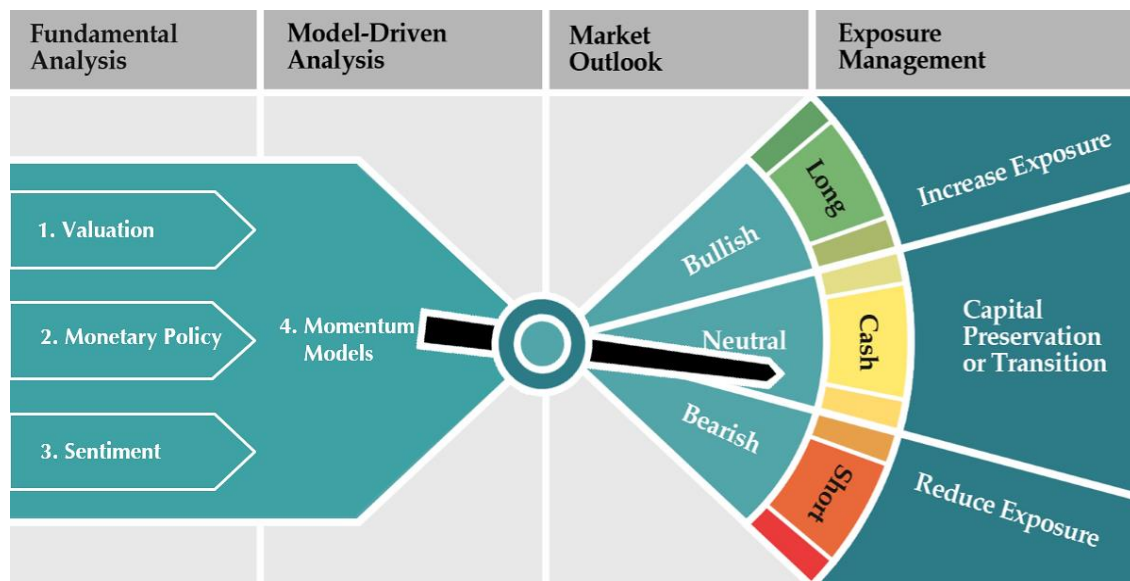


Global Central Banks continue to drive the direction of markets. The second quarter got under way with a strong rally following extreme easing in Europe and more dovish language by the Federal Reserve. In May the surprisingly poor jobs report put an end to any fears of a June rate hike here in the US. The quarter wrapped up with Great Brittan voting to leave the EU and a subsequent spike in volatility. The S&P managed to gain 2.46% for the quarter and appears to be heading higher as we have reached multiple new all-time highs into the start of the new quarter.



Readings in the four pillars of our investment process are as follows:

1. **Valuation:** Remains the most problematic pillar in our work. Valuation is elevated on all absolute measures but is somewhat less elevated when adjusted for low interest rates and inflation.
2. **Monetary factors and credit conditions:** The Fed is now on hold. Credit spreads are elevated to levels that in the past have predicted recessions. There is a standoff between easy global monetary policy and the poor relative performance of financial stocks.
3. **Sentiment:** Equities are universally disliked. Short and intermediate term measures of sentiment are in pessimistic territory which is a positive in our work.
4. **Momentum:** Momentum measures are positive. We will watch the breadth of the market as we anticipate a narrowing effect ahead of an end of the advance.

Conditions continue to be supportive of the market's advance. Historically what has ended this type of market advance is deterioration in monetary factors starting with a tightening Fed. We will monitor the pillars of our process and adjust exposure accordingly.