

June 2019 Update

Trade Uncertainty Persists for Longer-than-Expected, Taking a Toll on Real Activity and Interest Rates

Labor Market

The labor market has recently shown signs of moderating job growth. May's nonfarm payroll report was disappointingly weak, with just 75k new payrolls added and negative revisions of -75k to previous months' data. All told, payroll growth is now averaging 164k per month in 2019 making this the weakest year for job growth of the expansion. While we have expected job growth to moderate, it has done so a bit more abruptly than expected. This is likely the result of trade uncertainty weighing on hiring decisions and may continue for several months. As a result, we have lowered our payroll projections for 2Q19 and 3Q19 but boosted our 4Q19 and 1Q20 payroll projections. We expect the unemployment rate will continue to hold below 4.0% and wage growth will remain modest.

Inflation

Even with the backdrop of an exceptionally tight labor market, other factors have continued to moderate inflation pressures. Consumer price inflation, according to the core PCE report, has now fallen to a rate of 1.57% year-over-year. While we expect the recent weakness to be transitory, it will likely take several months before that is evident.

Monetary Policy

For the second time in as many months, we have revised lower our expectations for Fed Funds. We now expect the Fed to cut rates 50 basis points in 2019 before hiking 25 basis points in 2020. Our expectation coming into the year was that a trade agreement with China would be resolved in the first half of the year. That, however, has not occurred. Moreover, the economy is damaged incrementally further each day that uncertainty and tariffs persist - whether that be through the impact to U.S. business conditions or global conditions. Business investment, business confidence, total U.S. trade volume, consumer spending, and the labor market have all shown signs of being at least somewhat affected already. **With trade negotiations stalled, an economy already showing the impact of uncertainty, below-target inflation persisting, and markets now fully expecting a rate cut; we expect the Fed will determine it appropriate to stimulate the economy.**

The economic environment today is somewhat similar to the 1998 cycle, when exogenous events and deteriorating financial conditions threatened to derail an otherwise stable economy. Policymakers in 1998 benefited from soft inflation, enabling them to cut rates 75 basis points without fear of runaway inflation. Once the uncertainty faded, policymakers tightened policy 75 basis points. Similarly, inflation is below the Fed's target today enabling them to be responsive to financial conditions. However, once that uncertainty fades, which we presume it will, Fed officials are likely to prefer their target rate be over 2.0% again. Because inflation was on the soft side then as it is today, the Fed was and is able to be responsive to economic and financial conditions.

Interest Rates

The uncertainty of trade policy and softer-than-expected inflation has not only affected our outlook for monetary policy, it has also affected our projections for Treasury yields. Lower Fed Funds imply lower short-term yields. As such, we have revised our 2-year Treasury forecast to 2.15% by year-end. Additionally, the combination of lower Fed Funds and softer inflation imply that there will be less risk to longer yields rising. So long as trade remains unresolved, the risks are more likely tilted to the downside. As such, we have lowered our year-end projection for the 10-year Treasury to 2.35%.

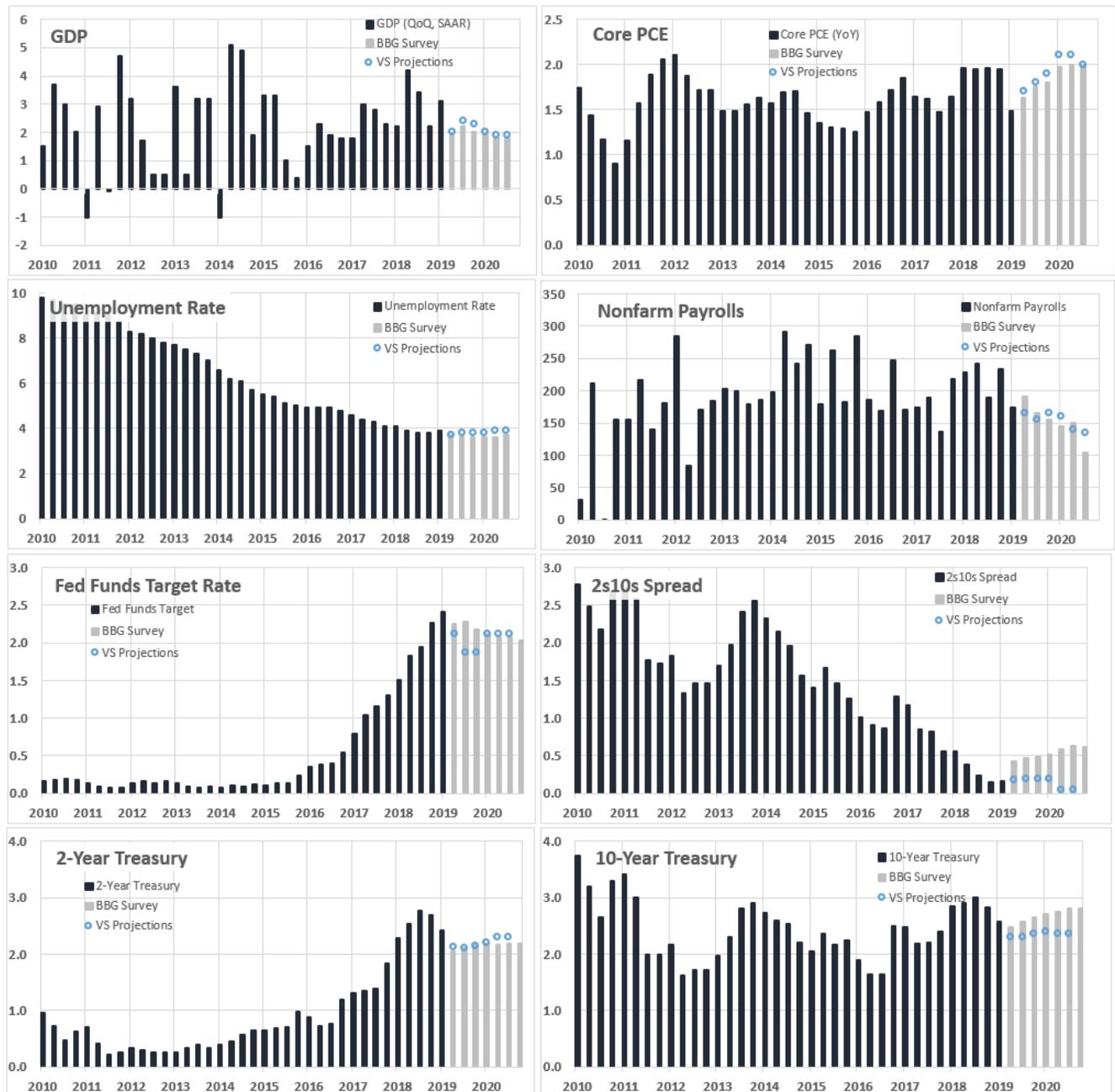
Vining Sparks Projections

June 2019

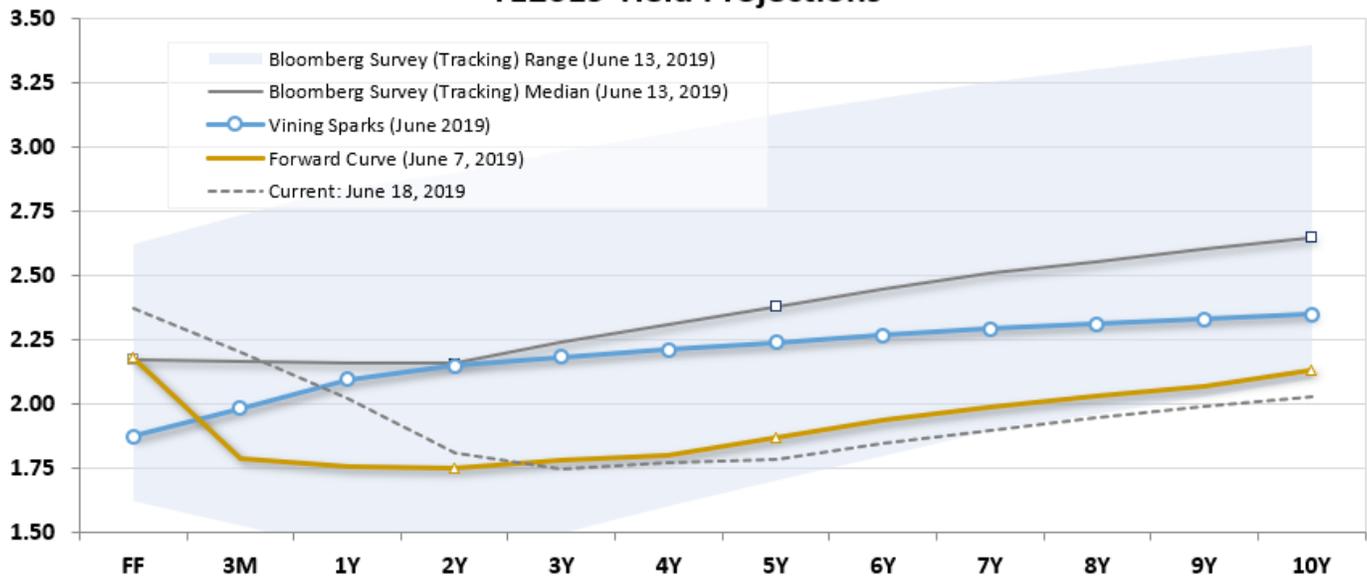
	Q219	Q319	Q419	Q120	Q220	Q320	2019	2020
GDP (QoQ, SAAR)	2.0	2.4	2.3	2.0	1.9	1.9	2.3	1.9
Headline CPI (YoY)	2.1	2.1	1.9	2.0	1.9	2.0	1.9	2.0
Core PCE (YoY)	1.7	1.8	1.9	2.1	2.1	2.0	1.9	2.0
Unemployment Rate	3.7	3.8	3.8	3.8	3.9	3.9	3.8	3.9
Nonfarm Payrolls (Monthly)	165	155	165	160	140	135	167	135

	Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121
Fed Funds Target	2.13	1.88	1.88	2.13	2.13	2.13	2.13	2.13
2-Year Treasury Yield	2.12	2.10	2.15	2.20	2.30	2.30	2.25	2.25
10-Year Treasury Yield	2.30	2.30	2.35	2.40	2.35	2.35	2.30	2.30
30-Year Treasury Yield	2.36	2.37	2.42	2.47	2.37	2.37	2.32	2.32
Prime Rate	5.25	5.00	5.00	5.25	5.25	5.25	5.25	5.25
30-Year Mortgage Rate	3.95	3.95	4.00	4.05	4.00	4.00	3.95	3.95

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



YE2019 Yield Projections



Maturities without published projections interpolated based on historical spread differentials

Bloomberg Survey Tracking Index and Vining Projections

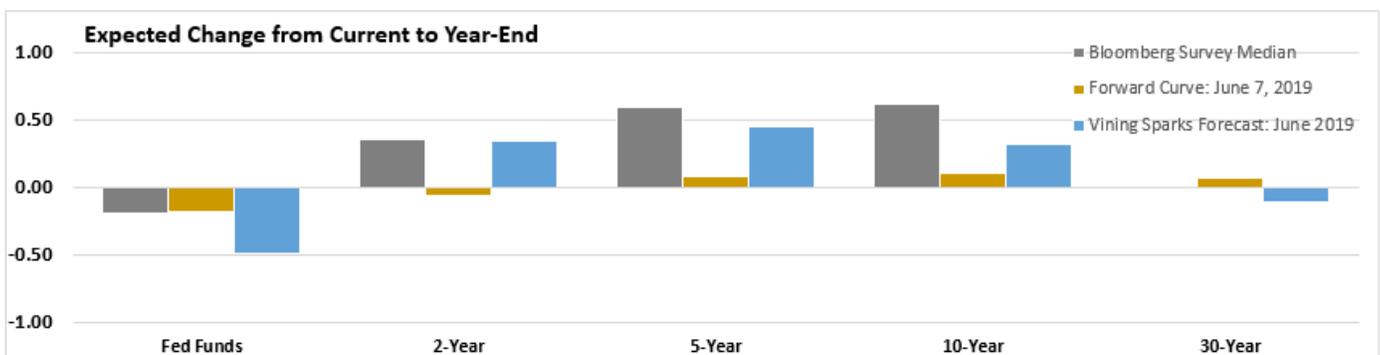
Interest Rate Projections

June 7, 2019

	Fed Funds	3M T-Bill	1-Year	2-Year	3-Year	5-Year	7-Year	10-Year	30-Year
Bloomberg Survey - Tracking: June 13, 2019									
Low Forecast	1.63			1.38		1.71		2.10	
Median Forecast	2.18			2.16		2.38		2.65	
High Forecast	2.63			2.90		3.13		3.40	
Forward Curve: June 7, 2019	2.19	1.79	1.76	1.75	1.78	1.87	1.99	2.13	2.60
Vining Sparks Forecast: June 2019	1.88	1.99	2.10	2.15	2.18	2.24	2.29	2.35	2.42
Current: June 18, 2019	2.37	2.20	2.02	1.81	1.75	1.79	1.90	2.03	2.53

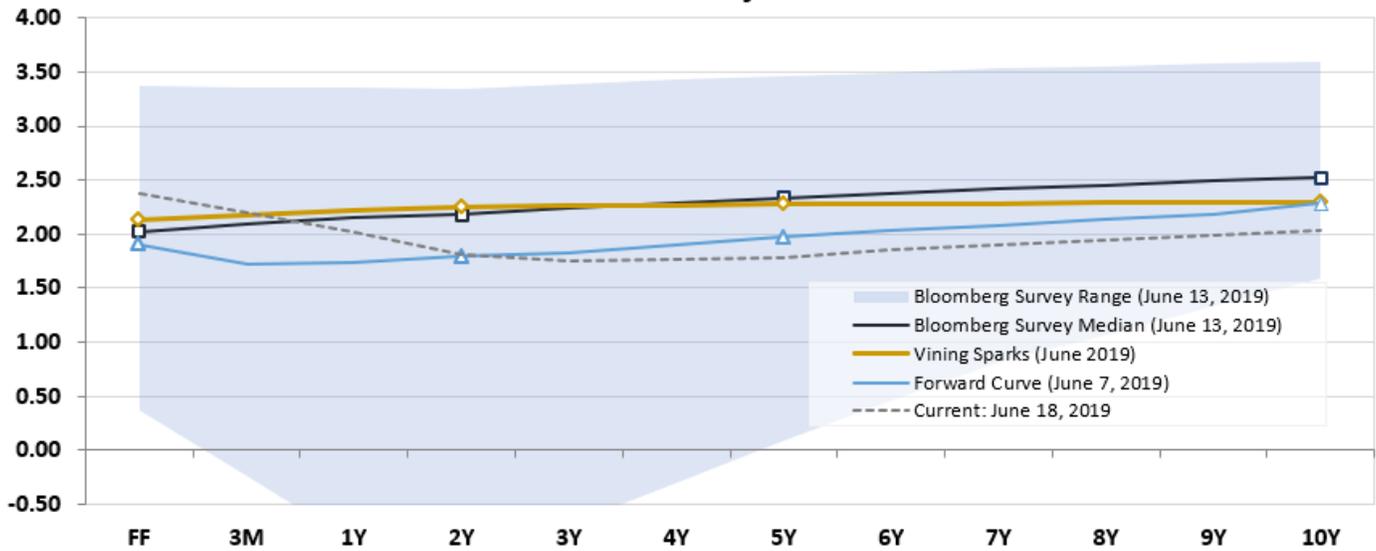
Projected Δ by Year-End

	Fed Funds	3M T-Bill	1-Year	2-Year	3-Year	5-Year	7-Year	10-Year	30-Year
Bloomberg Survey - Tracking: June 13, 2019									
Low Forecast	-0.75			-0.43		-0.08		0.07	
Median Forecast	-0.20			0.35		0.59		0.62	
High Forecast	0.26			1.09		1.34		1.37	
Forward Curve: June 7, 2019	-0.19	-0.41	-0.26	-0.06	0.03	0.08	0.09	0.10	0.07
Vining Sparks Forecast: June 2019	-0.50	-0.22	0.07	0.34	0.44	0.45	0.39	0.32	-0.11



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

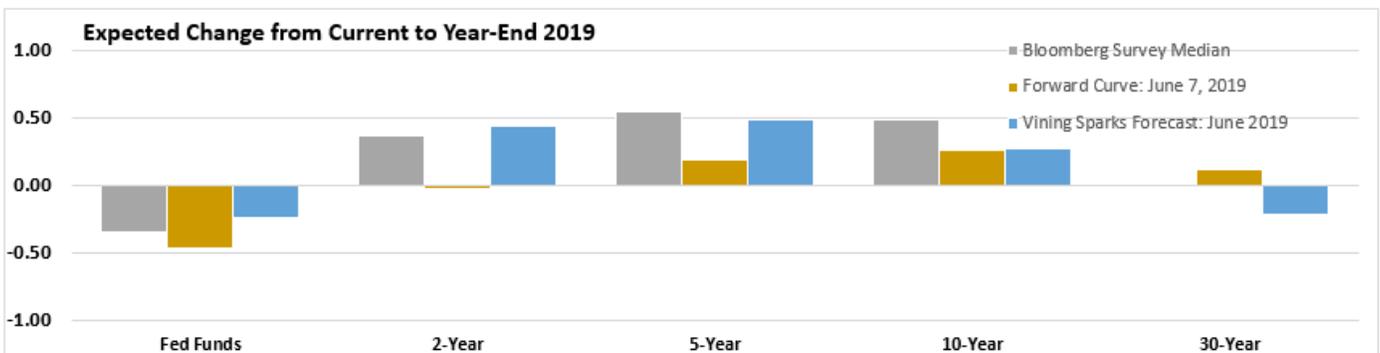
Interest Rate Projections

June 7, 2019

	Fed Funds	3M T-Bill	1-Year	2-Year	3-Year	5-Year	7-Year	10-Year	30-Year
Bloomberg Survey - Tracking: June 13, 2019									
Low Forecast	0.38			-1.15		0.09		1.59	
Median Forecast	2.03			2.18		2.33		2.52	
High Forecast	3.38			3.35		3.46		3.60	
Forward Curve: June 7, 2019	1.91	1.72	1.74	1.79	1.83	1.97	2.08	2.28	2.65
Vining Sparks Forecast: June 2019	2.13	2.18	2.23	2.25	2.26	2.27	2.29	2.30	2.32
Current: June 18, 2019	2.37	2.20	2.02	1.81	1.75	1.79	1.90	2.03	2.53

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: June 13, 2019									
Low Forecast	-2.00			-2.96		-1.69		-0.44	
Median Forecast	-0.35			0.37		0.55		0.49	
High Forecast	1.01			1.54		1.68		1.57	
Forward Curve: June 7, 2019	-0.47	-0.48	-0.28	-0.02	0.08	0.19	0.18	0.25	0.12
Vining Sparks Forecast: June 2019	-0.25	-0.03	0.20	0.44	0.51	0.48	0.39	0.27	-0.21



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

GDP		Q219	Q319	Q419	Q120	Q220	Q320	2019	2020
Vining Sparks Projections	6/18/2019	2.0	2.4	2.3	2.0	1.9	1.9	2.3	1.9
June Survey	6/13/2019	1.8	2.0	1.9	1.8	1.8	1.8	2.5	1.8
May Survey	5/9/2019	2.0	2.2	2.0	1.9	1.8	1.8	2.6	1.9
Personal Consumption		Q219	Q319	Q419	Q120	Q220	Q320	2019	2020
June Survey	6/13/2019	2.7	2.1	2.0	2.0	2.0	2.0	2.4	2.1
May Survey	5/9/2019	2.8	2.4	2.2	2.0	2.1	2.0	2.4	2.2
Private Investment		Q219	Q319	Q419	Q120	Q220	Q320	2019	2020
June Survey	6/13/2019	-0.2	2.3	2.4	2.6	2.2	2.3	3.4	2.4
May Survey	5/9/2019	0.5	2.9	3.5	3.0	2.8	2.6	3.9	2.6
Government Expenditures		Q219	Q319	Q419	Q120	Q220	Q320	2019	2020
June Survey	6/13/2019	2.3	1.7	1.5	1.2	1.5	1.1	1.8	1.4
May Survey	5/9/2019	2.4	1.7	1.4	1.2	1.4	1.0	1.8	1.4
Headline CPI		Q219	Q319	Q419	Q120	Q220	Q320	2019	2020
Vining Sparks Projections	6/18/2019	2.1	2.1	1.9	2.0	1.9	2.0	1.9	2.0
June Survey	6/13/2019	1.9	1.9	2.1	2.3	2.1	2.1	1.9	2.1
May Survey	5/9/2019	1.9	2.0	2.2	2.4	2.1	2.1	1.9	2.1
Core PCE		Q219	Q319	Q419	Q120	Q220	Q320	2019	2020
Vining Sparks Projections	6/18/2019	1.7	1.8	1.9	2.1	2.1	2.0	1.9	2.0
June Survey	6/13/2019	1.6	1.7	1.8	2.0	2.0	2.0	1.7	2.0
May Survey	5/9/2019	1.6	1.7	1.8	2.0	2.1	2.0	1.7	2.0
Unemployment Rate		Q219	Q319	Q419	Q120	Q220	Q320	2019	2020
Vining Sparks Projections	6/18/2019	3.7	3.8	3.8	3.8	3.9	3.9	3.8	3.9
June Survey	6/13/2019	3.6	3.6	3.7	3.6	3.7	3.8	3.7	3.7
May Survey	5/9/2019	3.7	3.6	3.6	3.6	3.6	3.7	3.7	3.6
Nonfarm Payroll (Monthly)		Q219	Q319	Q419	Q120	Q220	Q320	2019	2020
Vining Sparks Projections	6/18/2019	165	155	165	160	140	135	167	135
June Survey	6/13/2019	192	166	158	148	151	114	177	137
May Survey	5/9/2019	172	159	150	140	133	125	169	130
New Home Sales		Q219	Q319	Q419	Q120	Q220	Q320	2019	2020
June Survey	6/13/2019	655	656	656	655	655	655	658	652
May Survey	5/9/2019	648	651	649	646	649	650	654	650
Existing Home Sales		Q219	Q319	Q419	Q120	Q220	Q320	2019	2020
June Survey	6/13/2019	5,260	5,310	5,340	5,310	5,320	5,330	5,320	5,370
May Survey	5/9/2019	5,310	5,340	5,350	5,340	5,370	5,380	5,350	5,380
Fed Funds Target ¹		Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121
Vining Sparks Projections	6/18/2019	2.13	1.88	1.88	2.13	2.13	2.13	2.13	2.13
June Survey	6/13/2019	2.38	2.28	2.18	2.13	2.08	2.08	2.03	1.93
May Survey	5/9/2019	2.38	2.38	2.43	2.38	2.38	2.33	2.33	2.23
2-Year Treasury ¹		Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121
Vining Sparks Projections	6/18/2019	2.12	2.10	2.15	2.20	2.30	2.30	2.25	2.25
June Survey	6/13/2019	2.04	2.10	2.16	2.18	2.17	2.18	2.18	2.05
May Survey	5/9/2019	2.39	2.46	2.52	2.53	2.52	2.49	2.44	2.34
10-Year Treasury ¹		Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121
Vining Sparks Projections	6/18/2019	2.30	2.30	2.35	2.40	2.35	2.35	2.30	2.30
June Survey	6/13/2019	2.27	2.34	2.40	2.44	2.45	2.50	2.52	2.47
May Survey	5/9/2019	2.59	2.66	2.73	2.76	2.80	2.81	2.80	2.78

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

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