WEEKLY HEADINGS

THOUGHTS OF THE WEEK
Larry Adam, Chief Investment Officer, Private Client Group

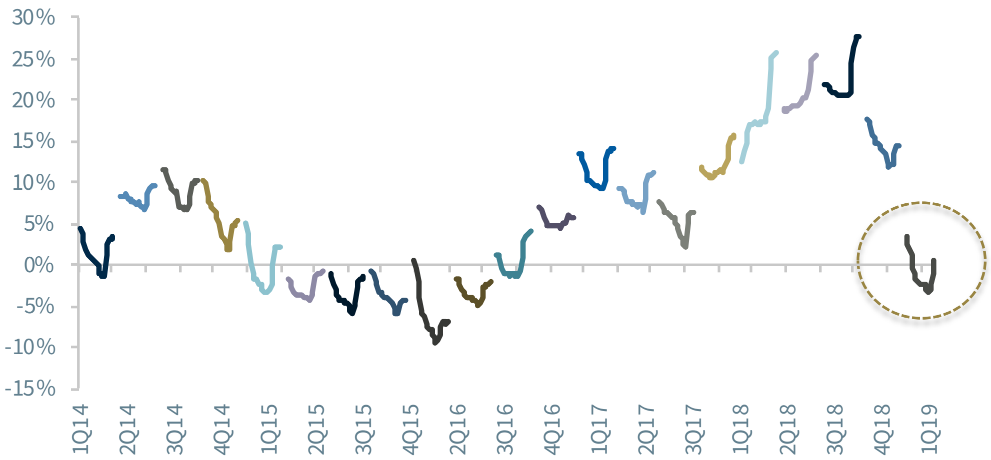
Equities remain near all-time highs, as the S&P 500 closed at a record high two times this week and is now up 17.1% year-to-date (YTD), the best start to a year on a price return basis since 1987. Supporting factors for the equity market have been the reluctance of the Federal Reserve (Fed) to continue on the path of policy normalization (evidenced by the Fed leaving interest rates unchanged at the May Federal Open Market Committee (FOMC) meeting), rising optimism for a U.S./China trade deal (which is reported to take place as early as next week), still solid domestic fundamentals (highlighted by elevated productivity growth and the April employment report this morning that showed that the U.S. economy added 263k jobs in April) and a strong 1Q19 earnings season. With ~75% of S&P 500 companies having reported, below are some of the key takeaways thus far from the 1Q19 earnings season:

1. Negative Earnings Growth Avoided | Fears of an earnings recession were elevated heading into the 1Q19 earnings season, as the 6% downward revision in the 12 weeks leading up to the end of the first quarter (the largest 12-week downward revision since 1Q16) brought the consensus 1Q19 earnings growth forecast to -2.9% Year-over-Year (YoY). These fears have subsided, as better than expected earnings has led the 1Q19 S&P 500 earnings forecast to be revised 3.9% higher since the start of earnings season, bringing the blended 1Q19 earnings growth forecast to +0.4% YoY. With 25% of companies yet to report, 1Q19 earnings growth is likely to trend higher and approach 1% by the time it is completed. Major companies reporting earnings next week are Disney and Bookings Holdings.
2. Cyclicals Lead the Charge | While Health Care saw the strongest earnings growth (+10.0% YoY) in the first quarter, it has been more cyclical sectors that have driven earnings as Consumer Discretionary (+7.7% YoY), Industrials (+6.7% YoY) and Financials (+5.8% YoY) have seen the strongest earnings growth. As cyclical sectors such as Financials, Consumer Discretionary and Industrials are also expected to see the strongest earnings growth throughout all of 2019, this reinforces our view of favoring cyclicals over defensives.
3. Strong Earnings Beats | ~74% of companies have beaten earnings expectations,* which is above the previous 16-quarter average of 72%. Cyclical sectors such as Information Technology and Consumer Discretionary have seen the largest percentage of companies beating estimates throughout the first quarter. The median S&P 500 company has beaten expectations by ~5.1%, which is the greatest amount over the past four quarters.
4. Stabilization in Long-Term Earnings | After being revised 5.3% lower over the past six months, 2019 and longer-term earnings expectations have stabilized in recent weeks. In fact, the consensus now forecasts 4.2% YoY earnings growth in 2019 and an acceleration to 11.3% YoY in 2020. The upward trajectory of earnings remains a longer-term support for higher equity prices.
5. Still Solid Sales | Similar to the bottom line, top-line sales growth has slowed from the robust pace experienced in 2018 but continues to remain solid. Following the full-year 2018 sales growth of 10.1%, 1Q19 sales growth is on pace to be the slowest (+6.2% YoY) since 3Q17 while the full year 2019 pace is expected to be 4.9%.

CHART OF THE WEEK

Flying-V Turns Positive:

1Q19 has followed a similar V-Shaped recovery seen in past quarters: a strong downward revision heading into earnings season only to be revised higher as companies beat the lowered earnings bar.



12 Week Revision Leading Up to and Including the Reporting Seasons (by quarter)

*See Charts of the week on page 3.

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ECONOMY

- Fed Chair Powell voiced the Fed's commitment to holding rates steady, which dampened speculation that the Fed would consider a rate cut in 2019. Citing renewed confidence in global financial conditions and progress towards a U.S./China trade deal, Powell indicated that the Fed would exercise "continued patience" in setting policy. Our forecast remains that the Fed will not alter the federal funds rate for the remainder of the year.
- The April jobs report showed the U.S. economy added 263k jobs in April* and the unemployment rate declined to the lowest level (3.6%) since 1969. As the U.S. labor market continues to tighten, this should support continued above trend economic growth and be supportive of consumer spending.
- **Focus of the Week:** While Chairman Powell suggested that muted inflation trends may be "transitory," next Friday's Consumer Price Index's headline number is expected to reflect higher April gasoline prices, but core inflation is expected to remain low.

THE WEEK AHEAD: May 6– May 10

MON
- PMI Services (Euro zone)
- PMI Manufacturing (Japan)
- Retail Sales (Euro zone)

TUE
- Consumer Credit
- FX Reserves (China)

WED
- CPI (China)

THU
- Jobless Claims
- Trade Balance
- PCE (Japan)

FRI
- CPI
- GDP (UK)
- Industrial Production (UK)

FUTURE EVENTS
- 5/15 USTR Hearing
- 5/23 European Parliamentary Elections
- 6/25 OPEC Meeting

U.S. EQUITIES

- With the S&P 500 nearing our year-end target of 2,946 (less than 1% away), the risk/return profile of equities is less attractive. With our expectation for a potential period of consolidation or pull-back, we would use weakness in the market as a buying opportunity as long-term fundamentals remain solid.
- Selectivity remains critical as dispersion at the individual and sector level grow. In fact, as the S&P 500 notched its first record high since September 2018, ~53% of individual S&P 500 constituents remain in negative territory over that time horizon with 30% of companies experiencing a decline of greater than 10%.
- From a sector perspective, seven of 11 S&P 500 sectors are positive since the last record high, with the best performing sector (Utilities) outperforming the worst performing sector (Energy) by ~25%.
- **Focus of the Week:** As the equity market remains near all-time highs and the possibility of a near-term consolidation has risen, selectivity remains critical over the coming months.

FIXED INCOME

- Amidst muted inflation and renewed commitment by the Fed to leave rates at their current levels, yields across the curve remained largely unchanged. The yield on the 10-year Treasury held steady at 2.53%, still off of its previous high of 3.24% achieved in November 2018.
- **Focus of the Week:** The Fed joined forces with the other major central banks around the world in declaring their need to do nothing. The lack of inflation was categorized as "transitory," which put a damper on those clamoring for a rate cut and reducing forward implied probabilities for a September cut nearly in half (~29% as of 5/2). With the Fed on hold, this leaves us with one major interest rate driver: economic data. Outside of CPI next week, there are no major economic releases likely to significantly move the needle. Investors should stay the course.

INTERNATIONAL

- Chinese economic data published on May 8, 9, and 10 will provide important statistics on imports/exports, inflation and new yuan loan data. Focus will be on the influence of the trade tensions with the U.S., the impact of rising commodity prices on the inflation rate, and the influence of government stimulus efforts on loan data. Our expectation is that the combination of fiscal and monetary stimulus should improve China's growth prospects.
- After US. trade negotiators went to China this week, Chinese negotiators come to Washington next week. With growing expectations of the framework of a trade deal being finalized as early as next week, any breakdowns in the discussions could lead to a negative market reaction.
- **Focus of the Week:** European and Asian composite PMI numbers will be published on Monday, May 6, which will include insights from the all-important services sector, the most dominant part of both region's economies.

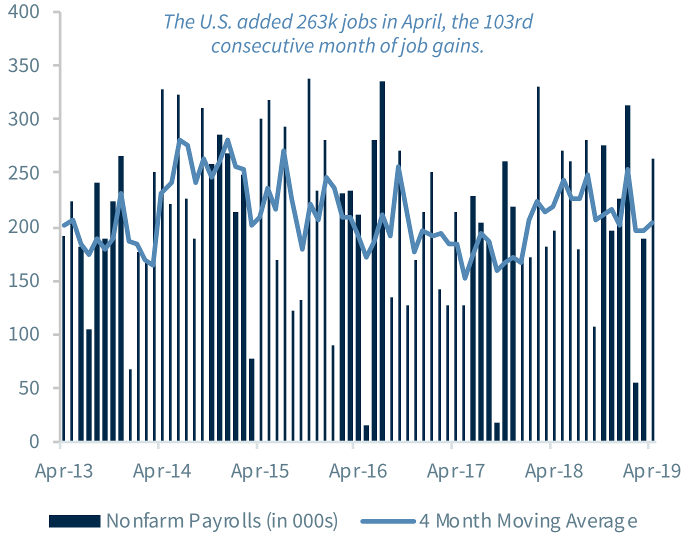
ENERGY

- The Trump administration's stated policy of eliminating Iranian oil exports* altogether is not fully realistic. There are still buyers – notably China and Turkey – for Iranian oil, notwithstanding U.S. sanctions. In particular, Chinese oil companies have almost no assets under U.S. jurisdiction and therefore have little to fear from secondary U.S. sanctions. Short of a physical blockade, some limited amounts of Iranian oil exports will still continue to flow.
- **Focus of the Week:** As U.S. sanctions waivers expire, Iranian oil exports are set to fall further.

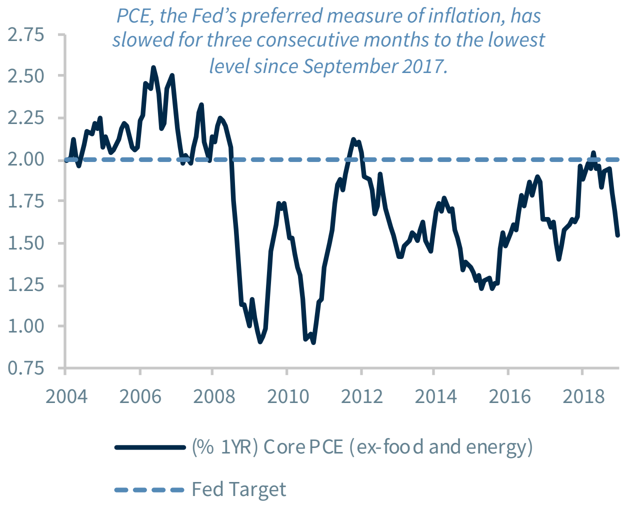
*See Charts of the week on page 3.

Charts of the Week

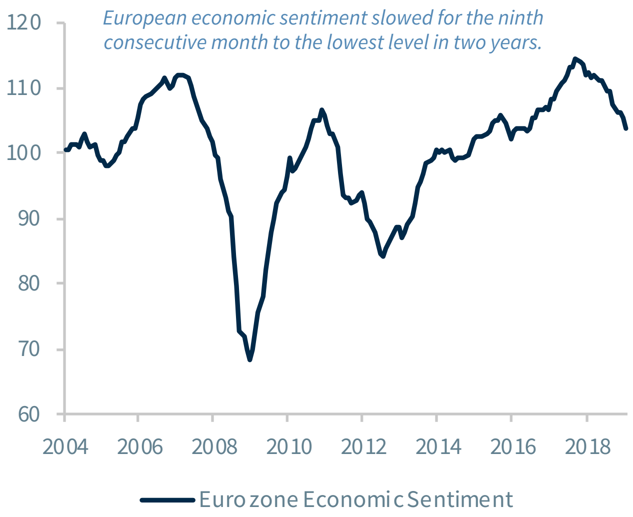
U.S. Labor Market Strength Continues



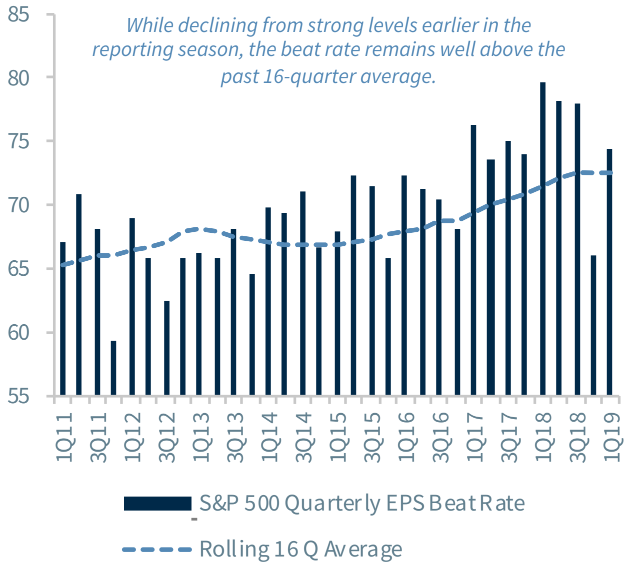
Inflation Moderation Continues



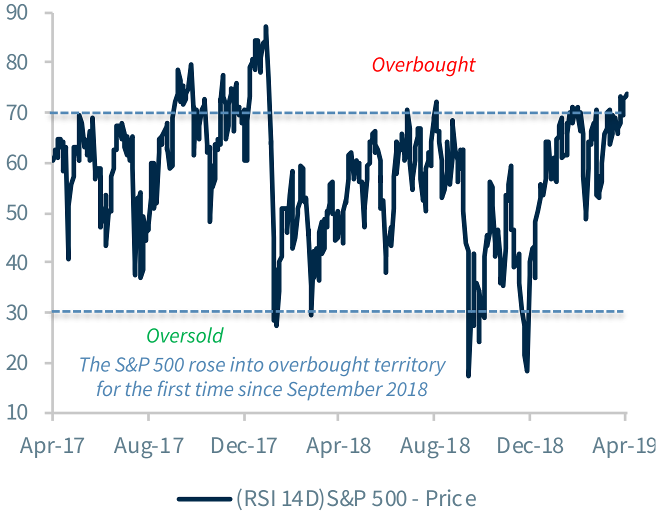
European Economic Sentiment Falters



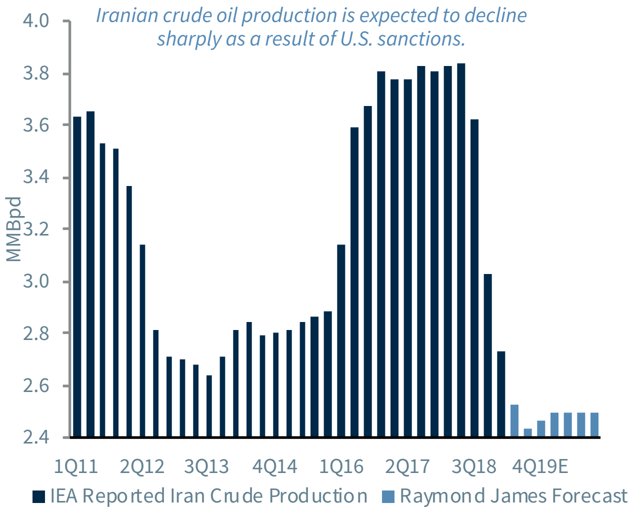
Beat Rates Remain Strong



S&P 500 RSI Rises into Overbought Territory



Iranian Oil Exports Sharp Decline



*Relative Strength Index (RSI) – International Energy Agency (IEA)

Asset Class Performance | Distribution by Asset Class and Style (as of May 2)

Weekly Returns (as of May 2)

U.S. Equities (S&P indices)

	Value	Blend	Growth
Large Cap	-0.3%	-0.7%	-1.2%
Mid Cap	-1.1%	-1.0%	-1.0%
Small Cap	-0.8%	-0.4%	0.0%

International Equities (MSCI indices)

	Dev. Mkt	World	Emerg. Mkt
Large Cap	-0.1%	-0.5%	0.4%
Mid Cap	-0.5%	-0.4%	0.2%
Small Cap	-0.3%	-0.6%	0.1%

Fixed Income (Bloomberg Barclays indices)

	1-3 YR	Medium	Long
Treasury	0.0%	-0.2%	-0.4%
Invest. Grade	-0.1%	-0.2%	-0.3%
High Yield	-0.2%	0.0%	0.1%

Year to Date Returns (as of May 2)

U.S. Equities (S&P indices)

	Value	Blend	Growth
Large Cap	16.0%	17.1%	18.1%
Mid Cap	18.1%	18.0%	17.9%
Small Cap	16.2%	15.2%	14.4%

International Equities (MSCI indices)

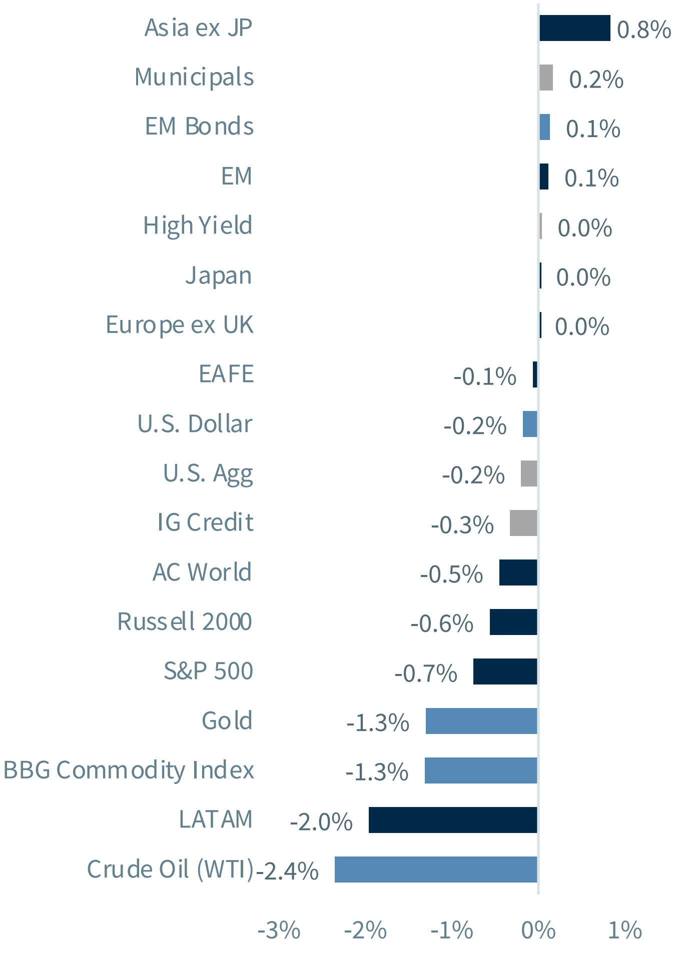
	Dev. Mkt	World	Emerg. Mkt
Large Cap	14.1%	15.7%	13.5%
Mid Cap	14.9%	16.8%	8.9%
Small Cap	14.9%	16.3%	9.1%

Fixed Income (Bloomberg Barclays indices)

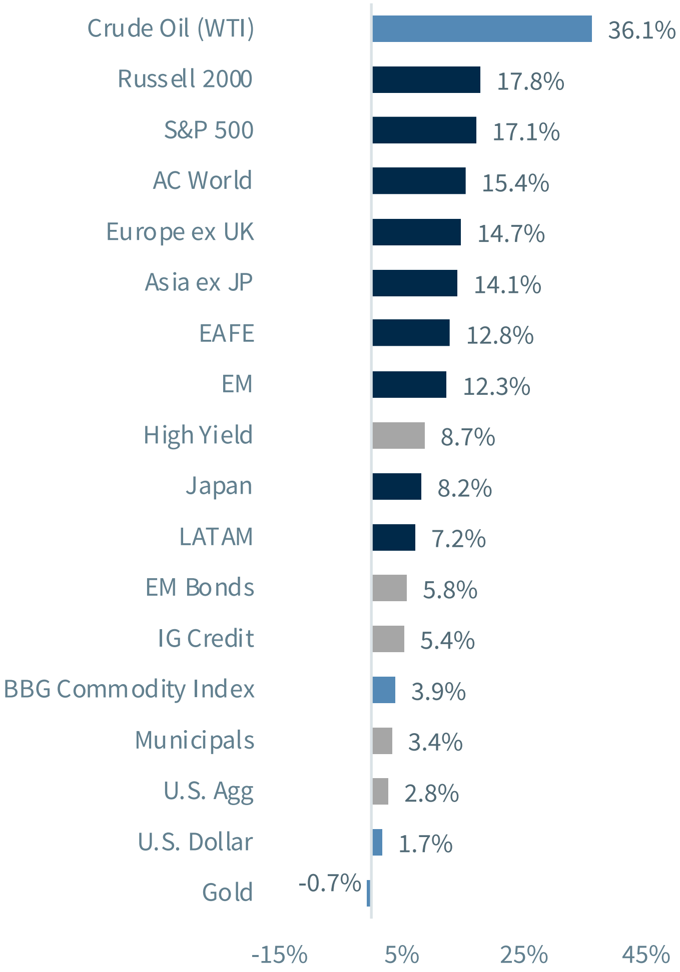
	1-3 YR	Medium	Long
Treasury	0.8%	1.5%	2.1%
Invest. Grade	1.8%	4.0%	5.5%
High Yield	4.9%	8.5%	13.0%

Asset Class Performance | Weekly and Year to Date (as of May 2)

Week to Date



Year to Date



■ Commodities ■ Equities ■ Fixed Income

Weekly Data

Data as of May 2

U.S Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	2917.5	(0.3)	(1.0)	17.1	12.9	14.2	10.8	15.8
DJ Industrial Average	26307.8	(0.6)	(1.1)	12.8	10.0	19.3	12.6	16.1
NASDAQ Composite Index	8036.8	(1.0)	(0.7)	21.1	13.2	19.9	13.1	19.0
Russell 1000	3107.2	(0.2)	(0.9)	17.5	13.3	14.8	11.4	15.4
Russell 2000	3933.3	0.5	(0.5)	17.8	4.6	13.6	8.6	14.1
Russell Midcap	5686.2	0.1	(0.9)	19.9	10.7	12.8	9.7	15.7

Equity Sectors

Sector	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
Materials	351.3	(0.8)	(2.3)	11.7	0.9	8.0	5.4	10.9
Industrials	652.2	0.6	(0.8)	21.0	11.1	12.4	9.8	15.5
Comm Services	165.5	(2.1)	(1.2)	20.0	17.5	3.6	5.9	9.8
Utilities	293.8	(0.1)	(1.3)	10.4	16.9	9.6	10.2	12.5
Consumer Discretionary	941.1	(0.8)	(1.2)	20.9	16.2	15.5	14.8	19.7
Consumer Staples	586.1	1.0	(1.3)	13.4	20.2	5.7	8.3	13.2
Health Care	1035.2	1.5	0.2	4.0	12.3	10.4	11.0	16.2
Information Technology	1370.6	(1.0)	(0.8)	26.5	20.0	26.9	19.9	19.2
Energy	470.5	(5.2)	(3.9)	12.0	(10.7)	0.8	(4.5)	5.2
Financials	461.7	1.4	(0.7)	17.5	4.7	15.6	11.5	14.5
Real Estate	223.5	1.0	0.2	17.2	21.0	8.2	9.7	17.2

Fixed Income

Index	Yield	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
3-Months Treasury Bill (%)	2.4	0.0	0.0	0.8	2.2	1.2	0.7	0.4
2-Year Treasury Yield (%)	2.4	0.0	(0.1)	1.0	2.8	0.8	0.8	1.0
10-Year Treasury Yield (%)	2.6	(0.1)	(0.4)	2.1	6.3	(0.0)	2.1	3.1
Barclays US Corporate High Yield	6.5	0.1	(0.1)	8.7	6.7	7.7	4.8	10.1
Bloomberg Barclays US Aggregate	3.0	(0.0)	(0.2)	2.8	5.3	1.9	2.5	3.7
Bloomberg Barclays Municipals		0.3	0.1	3.4	6.2	2.6	3.6	4.6
Bloomberg Barclays IG Credit	3.7	(0.1)	(0.3)	5.4	6.5	3.3	3.4	6.3
Bloomberg Barclays EM Bonds	5.4	0.3	(0.1)	5.8	6.4	4.9	4.5	8.0

Commodities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
WTI Crude ($/bl)	61.8	(5.3)	(3.3)	36.8	(9.1)	11.3	(9.2)	1.5
Gold ($/Troy Oz)	1271.0	(0.8)	(0.9)	(0.6)	(2.5)	(0.4)	(0.2)	3.7
Dow Jones-UBS Commodity Index	79.7	(1.9)	(1.1)	3.9	(10.9)	(2.0)	(10.2)	(3.5)

Currencies

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
U.S. Dollar Index	97.8	(0.4)	0.4	1.7	5.8	1.9	4.2	1.5
U.S. Dollar per Euro	1.1	0.4	(0.2)	(2.2)	(6.5)	(1.0)	(4.2)	(1.7)
U.S. Dollar per British Pounds	1.3	1.0	(0.0)	2.4	(4.1)	(3.9)	(5.0)	(1.3)
Japanese Yen per U.S. Dollar	111.5	0.1	0.1	1.7	1.4	1.5	1.8	1.2

International Equities

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
MSCI AC World	521.1	(0.1)	(0.7)	15.4	5.5	11.6	7.4	11.6
MSCI EAFE	1911.7	0.2	(0.4)	12.8	(2.7)	7.7	2.9	8.4
MSCI Europe ex UK	1973.1	0.5	(0.6)	14.7	(2.6)	7.8	2.4	8.6
MSCI Japan	3140.0	(0.1)	(0.1)	8.2	(6.2)	8.2	6.4	7.3
MSCI EM	1079.0	0.2	(0.0)	12.3	(3.6)	11.9	4.2	7.9
MSCI Asia ex JP	678.6	0.8	0.4	14.1	(2.8)	13.5	7.0	10.1
MSCI LATAM	2713.7	(1.4)	(1.2)	7.2	(2.9)	9.6	(1.0)	3.8

Disclosures

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MSCI Asia ex JP: The MSCI Asia ex Japan Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries* in Asia. With 955 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country. MSCI LATAM: The MSCI EM Latin America ex Brazil Index includes large and mid cap representation across 4 Emerging Markets (EM) countries* in Latin America. With 55 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The Bloomberg Barclays Global Aggregate Negative Yielding Debt Market Value Index measures the stock of debt with yields below zero issued by governments, companies and mortgage providers around the world which are members of the Bloomberg Barclays Global Aggregate Bond Index. The Dow Jones UBS Commodity Index is a weighted index which tracks a wide range of 22 commodity futures contracts, including metals, agricultural products, energy, and livestock. The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds. The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. Russell 2000 Total Return Index: This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest U.S. companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends. Russell 1000 Total Return Index: This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends. Russell Mid Cap Total Return Index: This index consists of the bottom 800 securities in the Russell 1000 Index as ranked by total market capitalization. This index includes the effects of reinvested dividends. The Russell Midcap Index is a market capitalization weighted index comprised of 800 publicly traded U.S. companies with market caps of between $2 and $10 billion. The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners. Dow Jones-UBS Commodity Index tracks prices of futures contracts on physical commodities on the commodity markets. The index is designed to minimize concentration in any one commodity or sector. S&P 500 Total Return Index: The index is widely regarded as the best single gauge of large-cap U.S. equities. The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. An investor could lose all or a substantial amount of their investment. Investors should consider hedge funds as a supplement to an overall investment strategy. Commodities trading is generally considered speculative because of the significant potential for investment loss. Among the factors that could affect the value of the fund's investments in commodities are cyclical economic conditions, sudden political events, changes in sectors affecting a particular industry or commodity, and adverse international monetary policies. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. No investment strategy can guarantee success. There is no assurance any of the trends mentioned will continue or that any of the forecasts mentioned will occur. Economic and market conditions are subject to change. Investing involves risks including the possible loss of capital. Fixed-income securities (or "bonds") are exposed to various risks including but not limited to credit (risk of default or principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Investing in emerging markets can be riskier than investing in well-established foreign markets. Investing involves risk and investors may incur a profit or a loss. U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. Data sources: FactSet and Bloomberg.

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