ECONOMIC HIGHLIGHTS

There were several economic-related releases this week, and most reflected a strong U.S. economy. The ISM Non-Manufacturing Index and the PMI Services Index were both decently expansionary, at 57.4 and 54.5, respectively. U.S. Non-farm Productivity was up 3.0%, well above trend, and Unit Labor Costs were down 0.2%, both for the third quarter. Finally, the U.S. Unemployment Rate was flat at 4.1% for November.

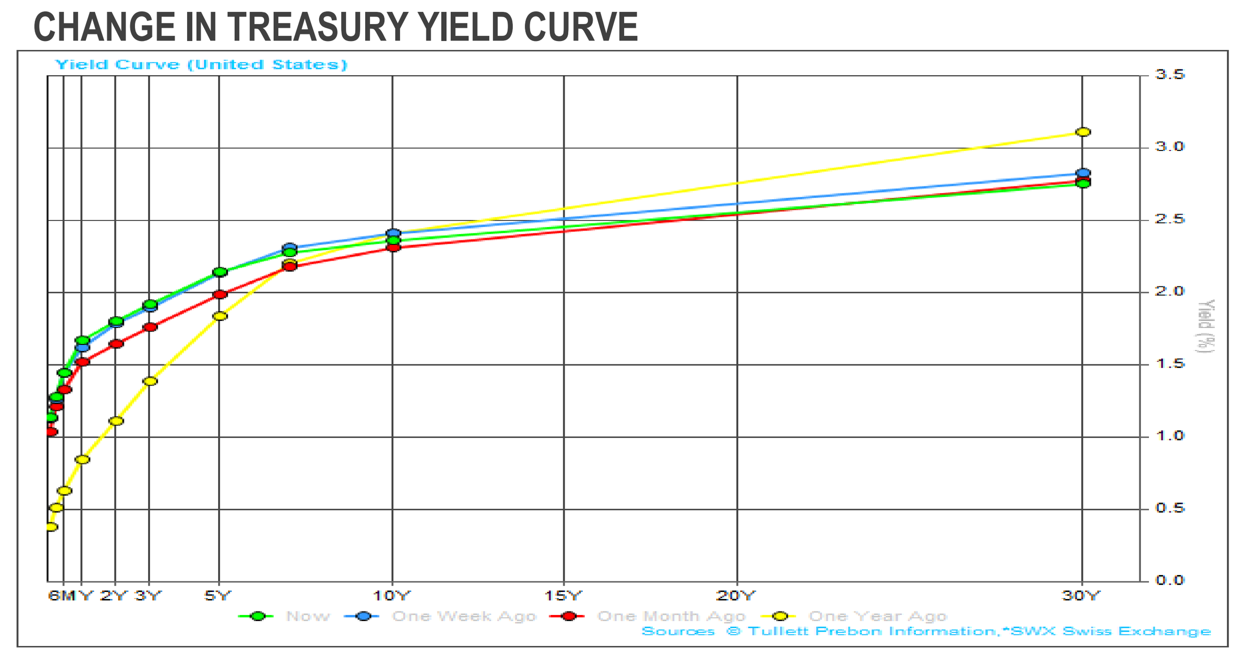
FIXED INCOME

Municipal bond buyers are taking a breather after the market's biggest rally since August 2011, with firms reporting that investors pulled over $800 million from state and local bond funds over the course of a week. The yields on benchmark thirty-year bonds edged up 0.05 percentage points on Friday to 2.61%, stepping back from the price gains that had sent yields tumbling by 0.35 percentage points in the five days through last Wednesday. This has left tax-exempt securities less of a draw by reducing yields to the lowest relative to Treasuries since September 2016. "Ratios to Treasuries have dropped to levels that present less value for crossover investors and they probably fueled the pace of the recent rally," said Daniel Solender, head of municipals at Lord Abbott & Company, which manages about $20 billion of state and local government securities. State and local governments are planning to sell $18 billion in debt this week, continuing a potentially record-setting wave as the tax-overhaul legislation in Congress threatens to pull the subsidies from a large swath of municipal securities beginning next year. Investors have so far eagerly snapped up the new offerings, anticipating that the supply of tax-exempt bonds will fall next year, making them more valuable to investors. But some buyers have shifted money away from the market. Investors yanked $807 million from municipal bond funds during the week ended December 6, the biggest weekly outflow since June, according to Lipper U.S. Fund Flows data. The outflows this past week reverse a four-week long streak of inflows. Solender said some of the outflow may have been driven by withdrawals from funds focused on shorter-dated bonds, a segment that would be particularly affected by rate increases from the Federal Reserve.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.27%	3 mo	1.33%	3 mo	1.64%	3 mo	1.18%
6 mo	1.44%	6 mo	1.41%	6 mo	1.71%	6 mo	1.25%
1 yr	1.66%	1 yr	1.59%	1 yr	1.82%	1 yr	1.31%
2 yr	1.79%	2 yr	1.83%	2 yr	2.06%	2 yr	1.45%
5 yr	2.14%	5 yr	2.07%	5 yr	2.52%	5 yr	1.74%
10 yr	2.38%	10 yr	2.75%	10 yr	3.10%	10 yr	2.20%
30 yr	2.77%	30 yr		30 yr	3.70%	30 yr	3.12%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.46%	26.06%
S&P 500 (Large Cap)	0.39%	20.72%
S&P 400 (Mid Cap)	-0.17%	15.50%
Russell 2000 (Small Cap)	-0.97%	13.46%
NASDAQ Composite	-0.10%	28.46%
MSCI EAFE (International)	0.01%	22.95%
iShares Real Estate	-0.66%	8.93%

Last week's sector performance favored momentum and growth over value – marking a return to the major theme of 2017. Technology was the best performing of the eleven major sector groups followed by HealthCare and Industrials. Defensive, value sectors such as Telecom, Utilities, and Consumer Staples were the worst performing groups.

Much has been made of the recent underperformance of the Nasdaq and technology stocks relative to the S&P 500 in the days following Thanksgiving holiday. Bespoke wrote in a report that in the five trading days following Thanksgiving, the Nasdaq fell nearly 1%, while the S&P 500 has risen over 2%. Since the bull market began in March 2009, there has only been one other time when the Nasdaq underperformed the S&P 500 by a wider margin over a five-trading-day period. In prior cases, the Nasdaq outperformed the S&P 500 over the following week, month, three months, and six months.

As equity markets enter the last month of 2017 – the S&P 500 is now in its second longest bull market, the tenth longest streak without a 10% correction, the fourth longest run without a 5% decline, and the longest rally without even a 3% decline on record. This secular bull market has not entered historical territory.

Seasonality is on the side of the bulls as we enter December. Bespoke noted that over the past 100 years, December is the most consistently positive month for the Dow with gains 74% of the time. Over the past 100 years, the Dow has averaged a gain in December of 1.55%. In years where the S&P 500 has been up over 15% heading into the last month, it averaged a gain of 1.7% with positive returns 72% of the time.

For the week ahead, lots of economic releases on the slate along with the FOMC rate decision on Wednesday. The European Central Bank and the Bank of England are scheduled to make rate decisions on Thursday. On the earnings front, things are fairly quiet with quarterly results from Oracle, Adobe, and Costco the only notable names. This is the last big week on the calendar before things quiet down substantially for the holidays.

As we head into the last three trading weeks of 2017, we are watching the following support levels – 2570, 2545, 2490, and 2435. The index closed last week at 2651.

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.