

## THE WEEK IN REVIEW

Equities across the world finished the trading week relatively flat as geopolitical risks and economic news drove price action. A slew of mergers and suspension of tariffs on Mexican goods helped U.S. equities early in the week, before trade policy once again took center stage and clawed back most of the gains on Wednesday. News of two oil tankers exploding near Iran drove oil prices and the energy sector stocks higher on Thursday. While all of this played out, the real issue lurking in the background has been what actions the Fed will take at its next meetings.

With curve inversion looming large in financial news, traders have been hesitant to fully reflect this in asset prices. One argument is that sentiment and prices will improve once the Fed cuts interest rates and the U.S. and China reach a trade agreement. Another argument suggests that inflation is so benign the Fed may cut 50 basis points in July to avert a recession. This week the latter argument found support in U.S. economic data, as most measures of inflation showed that pricing pressures remained subdued. Additionally, capacity utilization and real earnings growth maintained levels that are not indicative of an overheating economy.

Despite the lack of inflation, industrial production, consumer sentiment, and retail sales numbers released today painted a picture of a healthy economy, and more importantly, provided reasons for the Fed to cut less aggressively than the market currently anticipates. The fed fund futures market is pricing an 85% chance that the Fed will cut rates in July by at least 25 basis points, and a 73% chance that by September they will cut rates 50 basis points from their current upper target of 2.5%. The reaction of stocks and bonds to today's economic news suggests that those markets are also likely pricing in similar cuts as well. Given the potential for the Fed not to acquiesce to the market, the general uncertainty as it relates to trade and monetary policy, and the fact the curve remains inverted, investors may remain cautious in the near term.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Core Consumer Price Index (YoY)	2.0%	2.1%	▼
Producer Price Index (YoY)	1.8%	1.9%	▼
JOLTS Job Openings (Millions)	7.449	7.625	▼
Retail Sales (Less Autos YoY)	3.2%	2.2%	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	26089.61	0.41%	11.84%	3.63%
NASDAQ	7796.66	0.70%	17.50%	0.46%
S&P 500 Large Cap	2886.98	0.47%	15.16%	3.76%
MSCI EAFE	1879.37	0.20%	9.27%	-6.74%
Barclays Aggregate US	2153.77	0.06%	5.24%	7.45%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	2.17%	2.39%	1.92%
10-Year Treasury	2.08%	2.41%	2.94%

REPORTS DUE NEXT WEEK	LATEST
Existing Home Sales (Millions Annualized)	5.19
Housing Starts (Millions Annualized)	1.24
Leading Economic Indicators	0.2%

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.