

Top Headline: Federal Reserve Cuts Interest Rate

The Federal Reserve cut rates for the first time since 2008 by 25 basis points, to a range between 2.00% and 2.25%. Additionally, the Fed ended quantitative tightening two months early, halting runoff of its \$3.8 trillion asset portfolio. Powell's message was noncommittal, as he neither endorsed nor ruled out the beginning of an easing cycle.

Other News

In a move that further escalated tensions, the Trump administration imposed sanctions on Iranian Foreign Minister Javad Zarif as a consequence of what the U.S. calls unacceptable provocations by Iran. Sanctions freeze the minister's assets in the U.S. and prevent him from traveling across U.S. borders. Most importantly, sanctions will impede Zarif's ability to conduct diplomatic relations with the U.S.

On Tap This Week

The week is highlighted by producer price index data as well as continuing earnings releases.

Past Week's Releases

Date	Indicator	Period	Prev.	Exp.	Act.	Comment
T 7/30	Personal Income	Jun	0.4% r↓	0.4%	0.4%	The report is mixed, though spending appears to be on a downward trend
T 7/30	Consumer Spending	Jun	0.5% r↑	0.3%	0.3%	
T 7/30	Consumer Confidence ♦	Jul	124.3 r↑	125.0	135.7	The indicator reached its highest level in years
W 7/31	FOMC Meeting	N/A	2.25-2.5%	2.0%-2.25%	2.0%-2.25%	The Fed cut rates for the first time since 2008 and ended quantitative tightening early
Th 8/1	Initial Jobless Claims ♦	7/27	207K r↑	214K	215K	Low claims reflect a healthy labor market
Th 8/1	ISM Mfg Index	Jul	51.7	52.0	51.2	Most components were down, as the index continues to weaken
Th 8/1	Construction Spending	Jun	-0.5% r↑	0.3%	-1.3%	Spending fell and was pulled down by most components in the report
F 8/2	Nonfarm Payrolls	Jul	193K r↓	165K	164K	The report was mixed, with government payrolls responsible for strength in payroll gains. The participation rate increased
F 8/2	Unemployment Rate	Jul	3.7%	3.7%	3.7%	
F 8/2	International Trade	Jun	\$55.3B r↓	\$54.6B	\$55.2B	Imports and exports both contracted
F 8/2	Consumer Sentiment ♦	Jul	98.4	98.4	98.4	Expectations and current conditions were mostly unchanged

Actual < Expected

Actual > Expected

♦ Leading Indicator

Market Activity

Indicator	Open	Close	ΔWeek	Δ3M
DJIA	27192.5	26485.0	-2.60%	-0.08%
S&P 500	3025.9	2932.1	-3.10%	-0.46%
USD*	98.0	98.1	0.07%	0.57%
10-Year Treasury*	2.07%	1.85%	-0.23%	-0.70%

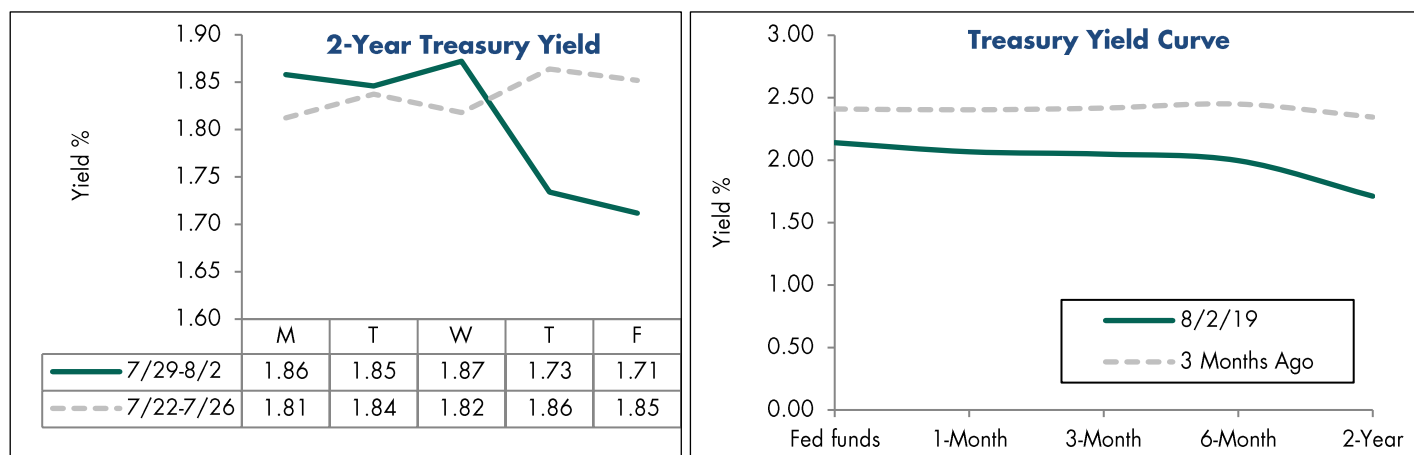
Upcoming Releases

Date	Indicator	Period	Prev.	Exp.
M 8/5	ISM Non-Mfg Index	Jul	55.1	55.5
W 8/7	Consumer Credit ♦	Jun	\$17.1B	\$16.0B
Th 8/8	Initial Jobless Claims ♦	8/3	215K	215K
F 8/9	PPI	Jul	0.1%	0.2%
F 8/9	Core PPI	Jul	0.3%	0.2%

*ICE U.S. Dollar Index Spot Price

*Absolute change in yield over specified period

Yield Curve Highlights



Detailed Economic Releases

7/30/2019	Prev.	Exp.	Act.
Personal Income	0.4% r↓	0.3%	0.4%
Consumer Spending	0.5% r↑	0.3%	0.3%

Despite income and spending being in line with or above expectations, spending growth was down this month from 0.6% in April and 0.5% in May to 0.3% in June. This downward spending trend is reflected both in goods and services. PCE and core PCE were in line with expectations at 0.1% and 0.2%, though the core PCE year-on-year rate did increase by 0.1% to 1.6% on the back of a 0.1% downward revision in the previous month. With respect to income levels, the wages and salaries component of the score jumped 0.5%, though this follows weaker gains of 0.2% and 0.1% in the previous two months. The savings rate was also up 0.1% to 8.1%.

Summary: The report is mixed, with the PCE index showing a slight boost in the year-on-year inflation rate, though consumer spending reflects a downward trend.

7/30/2019	Prev.	Exp.	Act.
Consumer Confidence	124.3 r↑	125.0	135.7

Consumer confidence reached its highest level in years thanks to a healthy July jobs report. The indicator of those seeing jobs as 'hard to get' was down by 3.0% to 12.8%, while the indicator of those seeing jobs as plentiful rose by 2.2% to 46.2%. Business conditions saw some improvement, while the slice of consumers expecting rising incomes grew by 4.2% to 24.7%. Despite these positives, inflation expectations were down 0.4% to 4.7%.

Summary: Inflation expectations came in weaker, despite consumer confidence hitting its highest level in years.

7/31/2019	Prev.	Exp.	Act.
FOMC	2.25%-2.5%	2.00%-2.25%	2.00%-2.25%

The Fed's rate cut to a range between 2.00% to 2.25% was the biggest change in the FOMC's policy meeting statement, while much of the language remained the same. The jobs market was still considered to be strong and economic growth continued to be described as moderate. However, Powell cited global developments as the reason for a switch from neutral to accommodative policy. Muted inflation was also referenced as a reason for the cut. The FOMC also ended quantitative tightening two months early, as the Fed will now fully reinvest maturing Treasuries and mortgage-backed securities on its balance sheet. The statement did not give clear direction on future policy moves but reiterated that data will continue to be monitored closely.

Summary: The FOMC cut rates by 25 basis points and ended quantitative tightening two months early.

8/1/2019	Prev.	Exp.	Act.
Initial Jobless Claims	207K r↑	214K	215K

Claims remained low and in line with a strong demand for labor. Four-week average claims came in at a healthy level of 211.5K. Continuing claims rose by 22K for the month while the four-week average was up slightly at 1.698M.

Summary: Low levels of initial and continuing claims point to strong demand for labor.

8/1/2019	Prev.	Exp.	Act.
ISM Mfg Index	51.7	51.9	51.2

The ISM manufacturing index fell from 51.7 last month 51.2 for the current month, indicating only slight growth in manufacturing production. The index has fallen from 60.8 in August of last year. While new orders did rise by 0.8%, production growth slowed by 3.3 points to 50.8 and employment slowed by 2.8 points to 51.7. The prices paid index has also been a consistent negative with slowdowns in raw material prices, the indicator down 2.8 points to 45.1.

Summary: The ISM manufacturing index gave support to the Fed's decision to cut rates, as the index fell on the month and is now down from 60.8 to 51.2 on the year.

8/1/2019	Prev.	Exp.	Act.
Construction Spending	-0.5% r↑	0.3%	-1.3%

Construction spending fell by 1.3% in June, falling below the low end of the consensus range and bringing the year-on-year drop to minus 2.1%. While public spending had been a bright spot in the report in previous months, spending for both educational building and highways & streets was down in June. Nevertheless, year-on-year rates for these components remain positive. Meanwhile, private nonresidential construction was down 0.4% on the year, with June contributing to that decline. Manufacturing was up on the year by 10.5% supported by 0.5% growth in June, while commercial building was down 12.0% on the year. Residential construction continued to pull the report down as spending was down 8.1% on the year. The monthly decline was due to contractions in single-family construction which offset strength in multi-family construction.

Summary: Spending was down on the month and on the year, raising questions on the sustainability of foreign investment levels and on whether the global slowdown is factoring into this decline.

8/2/2019	Prev.	Exp.	Act.
Nonfarm Payrolls	193K r↓	151K	164K
Unemployment Rate	3.7%	3.6%	3.7%

Despite the headline number of 164K beating expectations of 151K, the breakdown of underlying payrolls data paints a less positive picture. Higher government spending contributed to an additional 16K in government payrolls, meaning that private payrolls only rose by 148K which leaves it below expectations. Manufacturing hours per week also declined from 40.7 hours in June to 40.4 hours in July. On the positive side, average hourly earnings were up by 0.3% meeting the top end of expectations, with June's average hourly earnings growth also revised upward by 0.1%. Additionally, the pool of available workers fell by almost 200K in the month to 11.1M. By sector, manufacturing, business services, and financial activities added 16K, 38K and 18K, respectively, while retail fell by 4K.

Summary: Government payrolls contributed significantly to payroll gains, though the labor market did tighten as reflected by a higher participation rate.

8/2/2019	Prev.	Exp.	Act.
International Trade	\$55.3B r↓	\$54.7B	\$55.2B

Imports and exports contracted by 1.7% and 2.1%, respectively, contributing to a slight improvement in the trade deficit. Exports of both goods and services fell this month, while imports of goods decreased and imports of services were up. The deficit for goods trade with China was down from \$30.2B to \$30.0B on the month, and the deficit with Mexico was up from \$9.6B to \$9.9B. Exports of consumer goods were the weakest link, down \$1.9B to \$16.2B, while exports of capital goods were down \$1.2B to \$44.9B. Meanwhile, exports of agricultural products were up to \$12.1B. As for imports, oil price effects caused a \$3.2B decline in industrial supplies and consumer goods fell by \$0.9B.

Summary: Contractions in both imports and exports provide support for the Fed's reasoning to cut rates. If this continues, it could provide further support for monetary easing.

8/2/2019	Prev.	Exp.	Act.
Consumer Sentiment	98.4	98.4	98.4

Consumer expectations recovered by 1.2 points in July after falling 4.2 points in June given trade uncertainties. Current conditions were steady at 110.7 and have remained mostly unchanged over the last few months. Inflation expectations, meanwhile, were up 0.2% for the year-ahead outlook to 2.5% but down 0.1% to 2.6% for the five-year outlook.

Summary: Consumer expectations and current conditions were steady, supporting the unchanged indicator.

About Us

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