ECONOMIC HIGHLIGHTS

The Chicago Purchasing Managers' Index came in at 47.1 for September, a contracting level for the local economy. The overall Purchasing Mangers' Index for the U.S. was mixed with the Markit PMI coming in at 51.1 for September, and the ISM Manufacturing Index coming in at 47.8. The Services Indexes came in at 50.9 and 52.6 for September, both closer to neutral territory. In U.S. Construction Spending was relatively flat for August. The U.S. Unemployment Rate for September came in at a strong 3.5% down from 3.7% for August. Finally, Average Hourly Earnings were flat for September, having been up 0.4% for August.

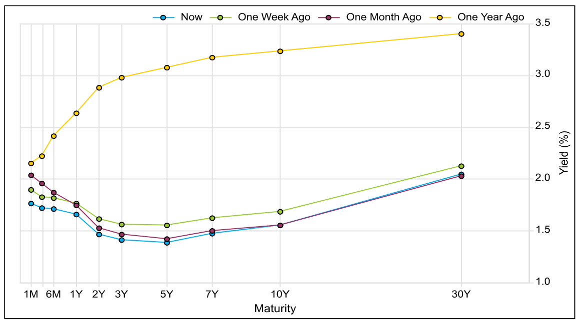
FIXED INCOME

The Federal Reserve announced at the end of last week that it will extend through the end of the month the liquidity lifeline that it's been offering to U.S. funding markets since a spike in rates in mid-September. The Federal Reserve Bank of New York released a statement that it will conduct operations for overnight repurchase agreements through November 4, having previously only scheduled them to occur until October 10. The central bank also announced eight new term offerings to provide additional funding through this month. The central bank has been injecting liquidity into the funding markets since September 17, when the rate on overnight general collateral repo jumped to 10%, about four times higher than usual levels, as cash reserves were out of alignment with the volume of securities on dealer balance sheets. "This tells the market that they are serious about providing liquidity through the end of the month," said Mark Cabana, head of U.S. interest-rate strategy at Bank of America. "This type of announcement, just like a couple weeks ago, is a 'whatever it takes' type of announcement." These measures are officially aimed at keeping the fed funds rate within the central bank's target range of 1.75% to 2.00%. While those measures did bring the market more in line with the target, there was a brief move upward in repo rates at the end of September as participants fulfilled quarter-end funding needs. Prior to the Fed's announcement last Friday, some market observers had also flagged the potential for further repo-market disruption in the fourth quarter -- possibly as soon as later this week. Bank of America's Cabana said the measures announced by the central bank actually had exceeded his expectations for further intervention. "The fact that they are willing to roll this deeper into November and to commit for such a long schedule suggests that they want to provide transparency," he said. "They've heard that from the market and the Fed Desk is being responsive to concerns."

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.69%	3 mo	1.77%	3 mo	1.88%	3 mo	1.20%
6 mo	1.64%	6 mo	1.83%	6 mo	1.84%	6 mo	1.22%
1 yr	1.58%	1 yr	1.83%	1 yr	1.76%	1 yr	1.22%
2 yr	1.40%	2 yr	1.54%	2 yr	1.65%	2 yr	1.22%
5 yr	1.35%	5 yr	1.40%	5 yr	1.81%	5 yr	1.28%
10 yr	1.53%	10 yr	1.72%	10 yr	2.25%	10 yr	1.48%
30 yr	2.02%	30 yr		30 yr	3.05%	30 yr	2.17%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-1.23%	16.06%
S&P 500 (Large Cap)	-0.80%	19.59%
S&P 400 (Mid Cap)	-1.62%	15.94%
Russell 2000 (Small Cap)	-1.47%	12.47%
NASDAQ Composite	-0.19%	21.37%
MSCI EAFE (International)	-1.59%	11.52%
iShares Real Estate	0.05%	27.64%

U.S. equity finished its third straight week for a loss with the S&P 500 index falling close to -0.83%. The impeachment inquiry continues to dominate Market headlines along with macroeconomic data missing expectations. Real Estate (+0.22%) lead the market sectors while the majority were negative. Materials were the biggest decliner at -3.21%. Gold rose 2.72% while Oil finished down -2.33%.

According to Bespoke Investments, investors are still in a selling mood this morning, although we have seen a bit of a rebound off the lows over the last hour. As stated by the article, yesterday was the worst start to the fourth quarter in five years, and while it wasn't necessarily a good first impression, prior Octobers that started off with 1% declines typically saw rebounds over the course of the rest of the month and the rest of the year. Impeachment inquiries and weakening macroeconomic data could have a negative impact on this projection, however, the results are still yet to be seen.

September's ISM Non-Manufacturing Index is down 3.8 points m/m to 52.6 vs the 55.1 consensus, which is the lowest print in three years. The Business Activity Index is down 6.3 to 55.4, the New Orders Index is down 6.6 to 53.7, and the Employment Index is down 2.7 to 50.4. Respondents cited certain concerns around tariffs, labor resources, and the direction of the economy. Analysts had pointed out that monthly changes to the employment component have been a leading indicator to overall service-sector job growth. The final September IHS Markit Services of 50.9 is unchanged from its flash. New business growth is at its lowest in its survey's history (October 2009), and employment declined for the first time since 2010. Initial claims are up 6K w/w to 219K, which beats the 215K estimate.

September's Nonfarm Payrolls came in at 136K, missing expectations of 145K; however, the prior two months are revised higher by 45K. The unemployment rate fell 0.2pp m/m to 3.5%, beating the estimates of 3.7% and stands at its lowest since December of 1969. Average hourly earnings are flat, down from last month's +0.4% and below the 0.3% estimate. The average workweek is unchanged at 34.4 and meets expectations, and the labor force participation rate is unchanged at 63.2%.

While at a WSJ-organized event, Federal Reserve Vice-Chairman Richard Clarida said that the U.S. economy is in a good place with a healthy labor market and a low risk of recession. Vice Chair Clarida reiterated that the Fed will act as appropriate, noting that Fed policy is not on a preset course, and that the central bank is taking each meeting one at a time. Rate cuts are still expected as odds of an October and December rate cut have jumped in recent days due to weaker manufacturing and services data.

The S&P 500 saw its third straight week of declines as the large cap index broke through its ~2938 support level on Tuesday and continued to fall to hit its 200-Day moving average at 2857. Since then, the index has bounced off and gained some traction to pullback some gains. The next resistance level seems to be around the 2940 mark. The S&P 500 closed at 2952.

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 provide 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 is not recommended as the short-term outlook is not favorable.