Top Headline: Government Shutdown Roils Markets

A partial government shutdown went into effect Saturday morning after President Trump indicated he would not sign an omnibus spending bill passed by the House due to insufficient funding for a border wall. As a result, approximately 380,000 government workers are expected to face furloughs, and 420,000 more are expected to work temporarily without pay. Trump's budget director Mick Mulvaney indicated it's very like that, "the shutdown will go beyond the 28th and into the new Congress." The expected macroeconomic impact is relatively small, though somewhat dependent on how long the shutdown lasts. However, markets have not taken the developments lightly. The Dow posted its worst week since 2008, down nearly 7%, while the Nasdaq enter a bear market.

Other News

The FOMC raised interest rates for the ninth time this cycle, to a range of 2.25%-2.50%. As expected, the Fed backed off its projections for interest rate hikes in 2019; the SEP indicated that the median expectation is now for just 2 hikes over the calendar year. Nevertheless, the Fed did not signal a much anticipated "pause" in the hiking cycle due to continued strength in the underlying economic data. This development was taken negatively by markets, equities sold off by nearly 2% and long-dated Treasuries rallied.

On Tap This Week

Data released this Christmas week include consumer confidence and initial jobless claims. Markets will be open for a half day on Monday the 24th and closed on the 25th.

Past Week's Releases

Date		Indicator	Period	Prev.	Exp.	Act.	Comment
T	12/18	Housing Starts ♦	Nov	1.228M	1.226M	1.256M	Both indicators were up, supported by growth in multi-family units
T	12/18	Building Permits ♦	Nov	1.263M	1.260M	1.328M	
W	12/19	Existing Home Sales	Nov	5.22M	5.19M	5.32M	Home sales grew significantly
W	12/19	FOMC Announcement	Dec	2.00%-2.25%	2.25%-2.50%	2.25%-2.50%	FOMC votes unanimously to raise rates, signals more gradual path for 2019
Th	12/20	Initial Jobless Claims ♦	12/15	206K	220K	214K	Claims returned to record lows for the second consecutive week
F	12/21	GDP	Q3	3.5%	3.5%	3.4%	GDP was slightly lower due to downwardly revised exports and residential spending
F	12/21	GDP Deflator	Q3	1.7%	1.7%	1.8%	
F	12/21	Personal Income	Nov	0.5%	0.3%	0.2%	Despite slow income growth, spending continued to support a healthy economy
F	12/21	Consumer Spending	Nov	0.6%	0.3%	0.4%	
F	12/21	Consumer Sentiment ♦	Dec	97.5	97.5	98.3	Sentiment grew reflecting strength in current conditions

Actual < Expected Actual > Expected ♦Leading Indicator

Market Activity

Indicator	Open	Close	ΔWeek	Δ3M
DJIA	24101	22445	-6.87%	-16.07%
S&P 500	2560.0	2416.6	-7.05%	-17.51%
USD*	97.44	96.96	-0.50%	2.90%
10-Year Treasury+	2.89%	2.79%	0.10%	-0.27%

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

Upcoming Releases

Date		Indicator	Period	Prev.	Exp.
Th	12/27	Initial Jobless Claims	12/22	214K	216K
Th	12/27	New Home Sales	Nov	544K	567K
Th	12/27	Consumer Confidence	Dec	135.7	133.5

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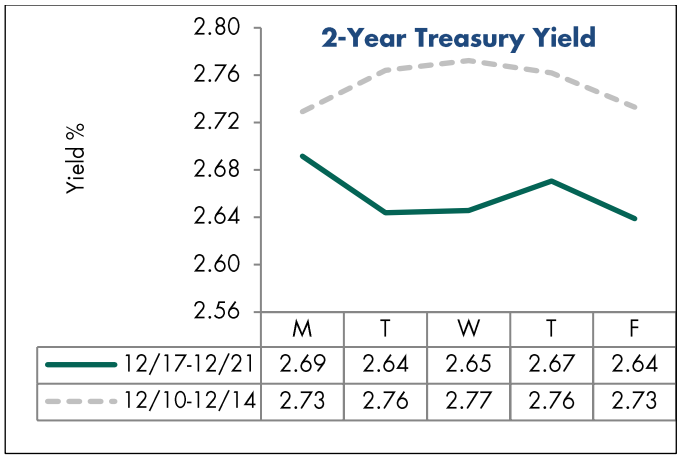
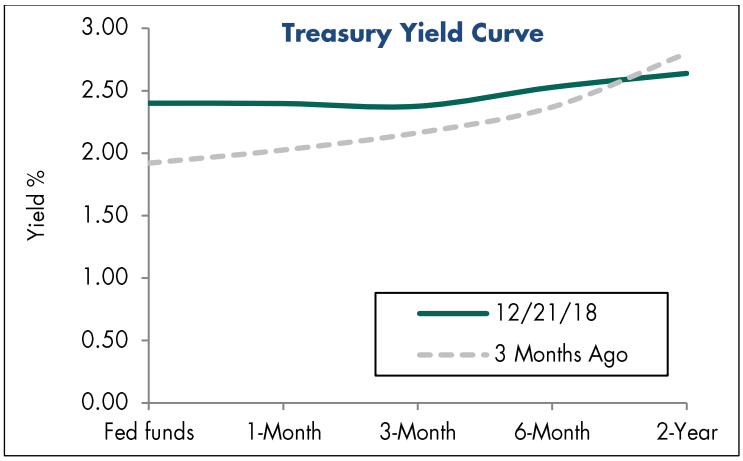
Yield Curve Highlights





Detailed Economic Releases

12/18/2018	Prev.	Exp.	Act.
Housing Starts	1.217M r↓	1.221M	1.256M
Building Permits	1.265M r↑	1.255M	1.328M

Starts and permits were above expectations for the month at 1.256M and 1.328M, respectively. Despite the increases, growth in both starts and permits stemmed from multi-family units, where construction costs are lower than in single-family units. While multi-family starts rose from 353K to 432K and permits rose from 418K to 480K, single-family starts fell from 864K to 824K and permits only rose slightly. In line with this trend, single-family completions fell significantly from 816K to 772K while multi-family completions rose from 279K to 327K.

Summary: This report is a positive for multi-family unit builders, but will not add much lift to the overall housing sector because of weakness in single-family units.

12/19/2018	Prev.	Exp.	Act.
Existing Home Sales	5.22M	5.19M	5.32M

Existing home sales were up by 1.9% to 5.32M, just above expectations. The three-month average is down slightly for the 7th consecutive month at 5.23M. Year-on-year sales are down 7.0%, the deepest contraction since May 2011. On the other hand, median prices rose 1.0% on the month and 4.2% on the year to $257.7K. Supply is down by 5.9% on the month at 1.740M.

Summary: Considering the negative trends in the housing market, this report is a positive with significant growth in home sales.

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12/19/2018	Prev.	Exp.	Act.
FOMC Announcement	2.00%-2.25%	2.25%-2.50%	2.25%-2.50%

The Federal Reserve raised rates to a range between 2.25% to 2.50% at their last policy meeting. However, the Reserve decreased its rate hike outlook in 2019 from three quarter point moves to two quarter point moves. The implied target is currently at 2.375% and the target median by the end of next year is at 2.9% compared to the 3.1% target set in September. The vote was unanimous with 9 votes in favor and 0 in opposition. One key change in the statement released is the downgrade in PCE estimates, down by 0.1% to 1.9% by the end of next year. In addition, the outside range for the target rate was cut from 4.1% to 3.6%. The Fed is continuing to unwind the balance sheet at $50 billion per month, with $30 billion for Treasuries and $20 billion for mortgage-backed securities.

Summary: The Fed raised rates for the fourth time in 2018 but cut expectations for rate hikes next year from three quarter rate increases to two quarter rate increases.

12/20/2018	Prev.	Exp.	Act.
Initial Jobless Claims	206K	220K	214K

Despite a slight increase from the previous week, initial jobless claims of 214K seem to have returned to historic lows following an increase in November. The four-week average is down for the second consecutive week at 220K. Continuing claims which is a lagging indicator by a week, however, rose by 27K after also rising the previous week by 25K. The increase brought the four-week average to its highest in three months at 1.673M.

Summary: The second consecutive drop in initial jobless claims suggests increasing payroll growth and at least reverses the trend of increasing claims seen in previous weeks' reports.

12/21/2018	Prev.	Exp.	Act.
GDP	3.5%	3.5%	3.4%
GDP Deflator	1.7%	1.7%	1.8%

The third estimate for third quarter GDP was slightly below the first two estimates at 3.4%. This was due to consumer spending growth coming in at 3.5% compared to 3.6%, residential spending at -3.6% compared to -2.6%, and unchanged business investment and government purchases. Net exports' negative contribution to GDP also increased from 191 to 199 basis points due to a decrease in exports, while inventories increased to contribute more to GDP. Overall, third quarter GDP reflected a strong economy and was mainly supported by consumer spending.

Summary: GDP components were slightly changed from the first and second revisions but remained a healthy indicator of the economy.

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12/21/2018	Prev.	Exp.	Act.
Personal Income	0.5%	0.3%	0.2%
Consumer Spending	0.8% r↑	0.3%	0.4%

Though personal income came in at a worse than expected 0.2%, consumer spending was above expectations at 0.4%. PCE and core PCE both rose by 0.1% on the month and both remain below the Federal Reserve's 2.0% target at 1.8% and 1.9%, respectively. Increased spending was supported by a 0.9% increase in durable goods, and a 0.2% increase in nondurables due to lower gasoline prices. Spending on services rose by 0.4%. On the income side, wages and salaries only rose by 0.2% and the savings rate fell by 0.1% to a still strong 6.0%.

Summary: Despite slightly lower income growth levels than expected, the report indicates healthy levels of consumer spending contributing to a strong economy.

12/21/2018	Prev.	Exp.	Act.
Consumer Sentiment	97.5	97.5	98.3

Consumer sentiment finished the month above expectations at 98.3, reflecting a four-point increase in current conditions to 116.1. However, expectations fell from 88.1 in November to 87.0 suggesting a less optimistic job outlook. Inflation readings are down with the year-ahead projection at 2.7% and the five-year projection at 2.5%.

Summary: The report suggests strong consumer spending, with current conditions gains offsetting decreases in expectations.

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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.

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

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