ECONOMIC HIGHLIGHTS

U.S. Productivity was revised to -0.2% for Q3 2019 from -0.3% previously. The Consumer Price Index was up 0.3% for November and up 2.1% for the year ended November. The Producer Price Index was flat for November, after having been up 0.4% the month prior. Finally, Retail Sales were up 0.2% for November after having been up 0.4% for October.

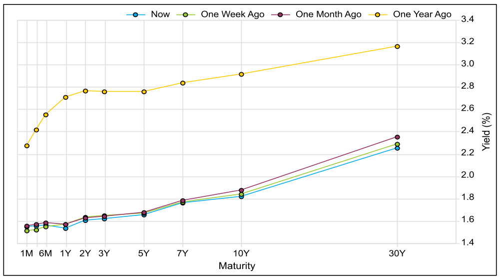
FIXED INCOME

The Federal Reserve Bank of New York increased its scheduled repo operations last week, planning larger capital infusions through the end of the year in an effort to avoid another lending rate spike in the Fed Funds market. The Fed boosted its overnight repurchase agreements set between December 31 and January 2 to a $150 billion cap from the previous $120 billion level, according to a press release last Thursday. The figure serves as a limit for banks seeking additional liquidity, and it's possible that the expected demand may not meet these increased supply levels. The expanded operations from the Fed arrive as the overnight lending rate faces increased stress from banks' year-end balance sheet activity. Legislation created from the depths of the financial crisis obliges lenders to hold a larger portion of cash as emergency reserves at the Federal Reserve. Year-end calculations dictate how large a proportion banks must hold, leading firms to lend less cash as they look to prove they are sufficiently liquid in the eyes of the regulatory measures. The updated repo limit is "to ensure that the supply of reserves remains ample and to mitigate the risk of money market pressures around year end," the bank said in its statement. Some analysts are worried that the reining in of banks' free cash may send the key lending rate over its intended limit for the second time this year. The fed funds rate first spiked on September 17 to 1% from its 2% target, prompting worry around whether the Fed lost control of the nation's money market system. The central bank began repo operations soon after the incident to ease pressures on the financial system, using the policy tools for the first time since the Great Recession. The Fed has since started purchasing Treasury bills in an effort to further calm the markets in the short end of the yield curve. The Bank for International Settlements issued a statement last week about a study it did about the September funding issues and said it isn't likely to be a one-time event and was exacerbated by larger banks and hedge funds. They further stated that activity from hedge funds left less cash in the system for lenders and "compounded the strains" on the overnight lending process.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.56%	3 mo	1.59%	3 mo	1.90%	3 mo	1.11%
6 mo	1.55%	6 mo	1.58%	6 mo	1.88%	6 mo	1.13%
1 yr	1.52%	1 yr	1.54%	1 yr	1.86%	1 yr	1.14%
2 yr	1.60%	2 yr	1.63%	2 yr	1.84%	2 yr	1.15%
5 yr	1.65%	5 yr	1.65%	5 yr	2.07%	5 yr	1.28%
10 yr	1.82%	10 yr	2.03%	10 yr	2.52%	10 yr	1.67%
30 yr	2.25%	30 yr		30 yr	3.22%	30 yr	2.39%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.85%	23.57%
S&P 500 (Large Cap)	1.08%	28.89%
S&P 400 (Mid Cap)	0.62%	23.73%
Russell 2000 (Small Cap)	0.55%	23.07%
NASDAQ Composite	1.33%	33.06%
MSCI EAFE (International)	1.95%	21.06%
iShares Real Estate	-2.76%	23.56%

U.S. Equity finished with moderate gains for the week as the S&P 500 index made a new high. U.S.- PChina trade and the Conservative win in the UK were the main areas of focus for the Market. Tech (+2.48%) was the leading sector, while Real Estate (-2.51%) was the largest decliner. Gold and Oil both rose for the week finishing up 1.22% and 1.64%, respectively.

On Friday, the U.S. and China announced details of a "phase 1" trade deal which involves the U.S. dropping plans for the new December 15th tariffs and cutting tariffs on ~$120B in Chinese goods to 7.5% (was originally 15%) after 30 days of the deal signing. The 25% tariffs on ~$250B in goods will remain, and in exchange, China agreed to buy ~$200B in U.S. products over two years. This will include $40-$50B in agricultural goods. The "phase 1" deal also includes Chinese concessions on IP protections and forced the transfers, as well as, currency and financial-services provisions. Talks of a phase 2 are to begin immediately.

Novembers retail sales came in at 0.2%, missing expectations of 0.5%. This news follows the weakening trend from the prior two months, although online retailers and electronic stores gained. Economists did note that retail sales slowed meaningfully, however, the next report may be boosted by cyber Monday, since it fell in a December this year.

On Thursday, the NY Fed announced that it would conduct additional repurchase-agreement operations that would push its amount for funding markets over the crucial year-end period to more than ~$500B. This decision follows scrutiny on a repo earlier this week. The BIS Quarterly Review said temporary factors like the large Treasury debt settlement and corporate tax date don't fully explain the September spike in repo rates.

The S&P 500 Index continues to climb as the Large Cap Index made a new high on Friday. The index closed near its open on Friday, yet incurred gains for the week. The S&P 500 Index closed at 3168.

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 provide 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.