ECONOMIC HIGHLIGHTS

U.S. Durable Goods Orders were up 2.6% for March 2018, with all of the gains coming from transportation. Core Durable Goods New Orders were flat. First quarter U.S. Real GDP Growth came in at +2.3% on an annualized basis with the GDP Price Index up at a 2.0% annualized rate. The Employment Cost Index was up 0.8% on an absolute basis for the first quarter of 2018, and up 2.7% year-over-year.

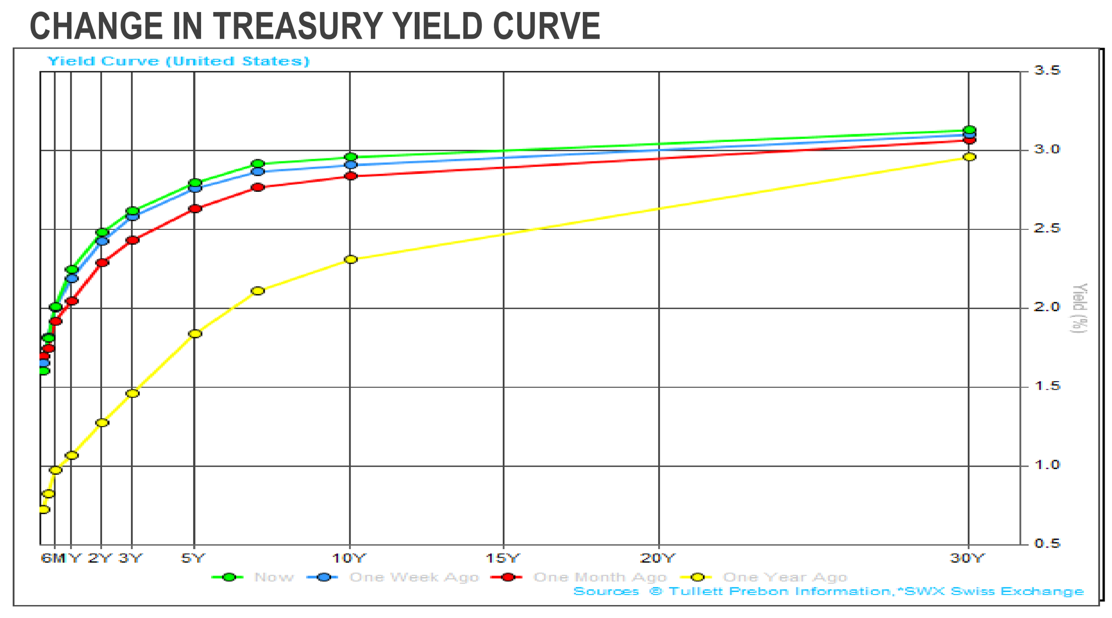
FIXED INCOME

Was breaking through 3% on ten-year Treasuries a signal that the bond bear market is upon us, or just another fake-out driven by momentum? The busy week ahead will provide the clearest answer yet. Busy may be an understatement. Inflation and jobs data bookend the week, which also includes the Treasury's quarterly refunding announcement (which is expected to bring bigger auction sizes across maturities) and a Federal Reserve decision on May 2. The FOMC isn't expected to raise rates this week but close attention will be paid to the language in the comments made after the meeting ends. The world's biggest bond market enters the week at an inflection point. Ten-year yields reached 3.03% last week, a level last seen in January 2014. Yet they wound up little changed on the week, leaving traders to decide whether Treasuries are in for an extended slide, or a quick rebound. The striking thing about the ten-year breaching 3% was that it happened even with little top-tier U.S. economic data, or an auction of the maturity. Starting Monday, that could change. The Fed's preferred inflation gauge is expected to hit the central bank's 2% target for the first time in 13 months. Matching or exceeding that forecast would affirm traders' conviction that inflation is headed higher, which could push long-term yields higher. The Treasury's announcement of its quarterly funding plans also poses risks. Namely, the market's expectation is for bigger auctions to cover budget deficits that are projected to swell to more than $1 trillion by 2020. If more supply comes at the long end, that could roil ten- and thirty-year Treasuries and steepen the yield curve. The Fed probably poses the opposite risk. Data last week showing faster wage growth could push policymakers to signal three more rate hikes in 2018. Bond traders are only pricing in a bit more than two for the remainder of the year. Rounding it all out is the jobs report Friday, when average hourly earnings will be scrutinized. Also, available data shows speculators have never been more bearish on 10-year Treasuries.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.80%	3 mo	1.86%	3 mo	2.29%	3 mo	1.62%
6 mo	2.00%	6 mo	1.87%	6 mo	2.38%	6 mo	1.67%
1 yr	2.23%	1 yr	1.97%	1 yr	2.50%	1 yr	1.74%
2 yr	2.48%	2 yr	2.39%	2 yr	2.78%	2 yr	1.88%
5 yr	2.80%	5 yr	2.72%	5 yr	3.28%	5 yr	2.26%
10 yr	2.96%	10 yr	3.29%	10 yr	3.80%	10 yr	2.77%
30 yr	3.13%	30 yr		30 yr	4.19%	30 yr	3.73%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.62%	-1.03%
S&P 500 (Large Cap)	0.00%	0.44%
S&P 400 (Mid Cap)	-0.40%	0.01%
Russell 2000 (Small Cap)	-0.49%	1.73%
NASDAQ Composite	-0.36%	3.45%
MSCI EAFE (International)	-0.11%	0.94%
iShares Real Estate	2.62%	-5.56%

The S&P 500 bounced off a key support level last week rallying sharply on Thursday to end the week essentially unchanged. There was a wide dispersion in sector returns last week – six sectors rose while five fell. The best performing groups were Utilities and Real Estate; both were up over +2.50%. Industrial stocks were the biggest decliners as that group fell over -3% on the week.

There was a barrage of companies reporting earnings last week – as of this writing, just over half of the S&P 500 has now reported Q1 results. According to FactSet, the blended growth rate for Q1 S&P 500 EPS is now 22.9%, up from 18.3% at the end of the prior week and the 11.3% expected at the start of the quarter. Roughly 80% have exceeded consensus EPS estimates. While this metric has come down over the last few days, it is still better than the 74% four-quarter average. In aggregate, companies are beating the consensus by 9.4%, well above the 5.1% four-quarter average.

Bespoke noted in their writings last week that breadth levels for the S&P 500 have recovered somewhat along with price, but are still not at overly healthy levels. They noted that 47% of the S&P 500 stocks were above their 50-day moving averages. The percentage of S&P 500 Industry Groups trading above their 50-day average price currently stands in the mid-40s.

Breadth globally is also lackluster. Bespoke pointed out that in their 76 country stock market index, the average country is up +1.78% so far this year, and 44 of the 76 countries are positive year-to-date. G7 countries have shown weaker performance with an average decline of -0.46% - and just 2 of the 7 rank in the top half of the 76 country index. Ukraine, Romania, and Saudi Arabia are up the most so far in 2018, while the Philippines, Dubai UAE, and China are down the most.

Facebook announced positive earnings results on Thursday, and its shares rose +9% on the day. The company beat revenue and earnings estimates and showed no signs of an ad spending slowdown following its user data scandal – ad revenue jumped 43% year-over-year.

Shares of Amazon rallied on Friday after the company beat consensus expectations for revenue and EPS – it also raised 2Q guidance. Of note was an announcement by the company it would hike the price of its Prime membership to $119 from $99 which is expected to generate about $1.2 billion in incremental revenue.

The week ahead will be another heavy on earnings reports. Some of the notable companies scheduled to report this week include: McDonald's, Pfizer, Humana, Apple, CBS Corp., Express Scripts, and YUM! Brands. Also of note is the FOMC rate decision slated for Wednesday and U.S. jobs report on Friday.

For the S&P 500, we are still watching 2615 and 2580 as key support levels while resistance stands at 2686, 2720, and 2800. The index closed last week at 2669 – basically at the same level as the prior week's close of 2670.

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.