



VIP

Virginia Investment Pool  
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## TheECONOMY

### Don't Rock the Boat

The U.S. economy has shown clear signs of accelerating in the second quarter. Tighter labor market conditions have given way to firmer consumer spending and elevated confidence. Recent tax cuts are also working their way through the financial system, providing a significant tailwind that may drive growth through the second half of 2018. Economists project the economy to have grown 3.0% in the second quarter, up from 2.0% the prior quarter.

The June employment report showed continued strength with payrolls increasing by 213,000. Although an increase in the participation rate caused the unemployment rate to tick up from 3.8% to 4.0%, this may reflect the economy's ability to grow at an above-trend pace without generating inflationary pressure. To wit, inflation metrics have only recently hit the Federal Reserve's 2.0% inflation target.

Minutes from the June FOMC meeting reflect confidence in the economy and progress towards stated inflation objectives. The committee appears comfortable with its intention to gradually raise the Federal funds target rate over the next year or two. The Fed is clearly cognizant that long periods of accommodative monetary policy have historically led to excessive risk taking and leverage, typically ending poorly when conditions are eventually normalized.

A central theme to most economic forecasts is the growing risk of a trade war with China. On July 6, 2018, the U.S. implemented significant tariffs on goods imported from China. This was immediately and equally reciprocated by the Chinese. While the markets are currently discounting the odds of an all-out trade war between the U.S. and its largest trading partners, elevated tensions are likely to persist for the foreseeable future. With the U.S. economy performing well, many market participants are imploring President Trump to not "rock the boat."

### Treasury Yields

MATURITY	7/6/18	6/6/18	CHANGE
3 -Month	1.910%	1.933%	-0.023%
6 -Month	2.105%	2.118%	-0.014%
1 -Year	2.303%	2.296%	0.008%
2 -Year	2.537%	2.516%	0.020%
3 -Year	2.630%	2.650%	-0.020%
5 -Year	2.718%	2.809%	-0.091%
10 -Year	2.822%	2.972%	-0.150%
30 -Year	2.929%	3.122%	-0.192%

Source: Bloomberg

### Agency Yields

MATURITY	7/6/18	6/6/18	CHANGE
3 -Month	1.918%	1.966%	-0.048%
6 -Month	2.033%	2.037%	-0.004%
1 -Year	2.183%	2.181%	0.002%
2 -Year	2.610%	2.587%	0.023%
3 -Year	2.714%	2.717%	-0.003%
5 -Year	2.841%	2.907%	-0.066%

Source: Bloomberg

### Commercial Paper Yields (A-1/P-1)

MATURITY	7/6/18	6/6/18	CHANGE
1 -Month	2.050%	1.930%	0.120%
3 -Month	2.250%	2.220%	0.030%
6 -Month	2.420%	2.420%	0.000%
9 -Month	2.610%	2.580%	0.030%

Source: Bloomberg

### Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q1 '18	2.00%
US Unemployment	Jun '18	4.00%
ISM Manufacturing	Jun '18	60.2
PPI YoY	May '18	4.10%
CPI YoY	May '18	2.80%
Fed Funds Target	Jul 2018	1.75% - 2.00%

Source: Bloomberg

*Data unaudited. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information above is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.*