



TheECONOMY

The High-Flying U.S. Economy and a Soft Landing

Due to a combination of factors, the United States economy is currently the envy of the world; however, for the Federal Reserve Governors, such strength also gives pause. The Governors are currently wrestling with how long and how much growth can or should continue and how much support is appropriate. The economy is operating near full capacity, jobless claims are near historic lows, and the combined benefits of the tax cut and resolution of trade agreements will support continued growth. Unfortunately, the good times cannot last forever.

As developing economies follow Turkey and Argentina into recession and China and Western Europe experience comparatively slower growth, global investors are seeking strong and safe returns. The recently signed US-Mexico-Canada Agreement (that replaced NAFTA) could also lead to increased investment or demand for U.S. dollars, thereby widening the gap between the currencies of trading partners. Ultimately, this could expand the trade deficit and, because oil is priced in dollars, increase the price of oil. In a worst-case scenario, inflation would be up, and economic growth would eventually be down.

The Fed is seeking to head off such a scenario by moderating growth and bringing the economy in for a soft landing. The Fed's current consensus calls for one more rate hike in December of 2018 with an additional three expected in 2019. Additionally, the benefit of the tax cut is expected to be fully absorbed by the second half of 2019. Policies that have weighed on international economies should moderate, and global economic convergence should occur.

Due to the Fed's reliance on economic indicator data, the market will have some visibility in advance of any potential actions.

Treasury Yields

MATURITY	10/9/18	9/10/18	CHANGE
3-Month	2.213%	2.125%	0.088%
6-Month	2.421%	2.304%	0.117%
1-Year	2.617%	2.512%	0.105%
2-Year	2.885%	2.711%	0.174%
3-Year	2.979%	2.778%	0.202%
5-Year	3.056%	2.823%	0.233%
10-Year	3.206%	2.931%	0.275%
30-Year	3.369%	3.081%	0.288%

Source: Bloomberg

Agency Yields

MATURITY	10/9/18	9/10/18	CHANGE
3-Month	2.244%	2.166%	0.078%
6-Month	2.367%	2.258%	0.109%
1-Year	2.537%	2.433%	0.104%
2-Year	2.936%	2.763%	0.173%
3-Year	3.022%	2.831%	0.191%
5-Year	3.157%	2.934%	0.223%

Source: Bloomberg

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

MATURITY	10/9/18	9/10/18	CHANGE
1-Month	2.250%	2.080%	0.170%
3-Month	2.390%	2.260%	0.130%
6-Month	2.580%	2.470%	0.110%
9-Month	2.730%	2.610%	0.120%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q2 '18	4.20%
US Unemployment	Sep '18	3.70%
ISM Manufacturing	Sep '18	59.80
PPI YoY	Sep '18	3.00%
CPI YoY	Sep '18	2.30%
Fed Funds Target	Oct. 12, 2018	2.00% - 2.25%

Source: Bloomberg