ECONOMIC HIGHLIGHTS

U.S. Durable Goods Orders came at -1.1% for September, approximately as expected. New Single-Family Home Sales took place at a 701,000 annualized rate for September, also as expected.

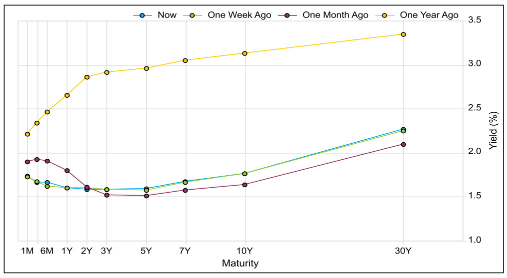
FIXED INCOME

If the derivatives market is correct, the Treasury yield curve is going to continue steepening and trading ranges will narrow. This is because options on longer-maturity Treasuries that predict higher yields are now more expensive than those hedging against lower yields, whereas the opposite is true for Treasuries that are shorter-term in nature. This suggests the path of least resistance is now for the yield curve to continue to steepen. This is a notable change from the start of the month, when the bias was for yields to fall across the curve. The change to a steepening bias has coincided with the easing of two major risk factors. U.S.-China trade tensions have eased in recent weeks as the two sides negotiate their way to a long-term agreement, while the prospect of a no-deal Brexit has also diminished. While these two events have cleared the way for longer-maturity Treasury yields to rise, shorter-dated ones have been held in check by expectations the Federal Reserve will continue to cut interest rates. Less than stellar economic data recently, including retail sales and manufacturing, have the markets pricing in an almost 100% chance of a rate cut at the Fed's meeting this week and at least one more cut by mid-2020. Recent events have also led to a cratering in interest-rate volatility. Bank of America Corp.'s MOVE Index, a measure of anticipated price swings in Treasuries, hit a 12-week low last week on Thursday. The decline in interest-rate volatility has been led by near-dated maturities on short-term rates. The spot, also known as upper left corner of the volatility grid, is synonymous with changes in the Fed's interest-rate outlook. In other news, the U.S. budget deficit has swelled to almost $1 trillion in fiscal 2019, reaching the highest level in seven years as taxes have been cut and spending has increased. The budget gap increased by 26% to $984 billion in the twelve months through September, representing 4.6% of gross domestic product, the Treasury Department reported last Friday.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.66%	3 mo	1.68%	3 mo	1.91%	3 mo	1.22%
6 mo	1.65%	6 mo	1.86%	6 mo	1.88%	6 mo	1.24%
1 yr	1.59%	1 yr	1.83%	1 yr	1.84%	1 yr	1.24%
2 yr	1.62%	2 yr	1.71%	2 yr	1.78%	2 yr	1.27%
5 yr	1.62%	5 yr	1.64%	5 yr	1.96%	5 yr	1.37%
10 yr	1.79%	10 yr	2.01%	10 yr	2.40%	10 yr	1.73%
30 yr	2.29%	30 yr		30 yr	3.18%	30 yr	2.45%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.49%	17.81%
S&P 500 (Large Cap)	0.51%	22.53%
S&P 400 (Mid Cap)	0.61%	19.41%
Russell 2000 (Small Cap)	0.60%	16.92%
NASDAQ Composite	0.98%	25.30%
MSCI EAFE (International)	0.54%	16.40%
iShares Real Estate	-1.38%	28.21%

U.S. Equity finished their third straight week of gains following a three-week losing streak. Market movement can be summed up to the usual suspects with China-U.S. trade talk being the leader, and then Fed talk, earnings reports, and some macroeconomic data following. Energy (+1.64%) is the leading sector this week with Consumer Discretionary (-1.07%) and Communication Services (-0.99%) being the largest decliners. Gold rose 1.32% and oil made strong gains finishing up 6.02%.

September existing-home sales drop as the report came in at a 5.38M SAAR, which is below the consensus for 5.45M and lower than August's upwardly revised 5.50M pace (initially 5.49M). The report is still up 3.9% y/y. The release noted that four geographic regions saw weaker sales m/m, particularly the Midwest, and observed not as much help from lower mortgage rates, with limited housing stock a constraint (inventory down 2.7% y/y). Home prices rose in all regions. Elsewhere, September Richmond Fed manufacturing index rebounded, coming in at 9 versus the prior (8). The underlying composition reported strong, with shipments, new orders, and employment all improving. There were also noted improvements in backlog local business conditions.

September's durable goods orders are down 1.1% m/m versus the consensus of 0.6% and August's +0.3%. Core capital-goods orders (nondefense, ex-aircraft) are down 0.7% m/m versus the consensus +0.4%, and August was revised down to (0.4%) from +0.1% m/m. Core shipments fell 0.5% m/m after dropping 0.6% in August. In other news, the Markit flashed October manufacturing PMI at 51.5 versus the consensus of 50.5 and September's 51.1; the fastest in six months and pointing to gradual recovery from August lows. Flash October services PMI are at 51.0 which levels with the consensus and a touch better than the prior month's 50.9. Respondents said new business intakes stagnated in the month. Elsewhere, September new-home sales are at a 701K SAAR, roughly in line but a dip from August's 713K pace. The initial jobless claims came in at 212K in the latest week (vs consensus 215K and prior 218K).

Global growth continues to seem soft as the Eurozone manufacturing PMI remains unchanged at 45.7 in an October flash reading, below the 46.1 consensus. While Eurozone services PMI improved to 51.8 from 51.6, a two-month high, the reading is still below the 51.9 consensus. Markit said the latest readings point to quarterly growth rate just below 0.1%. German manufacturing sector remained the key area of concern with employment in the industry falling the most in nearly ten years. Japan manufacturing PMI fell to 48.5 in October flash reading from 48.9, the weakest since June 2016, while the Japan composite PMI fell into contraction for the first time in three years. South Korea's GDP expanded 0.4% q/q in Q3, down from 1.0% in prior quarter, missing the 0.5% growth forecast.

The consensus is the Federal Reserve is expected to cut rates again. Bloomberg said that in its October 21-24 poll of 40 economists, 85% said they expect the Fed will ease at its meeting next week, which would bring the Funds rate to 1.5%-1.75%. The release also noted that 56% of the respondents noted that in the event of a rate cut, policymakers would signal that they are likely to pause some time before making another move. However, this is only half of respondents and other thoughts leaned towards the Fed may not wanting to give such explicit guidance.

The S&P 500 finished positive for its third straight week as the large cap index closed 0.53%. The index was seen to break some resistance around the 2955 mark and continues to head towards its high of 3027. This high is still the considerable resistance point. The S&P 500 closed at 3022.

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.

Sources of statistical information are Bloomberg and Ned Davis Research.