Top Headline: FOMC Begins the Unwind

FOMC officials announced this past Wednesday that they would begin drawing down the Fed's balance sheet at the end of the month. Their plan, the details of which were released in June, will allow for a gradual roll off of the Fed's MBS and Treasury securities. Though they haven't provided any specific guidance, most estimates suggest that this will ultimately reduce the Fed's asset base from around $4.5 trillion to somewhere between $2 and $3.5 trillion.

The Fed also released an updated version of its "Dot-Plot", in which officials estimate the appropriate level of the federal funds rate at a specific point in time. This indicated that the majority of Fed officials expect to hike rates again in 2017; markets are currently pricing in a 63% chance of this occurring.

Other News

Republican Senators' last ditch attempt to repeal and replace the Affordable Care Act hit a road-block after John McCain came out against the most recent iteration on Friday. McCain became the third Republican Senator to announce his opposition to the bill, breaching the limit of two votes Republican leadership can afford to lose. The bill's sponsors released an updated version Monday morning, attempting to draw in those on the fence by offering more benefits to specific states (notably Alaska) and allowing greater leeway in rolling back ACA requirements. The deadline for the bill to pass via reconciliation is Friday, after which Republicans would need 60 votes to pass any health care legislation.

On Tap This Week

This week is highlighted by the fight over the repeal of the ACA and further revision of second quarter GDP.

Past Week's Releases

	Date	Indicator	Period	Prev.	Exp.	Act.	Comment
T	9/19/17	Housing Starts	Aug	1190K r↑	1173K	1180K	Housing starts impacted negatively by Hurricane Harvey
T	9/19/17	Building Permits♦	Aug	1230K r↑	1220K	1300K	
T	9/19/17	Import Prices	Aug	-0.1% r↓	0.4%	0.6%	Import prices up 2.1% over the past year
W	9/20/17	Existing Home Sales	Aug	5.44M	5.48M	5.35M	Single-family sales fall by 2.1%
W	9/20/17	FOMC Meeting	Sept	1.00%-1.25%	1.00%-1.25%	1.00%-1.25%	FOMC leaves rates unchanged, announces start to drawdown of the balance sheet
Th	9/21/17	Initial Jobless Claims♦	Sept 16	282K r↓	303K	259K	Claims fall back to normal levels
Th	9/21/17	Leading Index♦	Aug	0.3%	0.2%	0.4%	Index posts solid gain
Th	9/21/17	Phil. Fed Business Outlook♦	Sept	18.9	18.0	23.8	Report shows strength in mid-Atlantic region

Actual < Expected Actual > Expected ♦Leading Indicator

Market Activity

Indicator	Open	Close	ΔWeek	Δ3M
DJIA	22268	22349	0.36%	4.45%
S&P 500	2500.2	2502.2	0.08%	2.78%
USD*	91.87	92.17	0.33%	-5.56%
10-Year Treasury+	2.20%	2.25%	0.05%	0.10%

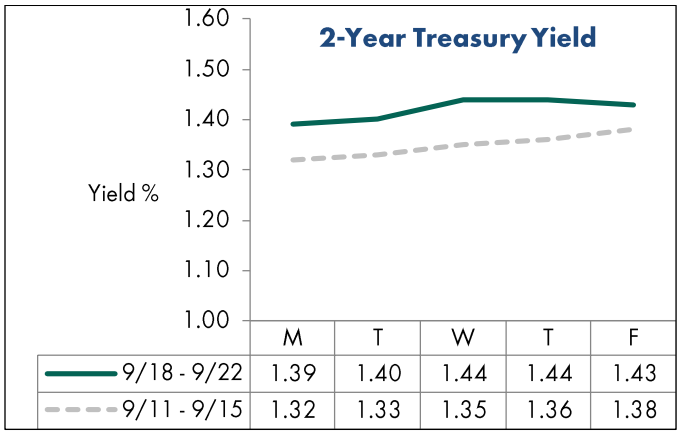
*ICE U.S. Dollar Index Spot Price
+Absolute change in yield over specified time period

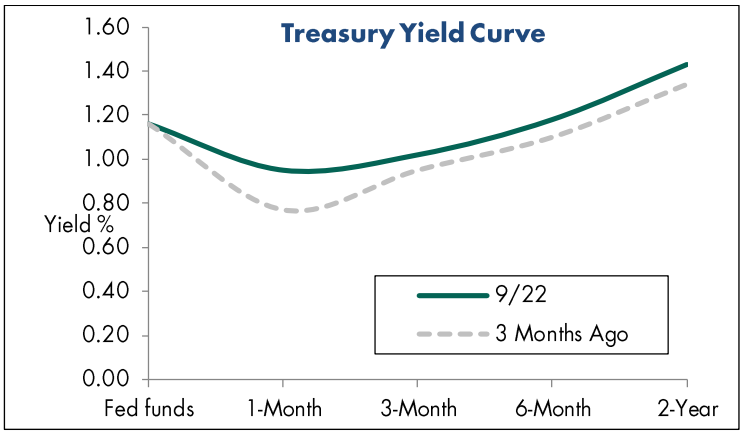
Upcoming Releases

	Date	Indicator	Period	Prev.	Exp.
T	9/26/17	New Home Sales	Aug	571K	585K
T	9/26/17	Consumer Confidence	Sept	122.9	120.0
W	9/27/17	Durable Goods Orders	Aug	-6.8%	1.0%
W	9/27/17	Orders Ex. Transportation	Aug	0.6%	0.3%
Th	9/28/17	Initial Jobless Claims♦	Sept 23	259K	270K
Th	9/28/17	GDP	Q2 3rd	3.0%	3.0%
Th	9/28/17	GDP Deflator	Q2 3rd	1.0%	1.0%
F	9/29/17	Personal Income	Aug	0.4%	0.2%
F	9/29/17	Consumer Spending	Aug	0.3%	0.1%
F	9/29/17	U. of Mich. Consumer Sentiment	Sept	95.3	95.3
F	9/29/17	ISM Manufacturing	Sept	58.8	57.5
F	9/29/17	Construction Spending	Aug	-0.6%	0.4%

This information was prepared for you by Capital Advisors Group, Inc. from outside sources which we believe to be reliable. However, we make no representations as to its accuracy or completeness. The economic statistics presented in this report are subject to revision by the agencies that issue them.

Yield Curve Highlights





Detailed Economic Releases

9/19/2017	Prev.	Exp.	Act.
Housing Starts	1190K r↑	1173K	1180K
Building Permits	1230K r↑	1220K	1300K

Housing starts beat expectations for the month of August, but were slightly below July's level due to the effects of Hurricane Harvey. Starts in the Southern region hit by the storm fell nearly 8% for the month, while most other regions showed growth for the month. Single-family starts rose to an 851,000 annualized pace, mostly offsetting a 6.5% decline in multi-family starts to just 329,000. Permits were much stronger than expected for the month, surging to a 1300K annualized pace. Multi-family permits were up nearly 205 for the month, while single-family permits actually declined 1.5%.

Summary: Even with August's decline in starts, the housing market maintains some general momentum.

9/19/2017	Prev.	Exp.	Act.
Import Prices	-0.1% r↓	0.4%	0.6%

Imported prices increased by a greater than expected 0.6% in August. Petroleum prices, perhaps in response to Hurricane Harvey, surged by 4.8%, and finished goods prices also showed some upwards pressure. Export prices also rose by 0.6%, with industrial supplies posting particularly strong results. Year-over-year, import prices have risen 2.1% and export prices are up 2.3%.

Summary: Import prices are up by more than 2% over the past year.

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9/20/2017	Prev.	Exp.	Act.
Existing Home Sales	5.44M	5.48M	5.35M

Existing home sales fell 1.7% to a 5.35 million annualized pace in August. Weakness was centered in the South and West regions, with sales falling by 5.7% and 4.8%, respectively. Single-family home sales declined by 2.1% for the month, more than offsetting a 1.7% gain in condo sales. Prices also fell during the month, with the median home price down 1.8% to $253,500. On a year-over-year basis existing home sales are up 0.2% and prices are have risen 5.6%.

Summary: Existing home sales declined in August, but still remain on the high end of the post-recession spectrum.

9/20/2017	Prev.	Exp.	Act.
FOMC Meeting Decision	1.00%-1.25%	1.00%-1.25%	1.00%-1.25%

Information received since the Federal Open Market Committee met in July indicates that the labor market has continued to strengthen and that economic activity has been rising moderately so far this year. Job gains have remained solid in recent months, and the unemployment rate has stayed low. Household spending has been expanding at a moderate rate, and growth in business fixed investment has picked up in recent quarters. On a 12-month basis, overall inflation and the measure excluding food and energy prices have declined this year and are running below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Hurricanes Harvey, Irma, and Maria have devastated many communities, inflicting severe hardship. Storm-related disruptions and rebuilding will affect economic activity in the near term, but past experience suggests that the storms are unlikely to materially alter the course of the national economy over the medium term. Consequently, the Committee continues to expect that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, and labor market conditions will strengthen somewhat further. Higher prices for gasoline and some other items in the aftermath of the hurricanes will likely boost inflation temporarily; apart from that effect, inflation on a 12-month basis is expected to remain somewhat below 2 percent in the near term but to stabilize around the Committee's 2 percent objective over the medium term. Near-term risks to the economic outlook appear roughly balanced, but the Committee is monitoring inflation developments closely.

In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 1 to 1-1/4 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee will carefully monitor actual and expected inflation developments relative to its symmetric inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

In October, the Committee will initiate the balance sheet normalization program described in the June 2017 Addendum to the Committee's Policy Normalization Principles and Plans.

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Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Charles L. Evans; Stanley Fischer; Patrick Harker; Robert S. Kaplan; Neel Kashkari; and Jerome H. Powell.

Source: FOMC https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm

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9/21/2017	Prev.	Exp.	Act.
Initial Jobless Claims	282K r↓	303K	259K

First time claims for jobless benefits decreased by 23,000 to 259,000 in the week ended September 16th. The four-week average of initial claims, which smoothes volatility inherent in the weekly number, rose to 268,750 from 263,250. Continuing claims for unemployment benefits rose to 1.98 million in the week ended September 9th. The insured unemployment rate, which tends to track the overall jobless rate, was unchanged at 1.4%.

Summary: Claims fall back from elevated level seen after Hurricanes Harvey and Irma.

9/21/2017	Prev.	Exp.	Act.
Leading Economic Indicators	0.3%	0.2%	0.4%

The index of leading economic indicators reported steady growth, rising by a solid 0.4% for the month. Positive contributors included the yield spread, consumer confidence, and ISM new orders. On the other hand, initial jobless claims were the only negative contributor to the report. The report doesn't capture the full impact of the recent hurricanes, but still suggest that the current pace of growth will be maintained.

Summary: The Leading Economic Indicators index points to steady but moderate economic growth.

9/21/2017	Prev.	Exp.	Act.
Phil. Fed Business Outlook	18.9	18.0	23.8

The Philadelphia Fed business outlook survey rose to 23.8, greater than expectations, after a strong showing of 18.9 in August. New orders jumped by more than 9 points to 29.5, and unfilled orders rose to 17.0, the sharpest increase in more than a decade. Both employment and selling prices also saw increases, keeping with the trend of the first half of the year.

Summary: The Philadelphia Fed outlook index continues to point to high levels of manufacturing activity in the mid-Atlantic region.

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About Us

Capital Advisors Group, Inc. is an independent SEC-registered investment advisor specializing in institutional cash investments, risk management, and debt finance consulting. Our clients range from venture capital-funded startups and emerging growth companies to Fortune 100 companies.

Drawing upon more than a quarter of a century of experience through varied interest rate cycles, the firm has built its reputation upon deep, research-driven investment strategies and solutions for its clientele.

Capital Advisors Group manages customized separately managed accounts (SMAs) that seek to protect principal and maximize risk-adjusted returns within the context of each client's investment guidelines and specific liquidity needs. Capital Advisors Group also provides FundIQ® money market fund research; CounterpartyIQ® aggregation and credit analysis of counterparty exposures; risk assessment on short-term fixed income securities and portfolios; and independent debt finance consulting services.

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