Quarterly Economic and Market Update

June 2018
## Economic and Market Update

### 6/30/2018

**Estimates for the current quarter/month, some data are lagged**

Sources: FTN Main Street and Bloomberg

**Next Projected Fed Funds Hike is first month Fed Funds Futures are 2.125% or higher**

<table>
<thead>
<tr>
<th>Item</th>
<th>6/30/2018</th>
<th>3/31/2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Payrolls Monthly Change</td>
<td>213,000</td>
<td>155,000</td>
<td>58,000</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.0%</td>
<td>4.1%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Labor Force Participation</td>
<td>62.9%</td>
<td>62.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Effective Fed Funds Rate</td>
<td>1.91%</td>
<td>1.68%</td>
<td>0.23%</td>
</tr>
<tr>
<td>Next Fed Funds Hike**</td>
<td>Dec 2018</td>
<td>Jan 2019</td>
<td>-1 Months</td>
</tr>
<tr>
<td>3 Month T-Bill</td>
<td>1.92%</td>
<td>1.71%</td>
<td>0.21%</td>
</tr>
<tr>
<td>2 Year T-Note</td>
<td>2.53%</td>
<td>2.27%</td>
<td>0.26%</td>
</tr>
<tr>
<td>3 Year T-Note</td>
<td>2.62%</td>
<td>2.38%</td>
<td>0.24%</td>
</tr>
<tr>
<td>5 Year T-Note</td>
<td>2.74%</td>
<td>2.56%</td>
<td>0.18%</td>
</tr>
<tr>
<td>10 Year T-Note</td>
<td>2.86%</td>
<td>2.74%</td>
<td>0.12%</td>
</tr>
<tr>
<td>U.S. Fed Debt Avg Yield*</td>
<td>2.21%</td>
<td>2.20%</td>
<td>0.02%</td>
</tr>
<tr>
<td>30 Year Mortgage Rate</td>
<td>4.40%</td>
<td>4.27%</td>
<td>0.13%</td>
</tr>
<tr>
<td>1-5 Yr Agency Spread</td>
<td>0.08%</td>
<td>0.07%</td>
<td>0.01%</td>
</tr>
<tr>
<td>1-5 Yr Corporate Spread</td>
<td>0.69%</td>
<td>0.69%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Dow Jones</td>
<td>24,271</td>
<td>24,103</td>
<td>0.7%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>2,718</td>
<td>2,641</td>
<td>2.9%</td>
</tr>
<tr>
<td>Consumer Price Index YOY*</td>
<td>2.9%</td>
<td>2.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>U.S. Avg Regular Unleaded</td>
<td>$2.85</td>
<td>$2.66</td>
<td>$0.20</td>
</tr>
<tr>
<td>Retail Sales YOY*</td>
<td>5.5%</td>
<td>5.1%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Case-Shiller Home Prices YOY*</td>
<td>6.6%</td>
<td>6.7%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Gold (per ounce)</td>
<td>$1,252.60</td>
<td>$1,325.50</td>
<td>-$72.90</td>
</tr>
<tr>
<td>Dollar Index</td>
<td>94.47</td>
<td>90.15</td>
<td>4.32</td>
</tr>
<tr>
<td>Consumer Confidence</td>
<td>126.40</td>
<td>127.00</td>
<td>-0.60</td>
</tr>
</tbody>
</table>

*Estimates for the current quarter/month, some data are lagged

**Next Projected Fed Funds Hike is first month Fed Funds Futures are 2.125% or higher**

Sources: FTN Main Street and Bloomberg
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U.S. GDP (Quarter over Quarter Annualized)*

Percent

Q1 2009: 1.3
Q2 2009: 3.9
Q3 2009: 3.9
Q4 2009: 2.7
Q1 2010: 2.7
Q2 2010: 1.7
Q3 2010: 0.8
Q4 2010: 2.9
Q1 2011: 2.9
Q2 2011: 2.9
Q3 2011: 2.7
Q4 2011: 1.9
Q1 2012: 1.9
Q2 2012: 2.8
Q3 2012: 0.5
Q4 2012: 0.8
Q1 2013: 0.8
Q2 2013: 3.1
Q3 2013: 3.1
Q4 2013: 4.0
Q1 2014: 4.0
Q2 2014: 4.6
Q3 2014: 4.6
Q4 2014: 5.2
Q1 2015: 2.7
Q2 2015: 2.7
Q3 2015: 3.2
Q4 2015: 1.6
Q1 2016: 0.5
Q2 2016: 0.6
Q3 2016: 2.2
Q4 2016: 2.8
Q1 2017: 2.8
Q2 2017: 1.8
Q3 2017: 3.1
Q4 2017: 3.2
Q1 2018: 3.2
Q2 2018: 2.9
Q3 2018: 3.0
Q4 2018: 2.6
Q1 2019: 2.4
Q2 2019: 2.5

* Real Rate (Inflation Adjusted)

Source: Bureau of Economic Analysis
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U.S. Annual GDP *

* Real Rate (Inflation Adjusted)

Source: Bureau of Economic Analysis

Estimate: Bloomberg's Survey of Economists
As of: 6/30/18
12 Month Average Job Change: 196,500

Source: Bureau of Labor Statistics
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U.S. Number of Employed Full-Time and Part-Time

U.S. Labor Force Participation Rate

Source: Bureau of Labor Statistics
Weekly Initial Jobless Claims is the actual number of people who have filed for Unemployment benefits for the first time. The following five eligibility criteria must be met in order to file for unemployment benefits: 1. Meet the requirements of time worked during a 1 year period (full time or not). 2. Become unemployed through no fault of your own (cannot be fired). 3. Must be able to work; no physical or mental holdbacks. 4. Must be available for work. 5. Must be actively seeking work.

Source: Department of Labor and Bloomberg
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U.S. Real* Retail Sales YOY % Change

U.S. Consumer Confidence

*Real: Inflation Adjusted

Source: U.S. Census Bureau

Source: Conference Board
CPI and CPIX YOY % Change

CPI: Consumer Price Index
CPIX: Consumer Price Index, excluding food and energy

PCE and PCEC YOY % Change

PCE: Personal Consumption Expenditure
PCEC: Personal Consumption Expenditure Core

Source: Bureau of Labor Statistics and Bureau of Economic Analysis
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Case-Shiller 20 City U.S. Home Price Index
YOY % Increase

U.S. New and Existing Home Sales

Source: Case-Shiller
Sources: New (U.S. Census Bureau), Existing (National Assoc. of Realtors)
Seasonally Adjusted Annual Rate
U.S. Federal Debt Outstanding

U.S. Treasury Interest Bearing Debt Avg Rate

Source: U.S. Treasury
Fed Funds Anticipated Rate from the June 13, 2018 FOMC Meeting

Source: Bloomberg
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U.S. Treasury Yield Curve Change

<table>
<thead>
<tr>
<th>Maturity</th>
<th>3/29/18</th>
<th>6/29/18</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>3M</td>
<td>1.71</td>
<td>1.92</td>
<td>0.21</td>
</tr>
<tr>
<td>6M</td>
<td>1.92</td>
<td>2.11</td>
<td>0.19</td>
</tr>
<tr>
<td>1Y</td>
<td>2.09</td>
<td>2.31</td>
<td>0.22</td>
</tr>
<tr>
<td>2Y</td>
<td>2.27</td>
<td>2.53</td>
<td>0.26</td>
</tr>
<tr>
<td>3Y</td>
<td>2.38</td>
<td>2.62</td>
<td>0.24</td>
</tr>
<tr>
<td>5Y</td>
<td>2.56</td>
<td>2.74</td>
<td>0.18</td>
</tr>
<tr>
<td>10Y</td>
<td>2.74</td>
<td>2.86</td>
<td>0.12</td>
</tr>
<tr>
<td>30Y</td>
<td>2.97</td>
<td>2.99</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Source: Bloomberg
Figures may not total due to rounding
Economic and Market Update
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U.S. Treasury Yields: 3M and 1Y

Source: Bloomberg
U.S. Treasury Yields 2Yr and 5Yr - Fed Funds Target Rate

Source: Bloomberg
Global Treasury Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>2 Year Yields</th>
<th>5 Year Yields</th>
<th>10 Year Yields</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>2.53%</td>
<td>2.74%</td>
<td>2.86%</td>
</tr>
<tr>
<td>Australia</td>
<td>1.99%</td>
<td>2.27%</td>
<td>2.67%</td>
</tr>
<tr>
<td>Canada</td>
<td>1.91%</td>
<td>2.06%</td>
<td>2.63%</td>
</tr>
<tr>
<td>England</td>
<td>0.72%</td>
<td>1.72%</td>
<td>2.17%</td>
</tr>
<tr>
<td>Italy</td>
<td>0.68%</td>
<td>1.02%</td>
<td>1.78%</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.13%</td>
<td>0.63%</td>
<td>1.32%</td>
</tr>
<tr>
<td>Portugal</td>
<td>-0.15%</td>
<td>0.40%</td>
<td>1.28%</td>
</tr>
<tr>
<td>Spain</td>
<td>-0.25%</td>
<td>0.01%</td>
<td>0.66%</td>
</tr>
<tr>
<td>France</td>
<td>-0.48%</td>
<td>-0.11%</td>
<td>0.30%</td>
</tr>
<tr>
<td>Germany</td>
<td>-0.67%</td>
<td>-0.31%</td>
<td>0.03%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>-0.78%</td>
<td>-0.51%</td>
<td>0.16%</td>
</tr>
</tbody>
</table>

Source: Bloomberg
**Economic and Market Update**

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**Spread: 1-5Yr Agency* vs Treasury**

Current Spread is 8

* BofA/Merrill Index (option adjusted spread vs. Treasury)
  Agency (GVP0)

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**Spread: 1-5Yr A-AAA Corporate vs Treasury**

Current Spread is 69

* BofA/Merrill Index (option adjusted spread vs. Treasury)
  Corporate A-AAA (CV10)

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Source: Bank of America Merrill Lynch Indices
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Spread: AAA Asset Backed vs Treasury

Current Spread is 50

Spread: 0-3Yr Agency CMO vs Treasury

Current Spread is 57

*BofA/Merrill Index (option adjusted spread vs. Treasury)
AAA Rated ABS (R0A1)

*BofA/Merrill Index (option adjusted spread vs. Treasury)
CMO Agency 0-3Yr PAC (CM1P)

Source: Bank of America Merrill Lynch Indices
Selected Sector Quarterly Total Returns

Source: Bloomberg
Selected Sector Year-Over-Year Total Returns

Source: Bloomberg
Concerns on trade war dissipate
Combination of solid earnings and hawkish Fed-speak moves rates higher
Payroll data disappoints
Inflation worry on higher oil prices
Solid retail sales gives hope for higher Q2
ECB keeps rates and QE unchanged
FOMC Minutes reveal dovish stance on inflation
The Fed raises rates and forecasts two additional hikes by year end
Talk of potential trade war heats up
Political concerns in Italy cause a flight to safety for investors
Better-than-expected U.S. Jobs Report
Larry Kudlow’s trade comments further escalate trade fears

Sources: Bloomberg, FTN Main Street
Economic and Market Update
6/30/2018

Sources: Bloomberg, FTN Main Street

Trade disputes cause Boeing stock to tumble
China announces reduction in tariffs for foreign autos
Solid earnings alleviate trade concerns
Potential for higher rates spook investors
Energy stocks put upward pressure on market as Oil tops $70/bbl
Mnuchin declares a pause on trade war
Nasdaq closes at record high
Walmart warns on lower forward guidance
ISM indices expand at best pace in four months
Italian political turmoil throws the market into a panic
Trade war concerns brings about negative momentum as stocks turn sharply lower to close out the quarter

Dow Jones Industrial Index
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