

Top Headline: Diverging Data

Economic data from the past week painted a picture of diverging outlook in the near vs. the medium term. Backwards looking data remains relatively robust, as evidenced by consumer inflation and retail sales figures for July. Both beat expectations, signaling that consumer spending remains at healthy levels. This is further reflected in early forecasts for third quarter growth, which lie around the 2% mark. On the other hand, forward looking indicators paint a less rosy picture. Financial market volatility has risen, and consumer sentiment took a plunge after the announcement of further U.S. tariffs on Chinese goods. Furthermore, the significant contraction in manufacturing output in July suggests that the trade uncertainty is weighing heavily on business investment. Should this bleed over into consumer spending, it may force the Fed to be more aggressive in easing policy.

Other News

Germany experienced a 0.1% contraction in output during the second quarter, setting up the stage for a potential technical recession. The country saw a large decline in exports during the quarter, which have in turn raised doubts on its core automotive and industrial industries. In response, the government is preparing a fiscal stimulus package to potentially be implemented if the economy enters a deep recession. Furthermore, the decline in the Eurozone's largest economy has increased pressure on the ECB to restart policy easing. With deposit rates currently at -0.4%, it remains to be seen whether the ECB will cut rates further, restart QE, or some combination of the two.

On Tap This Week

This upcoming week is highlighted by CPI, manufacturing and retail sales data

Past Week's Releases

Date	Indicator	Period	Prev.	Exp.	Act.	Comment
T 8/13	CPI	Jul	0.1%	0.2%	0.3%	Consumer inflation beats expectations, core CPI at 2.2% y-o-y
T 8/13	Core CPI	Jul	0.3%	0.2%	0.3%	
Th 8/15	Initial Jobless Claims ♦	8/10	211K r↑	208K	220K	Claims remain at low levels
Th 8/15	Retail Sales	Jul	0.3% r↓	0.3%	0.7%	Retail sales were universally strong, signaling healthy consumer spending
Th 8/15	Industrial Production	Jul	0.2% r↑	0.1%	-0.2%	Manufacturing production fell by 0.4%, investment weakening
F 8/16	Housing Starts ♦	Jul	1241K r↓	1259K	1191K	Starts and permits move in opposite directions
F 8/16	Housing Permits ♦	Jul	1232k r↑	1270K	1336k	
F 8/16	Consumer Sentiment ♦	Aug	98.4	97.5	92.1	Tariff announcement weakens consumer confidence

Actual < Expected

Actual > Expected

♦ Leading Indicator

Market Activity

Indicator	Open	Close	ΔWeek	Δ3M
DJIA	26287	25886	-1.53%	0.09%
S&P 500	2918.7	2888.7	-1.03%	0.43%
USD*	97.5	98.1	0.67%	0.22%
10-Year Treasury ⁺	1.75%	1.55%	-0.20%	-0.79%

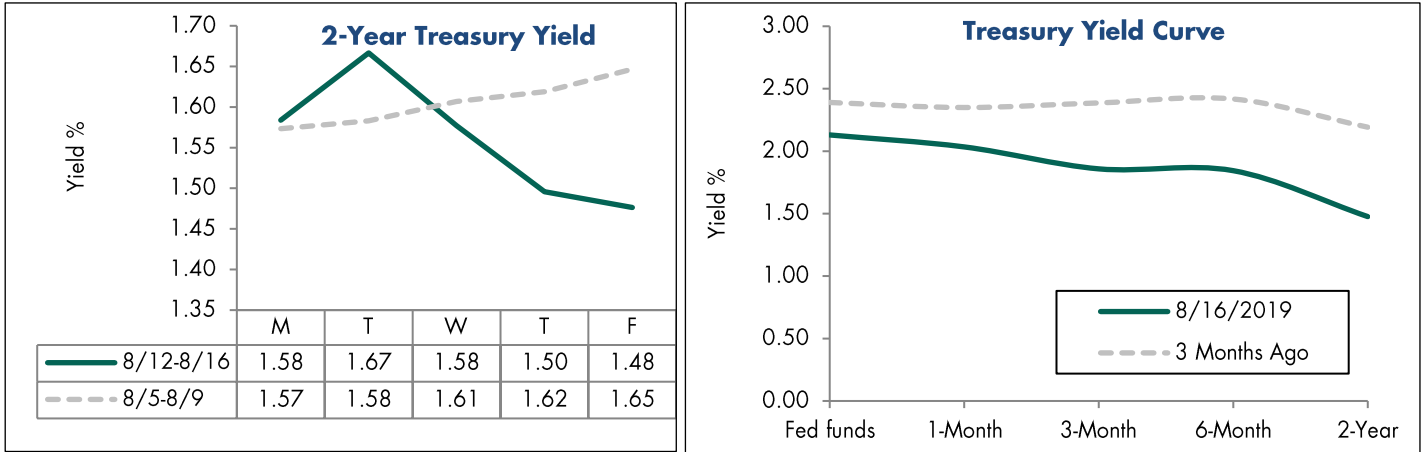
*ICE U.S. Dollar Index Spot Price

⁺Absolute change in yield over specified period

Upcoming Releases

Date	Indicator	Period	Prev.	Exp.
T 8/13	CPI	Jul	0.1%	0.3%
T 8/13	Core CPI	Jul	0.3%	0.2%
Th 8/15	Initial Jobless Claims ♦	8/10	209K	213K
Th 8/15	Retail Sales	Jul	0.4%	0.3%
Th 8/15	Industrial Production	Jul	0.0%	0.1%
F 8/16	Housing Starts ♦	Jul	1253K	1255K
F 8/16	Housing Permits ♦	Jul	1220K	1270K
F 8/16	Consumer Sentiment ♦	Aug	98.4	97.0

Yield Curve Highlights



Detailed Economic Releases

8/13/2019	Prev.	Exp.	Act.
CPI	0.1%	0.2%	0.3%
Core CPI	0.3%	0.2%	0.3%

CPI and Core CPI indexes were above expectations at 0.3%. The core rate was up to 2.2% year-on-year, in part due to recent pressure in apparel prices. Housing and medical care, which are the two key components of the core measurement, were also up by 0.3% and 0.5%, respectively. Meanwhile, energy rose by 1.3% on the month and food prices were flat for the month. Overall, headline CPI is at 1.8% year-over-year.

Summary: Consumer inflation surprised to the upside, bolstered by housing, medical, and energy prices.

8/15/2019	Prev.	Exp.	Act.
Initial Jobless Claims	211K ↑	208K	220K

Jobless claims were above expectations of 208K at 220K, bringing up the four-week average to 213,750, which is still in line with mid-June levels. Continuing claims rose by 9K with this four-week average higher at 1.697M.

Summary: Claims remain consistent with a strong labor market.

8/15/2019	Prev.	Exp.	Act.
Retail Sales	0.3% r↓	0.3%	0.7%

Retail sales and sales less autos and gas were both above expectations at 0.7% and 0.9%, respectively. Auto sales fell by 0.6% on the month, and health store sales were stagnant. Outside of these, results were uniformly positive; nonretailers saw a third consecutive month of 2%+ sales growth, and department stores saw a 1.2% jump in sales. Additionally, gas stations benefited from higher prices, seeing their sales rise by 1.8%, and restaurant sales were up 1.1%. Both speak positively to consumers' discretionary spending levels.

Summary: Retail sales were surprisingly strong for the month, with both non-store and department retailers posting impressive results.

8/15/2019	Prev.	Exp.	Act.
Industrial Production	0.2% r↑	0.1%	-0.2%

Industrial output came in at the low end of analysts' expectations for July, contracting by 0.2%. Manufacturing production, the heart of the report, posted especially poor results, falling by 0.4%. Construction supplies fell by 1.0%, and business equipment production fell by 0.4%. Both signal a potential waning of business investment, confirming results seen in the ISM surveys. Outside of manufacturing, mining output fell 1.8%, and utility output rose by 3.1%.

Summary: Manufacturing output contracted by 0.4% in July, confirming the downward trend seen in the ISM surveys. The report suggests that business investment continues to weaken as the trade war ramps up even further.

8/16/2019	Prev.	Exp.	Act.
Housing Starts	1241K r↓	1259K	1191K
Housing Permits	1232K r↑	1270M	1336K

Starts fell below expectations following a downward revision to last month's report. Multi-family units saw a sharp drop to a 315,000 annual rate, a 2.8% year-over-year contraction, while single-family homes were also soft. Permits, on the other hand, saw a marked increase, rising from a 1232K to a 1336K annualized pace. Strength in permits were widespread, with multi-family homes seeing a jump to a 498,000 rate (up 11.9% year-over-year), and single-family homes seeing a solid gain to an 838,000 rate. Outside of this, completions also rose by 7.2% in July, increasing to supply available for buyers.

Summary: Starts and permits moves in opposite directions during July, with starts sagging while permits accelerated.

8/16/2019	Prev.	Exp.	Act.
Consumer Sentiment	98.4	97.5	92.1

A ramp up in trade tensions sent consumer sentiment spiraling downwards, with the reading of 92.1 in the preliminary August survey being the lowest since the government shutdown. Tariffs were cited by nearly a third of respondents as the primary reason for lower confidence in the outlook. Current conditions fell by 3 points from the July end survey to 107.4, while the expectations component declined by 8 points to 82.3.

Summary: Sentiment weakened on the back of the announcement of additional tariffs against China.

About Us

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