ECONOMIC HIGHLIGHTS

In May, U.S. personal income was up 0.5% month-over-month vs consensus for a 0.3% rise; slower than April's 0.5% pace. May personal consumption expenditures were up 0.4% month-over-month, a bit lower than consensus for 0.5% and April's upwardly revised 0.6% pace (was up 0.3% m/m). Core PCE Price Index up 1.6% year-over-year, above 1.5% consensus. Elsewhere, final June consumer sentiment level was down to 98.2, better than preliminary 97.9, but down from May's 100.0. Release noted slump entirely due to households in top third of income distribution, who frequently mentioned tariffs. June Chicago PMI came in at 49.7 vs consensus 54.0 and April's 54.2. The June reading is the lowest level since February 2016.

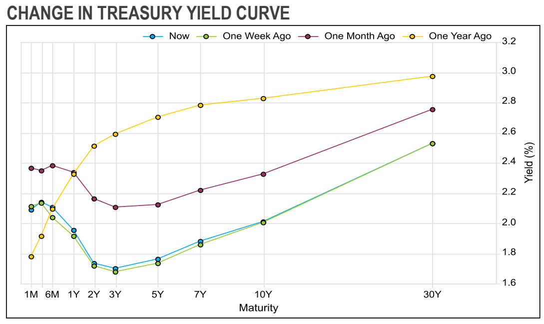
FIXED INCOME

The potential of a return to ultra-low short-term interest rates is becoming more of a concern for money-market funds. Cash is pouring into these highly liquid products for investing in short-term debt for now, and the amount of assets held in taxable money-market funds has risen back above $3 trillion for the first time in almost a decade. But there is a growing angst among those who run and invest in these products as they are reminded of the problems caused the last time the Federal Reserve dropped rates to zero. When rates are pegged at that low, investors with spare cash often will seek out alternatives to money-market funds, plus it also makes the job of running these funds much more difficult, according to investors and strategist at a conference in Boston last week. Bets on the central bank cutting rates at some point in the near future have already pushed one-year bill rates below 2% for the first time since early 2018. The prospect that bill rates and other short-term debt instruments may soon yield even less could at some point prompt a slowdown or reversal in money-fund flows. Possible central bank easing is "not a death sentence, but it spells reduced margins and potential losses for the industry," said Deborah Cunningham, chief investment officer at global money markets at Federated Investors in Pittsburgh. "It's the fear of the unknown. Is it 50 basis points? Is it a program that takes us back to zero?" The market has been here before. When the Fed lowered its policy target rate toward zero at the end of 2008, the amount of assets in taxable money funds was more than $3 trillion. Cash peaked at around $3.4 trillion in March 2009 and then slowly dropped by more than $1 trillion, bottoming out around the middle of 2012. Also on the horizon is the next stage in the seemingly constant battle over America's debt limit, with the Treasury Department potentially exhausting its current borrowing authority around October. But with questions around the Fed being more talked about currently, concerns over the debt ceiling are taking a back seat for many investors. Most market participants will become more concerned with this issue as of late-August and early September come, but most expect the government will "come up with what is correct and right" at the last minute.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.09%	3 mo	2.12%	3 mo	2.19%	3 mo	1.30%
6 mo	2.09%	6 mo	2.11%	6 mo	2.17%	6 mo	1.32%
1 yr	1.93%	1 yr	2.02%	1 yr	2.15%	1 yr	1.34%
2 yr	1.76%	2 yr	1.84%	2 yr	2.09%	2 yr	1.35%
5 yr	1.77%	5 yr	1.80%	5 yr	2.24%	5 yr	1.45%
10 yr	2.01%	10 yr	2.26%	10 yr	2.70%	10 yr	1.82%
30 yr	2.53%	30 yr		30 yr	3.48%	30 yr	2.65%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.49%	15.39%
S&P 500 (Large Cap)	-0.39%	18.20%
S&P 400 (Mid Cap)	1.66%	17.83%
Russell 2000 (Small Cap)	2.29%	16.79%
NASDAQ Composite	0.02%	21.34%
MSCI EAFE (International)	0.20%	14.06%
iShares Real Estate	-1.78%	18.54%

U.S. Stocks finished the week weaker, while all eyes have been on trade talks, along with economic data and Fed talk impacting the market. Financials (.42%) and Materials (.18%) were the only two sectors up this week, while Utilities (-2.63%) and Real Estate (-2.44) were the laggards. Gold finished down -.33% while WTI Crude closed up +.10%.

Fed Chair Powell said in a speech this week at the Council on Foreign Relations that the Fed will continue to monitor the implications of incoming information for the economic outlook and will act appropriately to sustain the expansion. Also reiterated many on FOMC see a stronger case for more accommodation, and the Fed is wrestling with whether to cut rates. Fed Chair Powell pointed out that things have changed significantly since early May. He highlighted heightened trade tensions and global growth slowdown; however, Fed's baseline outlook remains favorable and solid fundamentals are supporting continued growth and strong job creation. Fed Chair Powell noted that it is important for the Fed not to overreact to swings in sentiment and stressed comments intended to convey the same message as the press conference last week.

June's consumer confidence registered 121.5 vs 131.0 and May's numbers were revised 131.3 (was 134.1). June's reading is the lowest since Sep 2017. A report measuring those who believe jobs are plentiful is down to 44.0% from 45.3% in April while the "jobs hard to get" report rose to 16.4% from 11.8%. Elsewhere, May's new home sales logged a 626K SAAR, below the consensus for 680K and April's upwardly revised 679K (was 673K). April's Case-Shiller Home Price Index was flat m/m vs forecast 0.2% monthly rise and 0.1% gain in March.

Q1 GDP growth remains unchanged at 3.1% in a second revision, in line with to slightly below expectations. A few moving pieces in the takeaways, but nothing to really change the narrative. Consumer spending was revised down to a 0.9% annual pace from the prior 1.3%, the slowest gain in a year. However, domestic final sales revised up one-tenth to 1.6%. In addition, capex saw a significant upward revision and nonresidential structures growth more than doubled to 4.3%, while IP products growth jumped nearly 5pp to 12.0%. Economists also noted firmer core PCE inflation. Initial claims are up 10K to 227K, above the 220K consensus and pending home sales increased 1.1% m/m in May, just ahead of expectations, while NAR commentary was positive.

President Trump and Chinese President Xi are expected to meet on Saturday morning in Japan to discuss trade deal truce, in which the consensus expectation revolves around a truce that will see the U.S. delay additional tariffs and the two sides agreeing to restart negotiations.

Core PCE inflation increased 0.19% m/m in May, leaving the y/y rate of growth at 1.6%, slightly above 1.5% consensus but still firmly below Fed's 2.0% target. Personal income increased to a better-than-expected 0.5% m/m. **Personal spending** was up 0.4%, below the consensus for a 0.6% increase, though April saw a nice upward revision. Consumer spending increased 0.2% in real terms. Main inflation expectations measures are also revised up. **Chicago PMI** fell to 49.7 in June from 54.2 in May, the weakest level since February 2016.

The Fed released 2019 CCAR results after Thursday's close, and all U.S. banks received approval for their capital plans. According to sources, the takeaway is that the corresponding capital return announcements were more robust than expected. Bloomberg noted the nation's biggest banks will boost payouts through dividends and buybacks by 18% to more than $173B. Wolfe Research said announced CCAR payouts averaged 113% of earnings vs estimated payouts of 103%, KBW noted that the total payout ratios increased by 28pp y/y for the median bank JPMorgan, while Goldman Sachs, Bank of America, and State Street are among the biggest winners.

The S&P 500 index finished the week down, breaking the three-week positive streak. Near the beginning of the week, the S&P 500 met and traded lower against its resistance level of ~2955, though the index made new highs earlier this month. Since Wednesday, the large cap index has rallied upwards heading towards the same

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, 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. 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 diversified portfolio. Used alone though is not recommended as the short-term outlook is not favorable.