

February 2019**Economists Project Fed Funds to Peak with One Final Rate Hike in 2019**

The February Bloomberg Survey of Economists shows little change to economists' expectations with economic growth slowing and the Fed concluding its rate-hike cycle this year.

While most categories of growth were only fractionally changed in the February Survey, a notable outlier was the outlook for private investment. Incidentally, the outlook for private investment declined sharply in the December survey, likely the result of growing fears of a trade war. As those fears have eased, the outlook for private investment, particularly business investment, has been ratcheted higher. Private investment projections were raised 0.5% for 2Q19 (+4.0% QoQ, SAAR) and 0.4% for 4Q19 and 1Q20 (+3.2% and +3.1%, respectively). For all of 2020, private investment is now expected to expand 3.0%, up from 2.6% in the January survey. The improved outlook for investment resulted in 2020 GDP expectations being revised up 0.1% to 2.0%.

While the outlook for investment improved, overall GDP growth is still expected to slow from 3.0% in 2018, to 2.5% in 2019, to 2.0% in 2020, and 1.8% in 2021. Headline and core inflation expectations continue to hover near 2.0%. Core PCE inflation, the Fed's preferred measure of price gains, is projected to increase at a rate of 2.0% in 2019 and 2.1% in 2020, both unchanged in the February survey. Economists did, however, notch their job growth forecasts higher after January's impressive payroll report showing 304k new jobs added during the month. Economists now expect total payroll growth to average 172k per month in 2019, revised up from 159k. Payroll growth is expected to slow to 130k per month in 2020, also revised higher from 118k in the January survey.

Most interesting is the outlook for interest rates. Economists, in aggregate, believe the top is in for the 10-year Treasury yield, that the 2-year yield will peak in 2Q20, and that the Fed's terminal rate hike (for this cycle) will take place in the final quarter of this year. As of the January survey, economists expected the Fed to hike in 2Q19 and 4Q19. Now, however, economists only expect one hike in 2019 and are split over whether it will happen in 3Q or 4Q. Given the lower terminal rate and slower pace, projections for the 2-year Treasury yield were lowered. The 2-year Treasury yield is now expected to end 2019 at 2.85%, down 9 bps from the January survey, and peak at 2.90% in 2Q20 before trending lower. After reaching 3.24% in 2018 before pulling back to current levels, the 10-year Treasury yield is now expected to grind higher each quarter to just 3.16% by mid-2021. If correct, the peak for longer yields may already be in the rear-view mirror.

February Survey

		Q119	Q219	Q319	Q419	Q120	Q220	2019	2020
GDP									
Vining Sparks Projections	2/8/2019	1.9	2.6	2.5	2.4	1.7	1.9	2.4	1.8
February Survey	2/7/2019	2.0	2.5	2.2	2.0	1.9	2.0	2.5	2.0
January Survey	1/11/2019	2.1	2.4	2.2	2.0	1.8	1.9	2.5	1.9
Personal Consumption									
February Survey	2/7/2019	2.4	2.5	2.4	2.2	2.1	2.1	2.7	2.1
January Survey	1/11/2019	2.4	2.5	2.3	2.2	2.1	2.1	2.7	2.2
Private Investment									
February Survey	2/7/2019	2.8	4.0	3.9	3.2	3.1	2.7	3.8	3.0
January Survey	1/11/2019	2.7	3.5	3.9	2.8	2.7	2.4	3.8	2.6
Government Expenditures									
February Survey	2/7/2019	1.9	2.3	1.7	1.4	1.0	1.4	2.2	1.4
January Survey	1/11/2019	2.1	2.0	1.6	1.3	1.0	1.2	2.2	1.3
Headline CPI									
Vining Sparks Projections	2/8/2019	2.1	2.0	1.9	1.9	2.0	1.9	1.9	1.9
February Survey	2/7/2019	1.8	1.9	2.0	2.2	2.3	2.2	2.0	2.2
January Survey	1/11/2019	1.8	2.1	2.2	2.2	2.3	2.2	2.1	2.2
Core PCE									
Vining Sparks Projections	2/8/2019	1.9	1.9	1.9	2.0	2.0	1.9	1.9	1.9
February Survey	2/7/2019	1.9	1.9	2.0	2.0	2.1	2.1	2.0	2.1
January Survey	1/11/2019	1.9	1.9	2.0	2.1	2.1	2.1	2.0	2.1
Unemployment Rate									
Vining Sparks Projections	2/8/2019	3.8	3.7	3.8	3.8	3.9	3.9	3.8	3.9
February Survey	2/7/2019	3.8	3.7	3.6	3.6	3.6	3.7	3.7	3.6
January Survey	1/11/2019	3.7	3.6	3.6	3.6	3.6	3.7	3.6	3.7
Nonfarm Payroll (Monthly)									
Vining Sparks Projections	2/8/2019	200	155	155	150	140	130	167	130
February Survey	2/7/2019	201	171	159	150	138	144	172	130
January Survey	1/11/2019	175	160	150	131	125	128	159	118
New Home Sales									
February Survey	2/7/2019	615	618	622	632	634	628	626	636
January Survey	1/11/2019	601	612	627	629	634	636	620	640
Existing Home Sales									
February Survey	2/7/2019	5,300	5,360	5,360	5,350	5,350	5,400	5,370	5,400
January Survey	1/11/2019	5,320	5,370	5,400	5,400	5,450	5,450	5,400	5,460
Fed Funds Target¹									
Vining Sparks Projections	2/8/2019	2.38	2.38	2.63	2.63	2.88	2.63	2.63	2.63
February Survey	2/7/2019	2.38	2.48	2.58	2.68	2.63	2.68	2.68	2.63
January Survey	1/11/2019	2.48	2.68	2.73	2.78	2.73	2.73	2.68	2.68
2-Year Treasury¹									
Vining Sparks Projections	2/8/2019	2.60	2.65	2.70	2.70	2.70	2.50	2.50	2.50
February Survey	2/7/2019	2.63	2.73	2.80	2.85	2.87	2.90	2.89	2.82
January Survey	1/11/2019	2.70	2.85	2.91	2.94	2.96	2.97	2.97	2.93
10-Year Treasury¹									
Vining Sparks Projections	2/8/2019	2.90	2.90	3.00	2.95	2.80	2.70	2.70	2.70
February Survey	2/7/2019	2.82	2.91	2.98	3.02	3.06	3.08	3.09	3.07
January Survey	1/11/2019	2.82	3.00	3.07	3.11	3.14	3.16	3.16	3.15

*Sources: Bloomberg Survey of Economists, ¹ Economists' Real-Time Updates, Vining Sparks

Economic and Interest Rate Projections

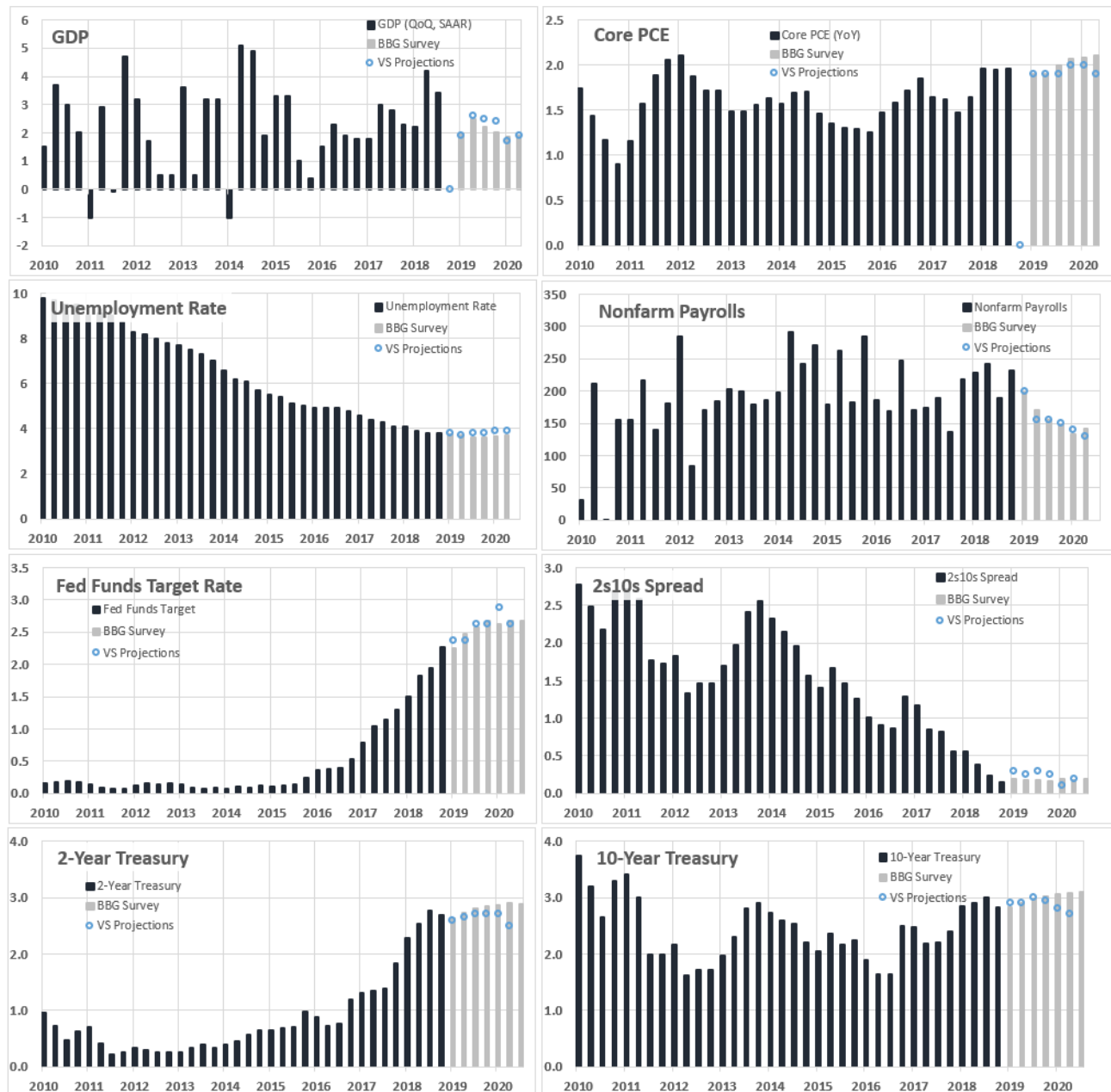
Vining Sparks Projections

February 2019

	Q119	Q219	Q319	Q419	Q120	Q220	2019	2020
GDP (QoQ, SAAR)	1.9	2.6	2.5	2.4	1.7	1.9	2.4	1.8
Headline CPI (YoY)	2.1	2.0	1.9	1.9	2.0	1.9	1.9	1.9
Core PCE (YoY)	1.9	1.9	1.9	2.0	2.0	1.9	1.9	1.9
Unemployment Rate	3.8	3.7	3.8	3.8	3.9	3.9	3.8	3.9
Nonfarm Payrolls (Monthly)	200	155	155	150	140	130	167	130

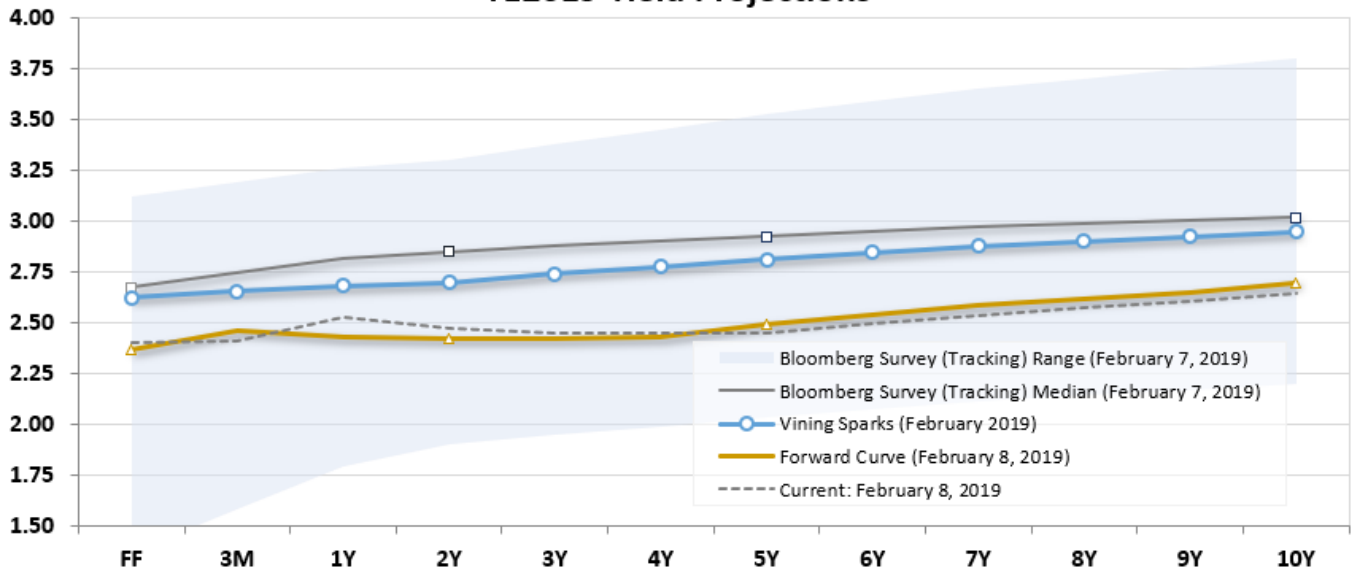
	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Fed Funds Target	2.38	2.38	2.63	2.63	2.88	2.63	2.63	2.63
2-Year Treasury Yield	2.60	2.65	2.70	2.70	2.70	2.50	2.50	2.50
10-Year Treasury Yield	2.90	2.90	3.00	2.95	2.80	2.70	2.70	2.70
30-Year Treasury Yield	3.00	2.98	3.10	3.03	2.83	2.77	2.77	2.77
Prime Rate	5.50	5.50	5.75	5.75	6.00	5.75	5.75	5.75
30-Year Mortgage Rate	4.55	4.55	4.65	4.60	4.45	4.35	4.35	4.35

Sources: ¹ Bloomberg Survey of Economists, ² Economists' Real-Time Tracking Updates, Vining Sparks



Survey's economic projections based on data at time of survey release. Interest rate data based on the real-time updated forecasts.

YE2019 Yield Projections



Bloomberg Survey Tracking Index and Vining Projections

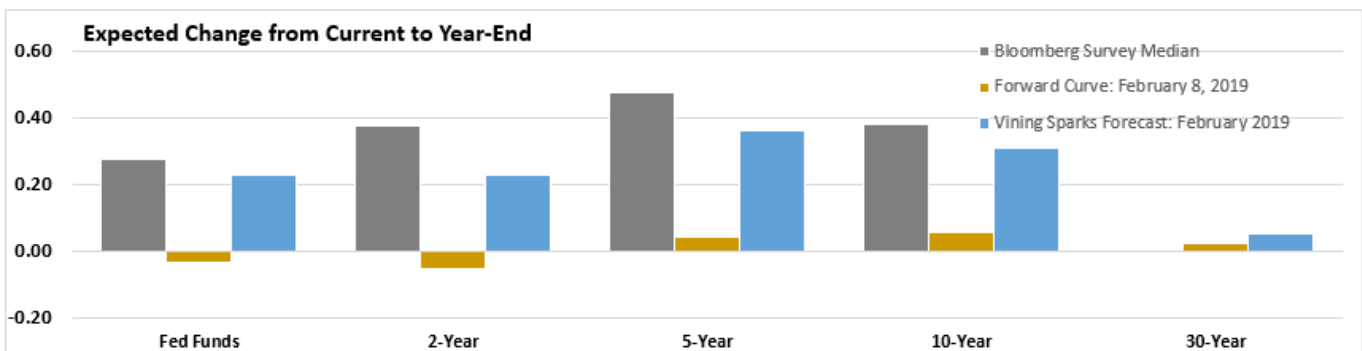
Interest Rate Projections

February 8, 2019

	Fed Funds	3M T-Bill	1-Year	2-Year	3-Year	5-Year	7-Year	10-Year	30-Year
Bloomberg Survey - Tracking: February 7, 2019									
Low Forecast	1.38			1.90		2.04		2.20	
Median Forecast	2.68			2.85		2.93		3.02	
High Forecast	3.13			3.30		3.53		3.80	
Forward Curve: February 8, 2019	2.37	2.46	2.43	2.42	2.43	2.49	2.58	2.70	3.01
Vining Sparks Forecast: February 2019	2.63	2.66	2.69	2.70	2.74	2.81	2.88	2.95	3.03
Current: February 8, 2019	2.40	2.41	2.53	2.47	2.45	2.45	2.54	2.64	2.99

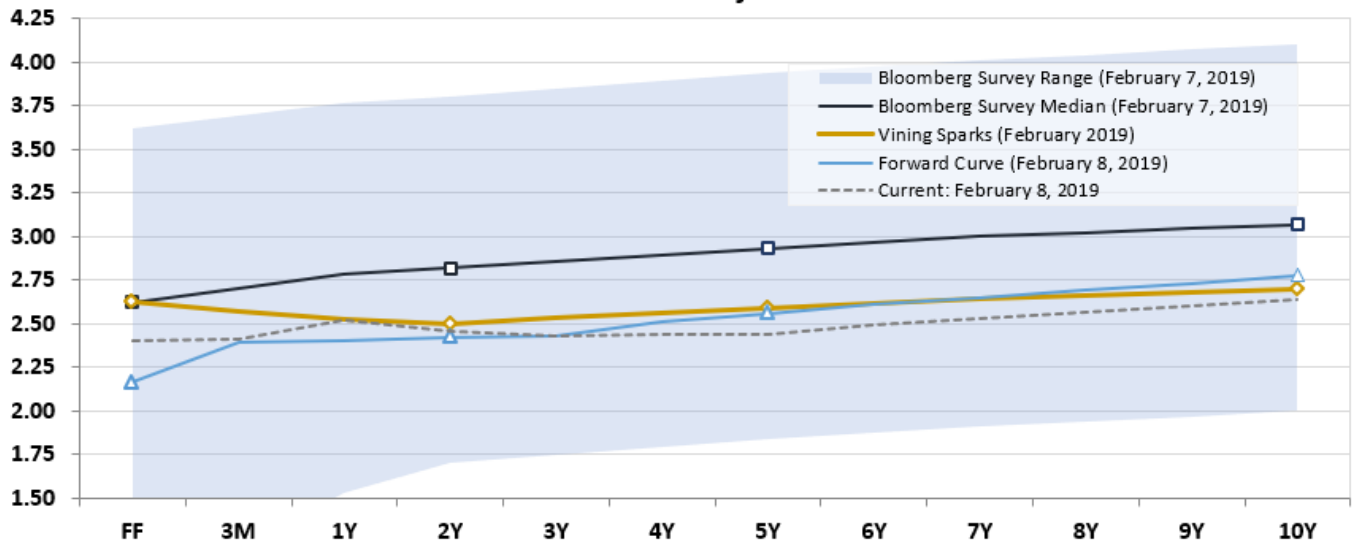
Projected Δ by Year-End

	Fed Funds	3M T-Bill	1-Year	2-Year	3-Year	5-Year	7-Year	10-Year	30-Year
Bloomberg Survey - Tracking: February 7, 2019									
Low Forecast	-1.03			-0.57		-0.42		-0.44	
Median Forecast	0.28			0.38		0.48		0.38	
High Forecast	0.73			0.83		1.08		1.16	
Forward Curve: February 8, 2019	-0.03	0.05	-0.10	-0.05	-0.02	0.04	0.05	0.06	0.02
Vining Sparks Forecast: February 2019	0.23	0.25	0.16	0.23	0.29	0.36	0.34	0.31	0.05



Sources: Bloomberg Survey of Economists Real-Time Tracking Index, Vining Sparks

YE2020 Yield Projections



Maturities without published projections interpolated based on historical spread differentials

Bloomberg Survey Tracking Index and Vining Projections

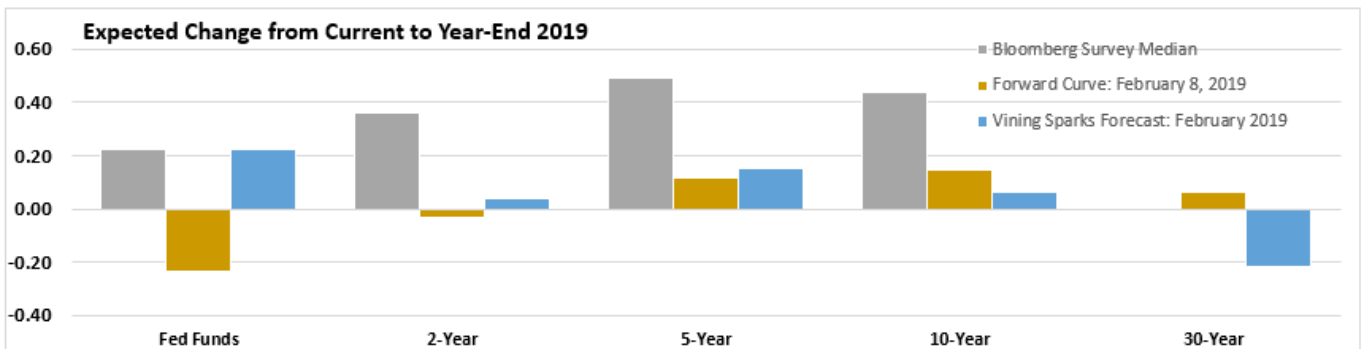
Interest Rate Projections

February 8, 2019

	Fed Funds	3M T-Bill	1-Year	2-Year	3-Year	5-Year	7-Year	10-Year	30-Year
Bloomberg Survey - Tracking: February 7, 2019									
Low Forecast	0.88			1.70		1.84		2.00	
Median Forecast	2.63			2.82		2.93		3.07	
High Forecast	3.63			3.80		3.94		4.10	
Forward Curve: February 8, 2019	2.17	2.39	2.41	2.43	2.43	2.56	2.65	2.78	3.04
Vining Sparks Forecast: February 2019	2.63	2.58	2.53	2.50	2.53	2.59	2.64	2.70	2.77
Current: February 8, 2019	2.40	2.42	2.53	2.46	2.43	2.44	2.53	2.64	2.98

Projected Δ by Year-End 2019

	Fed Funds	3M T-Bill	1-Year	2-Year	3-Year	5-Year	7-Year	10-Year	30-Year
Bloomberg Survey - Tracking: February 7, 2019									
Low Forecast	-1.53			-0.76		-0.61		-0.64	
Median Forecast	0.23			0.36		0.49		0.43	
High Forecast	1.23			1.34		1.49		1.46	
Forward Curve: February 8, 2019	-0.24	-0.02	-0.12	-0.04	0.00	0.12	0.12	0.14	0.06
Vining Sparks Forecast: February 2019	0.23	0.16	0.00	0.04	0.10	0.15	0.11	0.06	-0.21



Sources: Bloomberg Survey of Economists Real-Time Tracking Index, Vining Sparks

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