

## *Economic Outlook & Rate Forecast*





August 19, 2019

**Executive Summary**

***Equity markets traded with increased volatility as major indices posted one of the largest declines in 2019 during a trading day in the prior week. Recession fears shook markets as the spread between the 2-year and 10-year U.S. Treasury note turned negative, or inverted, for the first time since 2007. The inverted spread between these two securities has historically preceded recessions. Bond yields continued to trade near multi-year or historical lows. We believe that many of the economic headwinds that surfaced in late 2018 are likely to remain throughout 2019. Demographic shifts support lower growth as do monetary growth aggregates and money velocity.***

**Economy**

Jobs growth in July was in-line with consensus estimates with an initial reading of 164,000 nonfarm payrolls. The unemployment rate (U-3) was unchanged in July at 3.7%. U-6, or underemployed, dipped slightly to 7.0% in July. Wage growth in July increased by 3.2%, slightly above consensus estimates. The initial reading of Q2 2019 GDP beat consensus estimates at 2.1% but slowed from Q1's pace of 3.1%. Considering the most recent revisions to GDP, average growth in 2018 was 2.50%. Businesses are more likely to increase investment spending over time but slowing money growth and long-term demographic trends are likely to return GDP growth to the 2% level unless productivity trends turn meaningfully higher or global growth accelerates.

**Inflation**

**Headline CPI inflation** and **Core CPI** both ticked up in July to 1.8% and 2.2%, respectively. Core PCE ticked up slightly in June to 1.60%. One measure of core inflation is above the Fed's target while the other is slightly below. We expect headline CPI and PCE inflation to remain below 2.0% in 2019. We believe that shifting demographic trends, lower consumer spending, weak monetary growth trends and high levels of debt suggest decelerating growth and inflation.

**Fed and Supply/Demand**

The Fed cut rates by 25 basis points at their July meeting and noted muted inflation pressures and global developments for the economic outlook as reasons for the cut. Many market participants expect the Fed to cut interest rates at their September meeting as well. We believe the Fed will cut interest rates at their December meeting before pausing further interest rate movements in 2020.

**INTEREST RATE View**

The **10-year Treasury yield is now approximately 1.60%**, 2yr at ~1.51% and 5yr at ~1.46%. **STRATEGY...** The yield curve flattened throughout 2018 as the Fed gradually raised rates. The curve remained flat through the first half of 2019 with a strong, technical move lower in rates in Q1 and Q2. With the Fed cutting rates 25 basis points, we believe the bond market is a bit ahead of itself. We expect the ten-year treasury to trade around 1.75-2.5% in the months ahead as markets adjust to moderating growth and inflation expectations.

# EPG RATE FORECAST

August 2019

MARKET RATE	Actual (%) 7/31/2019	Projected (%) 7/31/2020	Yr1 Δ	Projected (%) 7/31/2021	Yr2 Δ
<b>FedFunds</b>	2.25	2.00	-0.25	2.00	0.00
<b>Prime</b>	5.25	5.00	-0.25	5.00	0.00
<b>3mthTsy</b>	2.06	2.00	-0.06	2.00	0.00
<b>6mthTsy</b>	2.07	2.00	-0.07	2.00	0.00
<b>1yrTsy</b>	1.99	2.03	0.04	2.05	0.02
<b>2yrTsy</b>	1.87	2.09	0.22	2.15	0.06
<b>3yrTsy</b>	1.83	2.24	0.41	2.30	0.06
<b>5yrTsy</b>	1.83	2.34	0.51	2.40	0.06
<b>10yrTsy</b>	2.01	2.56	0.54	2.60	0.04
<b>30yrTsy</b>	2.53	2.94	0.42	2.90	-0.04

## RATE OUTLOOK DESCRIPTION:

This represents EPG's current view of interest rates.

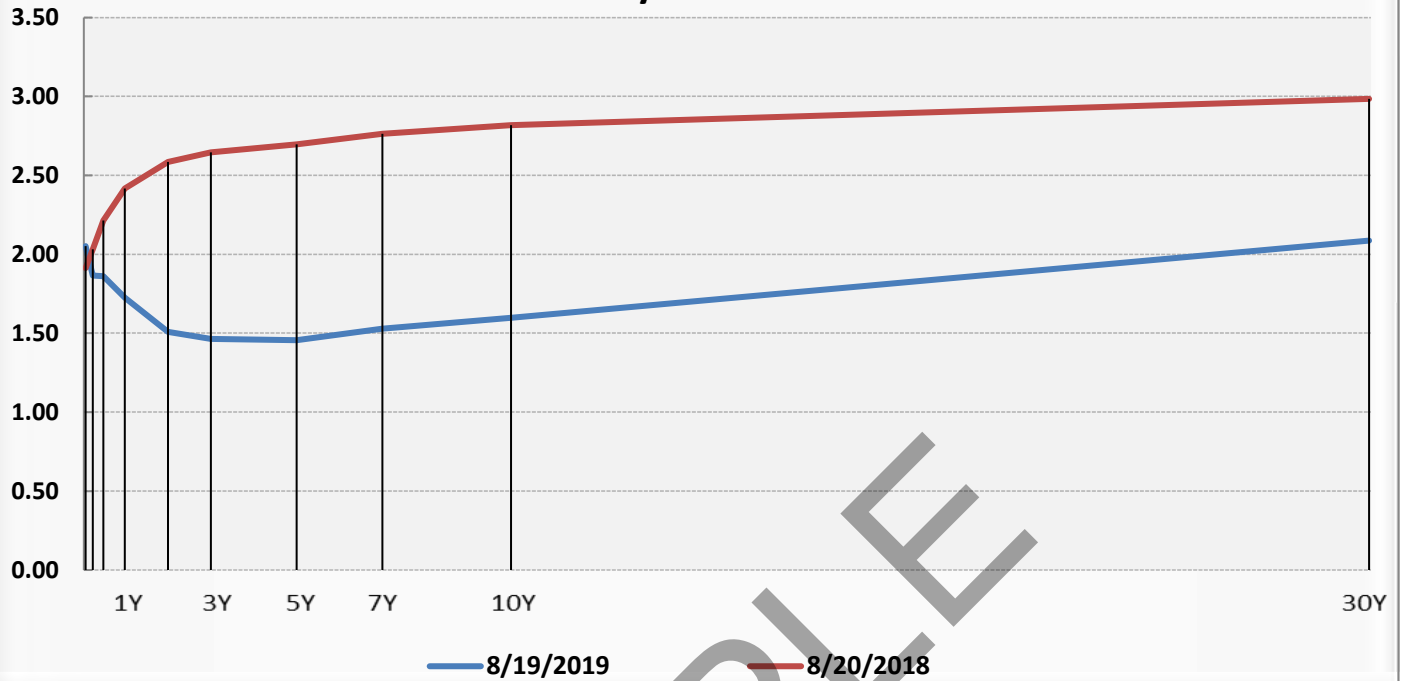
Depending on the actual timing of the ALM meeting, the forecast may be altered and/or updated.

For the most accurate current rate forecast, please call EPG, Inc. at (781) 235-2666.

# KEY INTEREST RATES

Source: Bloomberg

## Treasury Yield Curve

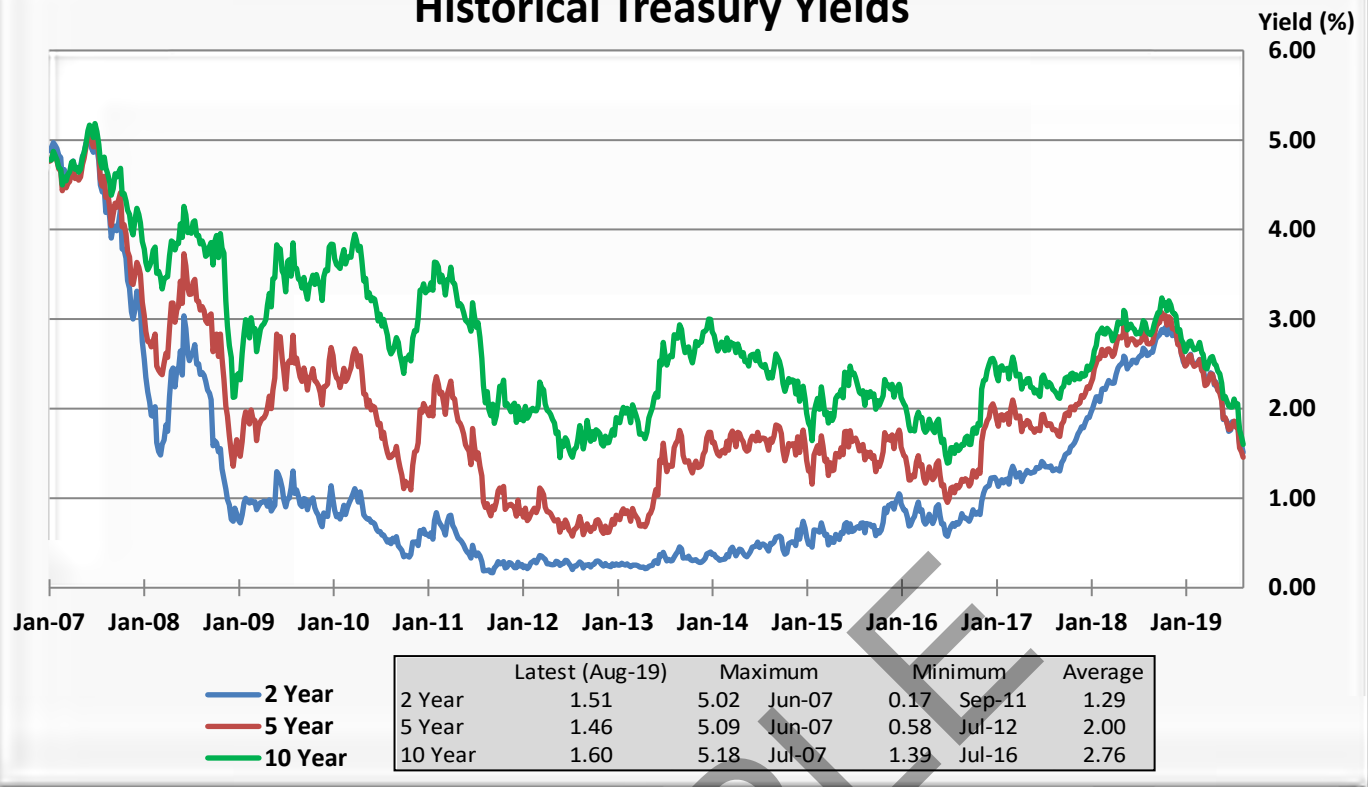


Treasury Yields			
	8/19/2019	8/20/2018	Change
1 Month	2.05	1.91	0.14
3 Month	1.87	2.03	-0.17
6 Month	1.86	2.21	-0.35
1 Year	1.73	2.42	-0.69
2 Year	1.51	2.59	-1.08
3 Year	1.47	2.65	-1.18
5 Year	1.46	2.70	-1.24
7 Year	1.53	2.76	-1.23
10 Year	1.60	2.82	-1.22
30 Year	2.09	2.99	-0.90

Other Market Indexes			
	8/19/2019	8/20/2018	Change
Fed Funds	2.25	2.00	0.25
PRIME	5.25	5.00	0.25
1 Mth Libor	2.17	2.07	0.11
3 Mth Libor	2.14	2.31	-0.17
3 Mth FHLB	2.30	2.38	-0.08
2 Yr FHLB	1.89	2.96	-1.07
5 Yr FHLB	1.90	3.16	-1.26

Source: Bloomberg

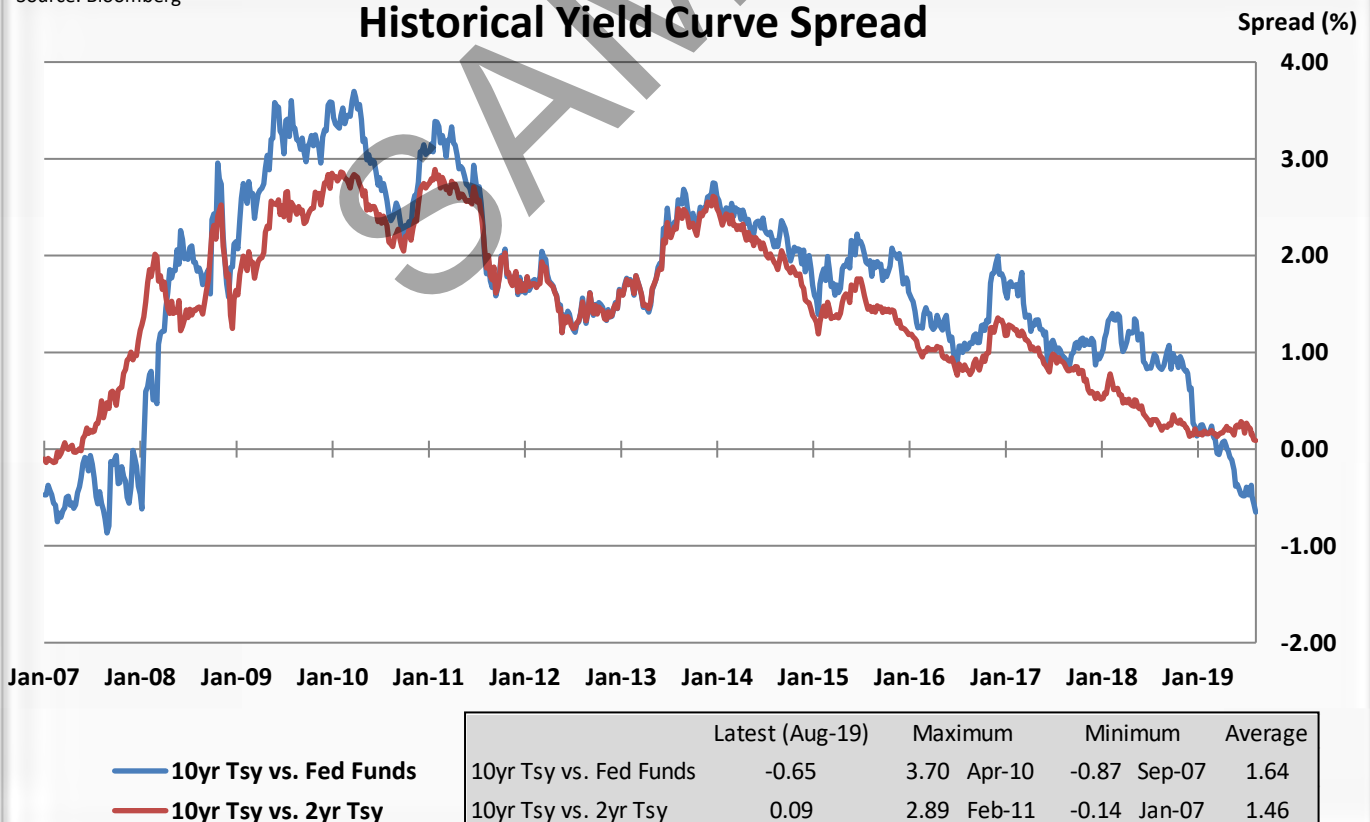
## Historical Treasury Yields



Treasury yields sharply decline as fear of a global slowdown persists.

Source: Bloomberg

## Historical Yield Curve Spread

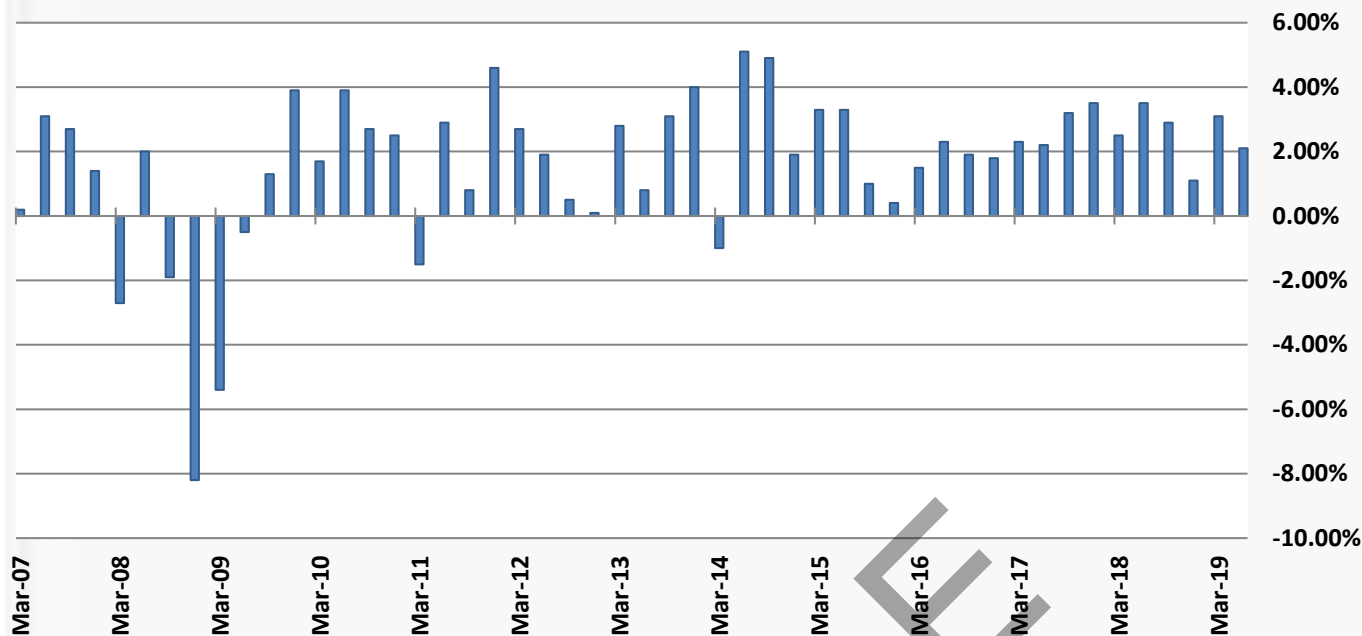


Spread between 10-year and 2-year briefly inverts for the first time since 2007.

Source: Bloomberg

## US Economic Growth

Percentage  
Change



■ GDP Growth

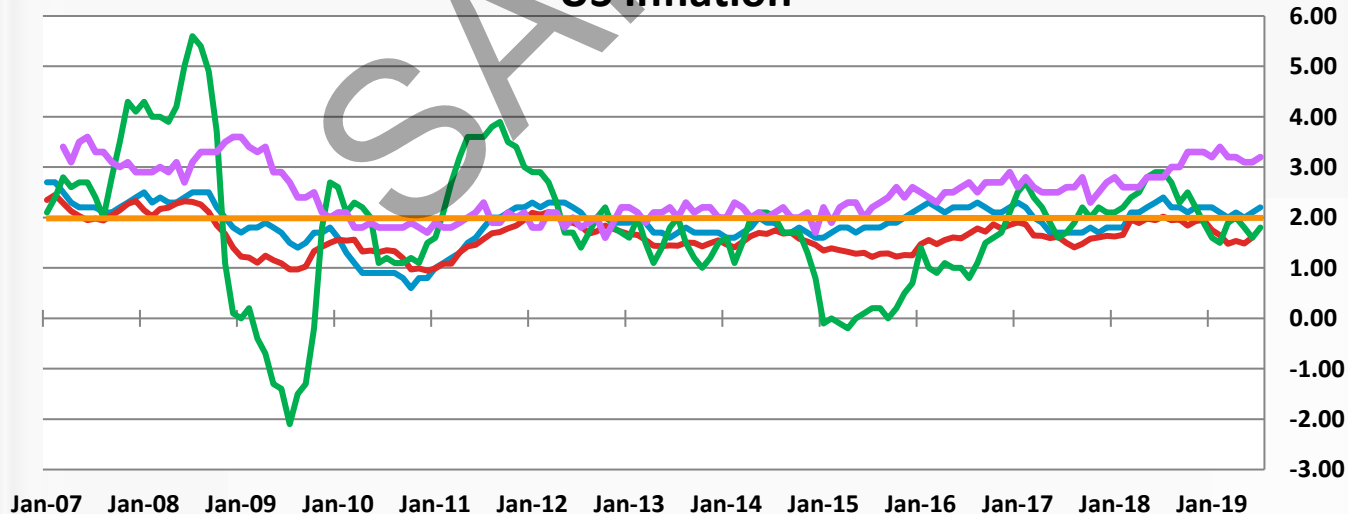
	Latest	Maximum	Minimum	Average	2018 Avg
GDP Growth	2.10%	5.10%	-8.20%	1.64%	2.50%
Date	Jun-19	Jun-14	Dec-08		

**Q2 GDP slowed to 2.1%, however beat consensus estimates.**

Source: Bloomberg

## US Inflation

%



— Core CPI — Core PCE — Headline Inflation — Wages — Fed Target = 2.00%

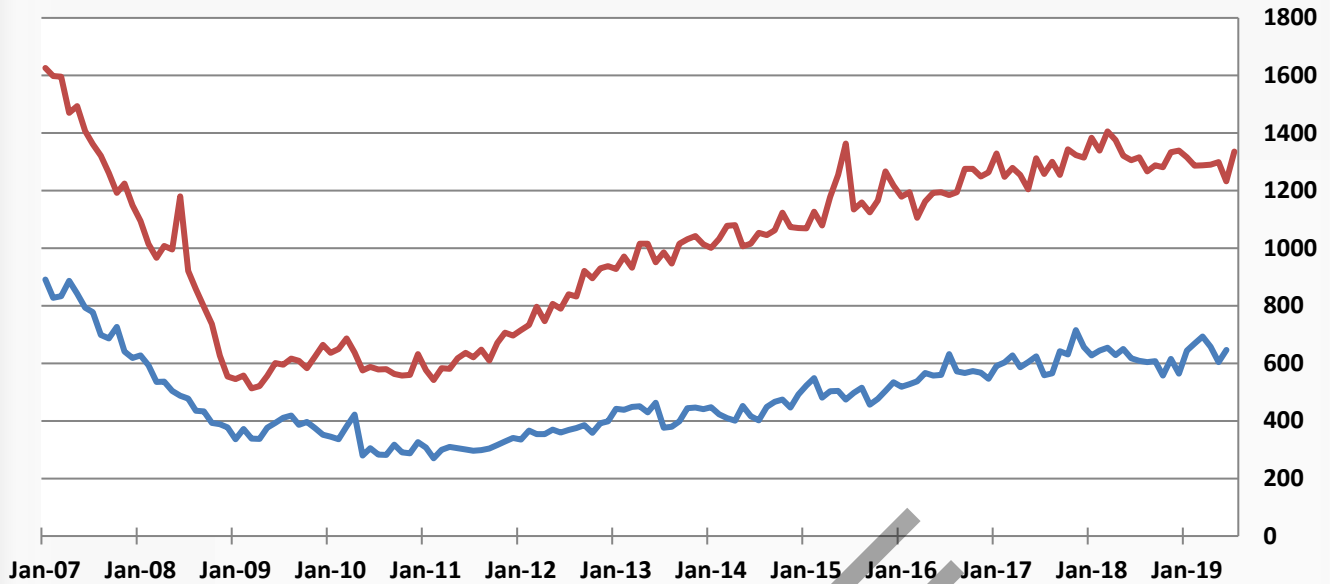
	Latest (Jul-19)	Maximum	Minimum	Average	2019 Avg.
Core CPI	2.20	2.70 Feb-07	0.60 Oct-10	1.89	2.10
Core PCE	1.60	2.45 Feb-07	0.95 Dec-10	1.64	1.59
Headline	1.80	5.60 Jul-08	-2.10 Jul-09	1.85	1.74
Wage Growth	3.20	3.60 Jan-09	1.60 Oct-12	2.48	3.20

**Core CPI and Headline Inflation ticked up slightly in July.**

Source: US Census Bureau

## Housing Trends

Thousands of Homes

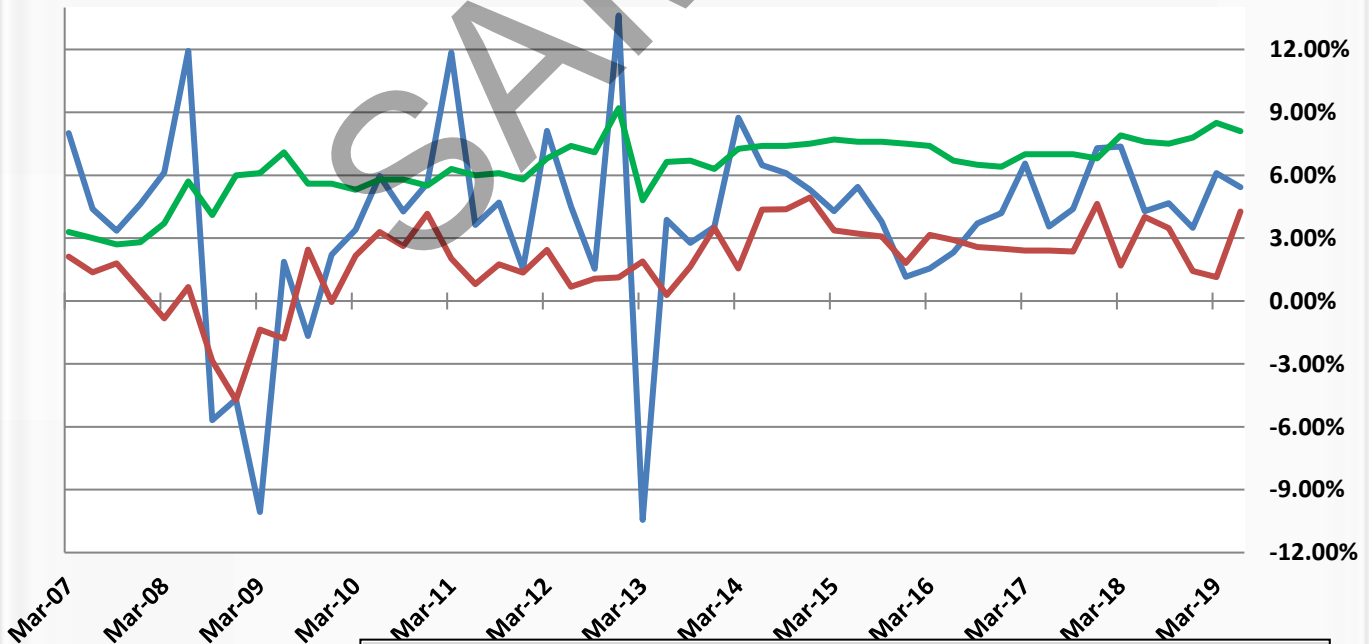


	Latest (Jul-19)	Maximum	Minimum	Average
New Home Sales	646	891 Jan-07	270 Feb-11	489
New Construction	1,336	1,626 Jan-07	513 Mar-09	1,011

Housing trend moves sideways.

Source: Federal Reserve Economic Data

## Consumer



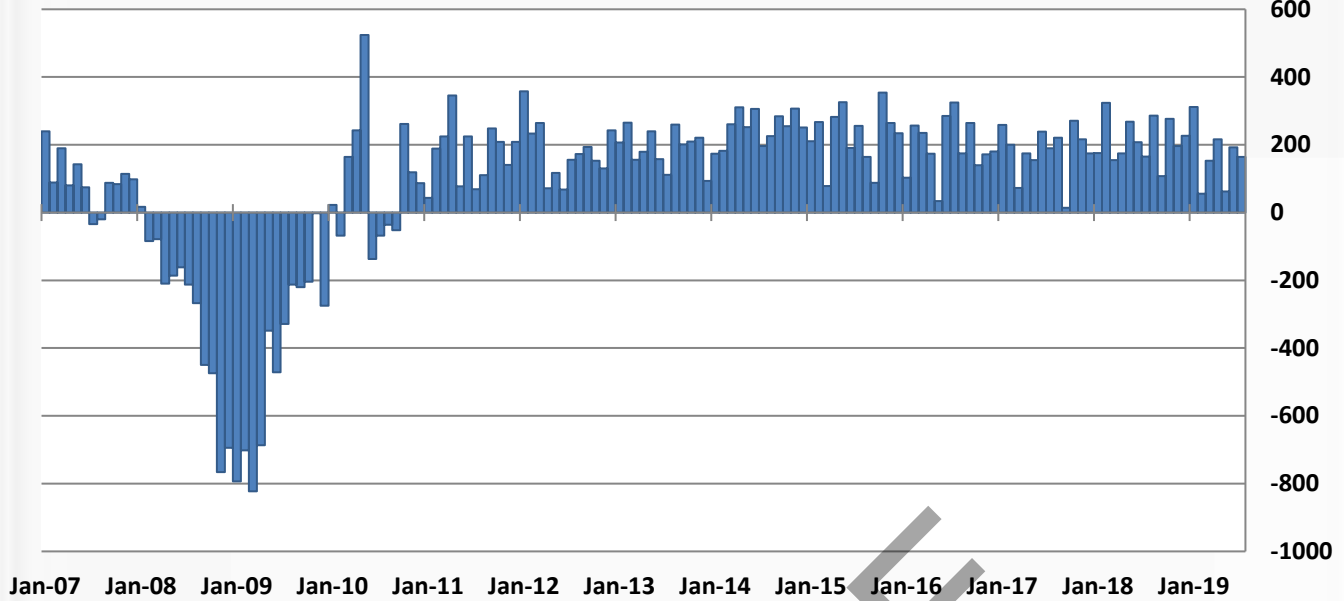
	Latest (Jun-19)	Maximum	Minimum	Average
Personal Income	5.43%	13.62% Dec-12	-10.44% Mar-13	3.90%
Personal Spending	4.27%	4.94% Dec-14	-4.73% Dec-08	1.87%
Personal Savings	8.10%	9.20% Dec-12	2.70% Sep-07	6.39%

Personal Income and Savings dip as Spending increases in Q2.

Source: Bloomberg

## US Monthly Job Gains

Thousands of Jobs



■ Mthly New Jobs

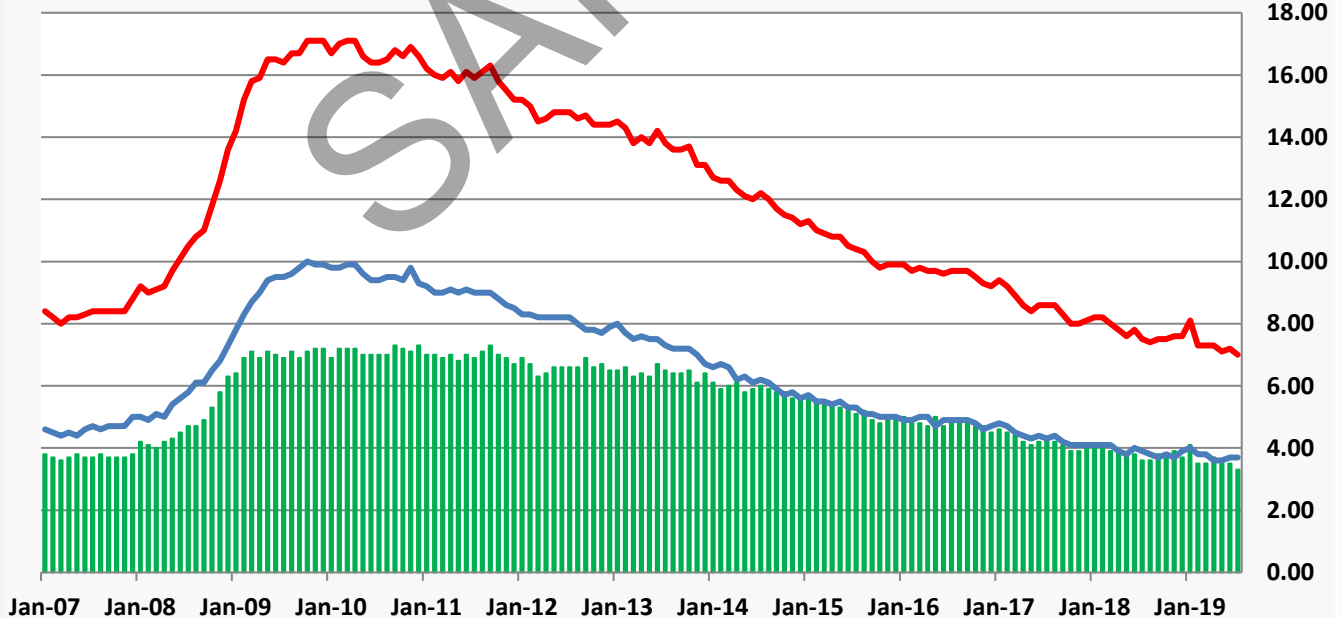
	Latest	Maximum	Minimum	Mthly Avg.	2019 Avg
Job Gains	164	524	-823	93	165
Date	Jul-19	May-10	Mar-09		

Job growth in-line with consensus estimates in July.

Source: Bloomberg

## US Unemployment

Rate (%)



— U3  
— U6  
— Difference

	Latest (Jul-19)	Maximum	Minimum	Average
U3 Unemployment	3.70	10.00 Oct-09	3.60 Dec-18	6.39
U6 Unemployment	7.00	17.10 Apr-10	7.00 Oct-18	11.84

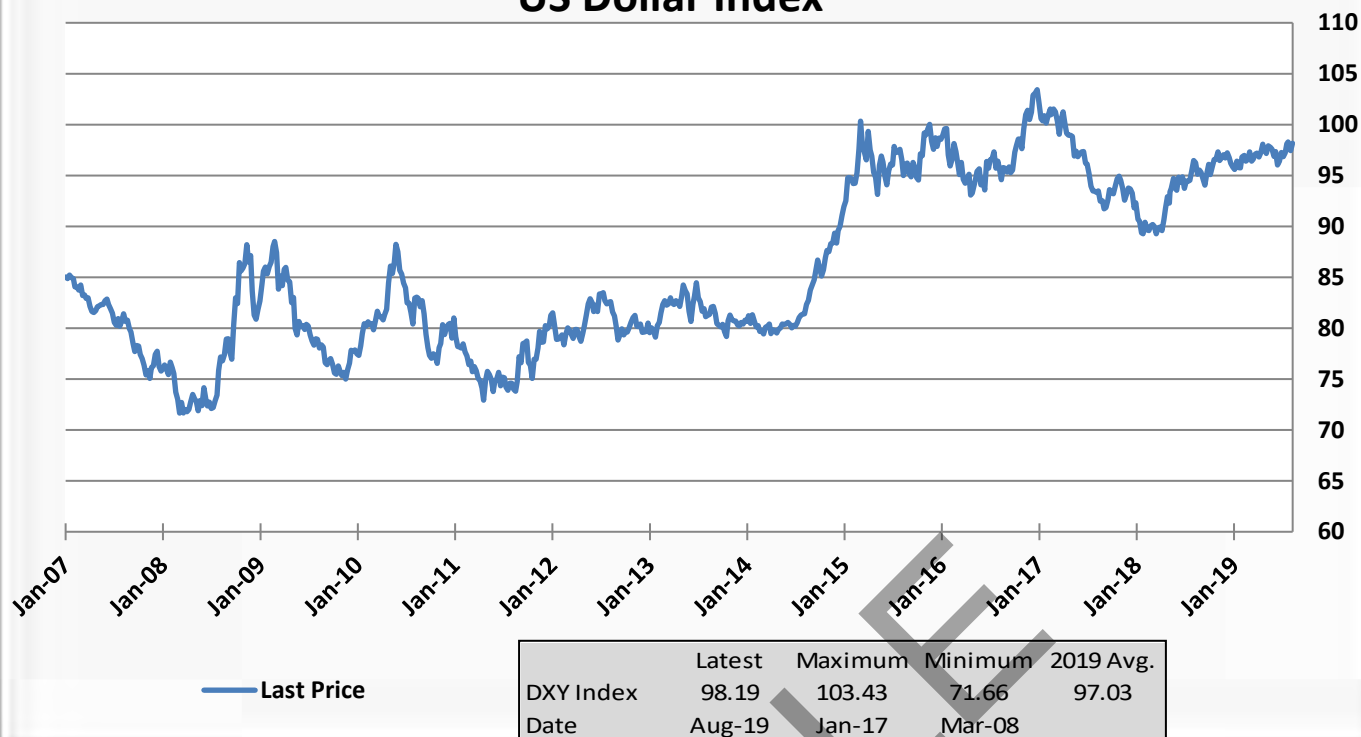
Official unemployment rate remains stable at 3.7% in July.



Source: Bloomberg

## US Dollar Index

Price (USD)

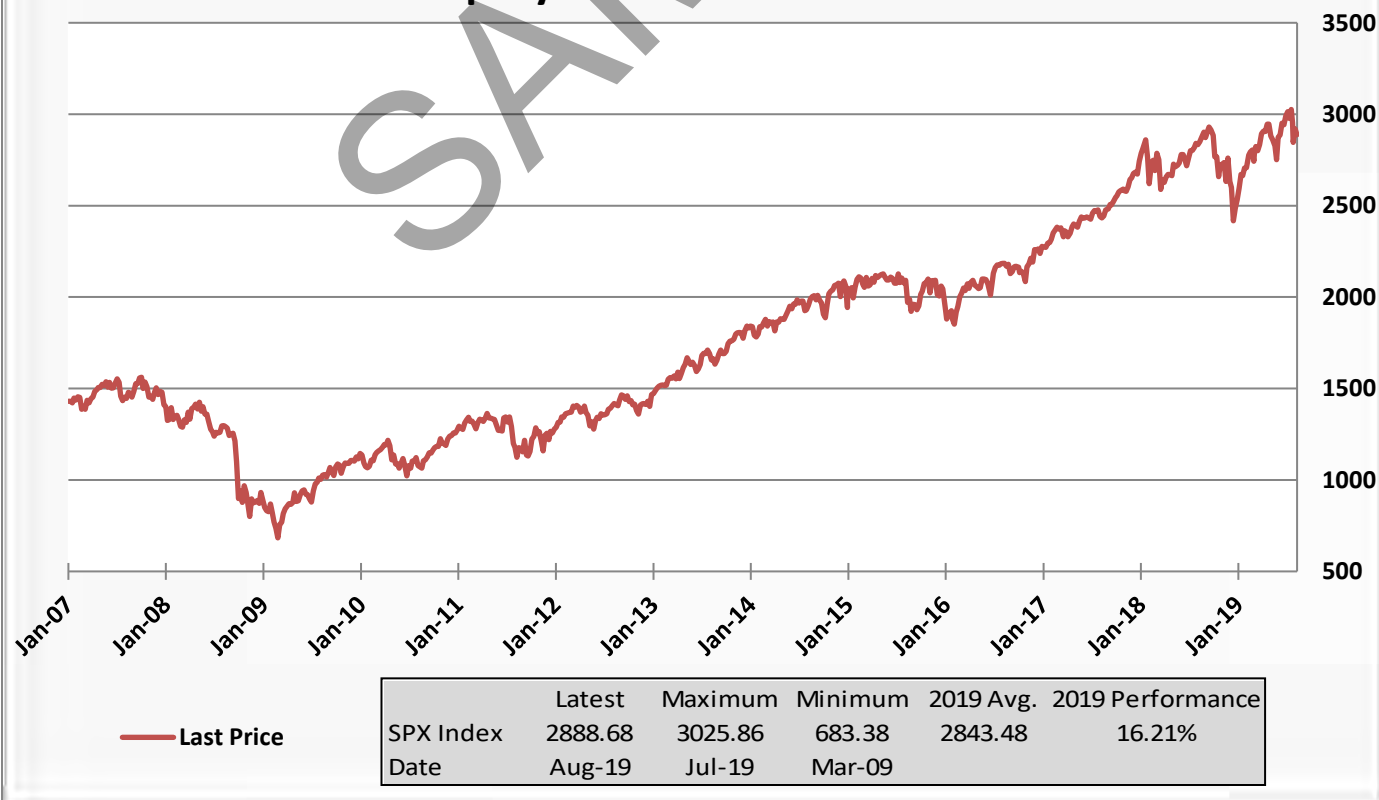


**US Dollar beginning to move sideways.**

Source: Bloomberg

## US Equity Market: S&P Index

Price (USD)



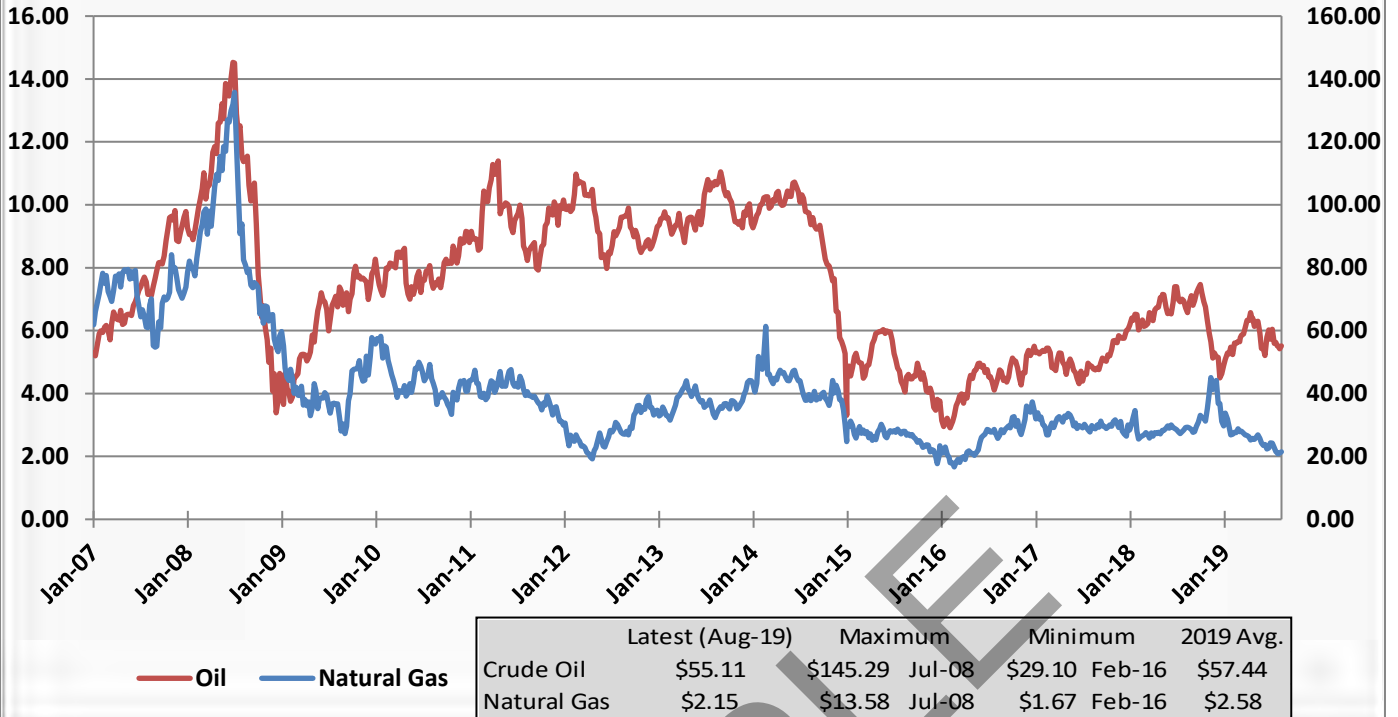
**S&P Index falls off recent highs and trade with increased volatility.**

Source: Bloomberg

USD/MMBtu

## Energy

USD/BL



Oil prices stabilize as natural gas moves lower.

Source: Bloomberg

## Commodities: S&P GSCI Non-Energy Index

Price



Commodity complex moves sideways on trade war concerns.



### **Investment Alternatives - 8/19/2019**

The following presents general investment alternatives sorted by yield/maturity characteristics:

<b><u>Yield</u></b>	<b><u>Maturity</u></b>	<b><u>Security</u></b>	<b><u>Considerations / Risks</u></b>
2.30%-2.40%	20 yr	AAA/AA municipals BAB(Taxable)/BQ&BE	Maturity/Credit
2.90%	15 yr	AAA/AA+ long-term callable	Historic low yield/long duration
2.80%	30 yr	AAA/AA+ Agency MBS	Extension risk/low yield
2.60%	10 yr	AAA/AA+ Callable Agency (NC 1 yr)	Historic low yield/long duration
2.25%	20yr	AAA/AA+ Agency SBA/ABS	Cash flow diversification
2.50%	20 yr	AAA/AA+ Agency MBS	Cash flow assumptions
2.35%	15 yr	AAA/AA+ Agency MBS	Cash flow assumptions
2.20%	10 yr	AAA/AA+ Agency MBS	Stable cash flow
1.80%	5 yr	AAA/AA+ 5/1 One time Call	Low yield given structure
2.30%	30 yr	AAA/AA+ 5/1 ARM GNMA	Only 1% annual cap
1.70%	3 yr	AAA/AA+ 3/1 One-time Call	Low absolute yield
2.40%	30yr	AAA/AA+ 3/1 ARM GNMA	2-3 yr average life IRR
2.30%	30yr	AAA/AA+ Sequential CMO	2.75yr avg life
~250-260bp	30 yr / mthly	AAA/AA+ Agency/GSE Floaters-CMO (reset to 1 mo. "libor" changes)	Long final, low spread
1.45%-1.50%	2-3 yr	AAA/AA+ Agency Bullets	Low absolute yield

***The "Investment Alternatives" prepared by EPG are for general information only and do not constitute investment advice, recommendations to buy, sell or hold investments nor convey any performance claim.***



'EPG Perspectives'

Copyright EPG Incorporated 2019.

Disclaimer: The EPG Perspectives has been prepared by EPG Incorporated and is being circulated for general information only. EPG Incorporated is not making any recommendations or soliciting any action based upon the information contained in the Perspectives and the views expressed above do not constitute and may not be relied on as investment advice. Nothing in the Perspectives is an offer or solicitation to buy or sell any security. Although the Perspectives may include investment related information, nothing in the Perspectives is a recommendation that you purchase, sell or hold any security or other investment, or that you pursue any investment style or strategy. Nothing in the Perspectives is intended to be, and you should not consider anything in the Perspectives to be, investment, tax, accounting or legal advice. The market analysis, estimates and similar information, including all statements of opinion and/or belief, contained in the Perspectives are subject to inherent uncertainties and qualifications are based on a number of assumptions. You should carefully review the information provided regarding such analysis and assumptions. All information is provided on an 'AS IS' basis only. The material in the Perspectives is based upon information that EPG, Incorporated considers reliable, but no representation or warranty (express or implied) is being made that such information is accurate or complete, and it should not be relied on as such. EPG Incorporated shall not have any liability for the accuracy of the information contained herein, for delays or omissions herein, or for any results based on the recipient's use of the information. The views and opinions expressed above are as of the date of this commentary only and are subject to change at any time based upon market or other conditions. EPG Incorporated disclaims any responsibility to update such views. The Perspectives is confidential and is not to be reproduced or distributed to persons other than the recipient, and is intended solely for their internal use. Certain transactions and instruments discussed in the Perspectives give rise to substantial risk and are not suitable for all investors. EPG Incorporated, or persons involved in the preparation or issuance of this material, may from time to time have long or short positions in, or buy and sell, securities, futures, or options identical or related to the securities and instruments mentioned herein. This material has been issued by EPG Incorporated, which may have acted upon or used this research prior to or immediately following its publication. It should not be assumed that any of the instruments discussed in the Perspectives were, or will prove to be, profitable. Notwithstanding the foregoing, nothing contained in the preceding paragraph shall constitute a waiver by you of any of your legal rights under applicable U.S. federal securities laws or any other laws whose applicability is not permitted to be contractually waived.