ECONOMIC HIGHLIGHTS

New U.S. Single-Family Home Sales came in at 713,000 units for August, up from 660,000 expected. Durable Goods Orders for August were up 0.2%. Personal Income was up 0.4% for August and Consumer Spending was up 0.1%.

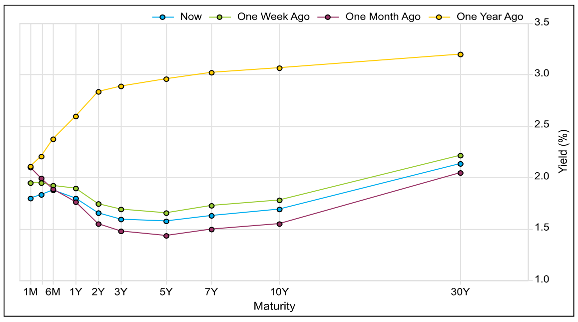
FIXED INCOME

Last week as investors had to digest lots of noise from an impeachment inquiry to more news about China, there has been a sector of the market where some noticeable action took place and that was in the junk bond world. It's not so much that there was excessive price volatility for high-yield, high-risk debt but more that there are some early signs of a buyer's strike. At least four speculative-grade companies had to pull their debt offerings during September, and a growing number of others have been forced to boost the interest rate offered on their bonds in order for buyers to show up, according to Bloomberg News. At 4.59 percentage points as of late last week, the extra yield offered on junk bonds over Treasuries is the highest in more than two weeks. While that may not be a reason for panic just yet, spreads are still below this year's peak of 5.36 percentage points in early January, it bears watching as the softness in the new-issue market could continue. The credit markets, especially for lower-rated borrowers, has often proven to be a kind of early-warning system for riskier assets in general, generally showing weakness before the companies underlying stock, as we saw earlier this year in May and August. A recent monthly survey of credit investors by Bank of America, the second-biggest underwriter of junk bonds this year, provides more reason for caution. Their survey found that 57% of high-yield investment managers are holding above-normal cash positions, up from 35% in July and the most since the firm starting asking managers about cash levels in 2011. The stakes are certainly higher in junk bonds than before as there are about $1.25 trillion bonds with below-investment grade ratings held in the benchmark Bloomberg Barclays U.S. Corporate High Yield index, or double what it was before the financial crisis of 2008-2009. Perhaps the latest pushback from buyers will prove to be the pause that refreshes, especially with credit-ratings companies forecasting a relatively benign outlook for defaults. Moody's see the default rate for junk debt at 2.9% in mid-2020, compared with 3% for 2019. However, history has shown us how quickly things can change in this sector of the debt world when the economy turns, and it's usually not very pretty.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.78%	3 mo	1.88%	3 mo	2.04%	3 mo	1.31%
6 mo	1.83%	6 mo	1.84%	6 mo	2.01%	6 mo	1.33%
1 yr	1.75%	1 yr	1.78%	1 yr	1.96%	1 yr	1.33%
2 yr	1.63%	2 yr	1.77%	2 yr	1.88%	2 yr	1.33%
5 yr	1.56%	5 yr	1.60%	5 yr	2.02%	5 yr	1.37%
10 yr	1.68%	10 yr	1.86%	10 yr	2.42%	10 yr	1.58%
30 yr	2.13%	30 yr		30 yr	3.13%	30 yr	2.27%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.48%	17.08%
S&P 500 (Large Cap)	-0.97%	19.95%
S&P 400 (Mid Cap)	-1.24%	17.07%
Russell 2000 (Small Cap)	-2.36%	13.93%
NASDAQ Composite	-2.12%	20.65%
MSCI EAFE (International)	-0.63%	12.93%
iShares Real Estate	0.16%	27.09%

U.S. Equity struggled this week as the idea of impeaching President Trump dominates the headlines and is the main reason for impact on the Market. The Utilities sector (+1.52%) lead the market sectors while Energy lagged (-2.71%). Gold is down -1.78% while oil tumbled -4.77%.

September IHS Markit Flash Manufacturing PMI released the strongest report in five months in which it is up 0.7 m/m to 51.0, beating the consensus of 50.3. The report is driven by stronger output, which also hit a five-month high. The new order growth report is also better, but export orders continued to weaken. Flash Services PMI is up 0.2 to 50.9, but missing the 51.5 estimate, still near 3.5-year lows. This report showed the slowest rise in new work since the survey began (Oct-09). IHS Markit's chief economist said the survey indicates continued headwinds from trade and the uncertain outlook, and that jobs are being cut across surveyed companies for the first time since Jan-10. Chicago Fed Index for August rebounded from the 0.4 decline in July to 0.1, beating the -0.1 estimate.
CNBC reported that "high-level" US-China trade talks are expected to resume on October 10^{th}-11^{th} in Washington. Chinese delegation is to be led by Vice Premier Liu, though it is still unclear if he will have the same "special envoy" status that allows him to negotiate on behalf of President Xi, as he did last spring. There is still speculation on the meeting; however, one can expect the Market to have both eyes on October 10^{th}-11^{th} if the meeting goes through.

September's final Michigan consumer sentiment report falls at 93.2, beating the consensus of 92. August's durable goods orders are up 0.2%, which falls 1.8pp m/m but still beats the estimate of -1.2%. Core capital goods orders fell 0.2% m/m for its first decrease since April yet remains ahead of the -0.3% expectations. Core capital goods shipments are up 0.4% m/m, and August's core PCE of +0.1% missed the estimate of 0.2%. Personal consumption is up +0.1% which missed the +0.3% estimate and is down 0.4pp m/m.

According to the WSJ, central banks have seen greater dissent over adding stimulus or have refrained from easing policy in the recent weeks. The report mentioned that this marks some semblance of a shift from the global policy pivot that seemed to dominate the narrative earlier this week, as said by FactSet. Some central bank hawks have said additional policy support is not needed with their domestic economics still expanding and unemployment being low. Others have expressed the concerns of the adverse spillover effects of unconventional policy measure such as negative rates and large-scale bond purchases, along with the potential risks to financial stability.

The S&P 500 Index has been trading above resistance levels of ~2955 since the beginning of the month. The Large Cap Index touched said resistance level near the end of the trading week but was able to rally off this level, which shows strength on the ~2955 mark. It will be seen if this resistance level can hold in the near future. The S&P 500 closed at 2961.

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.

Sources of statistical information are Bloomberg and Ned Davis Research.