ECONOMIC HIGHLIGHTS

U.S. New Single-Family Home Sales came in at 692,000 units, far above the consensus of 656,000. The Home Ownership Rate has stabilized around the 64.6% level. Durable Goods Orders were up 2.7%, a nice recovery from last month's 1.1% decline. Finally, U.S. Real Gross Domestic Product was up 3.2% for the first quarter of 2019, much better than the +2.3% that was expected.

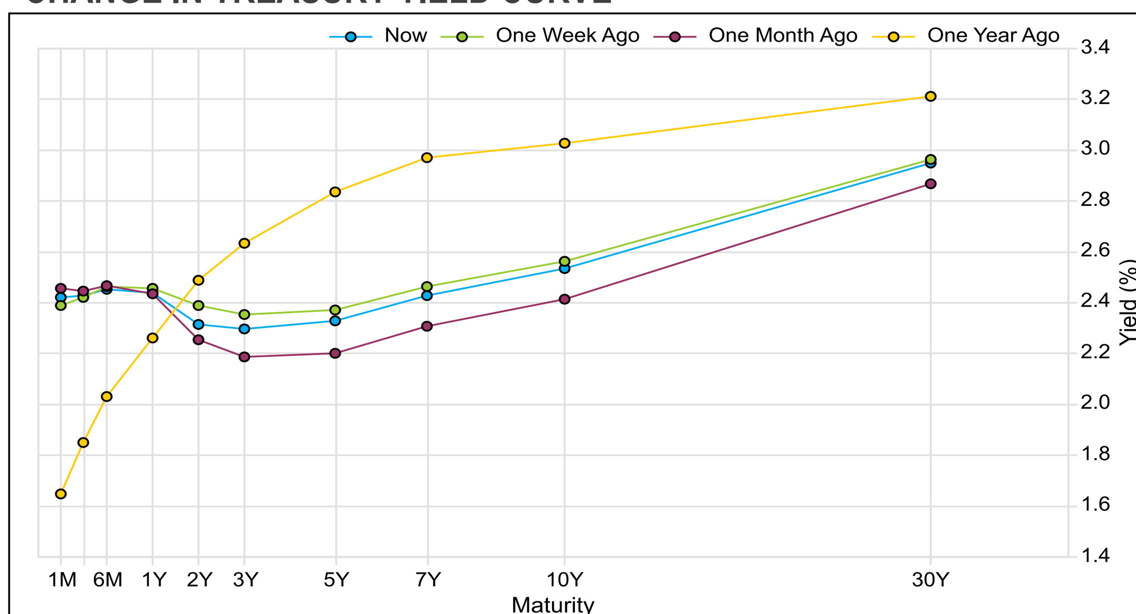
FIXED INCOME

Treasury yields tumbled last Friday as traders ramped up wagers that the Federal Reserve will cut interest rates this year despite solid first quarter GDP growth, as inflation shows signs of slowing. The numbers were solid as reported last Friday showing a stronger-than-expected pace of expansion above three percent, the benchmark Treasury ten-year yield initially jumped as high as 2.54% on the release of the news. The move quickly faded as traders digested the inflation component of the data, with a key price-pressure gauge coming in lower than projected. The yield on the ten-year quickly reversed course below the 2.50% level. "People are gravitating toward the low inflation, with the feeling that we can't get inflation even with strong growth," said Peter Tchir, head of macro strategy at Academy Securities. "The headline growth number is also a little deceiving given the components that drove it, such as inventory build-up and trade, are likely to be temporary." According to the Commerce Department, gross domestic product expanded at a 3.2% annualized rate for the period of January through March which topped all forecasts in a Bloomberg survey which had a median estimate of 2.3% growth. Still, a Fed-preferred inflation measure, the personal consumption expenditures price index excluding food and energy, slowed to 1.3%, well below the Federal Reserve's objective of a 2% inflation rate. Money-market traders saw a greater chance after the report that the Fed will cut rates this year, with about a full quarter-point reduction now priced in, given the implied rate on the January 2020 fed funds futures contract. It was only a few months ago that the Federal Reserve was intent on continuing to increase the target fed funds rate. But now, some policy makers are even hinting that the next move in rates may be lower, and they may even pursue other forms of policy easing. Federal Reserve Bank of Chicago President Charles Evans told the Wall Street Journal earlier this month that if the core inflation rate held at around 1.5% for a few months, he "would definitely be thinking about taking insurance" by cutting rates. Robert Kaplan, head of the Federal Reserve Bank of Dallas, also indicated that if inflation persisted at low levels, he would have to take that into account in setting the path of interest rates.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.41%	3 mo	2.37%	3 mo	2.55%	3 mo	1.58%
6 mo	2.44%	6 mo	2.41%	6 mo	2.56%	6 mo	1.61%
1 yr	2.40%	1 yr	2.32%	1 yr	2.58%	1 yr	1.64%
2 yr	2.28%	2 yr	2.34%	2 yr	2.59%	2 yr	1.67%
5 yr	2.29%	5 yr	2.32%	5 yr	2.77%	5 yr	1.77%
10 yr	2.50%	10 yr	2.77%	10 yr	3.22%	10 yr	2.05%
30 yr	2.92%	30 yr		30 yr	3.87%	30 yr	2.81%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.12%	14.57%
S&P 500 (Large Cap)	1.00%	17.89%
S&P 400 (Mid Cap)	1.39%	19.21%
Russell 2000 (Small Cap)	1.98%	18.43%
NASDAQ Composite	1.64%	23.15%
MSCI EAFE (International)	-0.21%	13.00%
iShares Real Estate	2.43%	16.72%

The week saw the S&P 500 and Nasdaq close at new record highs on Tuesday. The S&P 500 is up nearly 25% since Christmas Eve and has had the best start to a year since 1987. The best performing sectors include Consumer Groups, Healthcare, and Materials, while Energy and Tech were the biggest laggards. Gold finished up .7% and WTI crude oil down -3.4%, though off of the worst levels previously reached.

The first read of the Q1 GDP came in at 3.2% (vs. consensus for 2.0% and Q4's 2.2% level) according to FactSet. There were positive impacts from private inventory investment and foreign trade, which was the largest combined contribution from these two groups since 2013; however, points of caution come from the q/q decelerations in personal consumption expenditures, nonresidential fixed investments, and federal government spending. Reuters offers information regarding a positive U.S. macro backdrop, which includes a broad range of industries such as beverages, bulldozers, software, and social media are delivering Q1 results that suggest the U.S. economy is faring much better than some had feared.

According to Bloomberg, more and more central banks are following the Fed's dovish pivot. Despite more upbeat data out of U.S. and China, the global growth backdrop seems to remain soft.

Democratic leaders have been cited to meet with President Trump next Tuesday to discuss infrastructure stimulus proposals, while House Speaker Pelosi said she is "very optimistic" that a deal can be reached regarding infrastructure.

Just over a quarter of the S&P 500 has reported earnings. As reported by FactSet, the blended growth rate currently stands at (3.1%), better than the (4.3%) seen at the beginning of the earnings season. Nearly 79% of the companies reported have surpassed consensus estimates, which is ahead of the one and five-year averages of 76% and 72%, respectively. Facebook and Microsoft were the big earnings standouts with Facebook beating its revenue and core EPS expectations. Analysts also highlighted strength found in Instagram, less spending on sales and marketing, and lower headcount growth. Microsoft surprised analysts with a revenue beat, while EPS beat by 14% vs the 10% expectation.

The S&P 500 index continues on its strong YTD run and is currently at its resistance level of ~2940. The Index could be seen to either meet its resistance and struggle by not breaking through or break through its resistance level towards new highs. The S&P 500 closed at 2932.

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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