

## Top Headline: New ECB President Nominated

Christine Lagarde was nominated by European leaders last week to become president of the ECB when current president Mario Draghi's term ends October 31<sup>st</sup>. Lagarde has since relinquished her responsibilities as IMF Managing Director. Lagarde is expected to be dovish on monetary policy and to support Draghi's anticipated 10-15 basis point rate cut in September. The nomination will next be voted on by the European Parliament and euro zone finance ministers, though this is mostly a formality.

## Other News

Late last week British forces captured an Iranian tanker in Gibraltar on its path to Syria. This would have been a violation of European Union sanctions and marks the first time the U.K. has acted in response to such a violation. The move comes as Iran threatens a second violation of the 2015 nuclear accord despite remaining members' attempts to keep the pact alive.

## On Tap This Week

The week is highlighted by the release of CPI and PPI numbers.

## Past Week's Releases

Date	Indicator	Period	Prev.	Exp.	Act.	Comment
M 7/1	ISM Mfg Index	Jun	52.1	51.0	51.7	New orders accounted for the greatest weakness in the report
M 7/1	Construction Spending	May	0.4% r↑	0.0%	-0.8%	Spending was down unexpectedly, with residential spending mostly responsible
W 7/3	International Trade	May	\$51.2B r↑	\$54.0B	\$55.5B	Despite increases in exports, the deficit grew due to trade conflicts
W 7/3	Initial Jobless Claims ♦	6/29	229K r↑	223K	221K	Claims were reflective of a healthy demand for labor
W 7/3	ISM Non-Mfg Index	Jun	56.9	55.9	55.1	Data was healthy despite decreases month-on-month
F 7/5	Nonfarm Payrolls	Jun	72K r↓	162K	224K	Payrolls exceeded expectations with the unemployment rate up due to increased participation
F 7/5	Unemployment Rate	Jun	3.6%	3.6%	3.7%	

Actual < Expected

Actual > Expected

♦ Leading Indicator

## Market Activity

Indicator	Open	Close	ΔWeek	Δ3M
DJIA	26600	26922.1	1.21%	1.88%
S&P 500	2941.8	2990.4	1.65%	3.38%
USD*	96.1	97.3	1.20%	-0.11%
10-Year Treasury <sup>+</sup>	2.01%	2.03%	0.03%	-0.46%

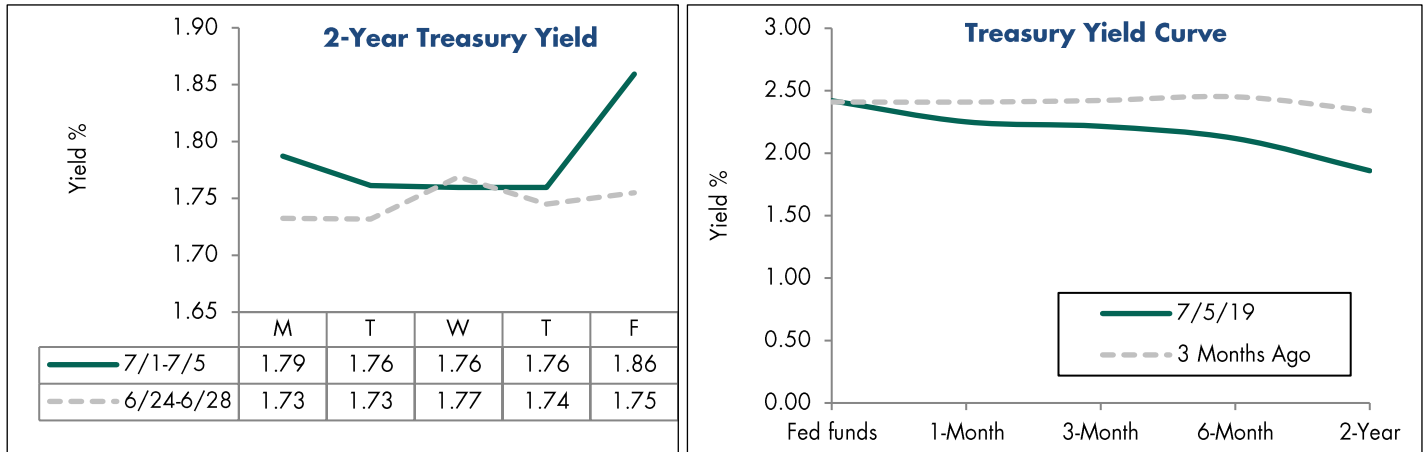
## Upcoming Releases

Date	Indicator	Period	Prev.	Exp.
Th 7/11	CPI	Jun	0.1%	0.0%
Th 7/11	Core CPI	Jun	0.1%	0.2%
Th 7/11	Initial Jobless Claims ♦	7/6	221K	221K
F 7/12	PPI	Jun	0.1%	0.1%
F 7/12	Core PPI	Jun	0.2%	0.2%

\*ICE U.S. Dollar Index Spot Price

<sup>+</sup>Absolute change in yield over specified period

## Yield Curve Highlights



## Detailed Economic Releases

7/1/2019	Prev.	Exp.	Act.
ISM Mfg Index	52.1	51.1	51.7

Though the index fell month-on-month it did not fall by much, and still came in above expectations at 51.7. However, the reading is still near a three-year low, with the new orders component near a four-year low, down more than 2 points to 50.0. Input costs, backlog orders, and inventories were down, with delivery times improving. While import buying was flat, export orders barely moved at 50.5. Sample survey respondents cited tariff effects and the aerospace sector as main concerns. Meanwhile, strength in the report came from production at 54.1 and employment at 54.5.

**Summary: The report is not encouraging despite strength in production and employment, as new orders along with numerous other indicators were down.**

7/1/2019	Prev.	Exp.	Act.
Construction Spending	0.4% r↑	0.1%	-0.8%

Construction spending was down an unexpected amount for May and below expectations by 0.9%. The report is an early indicator of lower second-quarter GDP estimates. Residential spending was down 0.6% in May, marking the fifth consecutive monthly decline, and reflecting an 11.2% drop year-on-year. Consumer discretionary spending was also down 22.0% on the year, due to falling scale and frequency of home improvements. One strength, however, is in new multi-family homes, which were up 9.3%. Public spending continued to provide support for the report, though there were signs of weakness in highway and streets and no change in educational building. Private nonresidential spending was also down 0.1% from May.

**Summary: Construction was down on most fronts, with both residential and nonresidential spending down.**

7/3/2019	Prev.	Exp.	Act.
International Trade	\$51.2B r↑	\$53.5B	\$55.5B

The deficit increased to \$55.5B largely due to trade conflict with China, as China's deficit widened from \$26.9B in April to \$30.2B in May. Despite the increase, exports did increase by 2.0% to \$210.6B, with service exports up 0.5% and goods exports up 2.8%. However, imports also rose by 3.3%. Food exports and imports fell in May.

**Summary: The deficit jumped significantly, largely due to trade conflict with China.**

7/3/2019	Prev.	Exp.	Act.
Initial Jobless Claims	229K r↑	220K	221K

Initial claims were roughly in line with expectations, with the four-month average higher at 222,250. Continuing claims in lagging data however, were down to 1.686M with this four-week average also lower.

**Summary: Strength in jobless claims data are a positive indicator for the upcoming employment report.**

7/3/2019	Prev.	Exp.	Act.
ISM Non-Mfg Index	56.9	55.8	55.1

Despite having fallen over the month, the ISM Non-Mfg level of 55.1 is still strong. Though new orders and employment fell on the month by 3 points each, their respective levels of 55.8 and 55.0 are both healthy. Business activity was also strong at 58.2 despite also being down 3 points.

**Summary: Non-manufacturing data remained strong despite weaknesses in other areas of the economy.**

7/5/2019	Prev.	Exp.	Act.
Nonfarm Payrolls	72K r↓	165K	224K
Unemployment Rate	3.6%	3.6%	3.7%

Strength in the report weakens the case for a rate cut, as nonfarm payrolls added far exceeded the high end of expectations at 224K, while the unemployment ticked up to 3.7%. Strength in payrolls came from a 17K increase in manufacturing, a 51K increase in professional and business services, and a 33K increase in government. Additionally, though the unemployment rate edged higher from 3.6% to 3.7%, it was due to an increase in the labor force participation rate, from 62.8% to 62.9%. Though the wage rate only rose at a monthly rate of 0.2%, it also followed an upward revision to last month's wage rate growth to 0.3%, bringing the year-on-year rate to 3.1%. This rate was still below expectations.

**Summary: The employment report should reassure the Fed that demand for labor is strong given increases in the participation rate and widespread increase in payrolls.**

## About Us

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