CAPITAL ADVISORS GROUP

Weekly Economic Review: October 22nd – 26th, 2018

Top Headline: Market Sells Off

Stocks continued to sell-off this past week, with the S&P 500 entering correction territory after a 1.7% drop on Friday. Amongst other things, the sell-off has been linked to rising interest rates, along with concerns about global trade. Tech-firms have been amongst the hardest hit recently, as third-quarter top-line numbers for firms such as Amazon and Alphabet came in below expectations. Nevertheless, underlying growth remains strong; the initial Q3 GDP Report estimated that the economy expanded by 3.5% during the quarter. Of note, consumer spending continued its rebound, but business investment was relatively weak. This represents somewhat of a mixed bag for the recent tax cuts. They are providing short-term stimulus to consumers, but the longer-run impact is likely to depend on whether they can generate investments that lead to higher productivity growth.

Other News

In what was a widely-followed race, Brazil elected Jair Bolsonaro as their next President on Saturday. The result was not unexpected but represents a dramatic political shift for South America's most-populous country. After nearly two decades of leftist leaders, Bolsonaro represents a win for the country's hard-right populists. He is most well-known for his extreme rhetoric against homosexuals, racial minorities, and criminals. Amongst other things he has celebrated the country's past military dictatorship, advocated torture, and threated to jail or exile political opponents. Nevertheless, he was able to appeal to the populous by offering hardline solutions to issues of crime, corruption, and economic stagnation.

On Tap This Week

Employment data for October is set to be released on Friday.

Past Week's Releases

Date		Indicator	Period	Prev.	Exp.	Act.	Comment
W	10/24	New Home Sales	Sep	629K	625K	553K	Sales continue to fall as mortgage rates rise
Th	10/25	Durable Goods Orders	Sep	4.5%	-1.5%	0.8%	Orders were strong, mostly driven by defense aircraft
Th	10/25	Jobless Claims	10/20	210K	212K	215K	Hurricane effects were minimal, and claims remained low
F	10/26	GDP	Q3	4.2%	3.3%	3.5%	Supported by consumer spending, but pulled down by the trade deficit and a weak housing sector
F	10/26	GDP Deflator	Q3	3.0%	2.1%	1.7%	
F	10/26	Consumer Sentiment	Oct(f)	99.0	99.0	98.6	Strong report despite increasing inflation expectations

Actual < Expected   Actual > Expected   ♦Leading Indicator

Market Activity

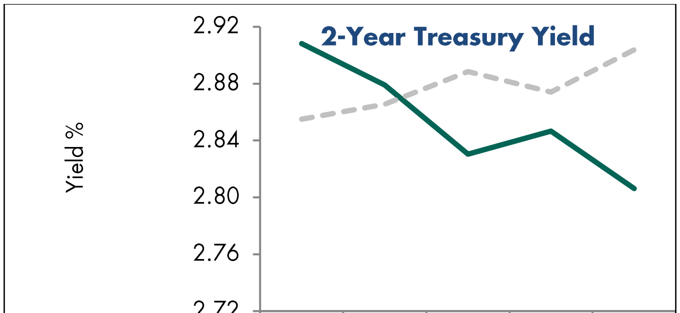
Indicator	Open	Close	ΔWeek	Δ3M
DJIA	25444	24688	-2.97%	-3.00%
S&P 500	2767.8	2658.7	-3.94%	-5.68%
USD*	95.71	96.36	0.67%	1.79%
10-Year Treasury+	3.19%	3.08%	-0.12%	0.12%

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

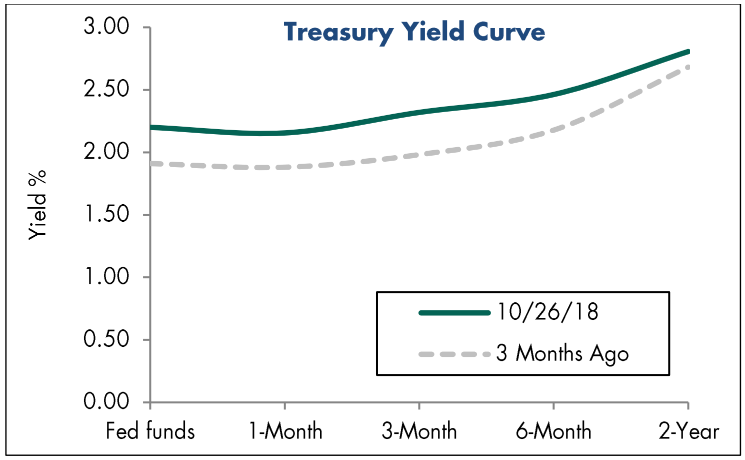
Upcoming Releases

Date		Indicator	Period	Prev.	Exp.
M	10/29	Personal Income	Sept	0.3%	0.2%
M	10/29	Consumer Spending	Sept	0.3%	0.4%
T	10/30	Consumer Confidence	Oct	138.4	135.9
Th	11/1	Jobless Claims	10/27	215K	213K
Th	11/1	ISM Mfg Index	Oct	59.8	59.0
F	11/2	Nonfarm Payrolls	Oct	134K	193K
F	11/2	Unemployment Rate	Oct	3.7%	3.7%
F	11/2	Trade Deficit	Sep	$53.2B	$53.2B

Yield Curve Highlights



	M	T	W	T	F
10/22-10/26	2.91	2.88	2.83	2.85	2.81
10/15-10/19	2.86	2.87	2.89	2.87	2.90



Detailed Economic Releases

10/24/2018	Prev.	Exp.	Act.
New Home Sales	629K	625K	553K

New home sales dropped by 5.5% on the month and fell below expectations at 553K. In addition, August was revised downward by 44K to 585K and July was revised downward by 5K to 603K. Lower supply has been holding back sales, though supplies did increase by 2.8% in September to 327K. However, given the low levels of sales, the stock of available homes has increased to 7.1 months at current pace of sales, compared to 5.3 months in September of last year. Prices have been mostly flat, up only 0.3% to $320K. Sales in the West dropped 12%, while sales in the Midwest were up 6.9% on the month. Mortgage rates have risen to more than 5% for 30-year fixed loans, pulling the housing sector down despite strong jobs reports.

Summary: New home sales fell to their lowest since July of 2017.

10/25/2018	Prev.	Exp.	Act.
Durable Goods Orders	4.5%	-1.5%	0.8%

Durable goods orders of 0.8% were above expectations due to increased orders for defense aircraft. Excluding transportation equipment, however, orders only increased by 0.1%, falling 0.3% below expectations for the category. Core capital goods orders also fell by 0.1%, possibly a result of decreasing business investment. Primary metals increased marginally, compared to previous strong months in response to tariffs. Strength in the report comes from high levels of unfilled orders at 0.9% in September, supported by a 1.3% increase in primary metals due to pre-buying and also in response to tariffs. Inventories also increased by 0.7% and will support third-quarter GDP.

Summary: Despite decreases on the month, the year-on-year growth rate of 7.9% demonstrates the strength of the factory sector.

10/25/2018	Prev.	Exp.	Act.
Jobless Claims	210K	212K	215K

Hurricane Michael had a limited effect on the jobs report with jobless claims slightly above expectations at 215K, and with claims in Florida and Georgia only increasing by about 7K. Continuing claims fell by 5K to a 45-year low of 1.636 million, and the four-week average also fell by 6.750K to a new 45-year low of 1.647 million.

Summary: Jobless claims remain low and ease concerns of hurricane effects.

10/26/2018	Prev.	Exp.	Act.
GDP	4.2%	3.3%	3.5%
GDP Deflator	3.0%	2.0%	1.7%

GDP came in above expectations at 3.5%, supported primarily by the durable-goods subcomponent of consumer spending. While business investment was positive at 0.8% growth, it follows growth levels in the previous two months of 8.7% and 11.5%, suggesting a decline in the effect of the tax-cut. Residential investment continued to decline at 4.0% in response to a weak housing sector. The trade deficit increased significantly to $99 billion, and by itself pulled down the GDP report by 1.8%. While imports grew at a rate of 9.1%, exports contracted by 3.5%. Inventories supported the index as they grew by $76.3 billion and added 2.1% to GDP. Government purchases rose at 3.3% and added 0.6% to the indicator, thanks mostly to the government's $4.1 trillion in annual outlays.

Summary: GDP growth was characterized by growth in consumer spending, offset by an increasing trade deficit and a weak housing sector.

10/26/2018	Prev.	Exp.	Act.
Consumer Sentiment	99.0	99.0	98.6

Consumer sentiment fell from September's 99.0 below expectations to 98.6. The current conditions index fell by 2 points to 113.1, suggesting slowing consumer spending, and expectations fell by 1.2 points to 89.3, still reflecting a strong jobs outlook. Inflation expectations rose by 0.2, but the year-ahead outlook is still at a moderate 2.9%.

Summary: The report is strong despite a decrease in current conditions and an increase in inflation expectations.

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.

Headquartered in metropolitan Boston, Capital Advisors Group maintains multiple U.S. regional offices.

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