ECONOMIC HIGHLIGHTS

U.S. new single-family home sales came in at a 629,000 unit rate for August, flat with July. Durable Goods Orders were up 4.5% for August, which was all transportation related. Second quarter Real GDP was +4.2% (on an annualized basis) with the GDP Price Index up 3.0%. Personal Income was up 0.3% for August, the same as for July. The Core PCE Price Index was flat for the month, and up 2.0% for the year ended August. Interestingly, Farm Prices were down 4.3% over the past year. Finally, the Chicago Purchasing Manager's Index came in at a nicely expansionary level of 60.4 for September.

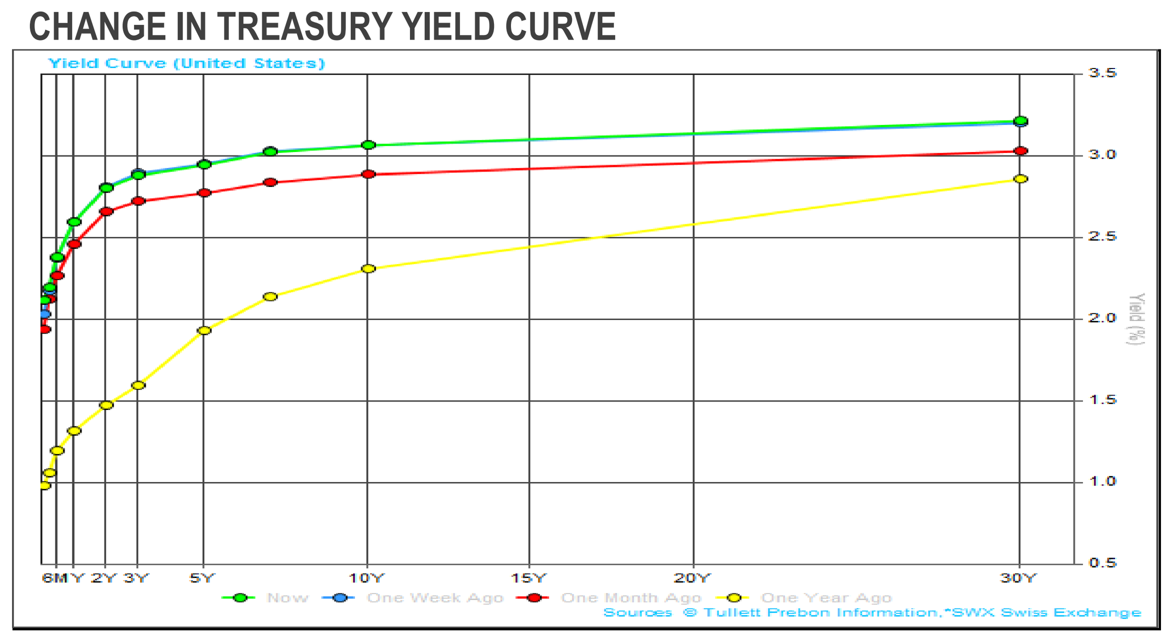
FIXED INCOME

For battered Treasuries bulls, a bout of haven buying last week took a bite out of their worst month since April. Now they're hoping for a boost from the next U.S. employment report. Bond traders are looking to Friday's payroll figures for an update on wage growth, after an unexpectedly large increase last month helped drive the ten-year yield toward current year-to-date highs. Yields on the maturity surged 20 basis points in September, the most in five months, although they pared their climb amid new concerns over Italy's finances. Strategists at Wells Fargo & Company see yields ultimately heading higher, but also concede that signs of cooling wages could trigger a rally in the short-term. After Fed officials raised rates for the third time this year and pledged more hikes, disappointing wage growth may lead investors to question the central bank's plans to keep tightening. Wells Fargo's Boris Rjaviinski commented "The market reaction to a downside miss in wages could be more sizable then a positive surprise which could put the question in the minds of some whether the Fed will stay the course." Yields on ten-year notes touched 3.11% last week, approaching the peak for 2018, and spurring futures speculators to amass a record short position in that maturity. But to the bears' chagrin, Treasuries then rebounded, with the ten-year ending the week at 3.06% amid worries over Italy's new fiscal concerns. U.S. average hourly earnings probably rose 2.8 % in September from a year earlier, according to a Bloomberg survey. That would be down from the 2.9% pace in August that was the biggest increase since the end of the recession. Employers may have added 185,000 non-farm jobs, versus 201,000 a month earlier. The technical picture also should cheer bond bulls, with last week's challenge of 2018 highs meeting strong resistance, according to independent strategist Marty Mitchell. He is targeting the ten-year to move back towards 2.9% by the end of the week. To be sure, the bulls in the market face risks. Haven demand could dissipate if European officials are able to ease investors' concerns about Italy, and Treasuries may also be buffeted by new corporate issuance. But according to Mitchell, when it comes to the jobs report, the path of least resistance for yields is lower. "It feels like we're at a point now where we'll see better buying on dips," Mitchell said. "We should see an underlying bid even if some of the data comes in on the stronger side."

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.20%	3 mo	2.23%	3 mo	2.45%	3 mo	1.75%
6 mo	2.36%	6 mo	2.36%	6 mo	2.56%	6 mo	1.80%
1 yr	2.56%	1 yr	2.51%	1 yr	2.69%	1 yr	1.86%
2 yr	2.82%	2 yr	2.80%	2 yr	3.00%	2 yr	1.98%
5 yr	2.95%	5 yr	3.03%	5 yr	3.37%	5 yr	2.30%
10 yr	3.06%	10 yr	3.34%	10 yr	3.77%	10 yr	2.81%
30 yr	3.21%	30 yr		30 yr	4.18%	30 yr	3.77%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-1.07%	8.83%
S&P 500 (Large Cap)	-0.51%	10.56%
S&P 400 (Mid Cap)	-1.02%	7.48%
Russell 2000 (Small Cap)	-0.86%	11.51%
NASDAQ Composite	0.76%	17.49%
MSCI EAFE (International)	-0.93%	-1.36%
iShares Real Estate	-1.34%	1.56%

There was a wide divergence in sector returns last week even though the broad index was only modestly lower. Financials and Materials both fell over -4% while Consumer Staples and Industrials lost over -2%. Technology, Energy, and Utilities all rallied close to +1% - with no discernable leadership theme evident.

The Communications sector made its debut last week resulting in the S&P 500 moving to 12 main industry groups – some of the notable stocks in the new sector include Facebook, AT&T, Google, Twitter, and Disney.

News broke Monday that Comcast topped Twenty-First Century Fox with a $39 billion offer to buy U.K. media giant Sky – with analysts viewing the win unfavorably given the high price paid and competitive concerns. The company is expected to begin talks with Disney about selling its 39% stake in Sky (and Comcast potentially selling Disney its stake in Hulu).

The SEC has formally accused Tesla CEO Elon Musk of misleading investors when he tweeted in August that he had "funding secured" to take his company private. In the lawsuit, the SEC orders to remove Musk as CEO of Tesla or any other public company as a result. The complaint was filed Thursday in U.S. District Court's Southern District of New York in Manhattan. Tesla fell -14% on Friday on the news.

For the first time in the current bull cycle in global energy markets, Brent crude is back above $80 per barrel, finishing last week at $82. The last two moves above $80 led to two different parabolic moves: the pre-recession explosion higher in crude prices that still stands as the high-water mark all-time, and the late-2010 acceleration that put crude back above $100 per barrel post-crisis.

From a seasonality standpoint, October begins one of the best 3 month periods historically for the Dow Jones Industrial Average according to data from Bespoke. Over the last 100 years, the Dow has averaged a gain of 0.40% in October with gains 62% of the time. Over the last 50 years, October has seen the Down gain 0.84% on average with gains 62% of the time. Finally, the Dow gained 2.49% on average for the month over the past 20 years, which is the best performance of any month on the calendar.

As interest rates have risen in the last year, Bespoke compared the yield on the 3-Month US Treasury to the dividend yield on the S&P 500. Up until a couple of months ago, this entire bull market has occurred during a period where short-term interest rates have been lower than the dividend yield on the S&P 500. After over two years of rate hikes from the FOMC, short-term rates rose above the S&P 500's dividend yield this summer and have continued higher since. With yields crossing the higher yield on cash may make is more attractive than equities given their lower yield.

The week ahead will be another relatively quiet week on the corporate calendar but a few notable companies will release earnings including Pepsi and Costco. There will be an uptick in the number of investor meetings and brokerage conferences which will drive most of the news flow. On the economic front we will see PMI data in the U.S. along with latest trade balance and Jobs at the end of the week.

The slight decline by the S&P 500 last week put the index right on top of the support levels we have mentioned in these comments. Support for the index stands at 2915, 2872, and 2800. The near-term, all-time high of 2940 would be first resistance should the rally resume. The S&P 500 closed last week at 2913.

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	Neutral
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Favorable
Real Estate	Favorable
Commodities	Unfavorable

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

Cash - Holding as little as possible given the miniscule yields in money market instruments. Any exposure is for defensive positioning.
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 spread products.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened; however, still remain attractive versus Treasuries.
International Bonds - Emerging market bonds offer good diversification qualities while providing higher yield opportunities relative to domestic fixed income.
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 has reemerged as a more favorable style and should be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure along with a value tilt is preferred. 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. Recent relative performance versus developed markets support the stronger fundamental backdrop and positions have been added.
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. Although, volatility will be higher and commodities will be susceptible to short-term price shocks, if used in conjunction with other asset classes, risk can be reduced substantially to a diversified portfolio. However, used alone is not recommended as the short-term outlook is not favorable.

Sources of statistical information are Bloomberg and Ned Davis Research.