Bloomberg Interest Rate and Economic Survey
October 2019

Over a one-week period ending October 10th, Bloomberg News surveyed 67 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:

The Interest Rate Forecast

Overnight Fed Funds
The current fed funds target rate is a range between 1.75% and 2.00%. The median fed funds forecast (upper band) for Q4 2019 is 1.75%. The MEDIAN forecast the next nine quarters are 1.75%, 1.625%, 1.50%, 1.50%, 1.50%, 1.625%, 1.75%, 1.75% and 1.75%.

The latest survey indicates a 25 basis points (bps) cut in the overnight Funds rate either on October 30th or December 11th and a second and final cut sometime in the second or third quarter of 2020 with a slight increase in 2021.

Although the bond market has been wildly volatile, the multiple easing moves that had been priced into the market over the next 12 months, have been trimmed to two.

2-yr Treasury Note (TN)
The median 2-year yield forecast for Q4 2019 is 1.55%.

The median forecasted yield for the next nine quarters are 1.56%, 1.60%, 1.65%, 1.70%, 1.72%, 1.72%, 1.75%, 1.75%, and 1.74%. The 2-year forecast is down 0-4 bps from the previous month’s survey.

The high 2-year TN forecast for Q4 2021 is 3.20%, while the low is 1.15%. Note: Both the high and the low forecast are higher.

The current 2-yr Treasury yield is 1.62%. This is down from the recovery high of 2.96% in early November, but up 23 bps over the last eight trading days.

<table>
<thead>
<tr>
<th></th>
<th>Q4 2019</th>
<th>Q1 2020</th>
<th>Q2 2020</th>
<th>Q3 2020</th>
<th>Q4 2020</th>
<th>Q1 2021</th>
<th>Q2 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Survey (October 2019)</td>
<td>1.55%</td>
<td>1.56%</td>
<td>1.60%</td>
<td>1.65%</td>
<td>1.70%</td>
<td>1.72%</td>
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<td>Prior Survey (September 2019)</td>
<td>1.59%</td>
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<td>1.60%</td>
<td>1.65%</td>
<td>1.70%</td>
<td>1.75%</td>
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<tr>
<td>Year ago forecast (October 2018)</td>
<td>3.25%</td>
<td>3.31%</td>
<td>3.34%</td>
<td>N/A</td>
<td>N/A</td>
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Please see disclosure on page 3.
10-yr Treasury Note
The median 10-year yield forecast for Q4 2019 is 1.65%. The median forecast for the next nine quarters are 1.70%, 1.77%, 1.80%, 1.90%, 1.95%, 2.00%, 2.10%, 2.10%, and 2.04%. The 10-year forecast is down 5 to 20 bps from the previous survey.

The high 10-year TN forecast for Q4 2021 is 3.50%, while the low is 1.25%. Note: The high/low gap widened with the high end forecast moving up 10 bps.

The current 10-year yield is 1.77%. 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 24 bps over the last five trading days.

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<th>Q3 2020</th>
<th>Q4 2020</th>
<th>Q1 2021</th>
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<tbody>
<tr>
<td>Current Survey</td>
<td>1.65%</td>
<td>1.70%</td>
<td>1.77%</td>
<td>1.80%</td>
<td>1.90%</td>
<td>1.95%</td>
<td>2.00%</td>
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<td>(October 2019)</td>
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<tr>
<td>Prior Survey</td>
<td>1.70%</td>
<td>1.79%</td>
<td>1.85%</td>
<td>1.90%</td>
<td>2.00%</td>
<td>2.10%</td>
<td>2.20%</td>
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<td>(September 2019)</td>
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<tr>
<td>Year ago forecast</td>
<td>3.41%</td>
<td>3.44%</td>
<td>3.48%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>(October 2018)</td>
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Note: A contributing factor to both current and forecasted lower bond yields is the Fed’s recent announcements that they will resume reinvestment of maturing securities from their QE portfolio and purchase Treasury bills to provide additional liquidity to the repo market. This simply means demand for Treasuries has risen relative to supply.

The Economic 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 +1.8% (previous: +1.9%). The median forecast for the next six quarters are +1.7% (+1.7%), +1.7% (+1.7%), +1.8% (+1.8%), +1.8% (+1.8%), +1.8% (+1.8%), and +2.0% (+2.0%).

The Atlanta Fed’s GDPNow measure was tracking Q3 2019 GDP at +1.7% as of October 9th.

Unemployment Rate
The median forecast for Q3 2019 unemployment is 3.7%. The median forecast for the next six quarters are 3.6%, 3.7%, 3.7%, 3.8%, 3.8%, and 3.8%.

Headline unemployment dropped to 3.5% in September…the lowest since June 1969.

The October unemployment forecast is slightly lower than the previous month as economists factor in the unexpected decline in September unemployment. Headline unemployment continues to be well below what most consider “full employment” and would normally suggest that wages should increase…but hourly earnings were actually flat in September while year-over-year earnings growth declined from +3.2% to a 14-month low of +2.9%.
Consumer Prices
The median annualized personal consumption expenditures (PCE) core forecast for Q3 2019 is +1.7%. The median forecast for the next six quarters are +1.8%, +2.1%, +2.1%, +2.0%, +2.0%, and +2.0%.

Core PCE has gradually climbed from +1.48% in May to +1.77% in July. The current Bloomberg survey indicates slightly higher expected core inflation with the year-over-year pace reaching the Fed’s +2.0% target by early next year.

In theory, core inflation below the Fed’s target allows the FOMC to cut rates if needed, but once the Fed has reached its goal, caution may be warranted.

Most other inflation measures are already at, or slightly above the Fed’s +2.0% target. The core consumer price index (CPI) has grown at or above target for 21 consecutive months on a year-over-year basis and now stands at +2.4%.

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

Market Indications as of 1:30 P.M. Central Time
DOW Up 310 to 27,097 (HIGH: 27,359)
NASDAQ Up 116 to 8,165 (HIGH 8,330)
S&P 500 Up 35 to 3,002 (HIGH 3,026)
1-Yr T-bill current yield 1.65%; opening yield 1.66%
2-Yr T-note current yield 1.62%; opening yield 1.60%
5-Yr T-note current yield 1.59%; opening yield 1.56%
10-Yr T-note current yield 1.77%; opening yield 1.73%
30-Yr T-bond current yield 2.23%; opening yield 2.20%