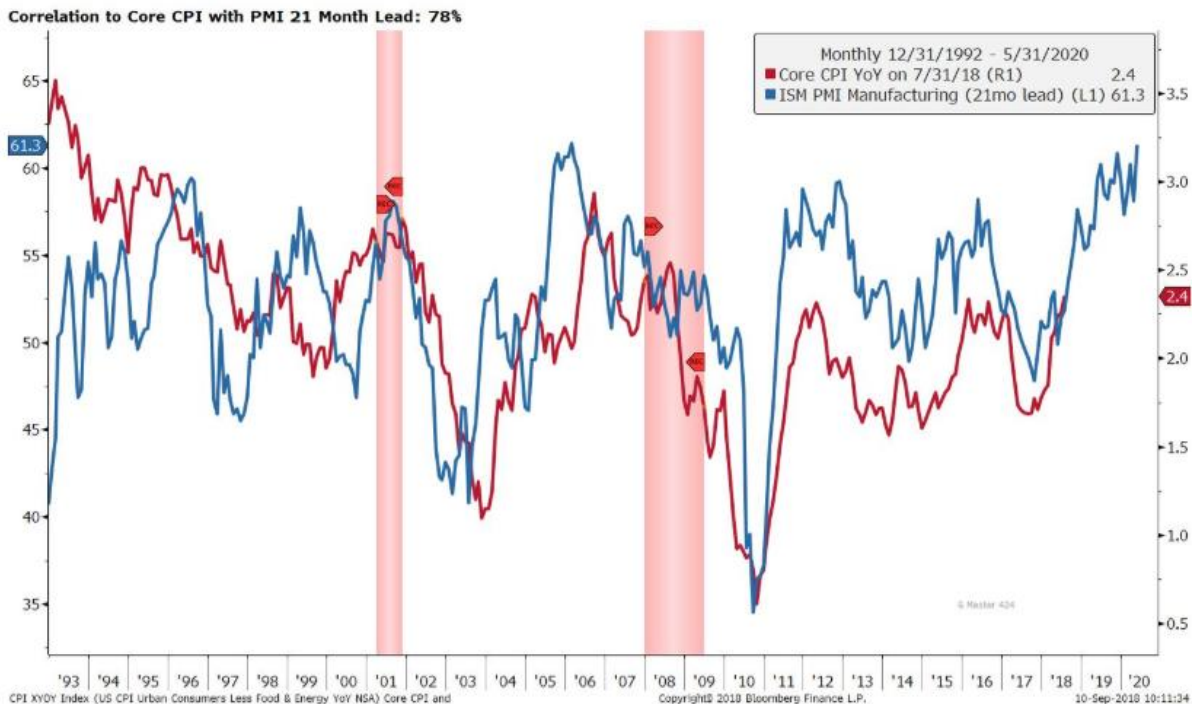


Hello everyone,

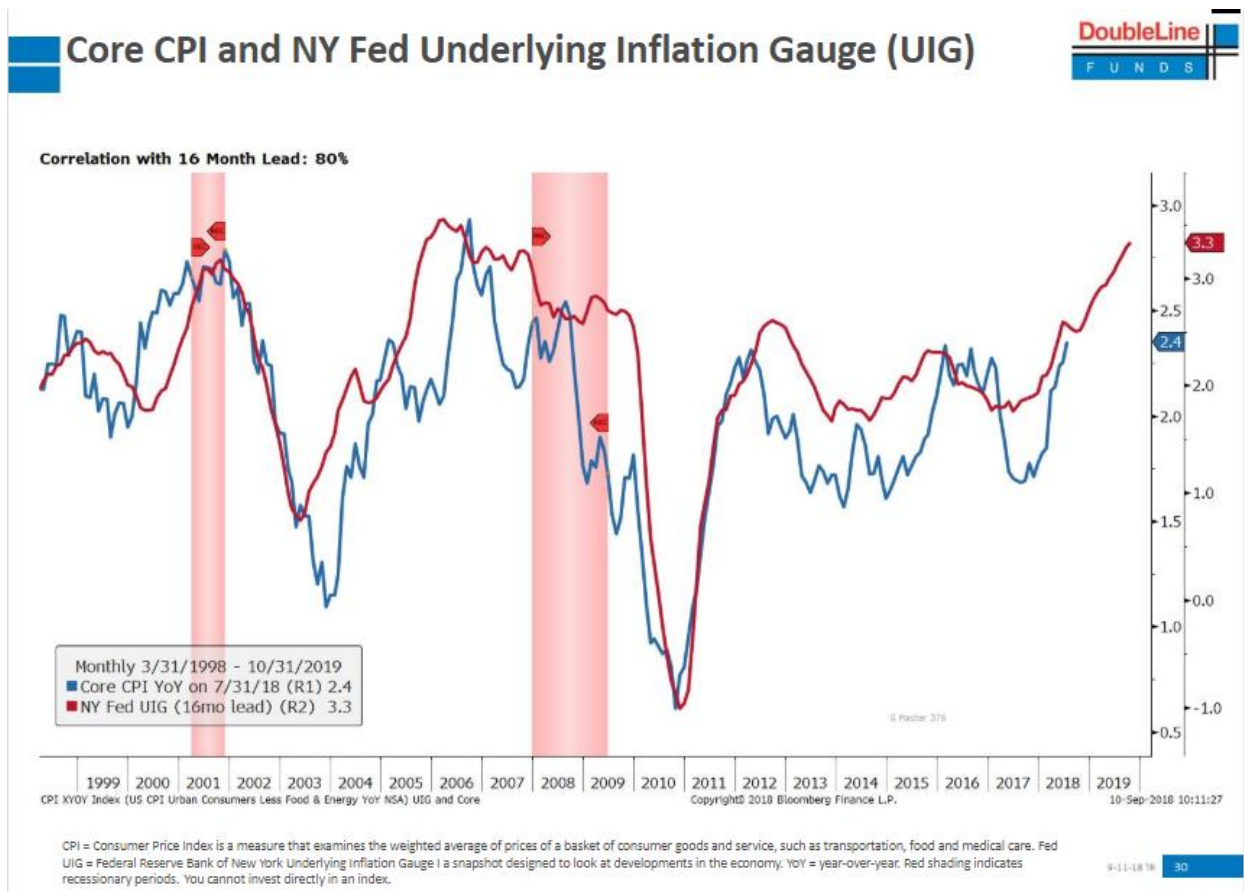
Here is a little follow-up information for you to shed some light on the facts (the numbers as opposed to the noise) regarding the tariff situation. So how much is \$250 billion in tariffed goods? A great deal if you read the headlines but maybe not as much as you might have feared. \$200 billion at 10% and \$50 billion at 25% is \$32.5 billion total in tariff penalties on imported Chinese goods. If one assumes that all companies pass on all tariffs onto consumers and there are not any knock-on effects (big assumption there), the impact of the tariffs may not actually be that significant. \$32.5 billion divided by \$18.6 trillion (2016 US GDP) is 0.175%. Spread across the entire US economy 17-18 bps is indeed significant but well within any month's standard fluctuation. Given that the US economy grew at a tremendous rate in the first half of the year, tariffs on Chinese goods are unlikely to be felt by the average consumer or business owner. Trade turmoil may well get worse so it is tough to say what the overall impact will end up being but at any rate, take solace in the fact that what has been implemented thus far is unlikely to tilt the scale of the global economy.

Inflation is definitely back in the US with most measures of core CPI now hovering around 2.5%. Despite some modestly lower inflation readings last week, inflation continues its trend higher. Two leading indicators identified by Jeff Gundlach, CEO of DoubleLine Capital, suggest that inflation should continue this trend higher over the next two years. The first is ISM PMI Manufacturing with a 21 month lead (0.78 correlation) and the second is NY Fed Underlying Inflation Gauge with an 18 month lead (0.80 correlation). Both would visually suggest 3% inflation figures out into 2019.

ISM PMI and Core CPI (YoY)



CPI = Consumer Price Index is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. PMI = Purchase Managers Index (PMI) is an indicator of the economic health of the manufacturing sector based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. YoY = year-over-year. Red shading indicates recessionary periods. You cannot invest directly in an index.



Source: DoubleLine Capital

Please don't hesitate to call or email with any inquiries or requests.

Jonathan