Bloomberg Interest Rate and Economic Survey
September 2019

Over a three-day period ending September 11th, Bloomberg News surveyed 70 of the nation’s top economists for their most recent opinions on the U.S. economy and interest rates. The following are the results of their responses:

Note: The September survey period was only three days as opposed to five and conducted about a week later than usual. We’re in the midst of a rapid adjustment in market expectations; as a result, just half of those surveyed were willing or able to commit to written forecasts.

The Interest Rate Forecast

Overnight Fed Funds
The current fed funds target rate is a range between 2.00% and 2.25%.

The median fed funds forecast (upper band) for Q3 2019 is 2.0%. The median forecast the next nine quarters are 1.75%, 1.75%, 1.75%, 1.75%, 1.75%, 1.75%, 1.75%, 1.75%, and 1.75%.

The latest survey shows a 25 bps point rate cut on September 18th and a second and final cut in October or December.

The bond market has been rapidly reeling-in its more aggressive expectations. The three to four easing moves that had been priced into the market over the next 12 months, have been trimmed back to two.

- 88% of respondents see downside risk to the forecasts.
- 74% believe rate cuts are part of a mid-cycle adjustment limited to a few cuts.
- 71% view the trade dispute with China as the biggest threat to growth.

2-yr Treasury Note (TN)
The median 2-year yield forecast for Q3 2019 is 1.60%.

The median forecasted yield for the next nine quarters are 1.59%, 1.59%, 1.60%, 1.65%, 1.70%, 1.75%, 1.75%, 1.83%, and 1.80%. The 2-year forecast is down 3-20 bps from the previous month’s survey.

The high 2-year TN forecast for Q3 2021 is 3.00%, while the low is 1.00%. Note: The high/low gap has widened at both ends.

The current 2-yr Treasury yield is 1.76%. This is down from the recovery high of 2.96% in early November, but up 33 basis points over the last eight trading days.

Please see analyst certifications and disclosure starting on page 3.
The median 10-year yield forecast for Q3 2019 is 1.68%. The median forecast for the next nine quarters are 1.70%, 1.79%, 1.85%, 1.90%, 2.00%, 2.10%, 2.20%, 2.27%, and 2.30%. The 10-year forecast over the next year is down roughly 30 bps from the previous survey.

The high 10-year TN forecast for Q3 2021 is 3.40%, while the low is 1.25%. Note: The high/low gap has widened with the low end forecast dropping.

The current 10-year yield is 1.84%. This is well below the 2018 high of 3.24% on November 8, 2018, and significantly below the recovery high of 3.99% on April 5, 2010, but up 38 basis points over the last nine trading days.

Note: A contributing factor to both current and forecasted lower bond yields is the Fed's recent announcement that they will resume reinvestment of maturing securities from their QE portfolio. This simply means demand for Treasuries has risen relative to supply.

The Interest Rate Forecast

The possibility of recession within the next year is 35%. This is unchanged from last month.

Note: The forecasts below indicate little change in GDP growth in the coming quarters.

Real GDP (annualized quarterly economic growth)
The median GDP growth forecast for Q3 2019 is +1.9% (previous: +1.8%). The median forecast for the next six quarters are +1.7% (+1.9%), +1.7% (+1.8%), +1.8% (+1.9%), +1.8% (+1.9%), +1.8% (+1.9%), and +2.0% (+1.8%).

So far in the third quarter, consumer spending has been stronger than expected. As a result, Q3 2019 GDP is tracking above +2.0%.
**Unemployment Rate**

The median forecast for Q3 2019 unemployment is 3.7%. The median forecast for the next six quarters are 3.7%, 3.7%, 3.8%, 3.8%, 3.9%, and 3.9%.

Headline unemployment held steady at 3.7% in August...just above the 50-year low point.

*The September unemployment forecast is essentially unchanged, suggesting most economists expect the unemployment rate has bottomed out.*

In theory, core inflation below the Fed’s target would allow the FOMC to cut rates if needed.

Most other inflation measures are still at, or slightly above the Fed’s +2.0% target. Core consumer prices and core producer prices are advancing at a +2.4% and +2.3% year-over-year pace respectively.

Note: Global prices are down along with global growth rates. This contributes downward pressure on domestic prices.

**Consumer Prices**

The median annualized personal consumption expenditures (PCE) core forecast for Q3 2019 is +1.6%. The median forecast for the next six quarters are +1.7%, +1.8%, +2.0%, +2.0%, +2.0%, and +2.0%.

Core PCE has technically been below the Fed’s +2.0% target every month for seven years (except for July 2018 - 2.02%). The most recent year-over-year core PCE measure held steady at +1.6% in July. The current Bloomberg survey shows little change from the previous survey with a gradual increase moving into the 2.0% target range by early next year.

*In theory, core inflation below the Fed’s target would allow the FOMC to cut rates if needed.*

Market Indications as of 10:45 A.M. Central Time

<table>
<thead>
<tr>
<th>Index</th>
<th>Change</th>
<th>Opening/High</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOW</td>
<td>Down 153 to 27,066 (HIGH: 27,399)</td>
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<tr>
<td>NASDAQ</td>
<td>Down 35 to 8,141 (HIGH 8,330)</td>
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<tr>
<td>S&amp;P 500</td>
<td>Down 10 to 2,997 (HIGH 3,026)</td>
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<tr>
<td>1-Yr T-bill</td>
<td>current yield 1.86%; opening yield 1.88%</td>
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<tr>
<td>2-Yr T-note</td>
<td>current yield 1.76%; opening yield 1.80%</td>
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</tr>
<tr>
<td>5-Yr T-note</td>
<td>current yield 1.70%; opening yield 1.75%</td>
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</tr>
<tr>
<td>10-Yr T-Note</td>
<td>current yield 1.84%; opening yield 1.90%</td>
<td></td>
</tr>
<tr>
<td>30-Yr T-bond</td>
<td>current yield 2.30%; opening yield 2.37%</td>
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</tbody>
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