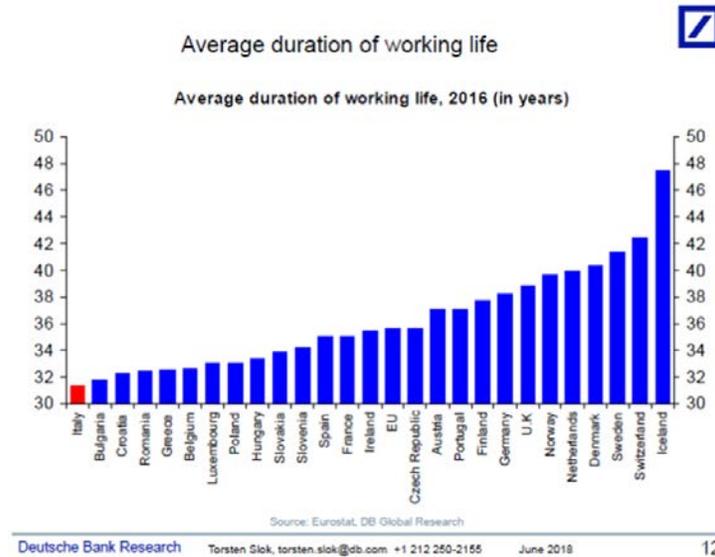




Last Week:

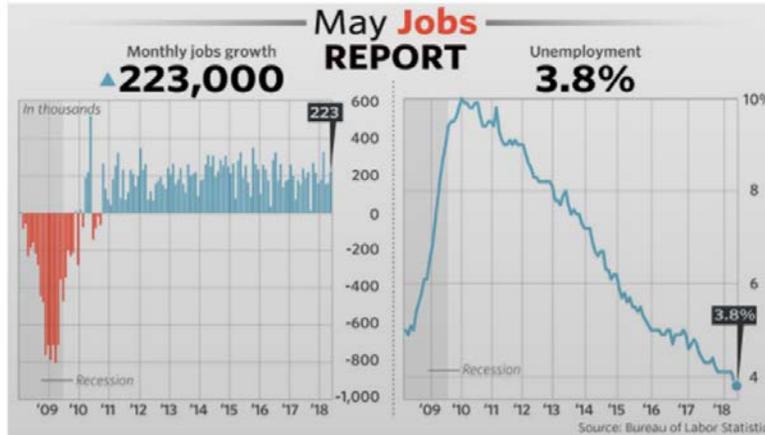
- The Dow Jones Industrial Average took the low road with a decline of (-0.5%)
 - Decliners barely outpaced advancers, with the top gains coming from Exxon-Mobil +4.0%, Intel +3.0%, as well as **Merck** and **Microsoft**, both up +2.5
 - To the downside it was once again General Electric (-3.6%), followed by Goldman Sachs, American Express and Disney, all down (-2.8%)
 - Best performing groups were Coal, Autos, Internet and Real Estate
 - Consumer-related groups performed poorly, including Durable Household Products, Furnishings and Personal Products, and were joined by Airlines and Tires as the largest underperformers for the week
- Dow Transports narrowly fell below breakeven (-0.1%) while Utilities felt the drag a bit more (-0.7%)
- The S&P 500 stayed on the high road, advancing +0.6%
 - Energy, Technology and Real Estate led the index higher for the week, all gaining over 1.5%
 - Financials had a tough week dropping (-1.3%), while Utilities, Industrials, Telecom and Consumer Staples also lagged
- The S&P closed Friday at 2734.62, up 1.08% ... it marked the 35th time the S&P has closed up or down 1% or more in 2018, nearly a third of all the trading sessions. By comparison, 2017 only had eight such 1% moves ... for the entire calendar year
- The S&P Smallcap and Midcap indices also finished in the black, with the Smallcap advancing +1.1% while the Midcap matched the large cap index +0.6%
- NASDAQ led the pack, accelerating +1.6%
- Crude oil declined a couple of bucks to close at \$65.71/barrel
- Gold fell back below \$1,300/ounce, finishing at \$1,298
- Global stocks were more to the upside for the week
 - The Euro Stoxx 600 was up +1.4% while most European markets were higher
 - London had the biggest gains of the three major markets +2.1% while Frankfurt was in-line ... Paris picked up +0.5%
 - Moscow continued its recovery from expanded sanctions +4.1%
 - AsiaPac stock markets also had a good week
 - Tokyo +1.3% and Sydney +0.9% were among the weakest gainers while Bombay advanced +1.8
 - China's Shanghai +2.3% and Shenzhen +2.8% markets saw bigger gains while Hong Kong broke out +4.0%
- The US Dollar Index was nearly unchanged for the week at 94.16, after peaking on Tuesday at 94.83
 - The dollar rallied back to about this same level back in November 2017 after declining for most of that calendar year, then declining further earlier in 2018
- The VIX Volatility Index spiked on Tuesday on fears surrounding Italy but by week's end had returned nearly to its starting level, up only 0.24 for the week to close at 13.46

- The 10-year Treasury yield held fairly steady finishing at 2.90%, but that’s not the real story
 - From a high of 3.11%, the yield declined through Tuesday May 28 to 2.78%
 - The yield is now at levels similar to the latter half of February, but the spread to the 2 year is now 42 bps
- The week began with a shock from Italy, as Italian President Matterella blocked the formation of a coalition government, sending shocks through financial markets and building fears that another brick of the EU wall may be falling ... but by Thursday it appeared all had been resolved, although the EU concerns could emerge again
 - The yield on Italian 10-year sovereign debt reached 3.1%, nearly twice the 1.6% yield on Spanish 10-year debt, while German yields fell precipitously, with the 10-year being cut in half to 0.26% – even though the European Central Bank treats all European sovereign debt instruments as equally creditworthy
 - Italian 2-year yields went from negative to over 2% overnight, before finishing the week at 0.76%
 - Early retirements for Italians could be one issue that other European countries resent



- Secretary of Commerce Wilbur Ross held meetings with China on trade at the end of the weekend, but no joint statement resulted, leaving investor concerns about trade heightened
- NAFTA talks also seem to be stalled, exacerbated by the steel and aluminum tariffs that recently went into effect
- ADP’s Non-Farm Payrolls report showed a gain of 178,000 jobs in May, falling short of the 198,000 consensus estimate. April’s results also got revised down from an originally reported gain of 204,000 to 163,000
- The economy added 223,000 new jobs in May, above the 200,000 consensus estimate, though April and March data got revised downward by a combined 25,000 jobs. The unemployment rate fell to 3.8%, an

18-year low. Average hourly earnings lifted 0.3%, while the average work week was steady at 34.5 hours



- The ISM Manufacturing Index checked in at 58.7 in May, up from 57.3 in April, though a shade below the 58.9 consensus forecast
- Weekly Jobless Claims fell -13,000 to 221,000
- Consumer Spending rose 0.6% in April, while Personal Incomes increased only half as much, +0.3%
- PCE Inflation remained steady at 2% year-over-year for the 12 months ended April 2018
- First quarter GDP got revised down a decimal place, to 2.2%, from a previously reported 2.3%
- Consumer Confidence rose again in May to 128.0, just below the recent high of 130.0 in February ... this chart is one view of why, from a consumer perspective, this bull may have more to run



Source: Bespoke

- In corporate news:
 - Palo Alto Networks announced the appointment of a new CEO and preannounced higher than expected results ... earnings come out Monday
 - Softbank announced it was investing \$2.25 billion in a **General Motors** self-driving auto project
 - Fiat Chrysler also announced a win, receiving an order for 62,000 minivans from **Google** as part of its Waymo project

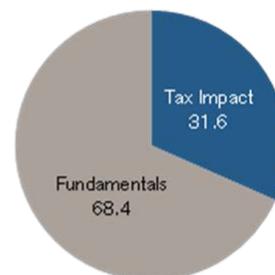
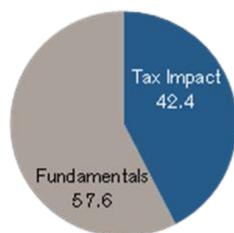


This Week:

- US markets look to open nicely higher
- Most major European markets are up around 0.5% in trading thus far
- Asian markets had a very good day, with Hong Kong +1.7% and Japan +1.4% outperforming China +0.5%
- Lots of the news this week will be working up to the calendar for the following week:
 - The North Korea summit is now back on, with June 12 in Singapore still the date ... watch for lots of preliminary posturing during the upcoming week
 - US CPI also comes out on that Tuesday
 - A ruling on the **AT&T/Time Warner** merger is also expected that day
 - The Federal Open Markets Committee holds its next interest rate meeting later in the week, as does the European Central Bank and the Bank of Japan
 - Details on tariffs for China is expected towards the end of the week
- The Royal Bank of Australia announces its interest rate decision on Tuesday
- The Royal Bank of India follows suit on Wednesday
- A G-7 summit will be held in Canada starting Friday ... the group (excluding the US) recently issued a statement warning the US about its trade policy direction, while UK Prime Minister Theresa May prepares for new trade agreements in the face of Brexit
- Separately, the BRICS (Brazil, Russia, India, China, South Africa) foreign ministers are holding a meeting today for a tenth consecutive year, with the US tariffs being a primary talking point
- Everyone expected earnings season to benefit from the tax code, but that wasn't the whole story ... While the benefit of tax reform has been sizable, actual business performance was responsible for relatively more of the first quarter upside surprise

Projected EPS Growth: 18.3%

Actual EPS Growth: 25.6%



Start of 1Q Earnings Season

Now

Source: Credit Suisse

- Earnings season is basically done:
 - Monday: Dell and Palo Alto Networks
 - Tuesday: Guidewire Software, HD Supply, Ollie's and YY
 - Wednesday: Brown Forman



- Thursday: Broadcom, JM Smucker, Vail Resorts and Cooper Companies
- Economic reports:
 - Monday: US Factory Orders and Durable Goods Orders
 - Tuesday: Markit Services PMI and Non-Manufacturing ISM
 - Wednesday: US Trade Balance and Productivity
 - Thursday: Jobless Claims and Consumer Credit
 - Friday: US Inventories

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

Farley Shiner, CFA®
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