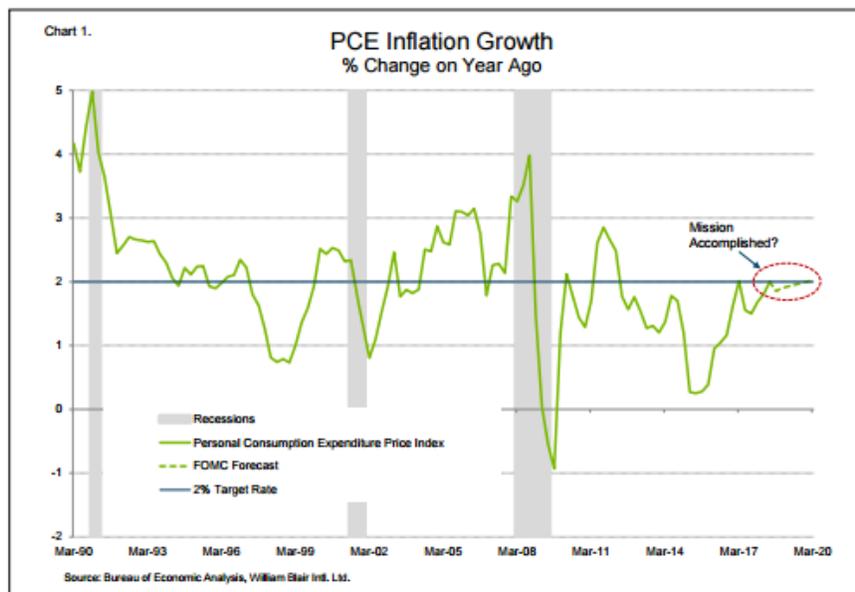




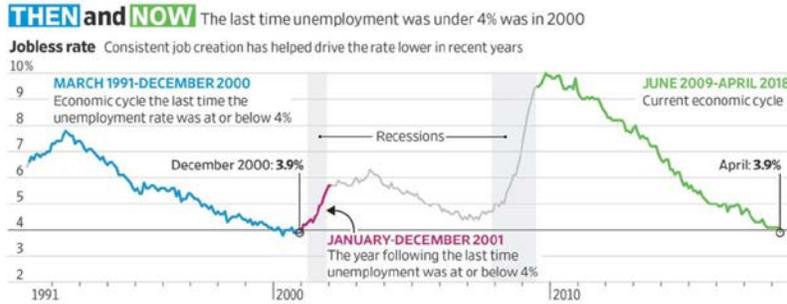
### Last Week:

- The S&P nearly finished flat for the week (-0.2%) after being down 2.8% at the lows early Thursday
- The Dow fell a similar -0.2%, with nearly an equal number of winners and losers. Gains were led by Apple (+11.2%), Intel (+2.8%), 3M (+2.6%) and Cisco (+2.3%). Laggards were Pfizer (-4.8%), Verizon (-2.4%), Coca-Cola (-2.0%) and Merck (-1.9%)
- The Nasdaq led, gaining 1.3%
- And the smaller Russell 2000 also posted gains, up 0.6%
- West Texas Crude rose \$1.60/barrel to \$69.72, up 2.4%
- The 10 Year Treasury was flattish, closing at a yield of 2.95%
- The FOMC meeting was mostly uneventful, but it's worth pointing out that the committee acknowledged inflation has "moved close to 2 percent." That suggests more room for rate hikes ahead. The Street views the odds of another 25 basis point hike at the June meeting is a near certainty



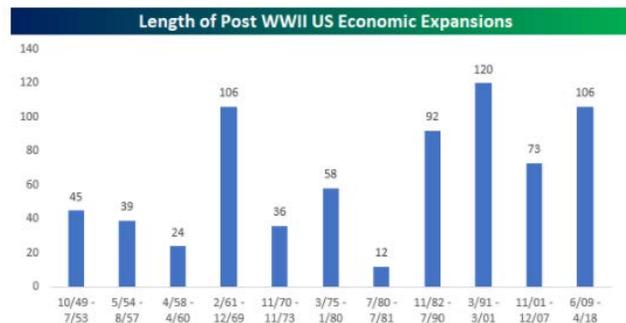
Source: William Blair

- There was plenty of economic data to digest:
  - US construction spending fell 1.7% in March versus expectations of an increase of 0.2%. Weakness was partly explained by a 1% upward revision to February
  - ADP's Private Payrolls survey revealed an increase of 204,000 jobs in April
  - While the nonfarm payrolls report showed disappointing job growth of 164,000, the unemployment rate ticked below 4% as the participation rate fell. At 3.9% the unemployment rate is the lowest since 2000
    - Per the Wall Street Journal, "The economy has added jobs every month since October 2010, a 91-month stretch that ranks as the longest period of job growth on record. The overall economy's expansion, at 107 months in May, just became the second-longest on record, trailing only the expansion of the 1990s in length"



Source: Wall Street Journal

- Chicago PMI printed 57.6 in April, a shade below the 58.0 consensus forecast, but a tad stronger than March's 57.4 reading
- The ISM Manufacturing index fell to 57.3 in April, from 59.3 in March and below the 58.5 consensus estimate. It was the lowest reading in nine months, though according to Bloomberg, "the results included signs that factories are having trouble keeping up with demand. A measure of order backlogs was the highest in almost 14 years." The prices paid index rose to 79.3%, its highest since April 2011
  - A 57.3 reading is consistent with GDP growth of 4.0%, according to William Blair
- ISM Services slipped slightly to 56.8 in April. In the press release it said, "respondents have expressed concern regarding the uncertainty about tariffs and the effect on the cost of goods." For what it's worth, we share those concerns and hope calmer heads will ultimately prevail
- US Factory Orders rose 1.6% in March
- Consumer Spending rose 0.4% in March, the first time it increased in three months. That was also slightly faster than the 0.3% increase in Personal Incomes
- PCE inflation was flat for the month, but up 2% year-over-year, matching the Federal Reserve's targeted level
- The NAR's Pending Home Sales index rose 0.4%, albeit from a downwardly revised February reading
- The Trade Deficit narrowed to \$49 billion in March
- With the culmination of April, the current economic expansion now is tied for the 2nd longest in terms of duration, albeit the magnitude of the recovery has been subdued compared to previous economic recoveries



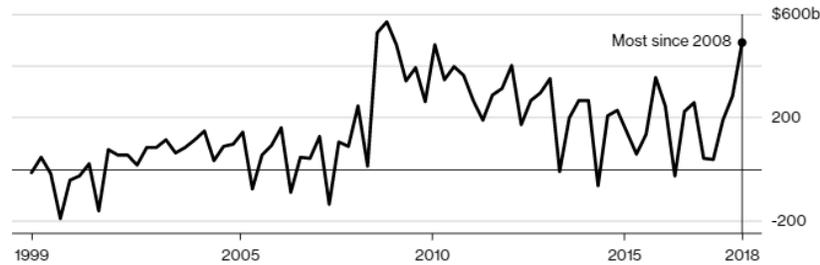
Source: Bespoke



- What's a few hundred billion dollars amongst friends? The U.S. Treasury borrowed \$488 billion in the first quarter of 2018, the most it's borrowed in a first quarter since 2008

#### Moving Back Up

The Treasury in the first three months of 2018 borrowed the most since 2008

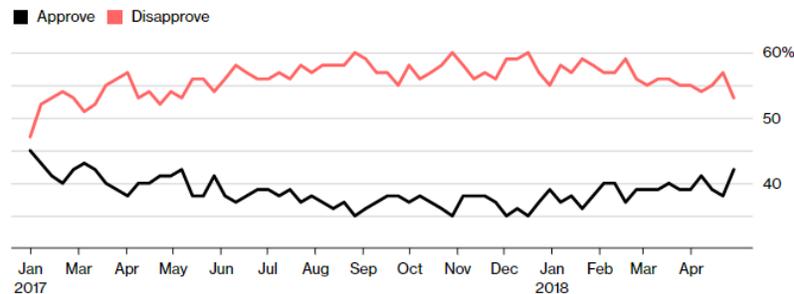


Source: U.S. Treasury Department, Bloomberg

- President Trump's net approval rating narrowed to its closest level in 11 months, according to Gallup

#### Closing In

Gap between percentage of Americans who approve and disapprove of the job Donald Trump is doing as president smallest since May '17



Source: Gallup

Note: Each data point reflects a weekly aggregate of Monday through Sunday polling

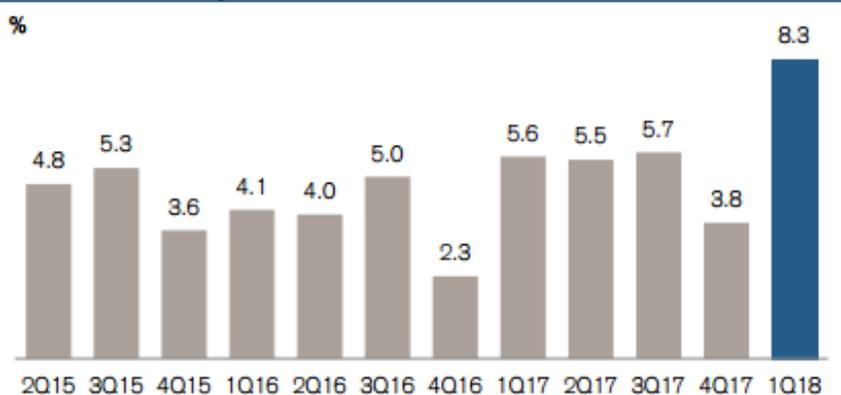
- Trump delayed decisions on steel and aluminum tariffs on the EU and other U.S. allies until at least June 1
- Bloomberg reported earlier Friday that the Flipkart board had approved an agreement to sell about 75% to a Walmart-led group for around \$15 billion



**This Week:**

- S&P futures point to a slightly higher open. Equity markets are mostly higher across the globe, with China's Shanghai gaining 1.5% and the German DAX up 0.4%
  - UK markets are closed for May Day
- West Texas crude is up 1% to \$70.40/barrel, while Brent crude rose above the \$75/barrel mark for the first time in three years. A Wall Street Journal article this weekend notes Saudi Arabia would like \$80+ oil, higher than its previous target and well above Iran's preferred \$60 to \$65 level. Is it really surprising that the Saudi's want higher oil prices as the country looks to monetize a portion of state owned Aramco?
- The 10 Year Treasury is down slightly, pushing the yield up to 2.96%
- The dollar is up 0.2% to its highest level in four months, while the euro fell 0.4% to \$1.1918, its weakest level in 19 weeks
- Merger Monday is alive and well:
  - Activist investor Elliot is making an all cash offer for Athenahealth
  - Nestle is paying \$7.2 billion to sell Starbucks coffee brands in retail locations around the world
  - IFF is buying Frutarom for \$7.1 billion
  - In a smaller deal, Mondelez is acquiring Tate's Bake Shop for \$500 million
- Just 11 days after launch, Disney's Avengers: Infinity Wars passed the \$1 billion market at the global box office reaching that feat faster than any of the other 34 movies to pass that milestone
- President Trump is expected to deliver a speech on drug pricing on Tuesday, which could impact trading in Healthcare stocks
- We could also get news on NAFTA negotiations as there's a push to secure a deal in May before Mexico's Presidential election and U.S. midterm elections heat up
- First quarter earnings season is strong. Credit Suisse says 1Q EPS is on track for 25% growth (18% excluding tax benefits). Equally as impressive, 80% of companies are beating expectations and the average upside surprise is more than 8%

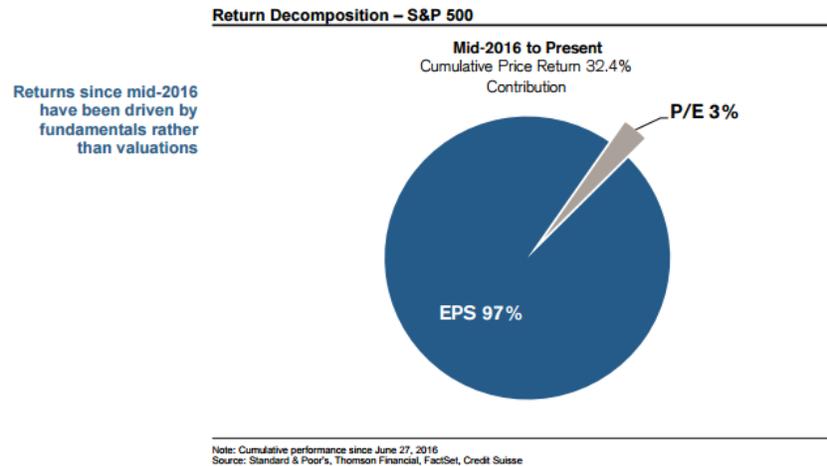
**Historical EPS Surprise**



Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse



- Credit Suisse says stock returns since mid-2016 have been driven by earnings growth, not multiple expansion



- JPMorgan points out that valuation is reasonably attractive at 15.2x the 2019 S&P 500 earnings estimate of \$173. If achieved, that would result in the index's valuation falling below the average since 1990



- Companies reporting earnings this week include:
  - **Premier**, Dentsply Sirona, Hertz, Mosaic, Tyson, Wabtec today
  - **Aramark, Discovery Communications, Disney, Liberty Global, Kar Auction Services, Occidental Petroleum, AES, Dish Network, Gartner, Henry Schein, Microchip, Monster Beverage, Perrigo, TripAdvisor** and Expeditors tomorrow
  - Wednesday is **Delphi, Albermarle, Booking Holding, CenturyLink,**
  - Thursday follows with **Amdocs, Enbridge, Nvidia**
- Economic data to watch for:
  - Today we'll get March consumer credit



- Tomorrow brings China import/export data
- Wednesday follows with April producer prices and March wholesale inventories and trade sales
- Thursday we get consumer prices, Chinese inflation data and a BOE rate decision
- Friday's releases include import prices and US Michigan sentiment

As always, thanks very much for your interest and support.

Josh Haggerty, CFA®  
Executive Director



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