Potential Opportunities For Income	Weaker Opportunities For Income
· Emerging Market Corporate Bonds	· International Sovereign Bonds
· High-Yield Municipal Bonds	· Treasurys

MARKET REVIEW

Foreign Stocks Continue to Lead the Way

April once again favored foreign stocks over domestic stocks. International stocks increased by 2.61%, outperforming emerging market (EM) stocks, which increased by 2.21%. U.S. stocks managed to finish the month with a positive return of 1.03%. Global bonds increased by 1.13% during the month with foreign bonds outperforming domestic bonds driven by appreciation of foreign currencies against the U.S. dollar, particularly the euro. International and EM sovereign bonds increased by 1.79% and 1.70%, respectively, while U.S. Treasurys increased by 1.70%. Credit-sensitive sectors gained, but trailed the robust gains in global sovereign markets. U.S. high-yield corporate bonds increased by 0.81% and EM corporate bonds increased by 1.48%.

This month's largest gainers benefitted from a surge in the euro after a poor showing from nationalist candidate Marine Le Pen in the French presidential election. Her party ran a platform promoting France's exit from the European Union. The strong showing for moderate candidate Emmanuel Marcon and the support of other moderate and liberal parties helped ensure his victory in the runoff election. Many investors view this as a strong show of support for the European Union and an indicator that Germany's upcoming election will support the continuation of Angela Merkel's administration.

Overall, leading economic indicators continue to show a synchronous expansion of the global economy and emerging market countries continue to surpass expectations. The JPMorgan Global Manufacturing Purchasing Managers' Index (PMI) increased from 53.4 to 53.8, indicating that the global economy is still in a state of expansion.

STOCKS vs. BONDS

Vive la France!

Last month, we discussed the tight trading range of the 10-year Treasury, which had consistently stayed between 2.30% and 2.60% since the beginning of the year. The range did breakdown in the middle of April, which appeared to be consistent with a correction in equities. The potential for a correction was short lived following the French election, which pushed almost every stock market higher and pushed the 10-year Treasury back to the bottom of its trading range. Rates appear to be holding at 2.30% again. It should be noted that following the 3% decline in the S&P 500 Index, volatility and measures of investor sentiment never reached an extreme point. The lack of a healthy sell-off either means that a correction is still ahead or that the gains going forward will not be as robust as they might be following a correction.

With that said, investors continue to favor stocks over bonds, which appears to be prudent positioning going forward. Investors should keep their eye on rates as the movement may still be a core driver of returns. Additionally, there are several pieces of legislation that would be positive for stocks, including a tax cut and major reduction in the regulations covering financial institutions. Movement on either of these policies will likely be positive for stocks.

OUTLOOK

High Yield Falters

This month, U.S. high-yield corporate bonds dropped from an A to a B on our report card for carry. It is still one of the best options for income per unit of risk, but the downgrade could be indicating that the tightening of credit spreads is slowing or even faltering. At this point, investors might want to consider high-yield municipal bonds over high-yield corporate bonds for any new allocations as muni bonds offer more pre- and post-tax income. The possibility of a large tax cut is obviously going to impact the muni market, but the pre-tax yield in high-yield municipal bonds is more attractive than in credit sectors.

As we have indicated previously, our preferred stock market is EM, which offers the most compelling valuation on an earnings basis and has exhibited strong momentum. When those two factors line up, investors tend to get rewarded handsomely. At the end of April, emerging markets increased by 13.94% as one of the best performing segments of the market. At this point, there is no reason to change this part of our outlook.

FUN FACT

30,000 Hours

Three computer scientists recently developed the largest ever mathematic proof; the file occupies 200 terabytes of space. The proof is based off a puzzle called the Boolean Pythagorean Theorem, which asks whether it is possible to color a positive integer either red or blue such that no three integers that satisfy the Pythagoras equation are the same color. The proof required 30,000 hours of computing time and was accomplished in two days using 800 parallel processors on the University of Texas's Stampede supercomputer. The proof cannot be read by a human and requires another computer program to interpret.

Methodology

To learn more about the methodology visit the Salient Partners blog posting at www.salientpartners.com. You can also follow us on Twitter at @nrowader and @NicMillikan for live updates on the Income Report Card.

Asset Class Key

Bonds

U.S. Treasurys	Bloomberg Barclays U.S. Treasury
U.S. Investment Grade Credit	Bloomberg Barclays U.S. Credit
Municipal Bonds	Bloomberg Barclays Municipal Bond
High-Yield Municipal	Bloomberg Barclays Muni High Yield
U.S. High-Yield Corporate	Bloomberg Barclays U.S. Corp High Yield
Emerging Market Corporate	CS Emerging Markets Corporate Bond
Emerging Market Sovereign	Bloomberg Barclays EM Sovereign
International Sovereign	Bloomberg Barclays Global Treasury ex USD
Mortgages	Bloomberg Barclays U.S. MBS
Short Term Treasurys (Cash Proxy)	Bloomberg Barclays US Treasury 1-3 yr

Stocks

U.S. Stocks	S&P 500 Index
International Stocks	MSCI EAFE
Emerging Market Stocks	MSCI Emerging Markets
U.S. Real Estate	Dow Jones US Real Estate
MLPs	Alerian MLP Infrastructure
Preferred Stocks	BofA Merrill Lynch Fixed Rate Preferred Securities
Utilities	S&P 500 Utilities Sector
International Real Estate	Dow Jones Global Select ex US Real Estate Securities
EM Infrastructure	MSCI EM Infrastructure

U.S. Stocks

Yield: 1.96% **Risk:** 7.20%

TREND **A** CARRY **D**

Strong performance of U.S. stocks is eroding the income. Stocks now have the worst absolute level of income. We believe the low volatility and possible changes to the regulatory environment still make the asset class a good total return option. Plus, we see it is a good hedge against inflation and rising rates.

International Stocks

Yield: 3.05% **Risk:** 8.71%

TREND **C** CARRY **C**

The push to unwind the European Union appears to have lost some steam following the French election and the nationalist candidate appears to be set for a loss. This shift strengthens pro-euro parties throughout the union and will likely be further reinforced in Germany's election. We think all of this is positive for foreign stocks.

Emerging Market Stocks

Yield: 2.44% **Risk:** 9.48%

TREND **A** CARRY **F**

Emerging market stocks still produce low income, but the asset class offers strong diversification away from the U.S. economic environment. The strong trend, valuation and possible change in the long-term cycle all favor this asset class. Furthermore, the recent trend has been gaining strength.

U.S. Real Estate

Yield: 4.15% **Risk:** 9.67%

TREND **D** CARRY **B**

The positive correlation with bonds should be taken seriously, especially for any investor with a large position in fixed-rate bonds. At this point, large allocations don't make much sense.

Master Limited Partnerships (MLPs)

Yield: 6.68% **Risk:** 11.92%

TREND **B** CARRY **A**

The slowdown in oil has weakened the trend in MLPs, but the income per unit of risk is still one of the best among stocks. The upcoming IPO of Saudi Arabia's state oil company will likely keep oil prices toward the higher end of the current range and is a positive for this asset class.

Preferred Stocks

Yield: 2.94% **Risk:** 2.74%

TREND **D** CARRY **A**

Preferred stocks are the asset class to own for safe U.S.-based income.They do not have a positive correlation to bonds, but the higher income stream should help protect them from changes in rates. Plus, as bank stocks rallied, the bank-heavy preferred market declined. Preferred stocks kept pace with the S&P 500 while still delivering some decent income.

Utilities

Yield: 3.41% **Risk:** 10.53%

TREND **C** CARRY **D**

Utilities have had a good year in terms of performance, but as the high level of risk suggests, their fate has been tied to interest rates and the macro environment doesn't support large allocations to rate sensitive assets.

International Real Estate

Yield: 3.61% **Risk:** 8.20%

TREND **F** CARRY **B**

This asset class benefitted from the French post-election rally, but employment growth is still slow in Europe and Japan. Until that changes, it is hard to imagine these companies being able to ignore the negative macro environment.

EM Infrastructure

Yield: 2.96% **Risk:** 8.90%

TREND **B** CARRY **C**

If EM stocks are too volatile, we believe this asset class is a great way to access to the economic growth of the emerging markets with some decent income and lower volatility. Additionally, most of these stocks are backed with hard assets and positive cash flow.

Grades: Quintile rankings of asset classes
Downgrade Upgrade No Change

Trend: 12 month momentum
Carry: Current Yield / Current Std. Deviation

Risk: Based on 60-day std. deviation

Income Report Card: Bonds

U.S. Treasurys

Yield: 1.85% **Risk:** 3.44%

TREND **F** CARRY **F**

Treasurys may be the purest way to express an interest rate position. As a result, this asset class represents the tip of the spear on the future of interest rates, and right now the future is bleak. If you must hold Treasurys, we believe short duration/cash-like is best.

U.S. Investment Grade Credit

Yield: 3.14% **Risk:** 3.67%

TREND **C** CARRY **D**

Barring a recession, investors should look to take more credit risk with high-yield corporate bonds. The higher yield will help provide a cushion as interest rates creep higher.

Municipal Bonds

Yield: 2.36% **Risk:** 1.97%

TREND **D** CARRY **C**

Muni bonds offer an attractive yield relative Treasurys and the trend does appear to be improving. However, the low likelihood of recession favors taking more credit risk. Look to high-yield municipal bonds instead. But, if you must have a high-safety asset class, we think this asset class is your best bet over Treasurys.

High-Yield Municipal Bonds

Yield: 6.15% **Risk:** 2.86%

TREND **B** CARRY **A**

This asset class is riskier than rated muni bonds, but barring a recession (which seems unlikely at this juncture), we believe high-yield municipal bonds are a good alternative to any investment grade holding. If you are looking for safe cash flow, we think this asset class may provide a good opportunity.

U.S. High-Yield Corporate Bonds

Yield: 5.63% **Risk:** 2.70%

TREND **A** CARRY **B**

Given the stability of the economy and the likelihood of increasing interest rates down the road, U.S. high-yield corporate bonds are one of our favorite asset classes. However, the recent downgrade in carry is important as it is giving a signal that spreads are getting tight.

Emerging Market Corporate Debt

Yield: 6.00% **Risk:** 1.59%

TREND **A** CARRY **A**

EM corporate debt is also one of our favorite asset classes for 2017. The low price volatility and high current income makes this asset class very attractive. Like high yield corporates, higher income will help offset any increased rates.

Emerging Market Sovereign Debt

Yield: 4.95% **Risk:** 3.21%

TREND **B** CARRY **B**

The strength in the U.S. dollar has stalled a bit in the first two months of the year, which has helped control the risk of this asset class and improved the risk-adjusted yield. If you absolutely need government bonds, we think this is your best bet. However, we prefer emerging market corporate debt over this asset class.

International Sovereign Debt

Yield: 0.69% **Risk:** 7.16%

TREND **F** CARRY **F**

Japan officially slowed the buying of government bonds, which should lead to higher rates down the road and puts an end to the speculation of long-term negative rates. This change, coupled with the low yield of the asset class, makes it our least favorite asset class. We believe this asset class should currently be avoided.

Mortgages

Yield: 2.81% **Risk:** 3.06%

TREND **D** CARRY **D**

Mortgages are a tough asset class in a rising rate environment. There has been some bounce back here as the course of interest rate increases is starting to become a little more visible. In general though, the macro trend is against this asset class, so it probably does not belong in an income portfolio.

Short Term Treasurys (Cash Proxy)

Yield: 1.28% **Risk:** 0.86%

TREND **C** CARRY **C**

Right now we would prefer credit risk over short duration, but in the event of recessionary environment, cash is starting to look very attractive.

Grades: Quintile rankings of asset classes
Downgrade Upgrade No Change

Trend: 12 month momentum
Carry: Current Yield / Current Std. Deviation

Risk: Based on 60-day std. deviation

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Nathan J. Rowader is a registered representative of ALPS Distributors, Inc.

Definition of Terms

Alerian MLP Infrastructure Index is the leading gauge of large- and mid-cap energy master limited partnerships (MLPs). The float-adjusted, capitalization-weighted index includes some of the most prominent companies and captures approximately 75% of available market capitalization.

Bloomberg Barclays EM Sovereign Bond Index is a rules-based market-value weighted index engineered to measure the fixed-rate local currency sovereign bonds issued in emerging markets as identified by Bloomberg.

Bloomberg Barclays Global Treasury ex-USD Index is an unmanaged index composed of those securities included in the Barclays Global Aggregate Bond Index that are Treasury securities, with the U.S. excluded while hedging the currency back to the U.S. dollar.

Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable and dollar denominated. The index covers the U.S. investment-grade, fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities.

Bloomberg Barclays U.S. Corporate High-Yield Bond Index covers the USD-denominated, noninvestment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Bloomberg Barclays U.S. Credit Index is an index composed of corporate and non-corporate debt issues that are rated investment grade (Baa3/BBB) or higher.

Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index tracks the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

Bloomberg Barclays U.S. Municipal Bond 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 pre-refunded bonds.

Bloomberg Barclays U.S. Treasury Index is an unmanaged index of public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Bloomberg Barclays U.S. Treasury Bond 1-3 Year Term Index is an unmanaged index of public obligations of the U.S. Treasury with a maturity between one and up to (but not including) three years.

BofA Merrill Lynch U.S. Core Fixed Rate Preferred Stock Index consists of investment-grade, fixed and fixed-to-floating rate U.S. dollar-denominated preferred securities.

Brexit a term for the potential or hypothetical departure of the United Kingdom from the European Union.

Consumer price index (CPI) is an index number measuring the average price of consumer goods and services purchased by households. The percentage change in the CPI is a measure of inflation.

Credit Suisse Emerging Market Corporate Bond Index consists of U.S. dollar-denominated fixed-income issues from Latin America, Eastern Europe and Asia.

Dow Jones Global ex-U.S. Select REIT Index measures the performance of equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded globally, excluding the U.S.

Dow Jones U.S. Real Estate Index measures the performance of the real estate industry of the U.S. equity market.

MSCI EAFE (Europe, Australasia and Far East) Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

MSCI Emerging Markets Infrastructure Index captures the global opportunity set of companies that are owners or operators of infrastructure assets.

MSCI World Index is a free float-adjusted market capitalization index designed to measure equity market performance in the global developed markets.

Max drawdown is the percentage of loss that an asset incurs from its peak net asset value to its lowest value.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index represents approximately 98% of the investable U.S. equity market.

S&P 500 Index is an unmanaged index of 500 common stocks chosen to reflect the industries in the U.S. economy.

Sharpe ratio is a ratio developed by Nobel laureate William F. Sharpe to measure how a fund performs relative to the risk it takes.

Standard deviation measures the degree to which a fund's return varies from its previous returns or from the average of all similar funds.

Valuation is the process of determining the value of an asset or company based on earnings and the market value of assets.

VIX (the ticker symbol for the Chicago Board Options Exchange Volatility Index) is a popular measure of market risk and is constructed using the implied volatility of S&P 500 index options.

Yield is the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost or on the U.S. government's debt obligations.

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