ECONOMIC HIGHLIGHTS

U.S. Retail Sales were up 0.5% for July 2018, with the strength fairly well diversified. Non-Farm Productivity was up 2.9% on an annualized basis for the second quarter of 2018, with Unit Labor Costs down 0.9%. Industrial Production was up 0.1% for July, with the Capacity Utilization rate at 78.1%. Housing starts came in at 1.168mm units (single and multi-family) for July, well below the 1.271mm unit consensus. On the bright side, permits were up 1.5% for the month. Finally, the Index of Leading Economic Indicators was up nicely, at 0.6% for July.

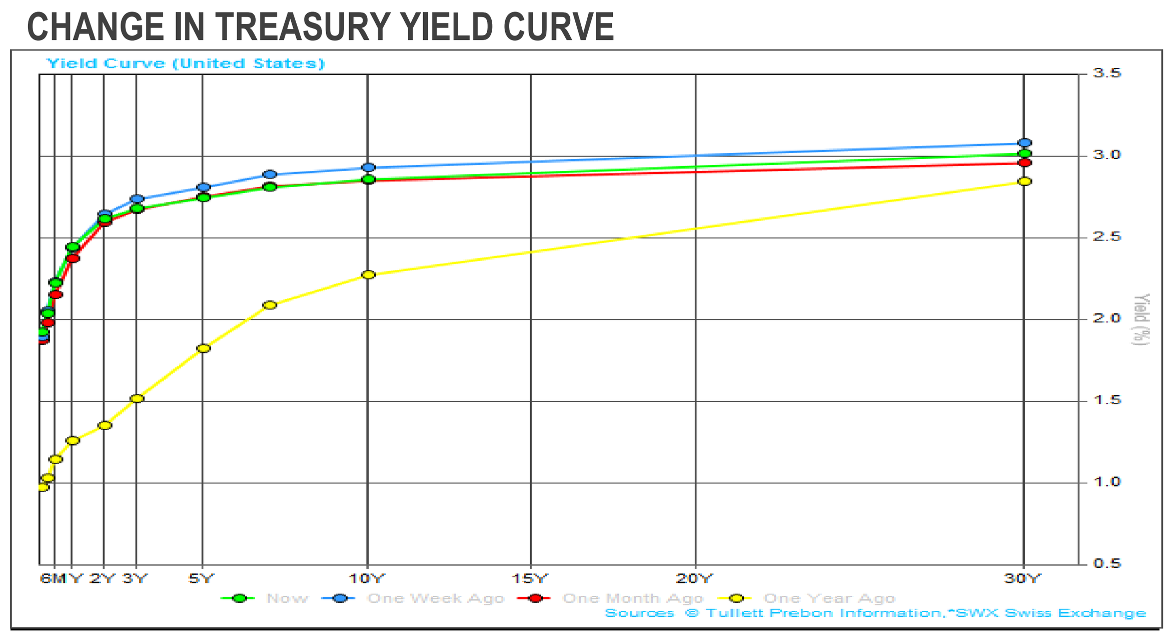
FIXED INCOME

Global financial markets have gotten uglier while Federal Reserve officials were on their August hiatus, but bond traders are wagering that won't be enough to deter them from pressing on with monetary-policy tightening in the world's largest economy. Turkey-induced turmoil has spread across emerging markets, roiling countries from Argentina to South Africa and fueling fears of further contagion. From developed-nation stocks to copper and European banks, bear markets now abound. American short-term rates, however, remain stubbornly close to their post-crisis highs. The yield curve has also pushed back to its lows of the cycle and speculators in Treasury futures are holding record short positions. This week's gathering of central bankers at the Kansas City Fed's annual Jackson Hole symposium could well provide clues as to whether such confidence is warranted, and minutes from the Fed's August policy meeting also loom large. In recent years, international uncertainty has been more than enough to prompt officials to tap the breaks on tightening. Yet with inflation continuing to run above the central bank's 2% target and America's decoupling from the global downtrend continuing, this time may be different. As it stands, traders are almost fully pricing in a rate hike at the Fed's next policy meeting just over a month from now, and about 50-50 odds of a second increase by year-end, based on fed funds futures pricing. The spread between December 2018 and 2019 Eurodollar contracts suggests they expect an additional one-and-a-half rate hikes next year. Hedge funds and other large speculators are equally confident in the central bank's tightening trajectory. They boosted wagers against ten-year Treasury futures to a record 698,194 contracts, according to U.S. Commodity Futures Trading Commission data for the week ending August 14. That's even as uncertainty unfolded in emerging markets fueling the biggest weekly selloff in developing-nation shares since February. Also the spread between two- and ten-year Treasury yields narrowed last Friday to the least since August 2007 as investors continued to crush any signs of steepening. Fed Chairman Jerome Powell will headline this year's Jackson Hole gathering of prominent central bankers and economists with a speech about monetary policy in a changing economy on Friday. Yet given the conference has historically offered only modest insight into the trajectory for monetary policy, some people expect this week's release of minutes from the FOMC's August meeting to be more consequential for the bond market, especially if the topic of balance-sheet normalization was discussed. Balance-sheet deliberations are becoming increasingly important as Wall Street pulls forward forecasts for when the central bank will conclude its unwind.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.03%	3 mo	1.99%	3 mo	2.33%	3 mo	1.34%
6 mo	2.22%	6 mo	2.20%	6 mo	2.45%	6 mo	1.39%
1 yr	2.43%	1 yr	2.39%	1 yr	2.55%	1 yr	1.47%
2 yr	2.61%	2 yr	2.58%	2 yr	2.83%	2 yr	1.63%
5 yr	2.74%	5 yr	2.81%	5 yr	3.19%	5 yr	2.05%
10 yr	2.86%	10 yr	3.17%	10 yr	3.62%	10 yr	2.64%
30 yr	3.02%	30 yr		30 yr	4.06%	30 yr	3.62%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	1.48%	5.36%
S&P 500 (Large Cap)	0.66%	7.92%
S&P 400 (Mid Cap)	0.76%	6.78%
Russell 2000 (Small Cap)	0.40%	11.08%
NASDAQ Composite	-0.23%	14.02%
MSCI EAFE (International)	-0.54%	-3.70%
iShares Real Estate	2.98%	4.51%

The S&P 500 rose last week marking a weekly gain for six of the previous seven weeks. The gain was broad with eight of the eleven major sector groups rising led by Consumer Staples, Real Estate, and Utilities. Energy stocks declined the most as crude oil prices fell.

Bespoke issued a report last week examining industry level performance so far this year. Not surprisingly two of the best performing industries this year are Tech Hardware and Software and Services. More surprising is the best performing industry by a wide margin is Retail. Most of those gains can be attributed to Amazon, which is up 61% so far this year. However, some other notable performers in the space include Macy's (+45%), Best Buy (+13%), and Kohl's (+44%).

Turkey largely dominated the geopolitical headlines as the lira came under further pressure as President Erdogan maintained a combative tone and stabilization measures were broadly dismissed. While the turmoil in Turkey continued to reverberate with the focus on European bank exposure and emerging market contagion, the global spillover effects remained fairly limited.

Bullish sentiment on the weekly AAII Investor Sentiment Report rose to 36.4% from 29.1% causing a slight decline in neutral sentiment as more individual investors got off the fence and into the bullish camp. Negative sentiment barely budged falling to 31.0% from 32.1%. The uptick in bullish sentiment is still below its long-term average and not close to extreme readings.

About the only place to find returns so far this year has been in Technology stocks and the tech-heavy Nasdaq index – which is up almost 16% year-to-date. According to data from Bespoke, when the Nasdaq has been up at this point in the year, it has averaged a gain of 6.37% for the rest of the year. When the index has been up between 10% and 20% (as it is this year), it has gone on to average a gain of 12.34% for the remainder of the year.

Tesla shares rose slightly on Monday after Elon Musk provided some additional background on privatization discussions, noting that his widely scrutinized "funding secured" comment was based on recent interest from Saudi Arabia's Public Investment Fund. Shares fell sharply on Friday after the SEC said it is investigating whether the company misled investors over Model 3 production problems.

Shares of Wal-Mart jumped 9% on Thursday after the company reported comparable sales growth of +4.5% which was nearly double expectations. The release was the highest sales growth in a decade for the retailer.

The week ahead is another relatively quiet week on the corporate calendar with a few notable releases including Kohl's, Lowe's, Target, Gap Stores, and Hewlett-Packard. The highlight of the economic calendar is Wednesday's release of the latest FOMC meeting minutes. Housing data is set to be released earlier in the week and the Kansas City Fed Symposium will take place beginning Thursday in Jackson Hole, Wyoming.

Last week's action did not materially change the support and resistance levels we are watching for the S&P 500. The index closed last week at 2850 – we are watching support at 2800 and 2720 and resistance at 2872. The highs from the previous week of 2863 will be worth watching as well upon any rallies.

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.