ECONOMIC HIGHLIGHTS

June nonfarm payrolls of +224K beat estimates of +160K. The three-month payroll average of 171K was the highest reading since March. Average hourly earnings were weaker than expected, +0.2% month-over-month (est. +0.3%) and +3.1% year-over-year were both unchanged from May. Unemployment rate ticked up to 3.7% (est. +3.6%). Labor force participation rose to 62.9%. The Fed was in sharp focus at the end of the week as the CME Fedwatch plunged from a ~29% chance of a 50bp cut in July to 0% after the report. Goldman Sachs analysts said the report doesn't do much to change Fed's dovish pivot, saying cuts will most likely occur.

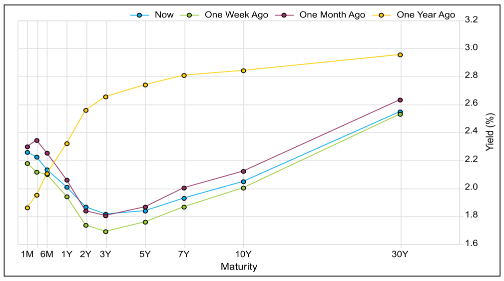
FIXED INCOME

The stronger-than-forecast June jobs report for the U.S. sent Treasury yields surging higher and put a damper on the market's most aggressive wagers on the Federal Reserve lowering the target fed funds rate by 50 basis points at their meeting later this month, but traders are still holding on to some bets for a 25 basis point cut. The rebound in nonfarm payrolls growth after May's disappointing number led traders to step back from their most aggressive bets as the Fed now has more compelling information on the health of the economy which may lead them to resist calls from the White House to move rates lower. But fed funds futures are still priced for the Fed to lower its policy rate by a quarter-point at the end of the month. The sell-off in Treasuries was most pronounced in shorter maturities, with the two-year note yield shooting up around 10 basis points, to 1.86%. The ten-year note yield moved higher by around nine basis points to 2.04%, which is one of the bigger moves higher in a trading day for the ten-year this year. The yield on the long bond moved higher by about eight basis points. According to Jonathan Cohn, head of interest-rate strategy at Credit Suisse Group, the jobs report "leaves a quarter-point cut firmly in place, but makes the case for a half-point cut less defensible in a data-dependent framework." The labor report was strong at the top line number of jobs gained for the month of June, but there was an uptick in the unemployment rate and weaker-than-anticipated average hourly earnings, which shows wage growth remains soft. Also, there was a revision to the May jobs report but it wasn't positive for the economy in general as the number was moved down to 72,000 jobs created instead of 75,000 jobs as reported last month. The rise in Treasury yields may have been exaggerated by thin trading volume for the day as many traders took an extra day off for an even longer weekend as the July fourth holiday fell on a Thursday this year. Peter Boockvar, chief investment officer at Bleakley Financial Group stated last Friday that "the June figure was certainly a pleasant surprise and makes the Fed's decision in a few weeks that much more difficult." Of course there will be much more economic data for the Fed to digest between now and their meeting at month's end.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.20%	3 mo	2.14%	3 mo	2.19%	3 mo	1.29%
6 mo	2.12%	6 mo	2.14%	6 mo	2.17%	6 mo	1.31%
1 yr	1.97%	1 yr	2.01%	1 yr	2.15%	1 yr	1.33%
2 yr	1.86%	2 yr	1.95%	2 yr	2.07%	2 yr	1.34%
5 yr	1.83%	5 yr	1.90%	5 yr	2.18%	5 yr	1.45%
10 yr	2.04%	10 yr	2.28%	10 yr	2.60%	10 yr	1.81%
30 yr	2.54%	30 yr		30 yr	3.36%	30 yr	2.64%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.83%	16.87%
S&P 500 (Large Cap)	0.92%	20.55%
S&P 400 (Mid Cap)	0.70%	19.22%
Russell 2000 (Small Cap)	0.39%	17.66%
NASDAQ Composite	0.89%	23.72%
MSCI EAFE (International)	0.20%	15.00%
iShares Real Estate	2.44%	21.53%

U.S. stocks finished the weak stronger as the S&P 500 index broke resistance and is in new high territory. Real Estate (+2.7%) and Communication Services (+2.07%) were the biggest sector gainers while Energy (-1.03%) was the laggard. Gold finished up 1.24% while Oil fell -2.78%.

According to data from FactSet, the bar for the Q2 earnings season has been lowered slightly. The Street is currently looking for a 2.6% year-over-year decline in Q2 S&P 500 earnings, in which they see the bottom-up estimate dropped by 2.6%. Over the past five years, the average decline in the bottom-up EPS estimate during a quarter has been 3.3%. At the sector level, nine sectors recorded a decline in their bottom-up EPS estimate during the quarter, led by Materials (-12.7%) and Industrials (-7.4%). Two sectors recorded an increase, led by Energy (+4.8%).

Morgan Stanley recently downgraded their global equities to underweight, in which they cite poor risk/reward on its cross-asset framework, particularly of the next three months. They noted average expected return for global stocks is near a six-year low. The article also mentioned that earnings estimates are generally too high. They noted continued deterioration in global PMIs, which suggests a macro environment with plenty of downside risks, and while investor optimism via positioning is not excessive, crowding within sectors and styles is high.

As noted by Reuters, nonfarm employers added 224,000 jobs last month – the most in five months. This is not the kind of market that would normally lead to the U.S. central bank to cut interest rates. Continuing job gains made Fed policymakers debate over whether the economy needs a stimulus even more difficult. Markets seem to overwhelmingly expect the first rate cut since the financial crisis about a decade ago. Meanwhile, the Fed is sending fairly optimistic signals after opening up the possibility of cuts last month, when they cited muted inflation pressures and an economic outlook clouded by a U.S. trade war and slower global growth.

The S&P 500 broke through major resistance at 2955, as the large cap index stock lies around 2990. It would be natural to see the index re-test this newly made support mark and then either rebound off or fall back through this level. The S&P 500 closed at ~2990.

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.