ECONOMIC HIGHLIGHTS

Home sales in April for both new and existing homes came in below expectations and were down 6.9% and 0.4% month over month respectfully. A report by the firm Markit showed manufacturing slowed in May with a reading of 50.6, the lowest print for this number since May 2016. A reading above 50 means the manufacturing sector is still expanding but at much slower levels than this time last year. On a more positive note, initial jobless claims continue to remain strong coming in at 211,000 applicants for the week ending May 18. These numbers bode well for continued strength in job creation going forward.

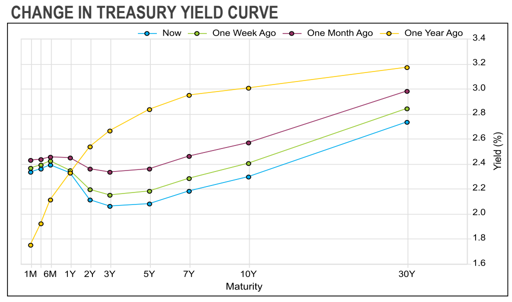
FIXED INCOME

This week the Treasury will auction over $130 billion in new securities at a time when yields are at their lowest levels in over a year. This is causing some concern in the market that the auctions may not be well received. One thing that remains a positive is that inflation continues to remain tame, which could bolster demand. The trade impasse between the United States and China continues to cast a wide shadow over the markets and has put global economic growth in question, driving investors to the safety of Treasuries. Among significant economic news this week will be the release on Friday of the Fed's preferred inflation measure which is expected to remain well below the stated target of two percent. That backdrop is fostering skepticism in the market about the central bank's view that the forces depressing price pressures will prove "transitory," and is fueling bets on a rate cut by the end of the year. The ten-year Treasury yield ended last week at 2.32%, close to the lowest print since late 2017, amid escalating trade tensions and signs of slowing global growth. The benchmark yield for everything from mortgages to auto loans is down from 3.26% last August and has caused another inversion to yields on the three-month bill by two basis points. Traders are betting the Fed will be forced to act in the coming months if trade tensions don't ease and more signs emerge that worldwide growth is slowing to a point they can't ignore. Futures trading currently show the market is pricing in more than a full quarter-point Fed cut this year, with some wagers emerging that the first move may be a half-point reduction in the funds rate. Minutes from the Fed's April 30-May 1 meeting released last week confirmed many officials on the committee agreed with Chairman Powell's description of low U.S. inflation being caused by these transitory forces. Since introducing its two percent inflation target in 2012, the central bank has failed to lift inflation to that level on a sustained basis. Being a short trading week with the markets closed Monday for the Memorial Day holiday, there may be special attention paid to any headlines that come from President Trump's meeting over the weekend with Japanese Prime Minister Shinzo Abe. The U.S. can ill afford tensions with one of its main global allies during the current situation developing with China.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.34%	3 mo	2.32%	3 mo	2.50%	3 mo	1.49%
6 mo	2.38%	6 mo	2.37%	6 mo	2.50%	6 mo	1.51%
1 yr	2.32%	1 yr	2.29%	1 yr	2.52%	1 yr	1.53%
2 yr	2.16%	2 yr	2.20%	2 yr	2.50%	2 yr	1.55%
5 yr	2.12%	5 yr	2.16%	5 yr	2.67%	5 yr	1.63%
10 yr	2.32%	10 yr	2.56%	10 yr	3.12%	10 yr	1.95%
30 yr	2.75%	30 yr		30 yr	3.80%	30 yr	2.78%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.30%	10.79%
S&P 500 (Large Cap)	-0.39%	13.76%
S&P 400 (Mid Cap)	-0.61%	12.73%
Russell 2000 (Small Cap)	-0.67%	12.83%
NASDAQ Composite	-0.84%	15.62%
MSCI EAFE (International)	0.37%	10.16%
iShares Real Estate	1.62%	18.32%

U.S. equities have been fairly mixed for the week. After gains near the beginning of the week, the S&P 500 index saw its largest decline since the beginning of 2019, in which it touched a resistance level at ~2800. Energy (-3.6%) was the biggest laggard of the sector groups while Utilities (1. 72%) and Real Estate (1.80%) were two of only four sectors to end the week positive. Gold finished up .55% while WTI crude saw a big decline of -6.80%.

Trade war talks, largely the cause for the past months market movement, continues to dominate the headlines as "tech war worries" begin to heat up, as reported by Politico. Bloomberg noted that some US businesses fear export controls more than tariffs given they prevent them from competing in lucrative markets while dampening America's capacity to innovate. The last information heard was from Reuters, in which they state that upbeat comments on trade have been stated by President Trump. The President said that he will meet with Premier Xi at G20 next month in Japan to discuss further matters; however, it should be noted that this has not been officially agreed upon as of yet.

April existing home sales are down 0.4% in April to a 5.19M SAAR (est. 5.35M). This data is now down 4.4% y/y from the 5.43M pace in April 18, the 14th straight month of annual declines (CNBC). Sales decline comes despite a drop in the 30-year fixed rate mortgage rate from 4.27% in March to 4.14% in April. CNBC also noted that the median existing home price of $267,300 is up 3.6% y/y, the 86th straight month of y/y gains. Inventory was reported up 160K m/m to 1.93M, with unsold inventory at a 4.2 month supply, which is up from 3.8 months in March. April's durable goods report Is down 2.1% m/m vs the consensus for a 1/9% decline. Core capital goods orders (nondefense and ex-aircraft) are down .9% m/m vs the consensus of .4$ and core capital goods shipments are flat m/m against March's .6% monthly drop, as stated by FactSet data.

WTI crude moved back below $60/barrel for the first time since March, with oil on track for its largest weekly drop of 2019. The narrative of late has been about the balance between supply concerns amid geopolitical pressures (rising tensions with Iran, disruptions in Libya and Venezuela) and possible demand impacts from slowing economic growth as US-China trade tensions increase. The balance seems to be tipping toward the latter with growing consensus parties potentially having difficulty coming to an agreement.

Bloomberg has noted that the Fed staff seem to have lost confidence in hitting its 2% inflation target. The staff forecast presented to policymakers at April/May meeting saw inflation falling short of 2% over the "medium term" despite expectations for further labor market tightening. This information contrasts with their assessment at the March meeting that core inflation would push up to 2% next year and stay there in the medium term. This article, which noted potential dovish implications of the shift, highlighted concerns about a slippage in inflation expectations that also received some attention from Fed officials in the minutes.

CNBC discussed how a flurry of Q1 results over the last couple of weeks has showed that department stores need to more meaningfully reinvent themselves to counter the structural decline in foot traffic. The article highlighted challenges in transforming e-commerce businesses given the largely mall-based locations, an inability to drive traffic with items like groceries, consumer positioning constraints, and declining clout amid rise of large brands. The article also discussed the problem of having too many stores and a lack of investor patience (and capital concerns) surrounding big transformation initiatives (which could make some companies consider going private).

US equity saw a volatile week, as the S&P 500 moved higher until a big decline during the middle of the week. The stock index saw resistance at its 50-Day moving average, faltered at this resistance until it hit a support level of ~2800, in which it bounced off of. The S&P 500 closed at 2826.

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.