ECONOMIC HIGHLIGHTS

U.S. Factory Orders were down 3.3% for July 2017, most of which was due to a slow month following a strong month for aircraft orders. Core shipments were up 1.2%. The PMI Services and ISM Non-Manufacturing Indexes came in at 56 and 55 for August, respectively. Non-farm productivity for the second quarter 2017 was a strong 1.5%, while unit labor costs were a reasonable 0.2%.

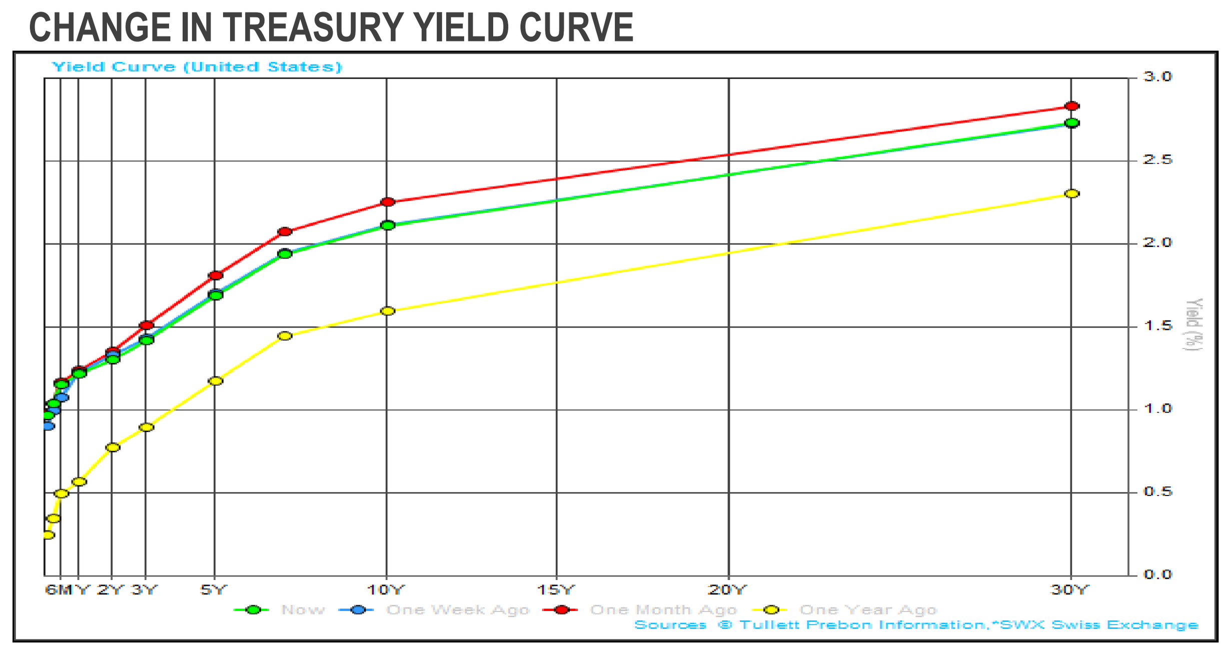
FIXED INCOME

Federal Reserve Bank of New York President William Dudley said back-to-back hurricanes in the third quarter could temporarily influence the timing of the next interest-rate increase, although above-trend growth does warrant continued gradual rate hikes. With Texas just starting to recover from Hurricane Harvey and the state of Florida bracing for Irma, Dudley told CNBC in an interview last week that "it's possible they could have an effect on the timing of short-term rate increases. But I think that's probably further out anyway." The Fed is expected to announce the start of a gradual process to shrink its $4.5 trillion balance sheet at its September 19-20 meeting in Washington while keeping rates on hold amid a spate of disappointingly weak readings on inflation. U.S. central bankers hiked rates in March and June, and in June forecast they would raise a third time this year to a range of 1.25% to 1.50%. Dudley said that he didn't think the storms would affect the balance-sheet move, which he expects to happen "relatively soon," and that a decision on when to raise rates again was a question for later in the year. "It's too soon to judge exactly the timing of when the next rate hike might occur, but I think the path is still clear that short-term rates are going to move gradually higher over time," he said. While he was marking down his third-quarter growth forecast "a touch" and the storms would affect incoming economic data over the next few months, he was otherwise upbeat on the economy. "I'm pretty optimistic the expansion's going to continue. I'm pretty confident it's going to continue at an above-trend pace, and that's why I think that as time passes, the Federal Reserve will continue to gradually remove monetary policy accommodation."

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.00%	3 mo	1.04%	3 mo	1.28%	3 mo	0.61%
6 mo	1.14%	6 mo	1.11%	6 mo	1.35%	6 mo	0.66%
1 yr	1.20%	1 yr	1.21%	1 yr	1.41%	1 yr	0.72%
2 yr	1.26%	2 yr	1.32%	2 yr	1.61%	2 yr	0.84%
5 yr	1.63%	5 yr	1.58%	5 yr	2.14%	5 yr	1.25%
10 yr	2.05%	10 yr	2.46%	10 yr	2.88%	10 yr	1.99%
30 yr	2.67%	30 yr		30 yr	3.77%	30 yr	3.13%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.82%	12.29%
S&P 500 (Large Cap)	-0.58%	11.51%
S&P 400 (Mid Cap)	-1.05%	4.59%
Russell 2000 (Small Cap)	-0.98%	4.01%
NASDAQ Composite	-1.16%	19.13%
MSCI EAFE (International)	0.78%	18.85%
iShares Real Estate	0.58%	8.14%

There was a defensive theme to last week's sector performance. Financials were the worst performing sector as the yield curve continued to flatten and insurers sold off as Hurricane Irma neared Florida and the aftermath of Hurricane Harvey continues to be sorted out. Airlines continued their recent sell-off as disruptions remain in the travel industry due to recent hurricanes. Health Care, Energy, and Real Estate posted the best performance last week.

On Monday, United Technologies announced it had reached an agreement to purchase Rockwell Collins in a deal valued at $30 billion. The combined company will be one of the largest aerospace systems suppliers servicing both commercial and military aviation customers.

Shares of Comcast fell sharply on Thursday after the company lowered forward earnings guidance citing the fact that Hurricane Harvey and competition has caused it lose some 100,000-150,000 subscribers. Walt Disney also tempered expectations for its next earnings release, saying its earnings for 2017 will be essentially in line with last year's numbers.

Ryan Detrick of LPL Financial put the recent market rally into perspective. He noted in a report that the S&P 500 is up 17 of the past 18 months on a total return basis. While that stretch seems extended, the index has returned 32% which happens in 26% of all 18 month periods since 1950. So while the duration of this rally might be long, by historical standards, the magnitude is not unprecedented.

Bespoke issued a report last week noting that the S&P 500 has now traded above its 200-day moving average for 303 consecutive days as of Friday. The last time the index was below its 200-day moving average was on June 28, 2016. Throughout its history, there have only been 14 prior cases of the S&P trading for at least 300 consecutive days above its 200-day moving average – the longest being a streak of 627 days ending in May 1956.

For the week ahead, Apple is expected to reveal the latest versions of the iPhone, 4K Apple TV, and a new Apple Watch on Tuesday. Also, with no notable earnings to speak of geopolitical and hurricane related news will be sure to garner the most headlines.

For the S&P 500, we continue to watch the following support levels on any sell-offs: 2430, 2400, 2375, and 2325. The S&P closed last week at 2461.

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.