WEEKLY HEADINGS

THOUGHTS OF THE WEEK

Larry Adam, Chief Investment Officer, Private Client Group

Despite the ongoing ratcheting up of tariffs between the U.S. and China, we remain in a negotiating window before those tariffs actually take effect. Assuming the approximate three-week transit time between goods leaving China (via ships) and arriving in the U.S., and China's stated June 1 implementation of tariffs on $60 billion worth of U.S. imports, the clock is ticking as these increases become unavoidable around June 1. Outside of the long-run structural benefits of establishing a fair trade agreement between the two largest economies in the world, there are two other short-term dynamics that could accelerate the progress of an eventual deal: the stock market and the economy.

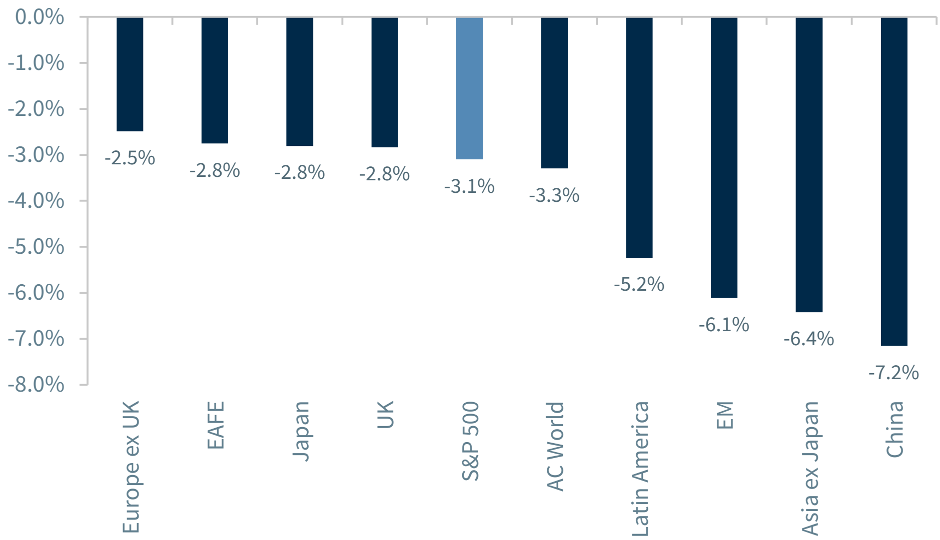
- Stock Market Signals. After the initial trade squabble that sent the S&P 500 down almost 20% during the fourth quarter last year, the equity market recovered those losses and rallied back to record highs. The new tension over the "breaking" of an apparent deal last week has thus far sent equity markets down a manageable 4%. However, our political analyst Ed Mills believes the urgency to finalize a deal will not be felt by negotiators until we see declines closing in on 20% again. China has been more impacted by the trade war, as Chinese equities are down ~7% since President Trump's tariff threat and remain ~20% off their last record high (on a USD basis) set in 2007. As a result, the equity market is not necessarily forcing the hand of negotiators now.*
- Economic Elasticity. Another potential driving force behind a deal is the vulnerability of each country's economy to a slowdown. While tariffs, to date, have had little direct impact on economic growth, any softness in either country could be exacerbated by increasing trade tensions that not only serve as a tax on consumers but could also weigh on business and consumer sentiment. Even before these new tariffs take effect, recent economic data suggests a mild slowing in both economies.
  - Chinese economic data moved lower this week as Chinese retail sales (+7.2% year-over-year (YoY) vs. +8.6% YoY expectations) and industrial production (+5.4% vs. +6.5% YoY) both came in weaker than expected. More specifically, Chinese retail sales are now rising at the slowest pace since 2003 and industrial production is rising at the slowest pace since 2002.* While China still has the capacity to stimulate its economy further, it is set to incur its largest budget deficit.
  - U.S. data overall has remained robust with little sign of recession; however, there are some small cracks forming. April retail sales (-0.2% month-over-month (MoM) vs. +0.2% MoM expectations) were weaker than expected and point to tighter consumer spending. The manufacturing sector saw weakness as April industrial production (-0.5% MoM vs. 0.1% MoM expectations) posted the largest MoM decline since May 2018 and is rising at the slowest YoY pace (0.9%) since February 2017. Capacity utilization also declined to the lowest level since February 2018. Following these weak economic figures, the Atlanta Fed GDPNow forecast for 2Q19 declined to 1.1% (from 1.6%), which is half the pace of growth during the first quarter. Growth concerns are also being reflected in the financial markets, as the Fed Funds futures market now reflects a 78% and 38% probability of one or two cuts, respectively, by the end of 2019.*

Bottom Line: Our base case remains that some form of a deal will ultimately be signed as the "no deal" negative consequences to the equity market and economy are too dire, given that both are important to President Trump's re-election bid. However, the ebb and flow between "deal" and "no deal" are likely to keep markets on edge. As we wrote in our publication *Tariff Tug-of War (*May 13), levels of the market are important. Given that our earnings estimates ($166 in 2019 earnings) and economic forecasts (very low probability of recession) remain unaltered as of now by this trade friction, we remain confident in our year-end target of 2946. As a result, at levels near 2950, the risk/reward is less attractive. However, at 2800 (5% upside) and 2700 (~10% upside) or below, the S&P 500 is more attractively valued and presents better buying opportunities.

CHART OF THE WEEK

The Pain Trade of Tariffs

China and emerging market equities have underperformed since the escalation in tariff threats, while Europe and Japan have relatively outperformed given President Trump's decision to delay the decision on auto imports tariffs by six months (data as of May 16)



*See Charts of the week on page 3.

ECONOMY

- This week, retail sales and industrial production both disappointed in April. At face value, this data is consistent with a lackluster-to-moderate pace of near-term economic growth. In contrast, the University of Michigan consumer sentiment index rose to a 15-year high, led by rising expectations (thought to be a driver of big-ticket purchases), but the survey may have failed to fully capture the potential negative psychological impact of the trade war.
- **Focus of the Week:** While the market has been pricing in a greater chance of a rate cut, we haven't gotten that signal from the Fed yet. Investors will be sifting through the minutes of the April 31-May 1 monetary policy meeting (to be released Wednesday afternoon) for any clues regarding what would prompt an ease. Durable goods orders (Friday) should reflect a drop in aircraft orders, with a lackluster trend otherwise. Fed Chair Powell speaks Monday evening on "Assessing Risks to our Financial System."

THE WEEK AHEAD: May 20 – May 24

MON Chicago Fed National Activity Index; Powell speaks

TUE Existing Home Sales

WED FOMC Minutes

THU European Elections; Jobless Claims; New Home Sales

FRI Durable Goods Orders; SIFMA: Early Bonds Close

FUTURE EVENTS 5/19 India and Australia General Elections; 6/25 OPEC Meeting; 6/28-6/29 G20

U.S. EQUITY

- At this stage, the most likely scenario is that both the U.S. and China are leaving room for negotiation despite re-escalation (i.e., 25% tariffs go into effect but are reversed within weeks as both sides come to an agreement). Under this scenario, the S&P 500 is likely to find support near the 200 DMA (2776) or 2665 breakout level in downside moves, and eventually stabilize and rally to a new high (on a trade agreement). This would put the S&P 500 P/E in the range of 16.3-17.0x on down moves. Our 12-month 2964 target equates to an upside of ~6.0-10.5% on a price return basis.*
- S&P 500 companies with over 50% of their revenues coming from the U.S. grew sales and earnings by an average of 5.6% and 8.6% respectively in Q1 (and had an average price bump of 0.2% following earnings). This compares favorably to S&P 500 companies with less than 50% of revenues coming from the U.S., which showed 2.1% sales growth and 3.6% earnings growth on average (with an average price reaction of -1.3%).
- **Focus of the Week:** U.S. and China are leaving room for negotiation despite re-escalation, and investor focus is on the late June G-20 meeting in Japan where Presidents Trump and Xi are set to meet. In the end, we believe cooler heads will prevail. Headline and equity market volatility are likely to increase in the coming weeks, and we expect range-bound trading with investors more guarded until the execution of a deal. Therefore, we would exercise patience with new purchases as favored sectors and stocks are likely to provide opportunities to accumulate during weak periods.

FIXED INCOME

- Escalation in trade rhetoric (U.S./China) and weak economic data releases (e.g., retail sales and industrial production) brought increased concerns regarding the health of the global economy, which sent sovereign yields around the globe sharply lower this week. As a result, the 10-Year Treasury yield fell to a year-to-date (YTD) low (2.38%).
- Heightened trade-induced fears of slowing economic growth drove the U.S. Treasury yield curve (10-Year/3-Month) to temporarily invert for the second time this year. While these inversions (10-Year/3-Month) cannot be ignored as a potential harbinger of a recession, our preference is to follow the 10-Year/2-Year yield curve spread, which remains in positive territory at 21 basis points and is not flashing a recessionary signal.
- **Focus of the Week**: U.S./China trade talks will overshadow other geopolitical news such as Italy's reemerging impudence against the European Union's debt/GDP targets. There is little economic data to drive rates next week.

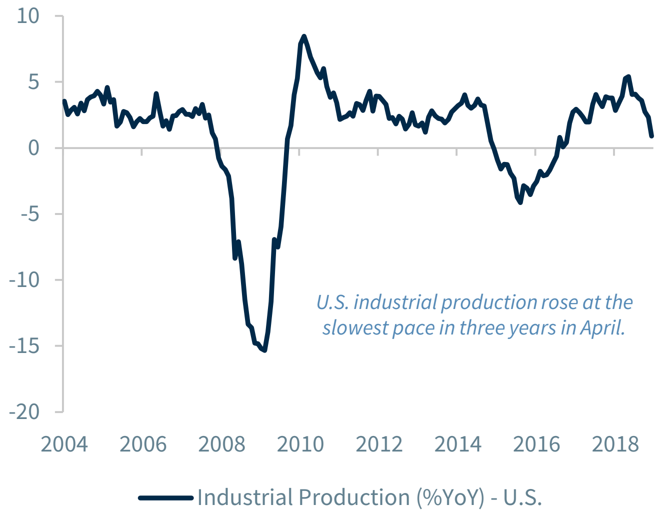
INTERNATIONAL

- While uncertainty regarding U.S./China trade negotiations has driven negative headlines, there were a few positive trade developments in other regions this week. First, the Trump administration elected to delay the decision (originally due May 18) on whether to impose tariffs on imported autos and auto parts by six months, which is a positive step for Europe and Japan. Second, progress is being made on the U.S.-Canada-Mexico Agreement (USMCA), with U.S. officials in talks to exempt those countries from steel and aluminum tariffs.
- Talk about a Bank of England interest rate hike before the end of the year has been building, although any such eventuality would only come after overt progress in the Brexit discussions. UK inflation data is released on May 23.
- **Focus of the Week**: The results of the European Parliamentary elections following the start of voting on May 23 will provide insight into the thoughts of the electorate of the European Union, who have been buffeted by the impact of low economic growth rates and rising concerns about inequality. Expect populist parties to make gains, but not take majority control of the European Parliament.

*See Charts of the week on page 3.

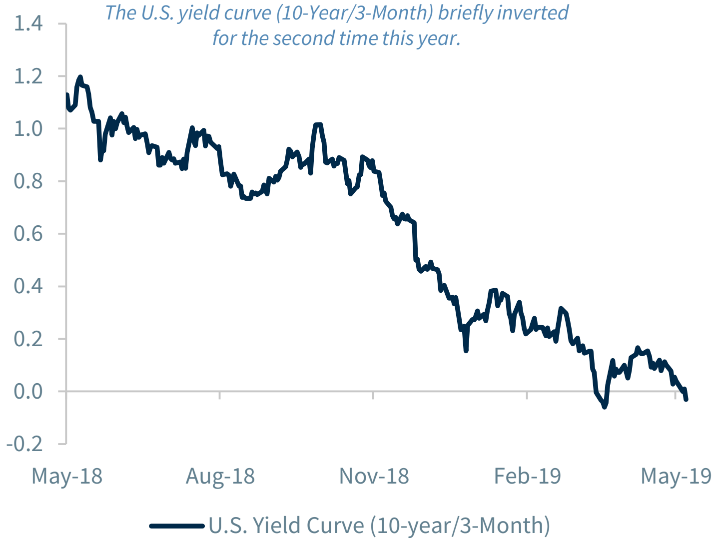
Charts of the Week

U.S. Industrial Production Slows

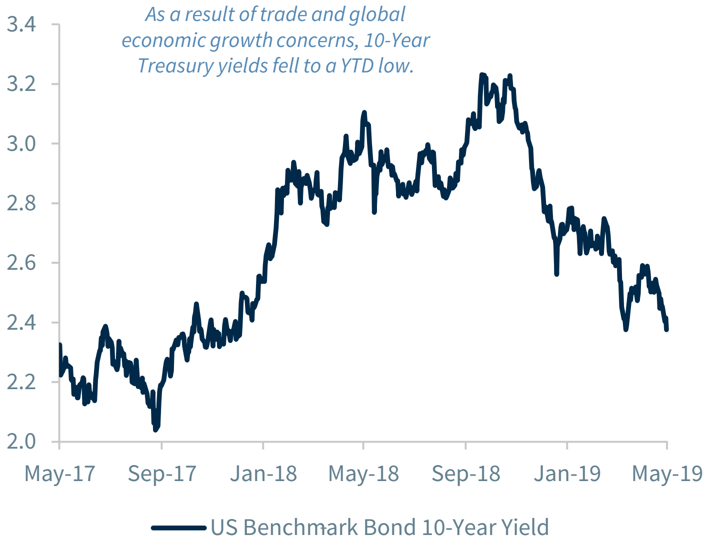


Chinese Retail Sales Hit Multi-Decade Low

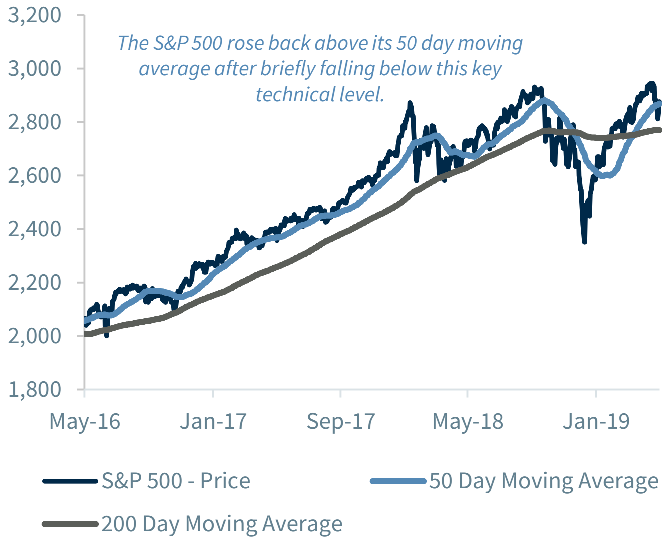
Treasury Curve Briefly Inverts Again



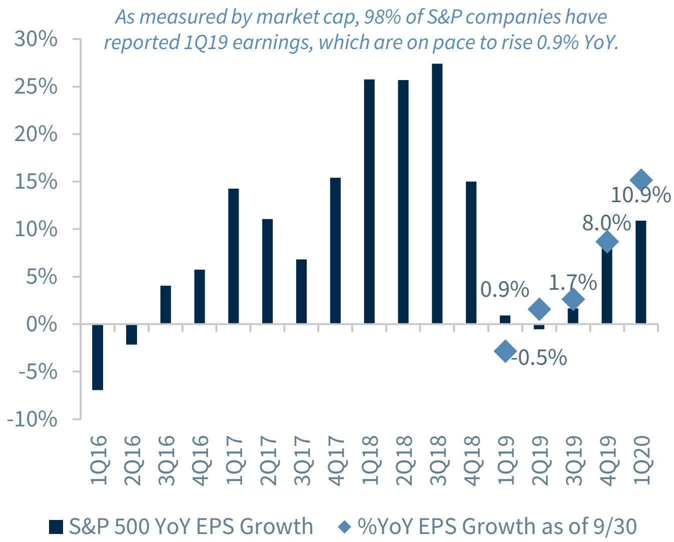
10-Year Treasury Yields Fall to YTD Low



S&P 500 Rises Back Above 50 Day Moving Average



Strong End to 1Q19 Earnings Season



RAYMOND JAMES

Asset Class Performance | Distribution by Asset Class and Style (as of May 16)

Weekly Returns (as of May 16)

U.S. Equities (S&P indices)

	Value	Blend	Growth
Large Cap	-0.9%	-0.1%	0.5%
Mid Cap	-1.4%	-1.1%	-0.8%
Small Cap	-1.8%	-1.5%	-1.3%

International Equities (MSCI indices)

	Dev. Mkt	World	Emerg. Mkt
Large Cap	1.1%	0.1%	-1.8%
Mid Cap	0.8%	-0.1%	-2.1%
Small Cap	0.3%	-0.4%	-1.8%

Fixed Income (Bloomberg Barclays indices)

	1-3 YR	Medium	Long
Treasury	0.0%	0.3%	0.5%
Invest. Grade	0.1%	0.2%	0.3%
High Yield	-0.1%	-0.1%	-0.2%

Year-to-Date Returns (as of May 16)

U.S. Equities (S&P indices)

	Value	Blend	Growth
Large Cap	13.3%	15.6%	17.7%
Mid Cap	15.3%	15.6%	16.0%
Small Cap	13.9%	13.0%	12.1%

International Equities (MSCI indices)

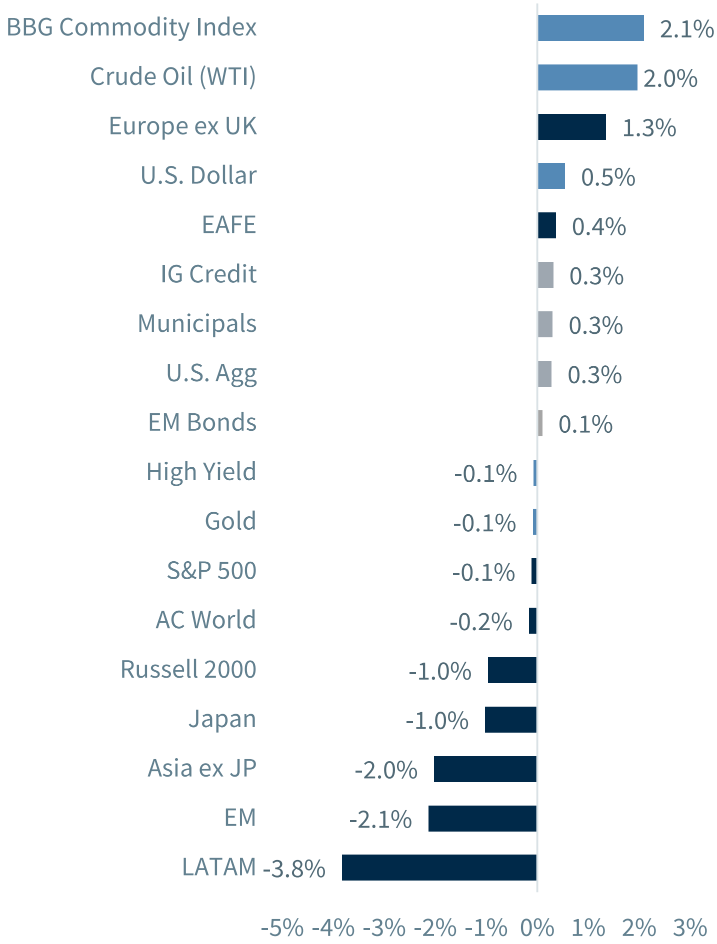
	Dev. Mkt	World	Emerg. Mkt
Large Cap	12.2%	13.5%	6.9%
Mid Cap	12.3%	14.3%	2.7%
Small Cap	12.1%	13.9%	3.7%

Fixed Income (Bloomberg Barclays indices)

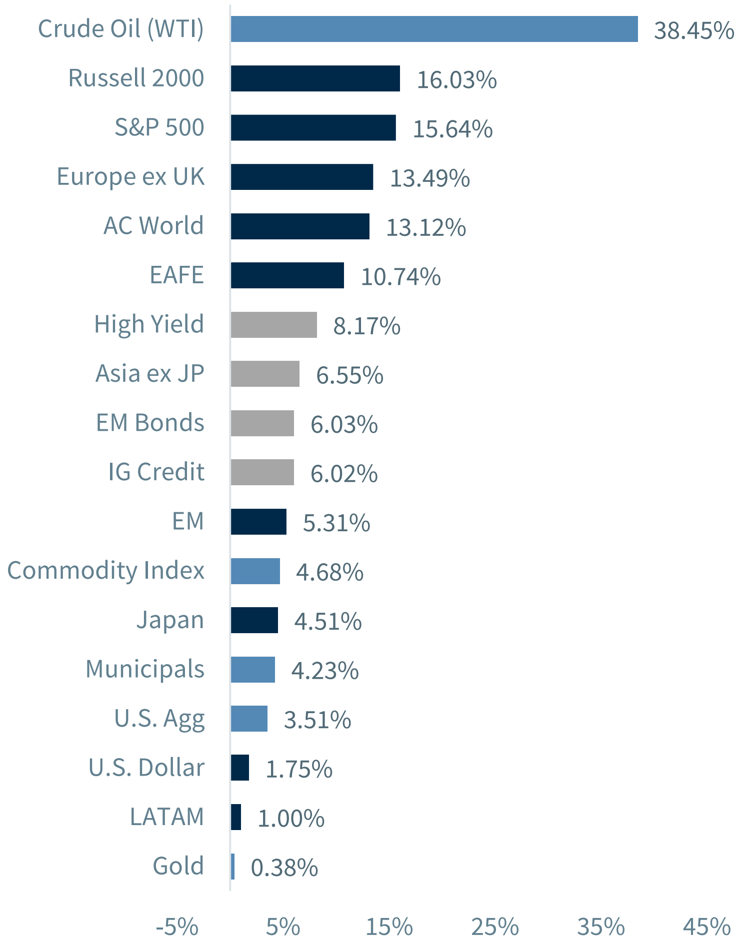
	1-3 YR	Medium	Long
Treasury	0.9%	2.4%	3.5%
Invest. Grade	2.1%	4.6%	6.3%
High Yield	4.6%	8.0%	12.3%

Asset Class Performance | Weekly and Year-to-Date (as of May 16)

Week-to-Date



Year-to-Date



Commodities Equities Fixed Income

Weekly Data

Data as of May 16

U.S Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	2876.3	0.3	(2.2)	15.6	7.8	14.0	10.8	15.8
DJ Industrial Average	25862.7	0.1	(2.7)	10.9	4.4	19.3	12.6	16.1
NASDAQ Composite Index	7898.0	(0.2)	(2.4)	19.0	6.8	19.9	13.1	19.0
Russell 1000	3064.3	0.3	(2.2)	16.0	13.3	14.8	11.4	15.4
Russell 2000	3870.1	(0.8)	(2.1)	16.0	4.6	13.6	8.6	14.1
Russell Midcap	5607.2	(0.0)	(2.2)	18.3	10.7	12.8	9.7	15.7

Equity Sectors:

Sector	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
Materials	343.7	1.0	(4.4)	9.3	(5.9)	7.7	4.8	10.7
Industrials	636.4	(0.4)	(3.1)	18.2	3.7	12.0	9.2	15.4
Comm Services	165.5	1.0	(1.2)	20.0	16.8	3.8	5.1	10.1
Utilities	295.5	2.6	(0.4)	11.4	22.7	9.5	10.6	12.8
Consumer Discretionary	927.0	(0.3)	(2.6)	19.2	12.1	15.8	14.6	20.0
Consumer Staples	594.6	2.3	0.3	15.1	20.5	5.8	8.5	13.1
Health Care	1023.7	(0.4)	(0.8)	2.9	8.6	10.0	10.6	15.5
Information Technology	1331.1	0.1	(3.5)	23.2	10.9	25.3	19.2	19.3
Energy	473.2	1.0	(2.7)	13.3	(14.3)	1.7	(4.2)	5.1
Financials	448.2	(1.0)	(3.5)	14.2	(2.1)	15.4	11.1	13.3
Real Estate	226.8	2.9	1.9	19.2	24.3	8.2	9.6	17.7

Fixed Income

Index	Yield	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
3-Months Treasury Bill (%)	2.4	0.0	0.1	0.9	2.2	1.2	0.8	0.4
2-Year Treasury (%)	2.2	0.1	0.2	1.4	3.2	0.9	0.9	1.0
10-Year Treasury (%)	2.4	0.5	1.0	3.5	8.9	0.1	2.2	3.2
Barclays US Corporate High Yield	6.6	(0.1)	(0.6)	8.2	6.1	7.6	4.6	9.7
Bloomberg Barclays US Aggregate	2.9	0.3	0.5	3.5	6.6	2.0	2.5	3.7
Bloomberg Barclays Municipals		0.3	0.9	4.2	6.7	2.7	3.5	4.5
Bloomberg Barclays IG Credit	3.6	0.3	0.3	6.0	7.7	3.4	3.4	6.2
Bloomberg Barclays EM Bonds	5.3	0.2	0.2	6.0	7.3	4.8	4.3	7.7

Commodities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
WTI Crude ($/bl)	62.9	2.2	(1.4)	39.4	(11.9)	9.7	(9.2)	1.1
Gold ($/Troy Oz)	1291.7	0.4	0.7	1.0	0.0	0.2	0.0	3.3
Dow Jones-UBS Commodity Index	80.3	2.2	(0.3)	4.7	(11.0)	(1.9)	(9.9)	(3.8)

Currencies

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
U.S. Dollar Index	97.9	0.5	0.4	1.7	4.8	1.2	4.1	1.7
U.S. Dollar per Euro	1.1	(0.4)	(0.2)	(2.2)	(5.2)	(0.4)	(4.0)	(1.9)
U.S. Dollar per British Pounds	1.3	(1.8)	(1.9)	0.4	(5.1)	(3.9)	(5.3)	(1.7)
Japanese Yen per U.S. Dollar	109.9	0.3	(1.3)	0.2	(0.3)	0.3	1.6	1.4

International Equities

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
MSCI AC World	509.8	0.2	(2.6)	13.1	1.2	11.5	6.9	11.0
MSCI EAFE	1868.6	0.6	(2.3)	10.7	(5.2)	8.0	2.5	7.6
MSCI Europe ex UK	1941.9	1.9	(1.6)	13.5	(3.7)	8.5	2.3	8.0
MSCI Japan	3032.9	(1.2)	(3.5)	4.5	(10.5)	7.2	5.9	6.1
MSCI EM	1011.1	(1.7)	(6.2)	5.3	(10.0)	11.2	2.3	6.5
MSCI Asia ex JP	633.2	(1.5)	(6.2)	6.6	(9.8)	12.5	5.0	8.6
MSCI LATAM	2553.0	(3.8)	(6.9)	1.0	(6.4)	9.0	(2.7)	2.4

Disclosures

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Sector investments are companies engaged in business related to a specific es presented herein are for illustrative purposes only and should not be considered as the sole basis for an investment decision. There can be no assurance that the future performance of any specific investment or investment strategy made reference to be advisors do not offer tax or legal advice. You should discuss any profitable or equal any corresponding indicated sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of a portfolio. The Citi Economic Surprise Indices measure data surprises relative to market expectations. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. MSCI EM Eastern Europe Net Return Index: The index captures large and mid cap representation across 4 Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI Japan Net Return Index: The index is designed to measure the performance of the large and mid cap segment of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan. MSCI EM Asia Net Return Index: The index captures large and mid cap representation across 8 Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. EPS: Earnings Per Share. MSCI Europe ex UK: The MSCI Europe ex UK Index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe*. With 343 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK. 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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