ECONOMIC HIGHLIGHTS

U.S. New Single-Family Home sales came in at an annualized rate of 621,000 units, much better than consensus. Pricing was also quite strong. Durable goods orders for March were up 0.7%, a bit less than consensus. Year-over-year, durable goods orders were up a healthy 5.8%. U.S. Real GDP for the first quarter of 2017 came in at a light 0.7%. The price index was up 2.3% annualized over the quarter. Weak vehicle sales were one of the larger negatives in the report. The Chicago Purchasing Managers Index was a strong 58.3 in April. Finally, the Employment Cost Index increased 0.8% for the first quarter of 2017—more-than-expected. For the year ended March, the ECI was up 2.4%.

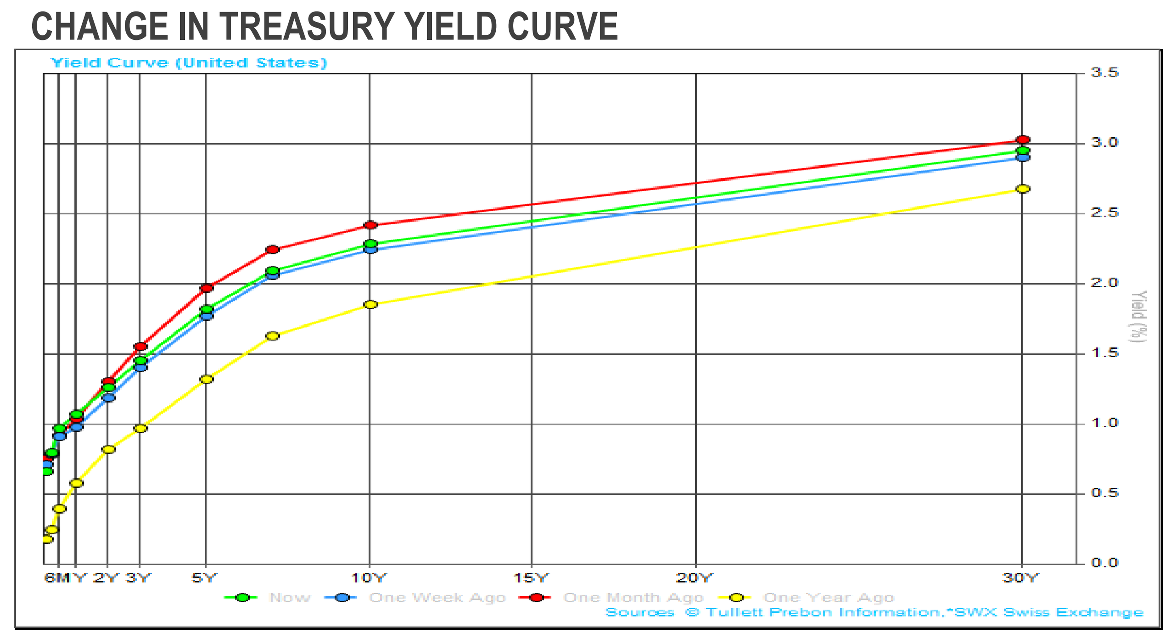
FIXED INCOME

Bond traders demonstrated last week that for all the doubts about the Trump trade, wagers on quicker inflation still have life. Look no further that the U.S. ten-year breakeven rate. It climbed the most on a weekly basis this year, rising back toward two percent, suggesting the market is starting to hop back on the inflation bandwagon. The shift is taking place just in time for the Federal Reserve's May 3 policy announcement. While traders see little chance of a hike this week, an increase is seen as much more likely in June, and is fully priced in by September, according to the futures market. The focus this week may be on Fed officials' assessment of the economic outlook after Trump administration fiscal initiatives that traders were betting on stalled. "The reflation trade maybe got a little bit over-exuberant, but now it's gotten to the opposite end of the spectrum", according to Jonathan Beinner, chief investment officer of global fixed-income strategies at Goldman Sachs Asset Management. Fed officials should be encouraged by the increase in the employment cost index, which shows that having a jobless rate near a ten-year low may be moving the needle on wages. For all the noise in the market last week, yields across the curve were little changed. The ten-year Treasury ended trading last Friday in New York at a yield of 2.28%, according to Bloomberg Bond Trader data. Also, the thirty-year bond ended the week below the three percent level for the second consecutive week.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	0.80%	3 mo	0.84%	3 mo	1.17%	3 mo	0.72%
6 mo	0.92%	6 mo	0.85%	6 mo	1.25%	6 mo	0.76%
1 yr	1.06%	1 yr	0.97%	1 yr	1.35%	1 yr	0.85%
2 yr	1.26%	2 yr	1.34%	2 yr	1.63%	2 yr	1.05%
5 yr	1.82%	5 yr	1.82%	5 yr	2.32%	5 yr	1.60%
10 yr	2.28%	10 yr	2.79%	10 yr	3.12%	10 yr	2.41%
30 yr	2.95%	30 yr		30 yr	4.09%	30 yr	3.66%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	1.91%	6.71%
S&P 500 (Large Cap)	1.53%	7.16%
S&P 400 (Mid Cap)	0.91%	4.81%
Russell 2000 (Small Cap)	1.50%	3.58%
NASDAQ Composite	2.33%	12.72%
MSCI EAFE (International)	2.95%	10.51%
iShares Real Estate	-2.05%	3.57%

A sharp relief rally on Monday following the French election results sent U.S. markets higher – stocks held on to the gains the rest of the week to end the week higher across all market capitalizations. Continued sharp rhetoric surrounding geopolitical concerns and political wrangling over tax reform, healthcare legislation, and a looming budget impasse were not enough to wrest control from the bulls, who were in control of last week's market action.
Nine of the eleven sector groups rose last week – with Healthcare, Technology, and Consumer Discretionary shares leading the overall advance. Real Estate and Utilities were the only two groups to post declines – despite a continued drop in U.S. interest rates.

Over the previous weekend, the results of the first round of French election showed that centrist Emmanuel Macron and far-right Marine Le Pen had won enough votes to make it to the second round of voting. The results diminished concerns about a "Brexit" and helps increase confidence in European stability. Macron is now the strong favorite, expected to garner more than 60% of the final-round voting according to early polling.

Last week, Bespoke took a look at the performance of various asset classes since President Trump's inauguration – given this past week marked his 100th day in office. Given the tsunami of policy rhetoric over the past few months – the results might be a little surprising. The five best performing ETFs in the Bespoke universe post inauguration are: Mexico, India, Spain, Emerging Markets, and Nasdaq 100. Also of note is the worst performing country since inauguration has been Russia – down -4.5%.

One item to keep an eye on moving forward is the potential for an increase in protectionist moves by the current administration. Last week the U.S. moved to impose a 20% tariff on imported Canadian softwood lumber and has been locked in an ongoing argument with the country about the pricing of its dairy products. On Wednesday, Politico reported that the Trump administration is preparing a draft executive order to withdraw the U.S. from the NAFTA free-trade pact with Canada and Mexico. Later in the week the administration backed away from the hardline stance after Trump said the leaders of the two countries contacted him to renegotiate the plan.

Last week's rally pushed the S&P 500 up through its 50-day moving average which now acts as short-term support. The moving average stands at 2360 – beneath that intermediate and longer-term support stands at 2325 and 2240. The S&P closed last week at 2384. All-time closing highs are at 2395 reached on March 1.

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.