

Top Headline: Tariffs Go Into Effect

The Trump administration placed 25% import tariffs on \$34 billion worth of Chinese products Friday, to which China responded in kind. The fallout from these actions is highly uncertain at this point, with further tariffs from the U.S. having the potential to drive the two countries into further trade conflict. On their own, the combined measures will likely have a limited impact on growth; most estimates suggest they will shave off around 0.1% of U.S. GDP over the next year. However, concerns over the disentangling of global supply chains and reaction of financial markets remain. Furthermore, while tariffs are enacted to protect U.S. exporters, history suggests that the combination of retaliatory measures from affected countries along with a stronger dollar could mitigate nearly all of the impact. As is, prices of U.S. agricultural goods are already falling amidst fears of a decrease in demand from China.

Other News

Employment numbers for June showed that the labor market continues to run hot. The economy added 213,000 jobs during the month, and estimates of the prior two months were revised up. Highlights for June included robust employment gains in manufacturing and professional service industries. Despite the strong job growth, the unemployment rate rose from a two-decade low of 3.8% to 4.0%, as more Americans re-entered the labor force. Economists will be interested as to whether this trend will continue, or whether the participation rate will continue to oscillate in the 62.5%-63.0% range (which is low by historical standards). One area of disappointment was in regard to wage growth. Average hourly earnings rose by just 0.2%, and 2.7% year-over-year.

On Tap This Week

This week is highlighted by ongoing Brexit turmoil, which has already seen some major resignations from Theresa May's government.

Past Week's Releases

Date	Indicator	Period	Prev.	Exp.	Act.	Comment
M 7/2/18	ISM Manufacturing	Jun	58.7	58.5	60.2	New orders post strong results
Th 7/5/18	Initial Jobless Claims♦	Jun 30 th	228K r↑	223K	231K	Claims remain at low levels
Th 7/5/18	ISM Non-Manufacturing	Jun	58.6	58.4	59.1	Service sector of the economy continues to perform well
F 7/6/18	Trade Deficit	May	\$46.1B r↓	\$43.7B	\$43.1B	Exports jump by 1.9% in May
F 7/6/18	Nonfarm Payrolls	Jun	224K r↑	190K	213K	NFPs continue to beat expectations, but wage growth disappoints
F 7/6/18	Unemployment Rate	Jun	3.8%	3.8%	4.0%	

Actual < Expected

Actual > Expected

♦Leading Indicator

Market Activity

Indicator	Open	Close	ΔWeek	Δ3M
DJIA	24271	24456	0.76%	2.19%
S&P 500	2718.4	2759.8	1.52%	5.96%
USD*	94.47	94.0	-0.54%	4.28%
10-Year Treasury*	2.86%	2.82%	-0.04%	0.05%

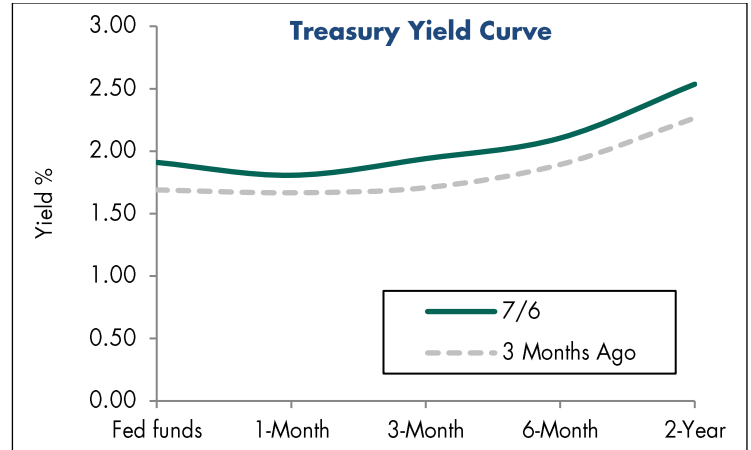
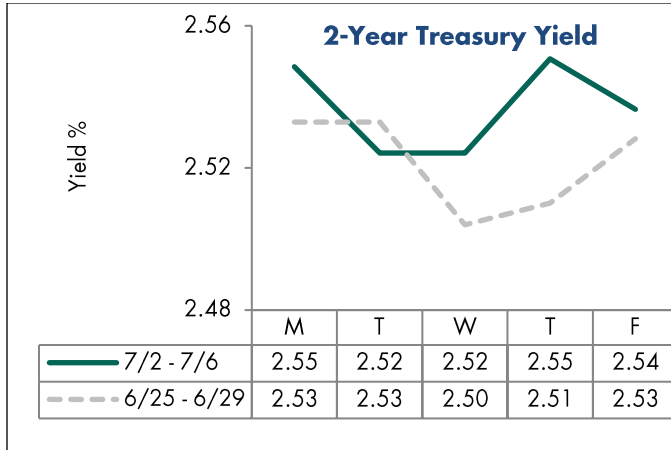
*ICE U.S. Dollar Index Spot Price

*Absolute change in yield over specified period

Upcoming Releases

Date	Indicator	Period	Prev.	Exp.
M 7/9/18	Consumer Credit	May	\$9.3B	\$12.0B
W 7/11/18	PPI	Jun	0.5%	0.2%
W 7/11/18	Core PPI	Jun	0.3%	0.2%
Th 7/12/18	CPI	Jun	0.2%	0.2%
Th 7/12/18	Core CPI	Jun	0.2%	0.2%
Th 7/12/18	Initial Jobless Claims♦	Jul 7 th	231K	225K

Yield Curve Highlights



Detailed Economic Releases

7/2/2018	Prev.	Exp.	Act.
ISM Manufacturing	58.7	58.5	60.2

The Institute for Supply Management’s Manufacturing Index came in very strong for June, with the index posting a reading of 60.2. New orders ticked slightly up to 63.5 for the month, and backlog orders came in at a very high 60.1. Input prices came in at an elevated level of 76.8, and delivery times continued to rise. All of these factors are pointing towards possible supply chain/inventory pressures.

Summary: The ISM-Manufacturing Index posted good results, but rising prices suggest trade conflicts may be having an impact.

7/5/2018	Prev.	Exp.	Act.
Initial Jobless Claims	228K r↑	223K	231K

First time claims for jobless benefits increased by 3,000 in the week ending on June 30th to 231,000. The four-week average of initial claims, which smooths volatility inherent in the weekly number, was up slightly to 224,500. Continuing claims for unemployment benefits, in lagging data for the week of June 23rd, rose to 1.74 million. The insured unemployment rate, which tends to track the overall jobless rate, held at 1.2%.

Summary: Initial claims remain at very low levels.

7/5/2018	Prev.	Exp.	Act.
ISM Non-Manufacturing	58.6	58.4	59.1

The Institute for Supply Management's Non-Manufacturing Index came in above expectations for May at 59.1, 0.7 points down from the previous reading. Growth in new orders remains very strong, but the employment index signals a possible slowdown in the pace of hiring. Similar to the manufacturing report, delivery times and input prices rose sharply for the month, suggesting supply-chain pressures.

Summary: The ISM Non-Manufacturing Index points to continued strong growth for the service sector of the economy.

7/6/2018	Prev.	Exp.	Act.
Trade Deficit	\$46.1B r↓	\$43.7B	\$43.1B

The U.S. trade deficit for May came in at \$43.1 billion, smaller than expectations of \$43.7 billion. Exports climbed 1.9% to \$215.3 billion, while imports rose by a much smaller 0.4% to \$258.4 billion. Imports of goods saw an increase for the month with industrial supplies and capital goods orders rising. On the flip side, exports of goods expanded to \$144.9 billion due to stronger demand for food products and industrial supplies. The U.S. maintains a trade surplus in services (mainly linked to payments for IP rights), but this is counterbalanced by the much larger goods deficit.

Summary: The trade deficit narrowed in May, as trade restrictions are now being put into place.

7/6/2018	Prev.	Exp.	Act.
Nonfarm Payrolls	244K r↑	190K	213K
Unemployment Rate	3.8%	3.8%	4.0%

Nonfarm payrolls posted a robust gain in June, rising by an estimated 213K during the month. This follows May's upwardly revised gain of 244K and leaves the three-month rolling average of job gains at a solid 211K (well above the rate of population growth). Highlights from the payroll numbers include a 36,000 gain in manufacturing, along with an 50,000 increase in business and professional service employment. The headline unemployment rate rose by 0.2% to 4.0%, in large part due to a 0.2% rise in labor force participation to 62.9%. The U-6 "underemployment" rate also rose by 0.2% to 7.8%. Wage growth disappointed, with average hourly earnings rising by just 0.2% during the month and 2.7% year-over-year.

Summary: A rise in labor force participation pushed the unemployment rate back up to 4.0%. Job growth remains strong; wage growth tepid.

About Us

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