drop. Also, there is some worry that liquidity will suddenly dry up if a selloff occurs and leave bondholders stuck with losses on positions that can't be easily sold. To be clear, no one is actually predicting this scenario in the market, and history hasn't been particularly kind to bond market bears in recent history. Still, there is a real risk, however small, and caution is more than justified. By some measures, the amount of investment-grade bonds has doubled to $52 trillion since the financial crisis. And yields, on average, have fallen to roughly 1.8%, less than half the level of similar debt in 2007. If yields were to rise by a mere 0.50%, investors could be looking at almost $2 trillion in losses. Currently, the duration of investment-grade bonds tracked by Bloomberg globally stands at about 7, which is close to a record high. Bonds with longer maturities and lower yields would have a higher duration than shorter maturity bonds. For example, if yields rose a full-percentage point, a bond with a duration of seven would lose approximately 7% of its market value. Concerns about liquidity aren't confined to the debt markets. Even in the $5.1 trillion-a-day market for foreign exchange, illiquidity has manifested itself in a series of mini-flash crashes. Most recently, traders were blindsided by a seven-minute surge in the yen versus the dollar, which took place during the witching hour - a period between New York's market close and the opening of trading in Tokyo when volumes tend to be very thin and the market is susceptible to large swings. Andrew Maack, head of foreign-exchange trading at Vanguard, says flash events have become more common as algorithmic trading programs begin to outnumber humans. According to JPMorgan's annual survey, currency traders said liquidity will be the biggest daily challenge of 2019.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.42%	3 mo	2.41%	3 mo	2.67%	3 mo	1.58%
6 mo	2.44%	6 mo	2.39%	6 mo	2.68%	6 mo	1.60%
1 yr	2.42%	1 yr	2.38%	1 yr	2.70%	1 yr	1.62%
2 yr	2.39%	2 yr	2.46%	2 yr	2.73%	2 yr	1.65%
5 yr	2.38%	5 yr	2.42%	5 yr	2.75%	5 yr	1.78%
10 yr	2.57%	10 yr	2.85%	10 yr	3.43%	10 yr	2.11%
30 yr	2.98%	30 yr		30 yr	4.02%	30 yr	3.00%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.03%	13.96%
S&P 500 (Large Cap)	0.45%	16.55%
S&P 400 (Mid Cap)	0.79%	18.64%
Russell 2000 (Small Cap)	0.14%	17.92%
NASDAQ Composite	0.58%	20.69%
MSCI EAFE (International)	0.24%	12.99%
iShares Real Estate	0.18%	18.40%

Last week the S&P 500 posted its third straight week of gains and closed above the much-watched 2900 level for the first time since October and ended within just over 1% of its all-time high.

Ongoing trade developments between the US and China and reports of the start to US and EU trade talks supported sentiment for stocks. Better than expected macro data from China also supported gains. EU leaders agreed on a Brexit delay until the end of October and will review progress in June.

A big splash in the oil market on Friday when it was announced Anadarko Petroleum (APC) would be acquired by Chevron (CVX) in ~$33B deal. APC rallied 32.0% on the news of the deal for $65/sh (a ~39% premium) in a cash-and-stock deal.

Earnings season, which began on Friday, is seen as the next potential directional driver for market. The earnings bar has been lowered with several high-profile companies cutting guidance and a 7%+ decline in bottom-up S&P 500 EPS estimate over the course of the quarter. As usual, corporate commentary and guidance could overshadow results.

On the global macro-economic front last week, the IMF lowered its 2019 global GDP forecast to what would be the lowest in 10 years to 3.3%. In addition, Moody's reported global economic demand has weakened in recent months. However, JP Morgan CEO Jamie Dimon made upbeat comments about the US economy, suggesting domestic strength could continue for years and that there might not be a recession in the next decade.

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.

Sources of statistical information are Bloomberg and Ned Davis Research.

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