ECONOMIC HIGHLIGHTS

U.S. Retail Sales were up 0.4% for June, much better than the +0.1% expected (ex-autos was also up 0.4%). Industrial Production was flat for June, with capacity utilization at 77.9%. Business inventories were up 0.3% for May. The NAHB Homebuilders index was 65 for July, which is still nicely expansionary. Finally, the Index of Leading Economic Indicators was down 0.3% for June, the largest drop since 2016.

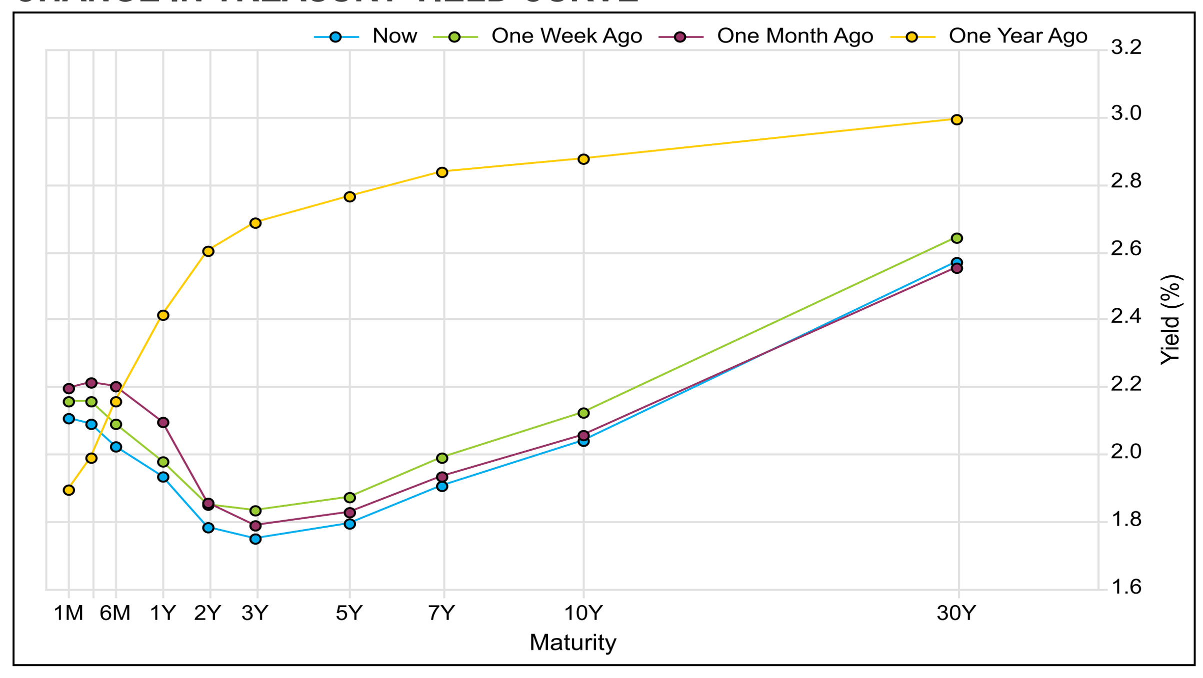
FIXED INCOME

Last Friday, bond traders moved away from bets that the Federal Reserve will move the fed funds rate lower by a half-point later this month, a day after betting hard they would. Rates moved sharply higher across the short-end of the market, while the Treasury curve in general moved higher and the dollar gained in value. The trading in fed funds futures last Friday suggests the market is pricing in a one hundred percent chance of a 25 basis point cut by the Fed and a thirty-five percent chance of a 50 basis point cut. The market started backtracking last Friday after the New York Fed decided to walk back some comments from earlier in the week by President John Williams that suggested a fifty basis point cut could be possible. The Fed members are now entering a "dead" period until after their meeting concludes on July 31 and bond traders may turn their attention to whether Congress and the White House can reach a deal to raise the U.S. debt ceiling before lawmakers take summer recess. Time is running short as the House of Representatives break for recess after this Friday and the Senate break is the following Friday. Congress and the President are seeking an accord to lift U.S. borrowing authority and avert a first-ever default on some of the government's obligations. The Treasury bill market is signaling some concern, with some small pricing dislocations appearing around securities maturing close to potential crunch dates in September and October. Treasury Secretary Steven Mnuchin has said that under one of the department's most conservative estimates, there will be a risk of default on payment obligations in early September, which is before lawmakers are scheduled to return. "If we go into the congressional recess with no deal, there are areas where Treasury bills will become a little cheaper, early- to mid-September and the beginning of October," said Gennadiy Goldberg, a senior U.S. rates strategist at TD Securities. "Those are two key zones that investors could avoid." The Treasury market ended with a gain last week with ten-year yields falling about seven basis points to 2.05% as traders are more certain that the Fed will deliver its first rate cut since 2008 at its July 30-31 meeting.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.06%	3 mo	2.08%	3 mo	2.21%	3 mo	1.16%
6 mo	2.03%	6 mo	2.10%	6 mo	2.18%	6 mo	1.18%
1 yr	1.93%	1 yr	2.01%	1 yr	2.14%	1 yr	1.19%
2 yr	1.82%	2 yr	1.90%	2 yr	2.06%	2 yr	1.22%
5 yr	1.82%	5 yr	1.86%	5 yr	2.22%	5 yr	1.35%
10 yr	2.05%	10 yr	2.29%	10 yr	2.67%	10 yr	1.76%
30 yr	2.58%	30 yr		30 yr	3.46%	30 yr	2.65%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.71%	17.95%
S&P 500 (Large Cap)	-1.16%	20.16%
S&P 400 (Mid Cap)	-0.59%	17.68%
Russell 2000 (Small Cap)	-0.75%	15.80%
NASDAQ Composite	-1.35%	23.49%
MSCI EAFE (International)	-0.53%	13.86%
iShares Real Estate	-2.18%	19.00%

U.S. Equity finished slightly negative for the week as the Fed's global monetary policy pivot continues to dominate the headlines. Consumer Staples (+0.82%) and Utilities (+0.65%) were the sector leaders, while Energy was the biggest underperformer (-2.25%). Gold finished up (+0.86%) while oil declined (-5.71%).

June retail sales are up 0.4% m/m versus the consensus for a 0.2%. This is the fourth consecutive monthly increase, which is +3.4% year-over-year. Sales growth is stronger at auto/parts, building materials, health and personal care, and food/beverage stores. Nonstore retail sales (online) are up 1.7% month over month. Gas stations, department stores, and electronics/appliance sales categories declined.

Two notable movers this week include Microsoft and Netflix. Netflix reported a meaningful Q2 subscriber's miss, in which the company reported 2.7 million subscribers, far below the expectations of 5 million, as noted by the NY Times. The miss was largely blamed on a weaker Q2 content slate, though Netflix raising its prices was also mentioned as potentially responsible. In other news, Microsoft beat its fiscal Q4 revenue and EPS. It is the belief that strength in the company's cloud services was the main driver, with total Commercial Cloud revenue up 39% year-over-year.

July's Philadelphia Fed Manufacturing Index came in at 21.8 versus the consensus of 5.0 and the prior month's 0.3 reading. New orders are better as well, coming in at 18.9 vs June's 8.3 level. Shipment and employment components also improved month-over-month. The report noted that 56% of respondents saw increasing demand. This data comes after a spate of weak readings for regional manufacturing indicators in June and only modest improvement in NY Fed's Empire index (where new orders remained in contractionary territory). Elsewhere, initial jobless claims rose to 216K from last week's downwardly revised 208K (was 209K). Continuing claims down to 1.686M from prior week's 1.728M (revised up from 1.723M).

Consumer Sentiment continues to inch higher as the preliminary July reading comes in at 98.4, in line with its consensus and slightly higher than June's reading of 98.2. This is in contrast to inflation, which is expected to fall slightly. Respondents see year-ahead inflation of 2.6%, which is down from June's 2.7% and May's 2.9%.

The Wall Street Journal discussed how the market has gone from debating over a rate cut in July to now debating whether the cut will be 50 basis points instead of 25. St Louis Fed President James Bullard mentioned that he supports a 25 basis point rate cut and believes a larger cut may be too aggressive of a move. This could be due to stocks sitting near record highs, a recent string of positive earnings surprises, June's nonfarm payrolls, core CPI and retail sales all coming in stronger than expected.

On Thursday, Federal Reserve President John Williams noted that when one only has so much stimulus at his or her disposal, it pays to act quickly to lower rates at the first sign of economic distress. Williams also added that it is important to keep rates lower for longer as expectations of lower rates helps create easier financial conditions. The NY Fed stated that these comments were not meant to send a specific policy signal, but the probability of a 50 basis point rate cut later this month moved to 70% from 30%.
The S&P 500 has been lower for the week as the large cap index continues to trade above the primary support level of 2955. The Index started strong during Friday, but sold off throughout the day to finish down -1.25% for the week. The S&P 500 closed at 2976.

ASSET ALLOCATION

CURRENT SENTIMENT	
Cash	Neutral
Short Fixed Income	Neutral
Intermediate Fixed Income	Neutral
Inflation-Adjusted Fixed Income	Unfavorable
High Yield Fixed Income	Neutral
International Fixed Income	Unfavorable
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Neutral
Real Estate	Neutral
Commodities	Unfavorable

Below is a summary of our current stance on most asset classes:

Cash - Neutral weighting now that Fed Funds rate is above 2%. Any exposure is for defensive positioning or liquidity needs.
Short Term Bonds - Relative to Intermediate Bonds, the reduced duration is preferable given the outlook for higher interest rates.
Intermediate Term Bonds - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain present in floating rate securities.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened considerably and do not warrant exposure to unnecessary credit risk when compared to Treasuries.
International Bonds - Foreign bonds offer good diversification qualities and higher yield opportunities, however, risks have been elevated recently and investment should be made cautiously.
Equity Income - High quality and higher-dividend-paying companies remain attractive for long-term investors given their favorable risk-adjusted profile and current yield curves.
Large Cap Stocks - A favorable weighting is recommended. Growth continues to be a more favorable style and should be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure remains an attractive market capitalization. Mid cap stocks continue to provide the "sweet spot" of market capitalization - large enough to provide stability, but small enough to be more nimble.
Small Cap Stocks - In broad market corrections, small cap stocks will suffer most with increased volatility. However, a recent divergence of relative strength between small caps and large caps warrants a neutral exposure.
International Stocks - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight to neutral weight is recommended.
Emerging Market Stocks - Stronger balance sheets, less debt, and better growth potential make emerging markets more fundamentally attractive than developed countries longer-term. However, trade uncertainty and dollar strength provides a headwind for EM in the near term.
Real Estate - Pricing has stabilized and long-term valuations appear attractive. Real Estate has performed well of late and should continue to be a strong alternative to other asset classes.
Commodities - Global demand should support higher prices if the global recovery remains on track. Volatility will be higher and commodities will be susceptible to short-term price shocks, however, if used in conjunction with other asset classes, risk can be reduced substantially within a diversified portfolio. Used alone though