ECONOMIC HIGHLIGHTS

The U.S. Producer Price Index was up 0.1% for May, while the Consumer Price Index was also up 0.1%, both well within tolerances. Retail Sales were up 0.5% in May, approximately in line with expectations. Industrial Production was also up strong in May, at +0.4%, with Capacity Utilization at 78.1%.

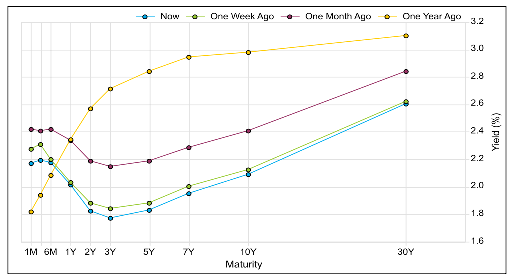
FIXED INCOME

There is a group of strategist on Wall Street that are of the opinion that the Federal Reserve may avoid giving a clear signal to the possibility of rate cuts going forward after their meeting this week which has some Treasury bills a little on edge. As the central bank's meeting this week approaches, the bond market and many economists are banking on the Fed easing rates in 2019 as trade tensions cloud the global growth outlook and inflation expectations sink to record lows. Ten-year Treasury yields are still near the lowest since 2017, even after solid retail sales and factory data were released on Friday. Meanwhile, futures traders have priced in about a quarter point of easing in July, and more by year-end. Strategist at Charles Schwab, TD Securities and UBS are among those saying traders may be wrong to only factor in negative trade outcomes that would warrant an imminent reduction in borrowing costs. Many Fed watchers say the economic headwinds are enough for the central bank to retire its mantra of being patient on policy. Yet for the three firms mentioned earlier, committing to cuts would be premature before this month's Group-of-20 summit, where a resolution of the tariff standoff remains a possibility. Benchmark ten-year yields start the week at 2.08%, which is about 3 basis points higher than their 2019 low reached on June 7. In another sign of the market's increased confidence in Fed easing, the gap between two- and ten-year yields has widened to about 24 basis points. This is up from a gap of less than 10 basis points back in March. While the jobs report for May helped move some economists to change their short-term forecast to indicate the Fed will cut rates as soon as July, several firms don't see any rate change for the remainder of the year including Goldman Sachs, RBC Capital and UBS. This week will also bring the Fed officials' latest quarterly projections, and possibly more information on the end of their balance-sheet runoff, set for the end of September. In March, policymakers scaled back projected rate increases this year to zero, from two, while still signaling a rate increase in 2020. We will see this week if any further tweaks are made to these projections.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.17%	3 mo	2.20%	3 mo	2.30%	3 mo	1.38%
6 mo	2.17%	6 mo	2.20%	6 mo	2.28%	6 mo	1.40%
1 yr	2.01%	1 yr	2.09%	1 yr	2.27%	1 yr	1.42%
2 yr	1.84%	2 yr	1.91%	2 yr	2.21%	2 yr	1.42%
5 yr	1.83%	5 yr	1.88%	5 yr	2.39%	5 yr	1.47%
10 yr	2.08%	10 yr	2.34%	10 yr	2.87%	10 yr	1.83%
30 yr	2.59%	30 yr		30 yr	3.65%	30 yr	2.76%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.16%	13.18%
S&P 500 (Large Cap)	0.06%	16.29%
S&P 400 (Mid Cap)	-0.06%	15.12%
Russell 2000 (Small Cap)	-0.03%	13.58%
NASDAQ Composite	-0.31%	18.13%
MSCI EAFE (International)	-0.88%	10.85%
iShares Real Estate	1.02%	20.67%

U.S. Equity gained slightly this week for its second week of gains. The big market guiders included the typical Chinese U.S. trade talks, Semiconductor manufacturer Broadcom cutting guidance while blaming U.S. -China trade and Huawei ban, May U.S. retail sales being a bit lighter than expecte d (though there were positive revisions), and the tanker attack in the Gulf of Oman in which the U.S. blamed Iran. Communication Services (=1.15%0 and Consumer Discret ionary (+1.14%) were the sector leaders for the week, while Financials (-.68%) struggled the most. Gold rose 1.17%, while WTI Crude fell -1.41%.

According to the WSJ, three-quarters of economics expect the Fed to cut rates by fall. The article mentioned that its latest sur vey of economists showed 75% believe Fed's next move will be a rate cut, which will happen by the fall. This compares to the ~50% predicting a rate cut in a prior survey, which shows the belief to steadily be increasing. However, the article also noted that only two of the 46 economists surveyed felt the Fed would cut at next week's meeting, while 40% saw an easing in July and 30% expected a rate cut by September. On average, economists anticipate one 25 BP rate cut by the year-end and one more in 2020.

Semiconductor manufacturer, Broadcom, reported earnings on Friday, which was an important factor regarding the path semicondu ctors would take to close out the week. The report released a reduced FY revenue guidance by 8%, in which the company noted U.S. -China trade conflict, including the Huawei ban, is creating economic and political uncertainty and reducing visibility for its OEM customers. It was also noted that these obstacles have led to an in crease in demand volatility and customers are actively reducing inventory levels to manage risk.

May's retail sales come in slightly below expectations (up 0.5% m/m vs consensus of 0.6% rise). This report follows a big upw ards revision to Aprils retail sales (.3% rise from a .2% drop), which is a positive note for the retail sector. Eleven of Thirteen major retail categories increased, with online gains the strongest since January. Other strong groups include auto sales and parts dealers, sporting goods, general merchandise, and health/personal.

An article from CNBC noted that the International Energy Agency (IEA) slashed its estimate for global oil demand growth for t he second consecutive month. The IEA now expects oil demand growth to reach 1.2M bpd this year, which is down 100K bpd from its previous projection. Factors responsible seem to include warm winter in Japan, a slowdown in European petrochemical industry, softer gas and diesel demand in the U.S. and deteriorating trade outlook. It was also noted that tensions in the Middle East do not yet seem to represent a major threat to security of oil supplies in the Strait of Hormuz.

The NYSE Cumulative Advance/Decline line made a new high on Thursday. This line measures how many stocks in the NYSE are maki ng new highs versus the stocks that are making new lows, and it is typically taken as a sign of healthy and liquid markets.

The past week saw the S&P500 trade relatively flat along its 50-day moving average, which it broke last week. While ~2890 seems to provide small resistance to the Large

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	Unfavorable
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Neutral
Real Estate	Neutral
Commodities	Unfavorable

Below is a summary of our current stance on most asset classes:

Cash - Neutral weighting now that Fed Funds rate is above 2%. Any exposure is for defensive positioning or liquidity needs.
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 floating rate securities.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened considerably and do not warrant exposure to unnecessary credit risk when compared to Treasuries.
International Bonds - Foreign bonds offer good diversification qualities and higher yield opportunities, however, risks have been elevated recently and investment should be made cautiously.
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 continues to be a more favorable style and should be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure remains an attractive market capitalization. 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, a n 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. However, trade uncertainty and dollar strength provides a headwind for EM in the near term.
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. Volatility will be higher and commodities will be susceptible to short-term price shocks, however, if used in conjunction with other asset classes, risk can be reduced substantially within a di versified portfolio. Used alone though is not recommended as the short-term outlook is not favorable.