ECONOMIC HIGHLIGHTS

June housing starts (single and multi-family), rose to a 1.215mm annual rate versus 1.170mm expected. The Index of Leading Indicators was up 0.6% for June, better than consensus. Housing Permits were one of the more significant contributors to the increase. Otherwise, it was a fairly slow week on the economic front.

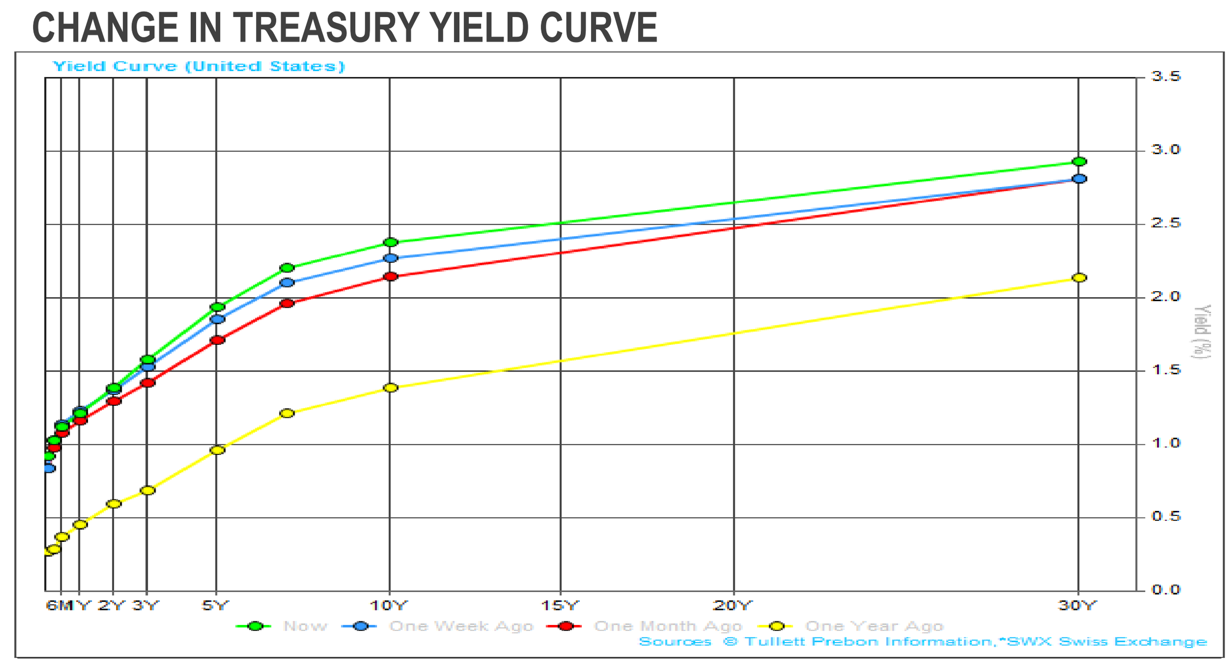
FIXED INCOME

U.S. Treasury bills, a sleepy $1.7 trillion corner of the fixed-income universe, are about to be pulled into the spotlight. Investors in the shortest-maturity U.S. obligations, a parking spot for the world's cash, are going to have to navigate two major challenges with a potentially contradictory impact: The looming government debt-ceiling impasse and the long-awaited start of the Federal Reserve's unwinding of its massive balance sheet. Some Wall Street analysts say that the Treasury may need to start slashing bill supply as soon as next month to avoid exhausting its borrowing authority, causing bill rates to drop. Meanwhile, the bill market risks getting caught up in any Fed move to taper its $4.5 trillion bond portfolio, which could lead the Treasury to boost bill offerings, pushing rates higher. It's shaping up like a two-pronged threat. Investors will need to find a place to stow their money as Treasury slashes supply, while also avoiding securities susceptible to default if the debt ceiling isn't eventually raised or suspended. The Congressional Budget Office says the Treasury can fund the government through early to mid-October. Yet after last week's failure of Republican efforts to pass health-care legislation, anxiety deepened over whether legislators will be able to agree on raising or suspending the debt ceiling before cash runs out. Yields on Treasury bills maturing October 19 have risen by about ten basis points from last Wednesday through Friday, exceeding those on bills maturing later in the year. Once the debt ceiling is resolved, Treasury will probably ramp up short-term supply to replenish its coffers, which may push bill rates higher. Treasury will also need to figure out how to offset a Fed move to start unraveling its holdings, which some analysts see happening in October.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.16%	3 mo	1.07%	3 mo	1.27%	3 mo	0.73%
6 mo	1.12%	6 mo	1.14%	6 mo	1.36%	6 mo	0.78%
1 yr	1.23%	1 yr	1.18%	1 yr	1.42%	1 yr	0.84%
2 yr	1.34%	2 yr	1.43%	2 yr	1.66%	2 yr	0.99%
5 yr	1.82%	5 yr	1.72%	5 yr	2.25%	5 yr	1.39%
10 yr	2.25%	10 yr	2.65%	10 yr	3.00%	10 yr	2.12%
30 yr	2.82%	30 yr		30 yr	3.81%	30 yr	3.29%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.22%	10.67%
S&P 500 (Large Cap)	0.56%	11.67%
S&P 400 (Mid Cap)	0.50%	7.69%
Russell 2000 (Small Cap)	0.50%	6.54%
NASDAQ Composite	1.20%	19.42%
MSCI EAFE (International)	0.35%	17.16%
iShares Real Estate	0.76%	6.51%

The S&P 500 closed the books on back to back weekly gains, making yet another new all-time high on Wednesday. Other equity indexes also marked new highs last week including the Dow Jones Industrials, the Nasdaq Composite, the S&P MidCap 400, and the Russell 2000 – exemplifying the broad based nature of the recent rally.

Utilities, Telecom, and Technology were the best three market sectors, while the Industrials sector declined the most. The dividend paying Utilities and Telecom got a boost from the continued decline in interest rates, while the Industrials sector was hit particularly hard on Friday as General Electric, the largest component of the group, reported disappointing earnings for the quarter.

Shares of Blue Apron fell over -10% on Monday after Amazon announced plans to enter the meal kit market and has registered for a trademark for a new service called “We do the prep. You be the chef”.

Bespoke noted in a report last week that despite the S&P 500 continued push to new weekly highs, investor sentiment if far from overly optimistic. They pointed out that the American Association of Individual Investor survey has reported 132 straight weeks of bullish sentiment below 50% of respondents. In other words, it has been more than two-and-a-half years since the survey showed a majority of investors in the bullish camp. Last week’s report showed 35% expressing a bullish outlook, 25% as bearish, and about 40% as neutral.

For the week ahead keep a watch out for earnings reports from: Google, Caterpillar, McDonald’s, Ford, Bristol-Myers, Comcast, Twitter, Amazon, and Starbucks. On the economic front, we get the first look at 2nd Quarter GDP on Friday.

Despite last week’s move to fresh highs for the S&P 500 – we will keep support levels the same. Short-term support remains at 2450, while below that level watch 2400, 2365, 2325, and 2310 – the index closed last week at 2472.

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.