

Bloomberg Survey of Economists

November 2017

Economists Expect Hurricanes to Weigh Down 3Q Data with 4Q Rebound

The November Bloomberg Survey of Economists shows few changes to the economic outlook, no changes to the Fed Funds projections, longer-maturity-yield expectations essentially unchanged, but a slightly higher rate path for short-maturity Treasuries.

The main economic variables all show very few changes to their growth projections. Economic growth is still expected to average 2.2% for the full-year 2017 and 2.4% for 2018. CPI inflation is expected to increase 2.1% in both 2017 and 2018. And, the unemployment rate projections show 4.4% for the 2017 average and 4.1% for 2018, down 0.1% from the October Survey.

Expectations for nonfarm payroll growth were revised somewhat. Payroll growth is now expected to average 170k per month in 2017, up 4k from the October Survey. Projections for the short-term pace of payroll growth reflect the volatility of the recent hurricanes. After October’s nonfarm payroll report showed 261k jobs added (rebounding from the hurricane-affected September data), economists now project payroll growth to average 200k in 4Q17, up 16k from the October Survey. Beyond 4Q, the changes to payroll growth expectations each quarter were fractional.

Economists continue to expect the Fed to hike in December, followed by two hikes in 2018 and two hikes in 2019. With economists projecting five more rate hikes through the end of 2019, they have split the market-based expectations (three additional hikes by the end of 2019) and the FOMC’s projections (six more hikes by the end of 2019).

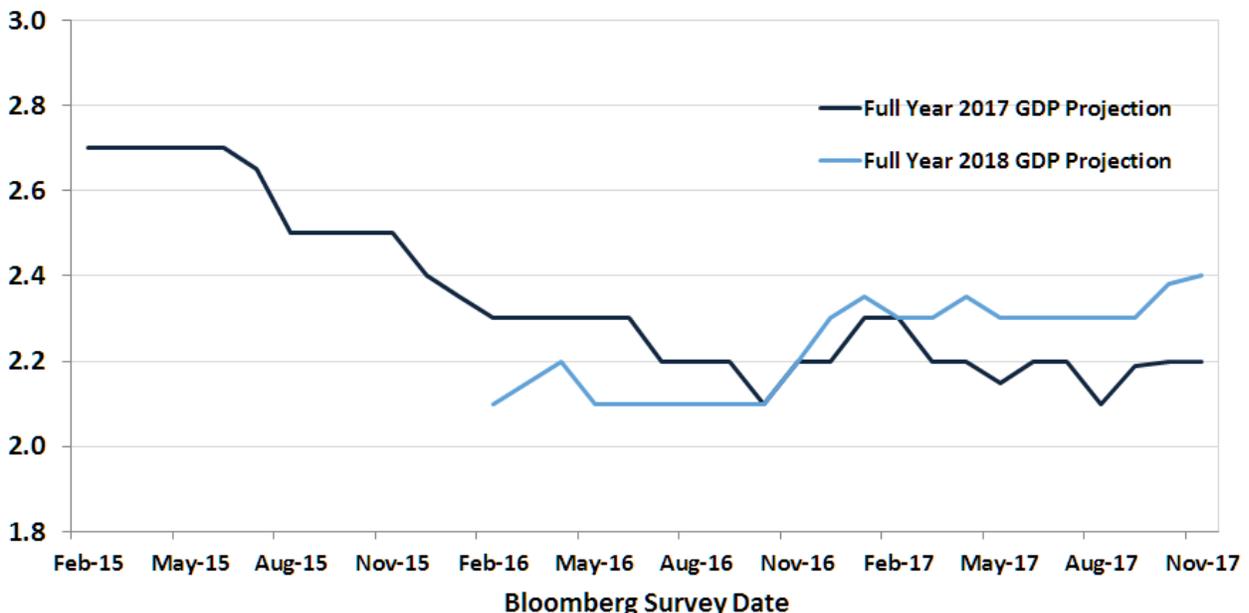
Longer-maturity Treasury yields are expected to continue rising gradually each quarter. The 10-year Treasury yield is currently trading at 2.33% and is expected to rise 10 bps to 2.43% by year-end. The 10-year yield is expected to rise another 52 bps next year to close 2018 at 2.95%.

Changes to Vining Sparks’ Interest Rate Projections

Given the Fed’s continued dismissal of below-target inflation, we have revised higher our projections for the overnight target rate. We now expect the Fed to hike for a third time this year in December, and project an additional hike in 2018 (two hikes total for 2018). However, while the Fed may get there six months earlier than we initially projected, we continue to see 2.00% as a difficult cap to surpass for the overnight rate. Because of the more aggressive posture of the FOMC and our subsequent revision higher, we have also adjusted our two-year Treasury yield forecast accordingly.

Full Year GDP Growth Projections for Next Two Years (By Survey Date)

Sources: Bloomberg Survey of Economists, Vining Sparks



BLOOMBERG SURVEY OF ECONOMISTS (Economic Projections)

November 2017 Survey Results

| | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Avg. 2017 | Avg. 2018 |
|--|------------|------------|------------|------------|--------------|--------------|
| GDP | | | | | | |
| Bloomberg Forecast (November) | 2.7% | 2.2% | 2.5% | 2.2% | 2.2% | 2.4% |
| Vining Forecast (November) | 2.8% | 1.8% | 2.8% | 2.7% | 2.5% | 2.5% |
| Bloomberg Forecast (October) | 2.7% | 2.2% | 2.4% | 2.2% | 2.2% | 2.4% |
| Bloomberg Forecast (September) | 2.4% | 2.1% | 2.3% | 2.2% | 2.2% | 2.3% |
| Bloomberg Forecast (August) | 2.4% | 2.1% | 2.3% | 2.1% | 2.1% | 2.3% |
| CPI YoY% | | | | | | |
| Bloomberg Forecast (November) | 2.0% | 1.7% | 2.2% | 2.2% | 2.1% | 2.1% |
| Vining Forecast (November) | 1.8% | 1.7% | 2.0% | 2.0% | 2.1% | 1.9% |
| Bloomberg Forecast (October) | 1.9% | 1.6% | 2.2% | 2.2% | 2.1% | 2.1% |
| Bloomberg Forecast (September) | 1.7% | 1.5% | 2.0% | 2.1% | 2.0% | 1.9% |
| Bloomberg Forecast (August) | 1.8% | 1.6% | 2.2% | 2.3% | 2.0% | 2.1% |
| Unemployment Rate | | | | | | |
| Bloomberg Forecast (November) | 4.2% | 4.1% | 4.1% | 4.1% | 4.4% | 4.1% |
| Vining Forecast (November) | 4.2% | 4.1% | 4.0% | 3.9% | 4.3% | 4.0% |
| Bloomberg Forecast (October) | 4.3% | 4.2% | 4.1% | 4.1% | 4.4% | 4.2% |
| Bloomberg Forecast (September) | 4.3% | 4.2% | 4.2% | 4.2% | 4.4% | 4.2% |
| Bloomberg Forecast (August) | 4.3% | 4.2% | 4.2% | 4.1% | 4.4% | 4.2% |
| Average Monthly Payrolls (000s) | | | | | | |
| Bloomberg Forecast (November) | 200 | 168 | 160 | 151 | 170 | 158 |
| Vining Forecast (November) | 190 | 170 | 160 | 150 | 174 | 163 |
| Bloomberg Forecast (October) | 184 | 167 | 158 | 152 | 166 | 158 |
| Bloomberg Forecast (September) | 167 | 165 | 155 | 150 | 175 | 156 |
| Bloomberg Forecast (August) | 166 | 165 | 160 | 150 | 178 | 160 |

BLOOMBERG SURVEY OF ECONOMISTS (Interest Rate Projections)

November 2017 Survey Results

| | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 |
|--|------------|------------|------------|------------|------------|------------|
| Federal Funds Target Rate (Median of Upper and Lower Bounds)* | | | | | | |
| Bloomberg Forecast (November) | 1.375% | 1.375% | 1.625% | 1.875% | 1.875% | 2.125% |
| Vining Forecast (November) | 1.375% | 1.375% | 1.625% | 1.625% | 1.875% | 1.875% |
| Bloomberg Forecast (October) | 1.375% | 1.375% | 1.625% | 1.875% | 1.875% | 2.125% |
| Bloomberg Forecast (September) | 1.375% | 1.375% | 1.625% | 1.875% | 1.875% | 2.125% |
| Bloomberg Forecast (August) | 1.375% | 1.375% | 1.625% | 1.875% | 2.125% | 2.125% |
| 2-Year Treasury Rate | | | | | | |
| Bloomberg Forecast (November) | 1.65% | 1.81% | 2.01% | 2.18% | 2.31% | 2.49% |
| Vining Forecast (November) | 1.65% | 1.75% | 1.85% | 1.90% | 1.95% | 1.95% |
| Bloomberg Forecast (October) | 1.60% | 1.79% | 1.95% | 2.12% | 2.29% | 2.44% |
| Bloomberg Forecast (September) | 1.60% | 1.80% | 2.00% | 2.15% | 2.30% | 2.53% |
| Bloomberg Forecast (August) | 1.68% | 1.85% | 2.02% | 2.20% | 2.40% | 2.58% |
| 10-Year Treasury Rate | | | | | | |
| Bloomberg Forecast (November) | 2.43% | 2.59% | 2.70% | 2.85% | 2.95% | 3.04% |
| Vining Forecast (November) | 2.50% | 2.60% | 2.65% | 2.70% | 2.75% | 2.75% |
| Bloomberg Forecast (October) | 2.44% | 2.58% | 2.70% | 2.80% | 2.95% | 3.03% |
| Bloomberg Forecast (September) | 2.48% | 2.60% | 2.75% | 2.90% | 2.99% | 3.14% |
| Bloomberg Forecast (August) | 2.60% | 2.70% | 2.86% | 3.00% | 3.10% | 3.30% |

Source: Bloomberg; All figures are quarter-end. GDP and CPI are annualized.

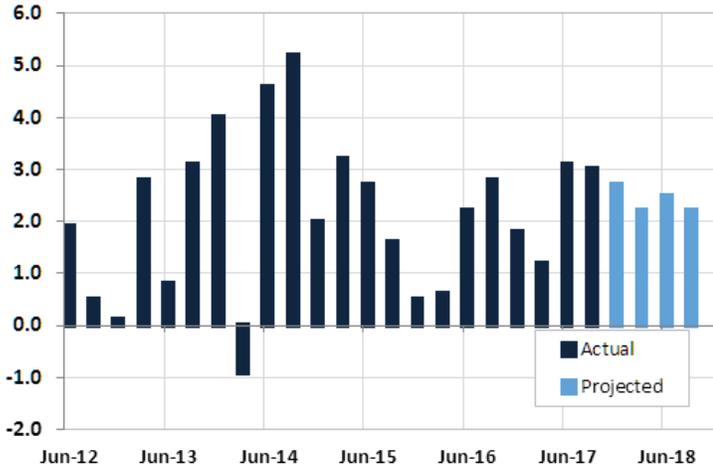
*In the January 2014 Survey, Bloomberg began reporting economists' projections for the upper and lower bound for the Fed Funds Target Rate.

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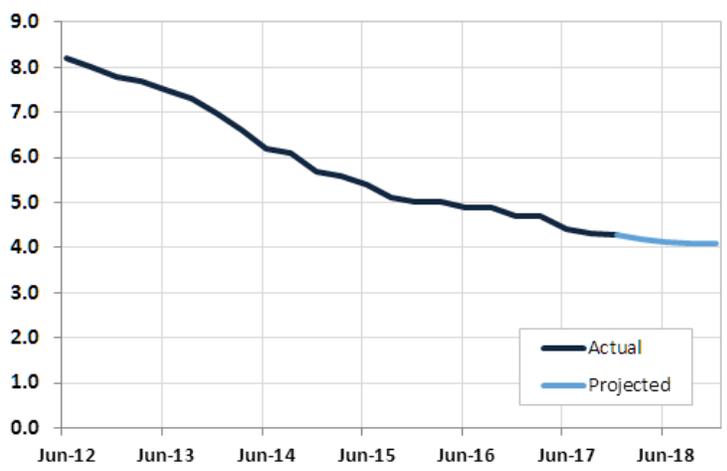
GDP QoQ Annualized (Past and Projected)

Sources: BEA, Bloomberg Survey of Economists, Vining Sparks



Unemployment Rate (Past and Projected)

Sources: BLS, Bloomberg Survey of Economists, Vining Sparks



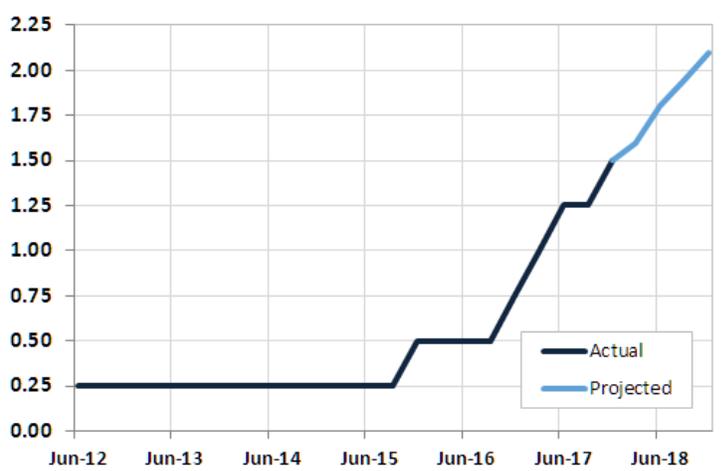
CPI Year-over-Year (Past and Projected)

Sources: BLS, Bloomberg Survey of Economists, Vining Sparks



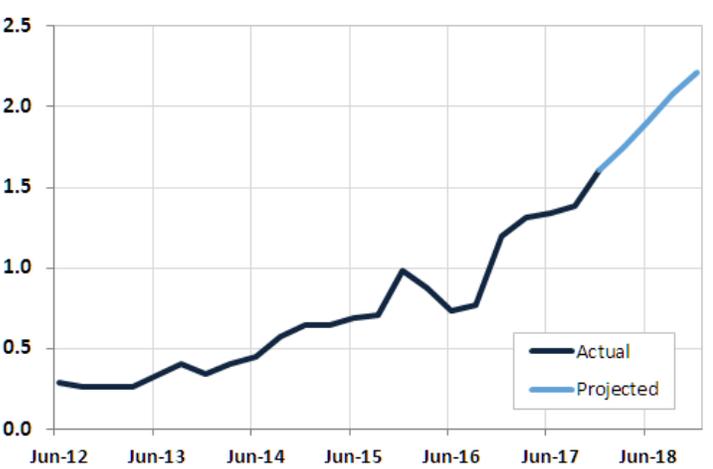
Fed Funds Target Rate (Past and Projected)

Sources: Bloomberg Survey of Economists, Vining Sparks



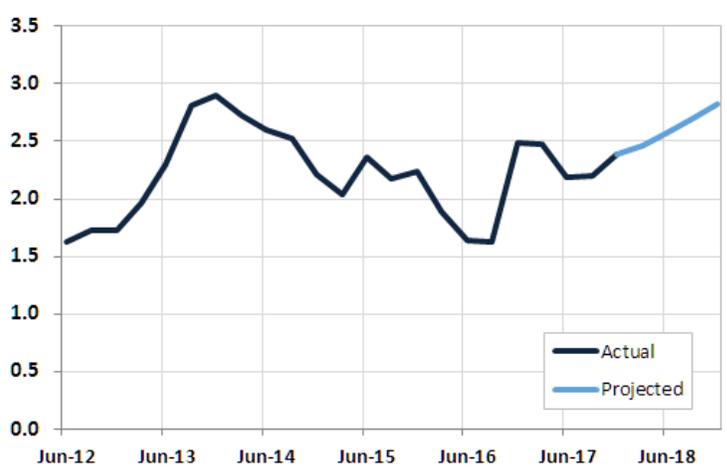
2-Year Treasury Yield (Past and Projected)

Sources: Bloomberg Survey of Economists, Vining Sparks



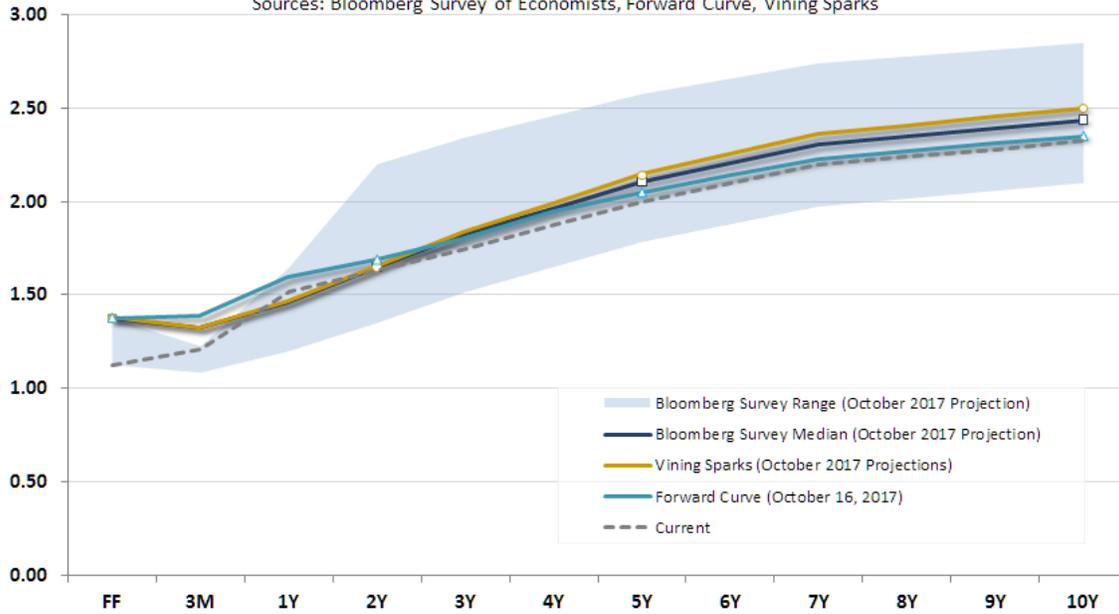
10-Year Treasury Yield (Past and Projected)

Sources: Bloomberg Survey of Economists, Vining Sparks



YE2017 Yield Projections

Sources: Bloomberg Survey of Economists, Forward Curve, Vining Sparks



Maturities without published projections interpolated based on historical spread differentials

YE2017 Interest Rate Projections

Observation Date: October 16, 2017

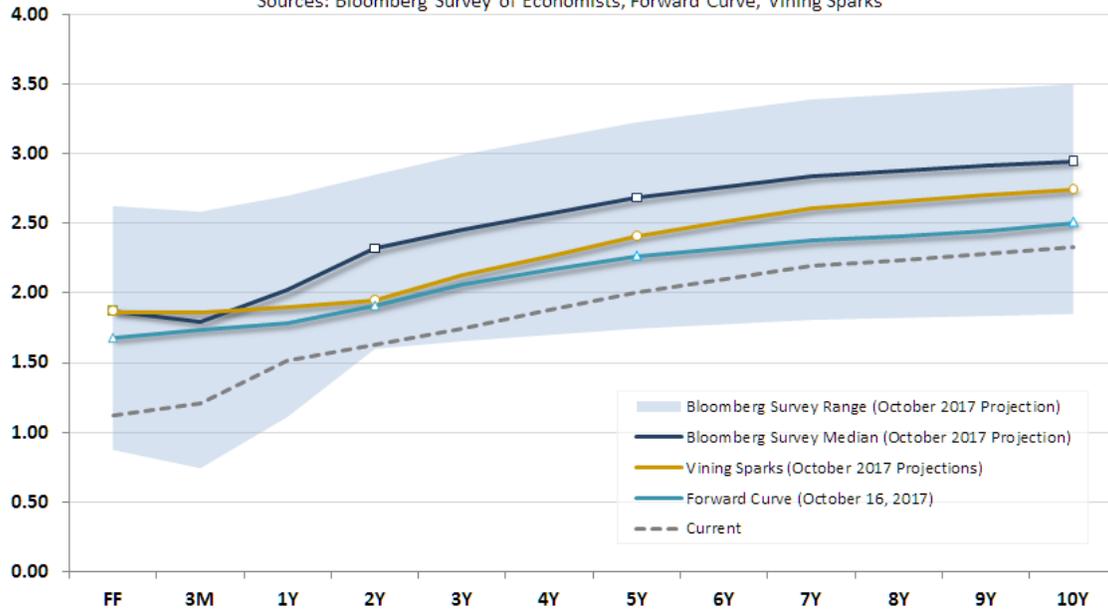
| | Fed Funds | 2-Year | 5-Year | 10-Year |
|-------------------------|-------------|-------------|-------------|-------------|
| Bloomberg Survey | | | | |
| Low Forecast | 1.13 | 1.35 | 1.78 | 2.10 |
| Median Forecast | 1.38 | 1.65 | 2.11 | 2.44 |
| High Forecast | 1.38 | 2.20 | 2.58 | 2.85 |
| Forward Curve | 1.38 | 1.69 | 2.05 | 2.35 |
| Vining Sparks Forecast | 1.38 | 1.65 | 2.14 | 2.50 |
| Current | 1.13 | 1.63 | 2.00 | 2.33 |

Projected Δ by Year-End

| | Fed Funds | 2-Year | 5-Year | 10-Year |
|-------------------------|-----------|--------|--------|---------|
| Bloomberg Survey | | | | |
| Low Forecast | 0.00 | -0.28 | -0.22 | -0.23 |
| Median Forecast | 0.25 | 0.02 | 0.11 | 0.11 |
| High Forecast | 0.25 | 0.57 | 0.58 | 0.52 |
| Forward Curve | 0.26 | 0.06 | 0.05 | 0.03 |
| Vining Sparks Forecast | 0.25 | 0.02 | 0.14 | 0.17 |

YE2018 Yield Projections

Sources: Bloomberg Survey of Economists, Forward Curve, Vining Sparks



Maturities without published projections interpolated based on historical spread differentials

YE2018 Interest Rate Projections

Observation Date: October 16, 2017

| | Fed Funds | 2-Year | 5-Year | 10-Year |
|-------------------------|-----------|--------|--------|---------|
| Bloomberg Survey | | | | |
| Low Forecast | 0.88 | 1.60 | 1.74 | 1.85 |
| Median Forecast | 1.88 | 2.32 | 2.68 | 2.95 |
| High Forecast | 2.63 | 2.85 | 3.23 | 3.50 |
| Forward Curve | 1.68 | 1.91 | 2.27 | 2.51 |
| Vining Sparks Forecast | 1.88 | 1.95 | 2.41 | 2.75 |
| Current | 1.13 | 1.63 | 2.00 | 2.33 |

Projected Δ by Year-End

| | Fed Funds | 2-Year | 5-Year | 10-Year |
|-------------------------|-----------|--------|--------|---------|
| Bloomberg Survey | | | | |
| Low Forecast | -0.25 | -0.03 | -0.26 | -0.48 |
| Median Forecast | 0.75 | 0.69 | 0.68 | 0.62 |
| High Forecast | 1.50 | 1.22 | 1.23 | 1.17 |
| Forward Curve | 0.56 | 0.28 | 0.27 | 0.19 |
| Vining Sparks Forecast | 0.75 | 0.32 | 0.41 | 0.42 |