ECONOMIC HIGHLIGHTS

U.S. final demand producer prices increased 0.3% for March 2018, and 3.0% for the year ended March. U.S. consumer prices were actual down 0.1% in March 2018, and up 2.4% year-over-year. Otherwise, a fairly quiet week in terms of economic data.

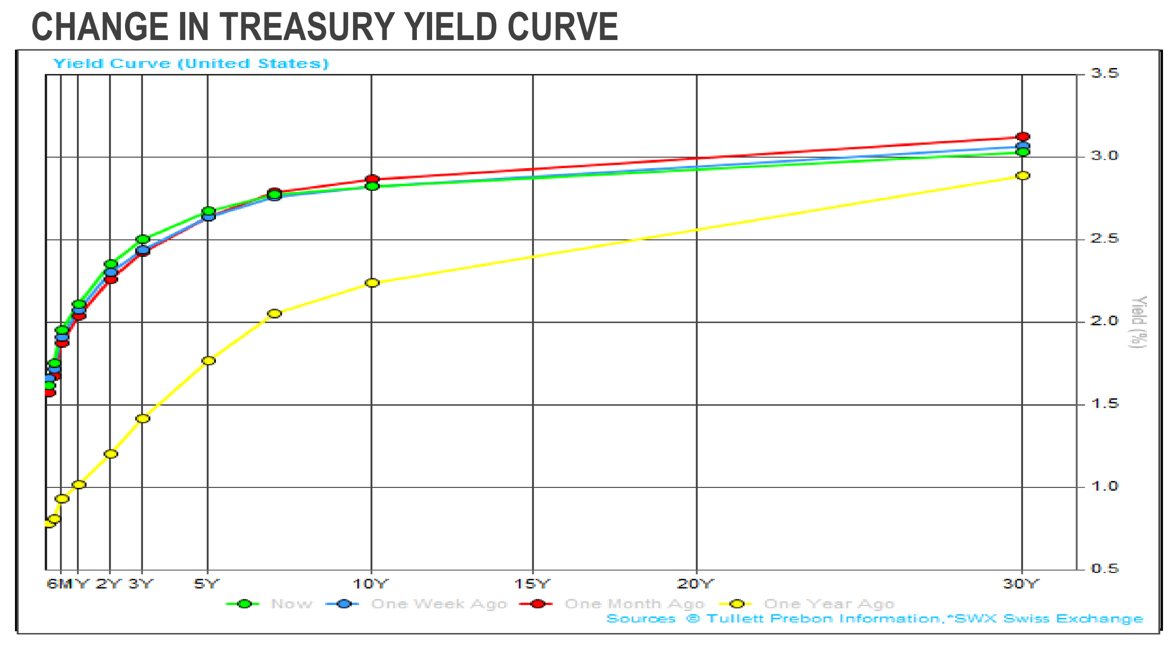
FIXED INCOME

Federal Reserve Bank of Boston President Eric Rosengren doesn't buy the argument that the U.S. economy's benign mix of low unemployment and low inflation will continue, and worries the central bank may be too slow in raising rates. "We have to be vigilant to make sure we're not overstimulating the economy and generating either wage and price increases that are faster than what we're going to want in the long run, or financial stability concerns," Rosengren said in an interview last Friday in Boston. Rosengren, a veteran policy maker who advocated for ultra-easy monetary policy during the financial crisis before switching to a more hawkish tack in 2016, hopes forecasts laid out by his colleagues in March come true. They see economic growth in 2018 of 2.7%, joblessness ending the year at 3.8% and inflation at 1.9%. But he's not betting on it. "If you end up with an unemployment rate that's really low and ebullient markets that have to be offset at some point, and cause a recession, then I'll feel vindicated," said Rosengren, who will vote on policy in 2019. Currently the longest-serving member of the policy-making Federal Open Market Committee, Rosengren, 60, is slowly adding urgency to his argument for a slightly quicker path of rate hikes than projected by the panel as a whole. The median projection of officials called for two additional increases this year on top of the rate hike announced at their March meeting. The lack of a sharper move upward in wages -- the Fed's favored gauge of inflation has remained below its 2% target -- has caused other policymakers to lower their view on how far unemployment could fall without provoking higher inflation. Rosengren, by contrast, has left his estimate steady at around 4.7%, he said, warning that economists have a track record of getting it wrong when they shift their call. He said businesses have responded so far to a tightening labor market by increasing benefits and giving workers more flexibility. In other words, they've tried to attract and retain workers with everything but wage increases.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.75%	3 mo	1.76%	3 mo	2.25%	3 mo	1.51%
6 mo	1.95%	6 mo	1.80%	6 mo	2.32%	6 mo	1.56%
1 yr	2.09%	1 yr	1.95%	1 yr	2.43%	1 yr	1.62%
2 yr	2.36%	2 yr	2.33%	2 yr	2.68%	2 yr	1.76%
5 yr	2.67%	5 yr	2.61%	5 yr	3.14%	5 yr	2.12%
10 yr	2.83%	10 yr	3.12%	10 yr	3.63%	10 yr	2.62%
30 yr	3.03%	30 yr		30 yr	4.00%	30 yr	3.52%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	1.80%	-0.87%
S&P 500 (Large Cap)	2.04%	-0.10%
S&P 400 (Mid Cap)	1.63%	-0.47%
Russell 2000 (Small Cap)	2.41%	1.27%
NASDAQ Composite	2.77%	3.25%
MSCI EAFE (International)	2.00%	0.68%
iShares Real Estate	-0.93%	-7.33%

U.S. stocks were modestly higher last week led by Energy stocks which rallied over 6% as a group – crude oil reached a new three-year high ending the week at $67 a barrel. The rally was broad based with nine of the ten main sector groups advancing.

Bespoke noted in a report that the heightened volatility seen during the first quarter of 2018 has continued into the first few days of the second quarter. In just the first five trading days of the second quarter, the S&P 500 has seen an average intraday range of over 2%.

The group also made note of the fact after an initial surge of over 7% to start the year, the S&P 500 gave it all back and then some to finish the quarter down -8.1% from its year-to-date closing high. Going back to 1928, there have only been ten instances where the index was up at least +5% on a closing basis but then finished the quarter down +5% from that year-to-date closing high. Half of those occurrences were in the 1930s – in other words, this scenario has only happened five times in the last 75+ years.

The weekly AAII bullish and bearish readings are meant to track individual investor sentiment towards the stock market. Bullish readings remained tepid throughout 2017, only to spike and top out just as the market was peaking in January. The correction of early-February saw the bullish index collapse and bottom out in the high 20s/low 30s. This week the bullish reading stands at 32% slightly below the bearish sentiment reading of 37%. This survey is widely used as a contrarian indicator so having more bearish respondents than bullish is seen a positive sign in the short term.

For the week ahead, earnings season will be fully underway with the week heavily weighted toward banks and financial institutions. Notable reporters include but are not limited to: Bank of America, Netflix, Goldman Sachs, Johnson & Johnson, US Bancorp, General Electric, and Schlumberger.

According to Fact Set, the Street is looking for S&P 500 earnings growth of 17.1% in Q1, up from 11.3% at the start of the quarter, marking the fastest growth in seven years. While there is a big tailwind from tax reform, some strategists have discussed how earnings season could help to put some of the focus back on a still-favorable fundamental narrative.

Last week's rally did little to change the support and resistance levels we are watching for the S&P 500. Support still stands at 2580, while rallies will run into resistance at 2685, 2740, and 2840. The index closed last week at 2656.

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.