2017 Weekly Portfolio Manager Commentary *June 23 , 2017*

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ECONOMIC HIGHLIGHTS

The Index of Leading Indicators was up 0.3% for the month of May, with most components showing strength. New single-family home sales were revised higher in April, to a run rate of 593,000 units. In May, new single-family home sales were also strong, at a 610,000 annual unit run rate.

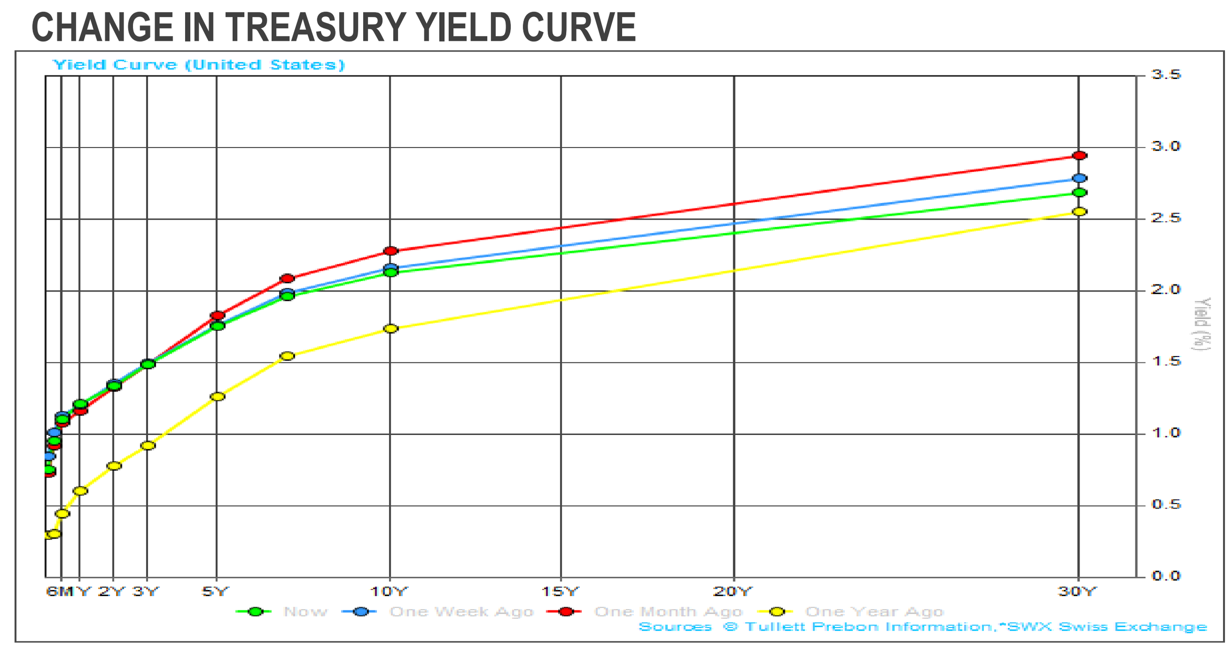
FIXED INCOME

Federal Reserve officials last Friday argued both sides of the debate over how the U.S. central bank should react to a recent downturn in inflation, highlighting a discussion that could determine how many more times it raises interest rates this year and next. Federal Reserve Bank of Cleveland President Loretta Mester told reporters that four months of softening inflation haven't changed her outlook for the economy or her preference for continued gradual rate hikes. "The real question is, does the inflation data tell you something about demand? Is demand weakening in the sense that now prices are falling," Mester said after a speech in Cleveland. "That's not my assessment." She is not a voter on the rate-setting Federal Open Market Committee this year. Speaking in Nashville, St. Louis Fed Chief James Bullard said the absence of inflation pressures gives the central bank scope for patience. Recent weak readings on inflation, which has been under the Fed's 2% target for almost every month since April 2012, have raised worries in some quarters that it's headed for a mistake if price pressures don't rebound and officials continue to tighten monetary policy. But Chair Janet Yellen, speaking on June 14 after the Fed raised rates for the second time this year, expressed confidence that a strong labor market would rejuvenate price pressures. Fed officials expect to lift rates once more in 2017, according to their latest quarterly median projections. They also intend to begin trimming their $4.5 trillion balance sheet this year; a move that, like a rate hike, is likely to raise real borrowing costs.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	0.96%	3 mo	1.04%	3 mo	1.26%	3 mo	0.72%
6 mo	1.10%	6 mo	1.10%	6 mo	1.33%	6 mo	0.78%
1 yr	1.21%	1 yr	1.19%	1 yr	1.42%	1 yr	0.83%
2 yr	1.34%	2 yr	1.37%	2 yr	1.67%	2 yr	0.98%
5 yr	1.76%	5 yr	1.71%	5 yr	2.25%	5 yr	1.38%
10 yr	2.14%	10 yr	2.54%	10 yr	2.97%	10 yr	2.10%
30 yr	2.72%	30 yr		30 yr	3.80%	30 yr	3.32%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.05%	9.58%
S&P 500 (Large Cap)	0.22%	9.98%
S&P 400 (Mid Cap)	-0.54%	5.77%
Russell 2000 (Small Cap)	0.58%	4.87%
NASDAQ Composite	1.85%	17.07%
MSCI EAFE (International)	-0.28%	14.68%
iShares Real Estate	0.04%	6.57%

After moving to new all-time highs on Monday – domestic stocks spent the remainder of the week digesting the gains. By the end of the week, major indexes were up between 0.05% and 0.20%.

For the week, Health Care was the clear winner posting a gain of nearly 3.6% followed by Technology and Real Estate. Pundits attributed the strong performance of the Health Care sector to the revelation that the Senate's version of their healthcare bill contained no major detrimental changes.

The Energy sector was the worst performing sector last week, under pressure from a sharp sell-off in Crude oil. Crude fell to $43 a barrel after several reports noting the increase in observable global oil inventories. Morgan Stanley issued a report saying identifiable oil inventories increased at a rate of about 1 million barrel per day in the first quarter of 2017.

Bespoke noted several interesting facts about the market's performance during the first half of 2017 – all of which support the notion of just how relentlessly bullish the market has been this year. So far this year, the worst sell-off in the S&P 500 has been a 2.8% decline from March to early April. The only other year in the history of the S&P 500 that saw a smaller maximum drawdown in the first half of the year was 1995.

Bespoke went on to write that in prior years which saw smaller than average pullbacks in the first half, the second half also generally saw smaller than average drawdowns. Of the 16 prior years where the S&P 500 saw less than a 5% first half drawdown, the second half average drawdown was -6.3% - well below the 12.2% drawdown for all years.

Also of note, second half returns were above average for the below average drawdown years. The average S&P 500 in the second half is a gain of 7.8% - that is twice the 3.9% average second half return in all years.

The S&P 500 closed last week at 2438.30 – keeping support levels to watch unchanged. Those levels stand at 2400 which marks the top of the March to May consolidation range and a little lower at 2290 which is the 200-day moving average.

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.