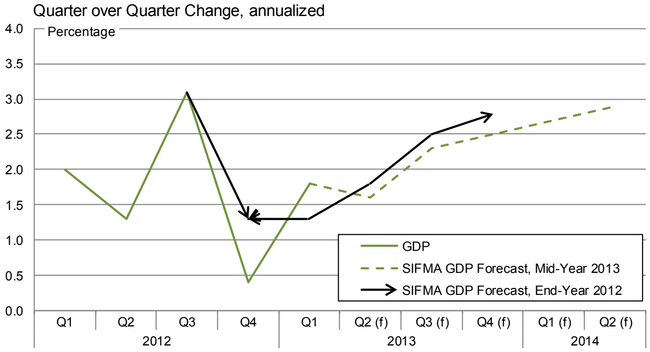
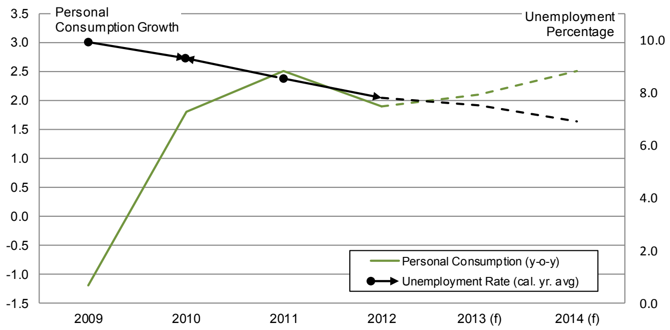
Real GDP Growth Rate
Quarter over Quarter Change, annualized



*(f) Forecast
Source: Actuals: Bureau of Economic Analysis; Forecasts: Median Response to the SIFMA Economic Advisory Roundtable Mid-Year 2013 Economic Outlook Survey

Consumer Spending Growth Rate and Unemployment Rate
Calendar Year Averages



*(f) Forecast
Source: Actuals: Bureau of Economic Analysis (Personal Consumption) & Bureau of Labor Statistics (Unemployment); Forecasts: Median Response to the SIFMA Economic Advisory Rountable Mid-Year 2013 Economic Outlook Survey

U.S. ECONOMIC FORECAST WEAKENS; FOMC POLICY CONCERNS DOMINATE OUTLOOK

Members of SIFMA's Economic Advisory Roundtable forecast that the U.S. economy will grow at a 1.7 percent rate in full-year 2013 and grow 2.6 percent in 2014.[1] Concerns over U.S. monetary policy dominate the mid-year 2013 outlook, which is weaker than the Roundtable's 2012 end-year prediction of a 1.9 percent growth rate.

Forecast Highlights

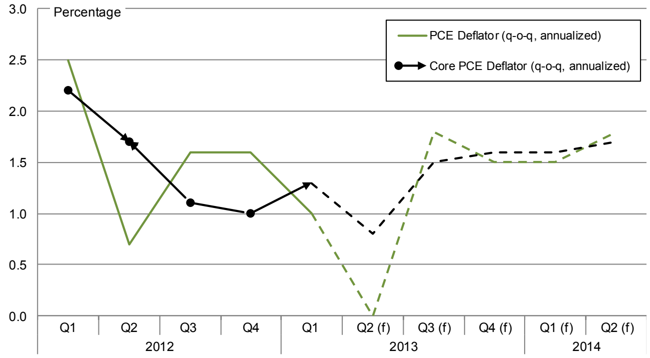
MONETARY POLICY The Roundtable was unanimous in its opinion that the Federal Open Market Committee (FOMC) would maintain its current 0.0 to 0.25 percent target federal funds rate range through at least the first quarter of 2015.

THE ECONOMY The median forecast called for 2013 gross domestic product (GDP) growth to be 1.7 percent on a year-over-year basis, and 2.0 percent on a fourth quarter-to-fourth quarter basis.[2] Respondents expected GDP growth to rise from 1.6 percent growth in 2Q'13 to 2.5 percent growth in 4Q'13, on an annualized basis.[3] For full year 2014, GDP growth was expected climb to 2.6 percent from 1.7 percent in 2013. The first two quarters of 2014 were expected to stabilize at 2.7 and 2.9 percent annualized GDP growth, respectively.[4] The majority of respondents thought that sequestration cut up to 100 basis points from GDP growth in full-year 2013.

Unemployment was expected to remain at elevated levels throughout 2013 and 2014. Survey respondents expected the full-year average unemployment rate to decline to 7.5 percent in 2013, a slight improvement from the end-year 2012 forecast of 7.7 percent; a further decline to 6.9 percent was expected in 2014.[5] Full-year 2013 non-farm payroll employment gains were estimated to total 2.3 million jobs;[6] the median expectation was slightly higher for 2014, at 2.4 million jobs.[7] Expectations about consumer spending trends, however, strengthened significantly from end-year 2012, with personal consumption estimated to rise to 2.1 percent in 2013 (compared to the median expectation of 1.6 percent in the end-year survey), and then rise further to 2.5 percent in 2014.[8]

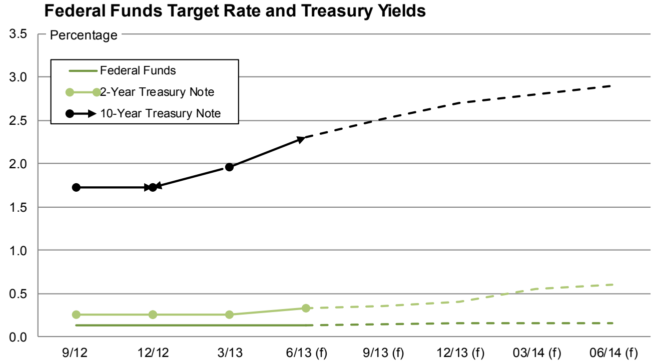
[1] The survey was conducted from June 27, 2013 July 11, 2013. The forecasts discussed in the text and appearing in the accompanying data tables and graphs are the median values of the individual member firms' submissions, unless otherwise specified.
[2] The full-year 2013 GDP growth forecasts ranged from 1.6 percent to 2.9 percent, and on a fourth-quarter-to-fourth quarter basis ranged from 1.7 percent to 3.1 percent.
[3] On a quarterly basis, annualized GDP growth forecasts ranged from 1.0 percent to 2.6 percent in 2Q'13, 1.2 percent to 3.7 percent in 3Q'13, and 2.0 percent to 4.3 percent in 4Q'13.
[4] The full-year 2014 GDP growth forecasts ranged from 2.3 percent to 3.2 percent. On a quarterly basis, annualized GDP growth forecasts ranged from 2.3 percent to 3.2 percent in 1Q'14, and 2.5 percent to 3.5 percent in 2Q'14.
[5] The full-year 2013 average unemployment rate forecast ranged from 7.4 percent to 7.6 percent and for 2014 ranged from 6.6 percent to 7.3 percent.
[6] The full-year 2013 non-farm payroll employment growth forecasts ranged from 2.0 million jobs to 2.4 million jobs.
[7] The full-year 2014 non-farm payroll employment growth forecasts ranged from 2.0 million jobs to 2.6 million jobs.
[8] Personal consumption growth forecasts ranged from 1.9 percent to 3.5 percent in 2013, and 2.1 percent to 3.4 percent in 2014.

PCE Deflator & Core PCE Deflator



*(f) Forecast
Source: Actuals: Bureau of Economic Analysis; Forecasts: Median Response to the SIFMA Economic Advisory Roundtable Mid-Year 2013 Economic Outlook Survey

Federal Funds Target Rate and Treasury Yields



*(f) Forecast
Source: Actuals: Bureau of Economic Analysis, Federal Reserve; Forecasts: Median Response to the SIFMA Economic Advisory Roundtable Mid-Year 2013 Economic Outlook Survey

The business capital investment growth estimate for full-year 2013 also strengthened considerably to 4.6 percent from the 3.1 percent forecasted at end-year 2012. Growth was expected to strengthen even further in 2014, with a median expectation of 7.2 percent growth.[9] State and local government spending was expected to shrink by 1.0 percent in 2013, and then grow slightly by 0.4 percent in 2014.[10]

The median forecast for "headline" inflation, measured by the personal consumption expenditures (PCE) chain price index, was 1.1 percent for full-year 2013 and 1.6 percent for full-year 2014.[11] The median forecast for the core PCE chain price index was 1.2 percent for full-year 2013 and 1.6 percent for full-year 2014.[12]

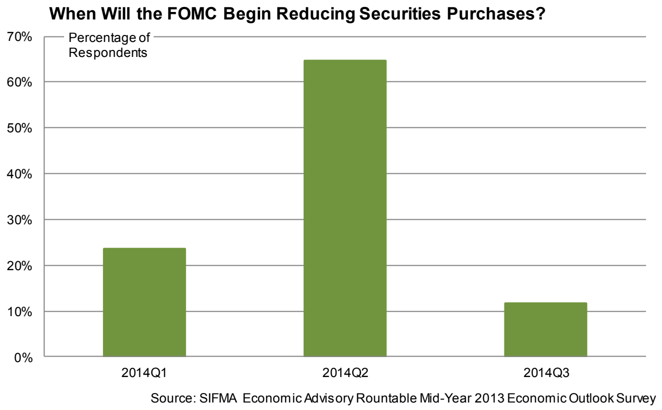
The outlook for inflation continued to be moderate for 2013. Over 75 percent of respondents believe inflation is not a concern in 2013, with four panelists expressing moderate concern and none expressing deep concern. Economic slack/employment featured prominently as the dominant factor in the inflation outlook for 2013, followed by global economic conditions; these factors were the same noted in the end-year 2012 survey. One respondent noted the weakness in commodities and employment income as additional factors. Several respondents noted that deflation was more likely than inflation, with no real fundamental drivers for higher inflation, given economic slack and "soft" global conditions. One respondent noted that the federal balance sheet was stabilizing for inflation because "it helps avoid deflation;" another respondent noted that the Fed balance sheet contributing to inflation was a "red herring."

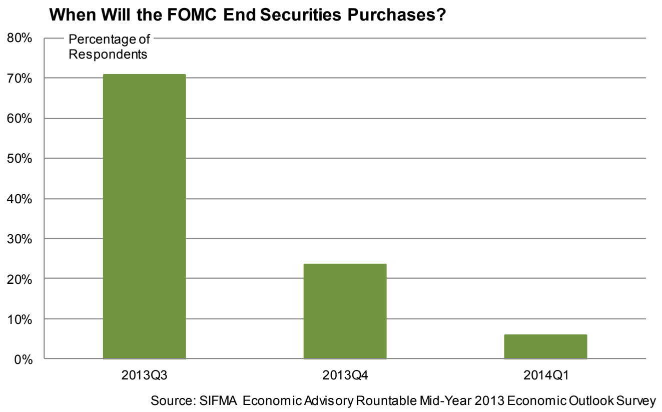
Federal Reserve Chairman Ben Bernanke noted in his recent semi-annual monetary policy report to Congress that economic growth remained vulnerable to "tight federal fiscal policy," and "slower than currently anticipated" global economic growth.[13]

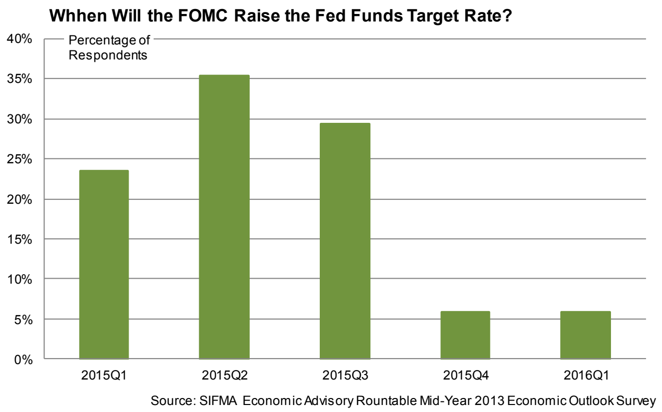
INTEREST RATES As referenced earlier, the Roundtable expected the FOMC to maintain its 0.0 to 0.25 percent federal funds target rate throughout 2013 and 2014, with the median expectation for the first rate hike to occur in the second quarter of 2015. As of July 11, 2013 (the end of the survey period), the 10-year U.S. Treasury yield was 2.6 percent; the median forecasts for 10-year Treasury rates were 2.52 percent in September 2013, 2.70 percent in December 2013, 2.8 percent in March 2014, and 2.90 percent in June 2014.[14] Survey respondents were divided on the source of the greatest impact on long-term Treasury yields in 2013; approximately half respondents expected FOMC interest rate policy to play the greatest factor, closely followed by economic growth.

Half of respondents expected the Treasury yield curve (Fed funds-to-ten year Treasury yield spread) to steepen through 2013, with 31 percent expecting it to remain the same and the balance

[9] The full-year 2013 business fixed investment forecasts ranged from 3.0 percent to 6.9 percent and for 2014 ranged from 3.2 percent to 10.0 percent.
[10] The full-year 2013 real state and local government spending forecasts ranged from (2.5) percent to 0.0 percent and for 2014 ranged from (1.8) to 1.7 percent.
[11] The full-year 2013 PCE deflator forecasts ranged from 1.0 percent to 1.4 percent and for 2014, from 1.0 percent to 2.3 percent.
[12] The full-year 2013 core PCE deflator forecasts ranged from 1.1 percent to 1.5 percent and for 2014, from 1.1 percent to 2.3 percent.
[13] Bernanke, Ben, Semiannual Monetary Policy Report to Congress, June 17, 2013. http://www.federalreserve.gov/newsevents/testimony/bernanke20130717a.htm
[14] The average 10-year Treasury yield forecasts ranged from 1.92 percent to 2.75 percent for June 2013, 2.10 percent to 2.80 percent for September 2013, from 2.00 percent to 3.00 percent for December 2013; from 2.25 percent to 3.25 percent for March 2014; and from 2.42 percent to 3.50 percent June 2014.







to flatten. Nearly 90 percent of survey respondents expected the TED (Treasury bill less LIBOR) spread to remain the same in 2013, with a small minority expecting it to narrow or widen. Opinions diverged significantly over the path of investment-grade (IG) and high-yield (HY) spreads, with approximately a third of respondents expecting IG spreads to widen, another third to narrow, and the last third to remain the same. Opinions on HY spreads had slightly greater consensus, with half expecting spreads to narrow, a third to widen, and the balance to remain the same.

Monetary Policy

In its June 19 statement, the FOMC announced that it would continue purchasing $45 billion of Treasury securities and $40 billion of mortgage-backed securities (MBS) per month. Three-fourths of survey respondents expect the FOMC to reduce the pace of securities purchases as early as September 2013, with the remainder expecting a reduction sometime in the fourth quarter of 2013 or at the latest January 2014; this assessment was confirmed when Chairman Bernanke noted in his report to Congress that it would "be appropriate to begin to moderate the monthly pace of purchases later this year," if incoming economic data were broadly consistent with projections.[15]

Opinions diverged slightly more when asked about timing for the end of securities purchases, with over half expecting an end in the second quarter of 2014, a little less than a third expecting an end in the first quarter of 2014, and the balance in the third quarter of 2014.

Regarding the timing to the first hike in the federal funds target rate, the median expectation is for second quarter 2015, with nearly 90 percent expecting a hike sometime within the first three quarters of 2015. The balance expected a rate hike in the fourth quarter of 2015 or later.

U.S. Economic Growth: Housing and Employment Dominate Upside; Eurozone and Global Conditions the Downside

The continued correction in business and real estate markets took center stage for promoting GDP growth in the remainder of 2013 outlook, with approximately half the respondents considering it the most important factor, followed by normalization of private credit markets.

Upside and downside risks to 2013 growth forecasts varied among respondents. The continued recovery of the real estate market, employment and lower energy prices were the most oft-cited upside risks to the economic forecast. Other upside factors cited were the recovery of consumer spending, "less fiscal restraint [that] boosts growth and ignites animal spirits," normalization of credit, and the return of business confidence.

The continuing risk from the Eurozone, and more generally global growth conditions in emerging market countries and China, were cited as the main downside risks to the economic outlook. Respondents also noted that tightening financial conditions and bad fiscal policy could also be factors to the downside.

[15] Op cit. 13.

Impact of Sequestration and the Debt Ceiling

In early February, the U.S. Congress passed a short-term suspension of the federal debt ceiling, which expired May 19. Sequestration, the result of budget negotiations from 2011 and 2012, also came into effect on March 1, impacting approximately $85 billion of federal spending. Nearly 90 percent of respondents believed the impact of sequestration lowered GDP growth in 2013 by up to 100 basis points. One respondent noted that higher taxes would be a "larger drag on economic growth in 2013 than spending cuts."

The debt ceiling is expected to be reached in October or November 2013. Respondents were relatively unanimous in their opinion that debt ceiling negotiations would not impact GDP in a meaningful way in 2013, with one respondent noting that a fiscal deal was likely to be reached without a government shutdown or "excessive brinkmanship." Another noted that the deficit was shrinking "rapidly" and that in fact the resulting increase in revenues as a percentage of GDP "could result in considerable, unexpected fiscal drag in 2014."

Respondents were asked about the impact of potential tax code changes to GDP. The majority of respondents expect a revenue neutral reduction in corporate tax rate and elimination of deductions (in part or in full) would have the greatest benefit to GDP growth.

Oil Prices

Panelists placed a 77 percent chance on WTI oil prices remaining between $75 per barrel to $125 per barrel in 2013, with a 12 percent chance of prices moving below $75 and an 11 percent chance for oil prices moving above $125 per barrel. The most likely scenario – oil prices remaining between $75 and $125 per barrel – was expected to have no effect on boosting GDP growth. The sub-$75 per barrel scenario was predicted to boost GDP growth by approximately a third of a percentage point, while the $125+ per barrel scenario would have the effect of reducing GDP growth by a third of a percentage point. Panelists noted that risks were generally balanced for both the upside and downside, with weak global conditions putting downward pressure and unrest in the Middle East the most likely risk to put upward pressure on prices.

SIFMA ECONOMIC ADVISORY ROUNDTABLE FORECAST

Inflation adjusted year-over-year percentage change, unless otherwise specified.

	2013	2014
Real GDP	1.7	2.6
Real GDP (4Q – 4Q)	2.0	N/A
CPI	1.4	1.8
CPI (4Q – 4Q)	1.5	N/A
Core CPI	1.8	1.8
Core CPI (4Q – 4Q)	1.8	N/A
PCE deflator	1.1	1.6
PCE deflator (4Q – 4Q)	1.1	N/A
Core PCE deflator	1.2	1.6
Core PCE deflator (4Q – 4Q)	1.3	N/A
Personal Consumption	2.1	2.5
Nonresidential Fixed Investment	4.6	7.2
Housing Starts (millions)	1.0	1.3
Real State & Local Government Spending	(1.0)	0.4
Current Account Deficit ($ billions)	454.5	482.7
New Home Sales (millions of units)	0.5	0.6
Existing Home Sales (millions of units)	5.1	5.4
Nonfarm Payroll Employment (change in millions)	2.3	2.4
Unemployment Rate (calendar year average)	7.5	6.9
Federal Budget (FY, $ billions)	(670.0)	(600.0)

Quarter-to-Quarter % Changes in Annual Rates

	2013				2014	
	I	II	III	IV	I	II
Real GDP	1.8	1.6	2.3	2.5	2.7	2.9
CPI	2.0	0	2	1.8	1.7	1.9
Core CPI	2.0	1.4	1.8	1.8	1.8	1.9
PCE deflator	1.0	0	1.8	1.5	1.5	1.8
Core PCE deflator	1.3	0.8	1.5	1.6	1.6	1.7
Personal Consumption	2.6	1.8	2.2	2.5	2.5	2.6
Nonresidential Fixed Investment	0.4	3.6	6.7	7.0	6.8	6.9

Interest Rates (monthly average %)

	Sep. '13	Dec. '13	Mar. '14	Jun. '14
Fed Funds	0.14	0.15	0.15	0.15
2 Year Treasury Note	0.36	0.4	0.55	0.60
10 Year Treasury Note	2.52	2.70	2.80	2.90
30 Year Fixed-Rate Home Mortgages	4.3	4.4	4.6	4.7

Exchange Rates (monthly average %)

	Sep. '13	Dec. '13	Mar. '14	Jun. '14
Yen/Dollar	102.0	105.0	108.0	110.0
Dollar/Euro	1.29	1.28	1.27	1.26

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