Previewing the Fed September 2016



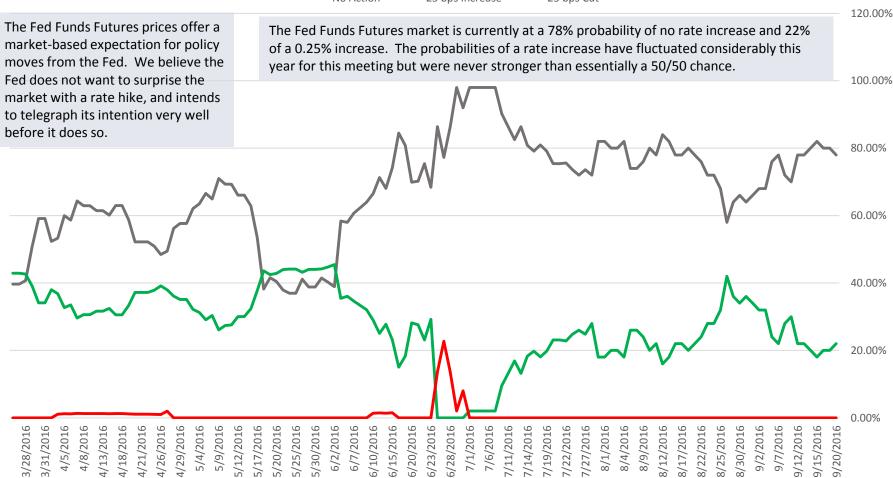
Market's Expectations





9/21/16 FOMC Action

— No Action _____ 25 bps Increase _____ 25 bps Cut



Source: Bloomberg as of 9/20/16

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See Disclosure and

Jobs: Unemployment Rate



Unemployment Rates

Percent, Seasonally Adjusted

		mic reasons
18 16		
	The unemployment rate ticked upwards to 4.9% from the May low of 4.7% which was below where it was at pre-2008 recess still sees "slack" in the labor market through workers that are marginally attached or unwillingly part-time. This measure is st	
14	was pre-2008 recession.	
12		
		9.7
10		
8		
6		4.9
4	The FOMC doesn't specify a fixed goal for maximum employment it's more of a moving target. In March 2016, the FOMC estimated the long-run normal rate of unemployment to range from 4.7 to 5.8 percent with	~~~~~
2	a median value of 4.8 percent. ³ Under these projections you could say the full employment objective has technically been achieved.	
2	8/1/2006 10/1/2006 2/1/2007 6/1/2007 6/1/2007 8/1/2008 8/1/2008 8/1/2008 8/1/2008 8/1/2009 6/1/2008 8/1/2010 10/1/2009 10/1/2009 8/1/2010 10/1/2009 12/1/2010 8/1/2011 12/1/2012 8/1/2013 8/1/2013 12/1/2013 8/1/2013 12/1/2013 8/1/2013 12/1/2013	4/1/2015 6/1/2015 8/1/2015 10/1/2015 12/1/2016 4/1/2016 6/1/2016 8/1/2016
Inve	rrce: Fred - Federal Reserve Bank of St. Louis Economic Data ^{1,2} (Graph Data), Federal Reserve ³ estors cannot invest directly into an index and advisors cannot mirror an index. Any performance quoted is past performance and is not a guarantee of future results. Diversification does guarantee investment returns and does not eliminate the risk of loss. Individual results will differ based upon asset allocation, timing and fees.	See Disclosure and Footnotes, Page 13 3

Jobs: Change in Non-Farm Payrolls

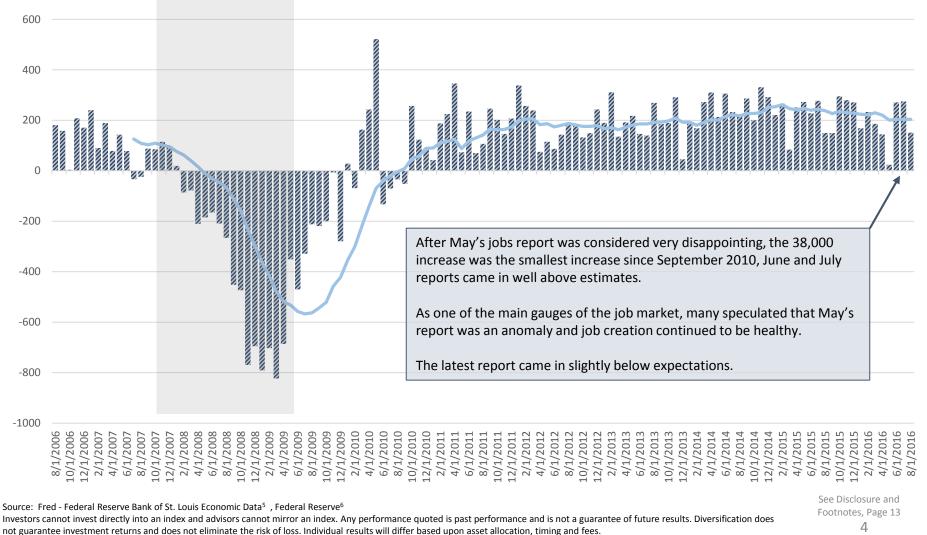


Total Nonfarm Payrolls

Change, Thousands of Persons, Seasonally Adjusted

Total Nonfarm Payrolls

12-month moving avg.



Jobs: Wage Growth



Average Hourly Earnings of All Employees: Total Private

Percent Change from Year Ago, Seasonally Adjusted

 12-month moving avg. Wage growth remains suboptimal. Wage growth when the economy is at less than full employment is hard to 3.5 come by, as the supply of workers available outpaces job openings. This is another sign of slack in the labor market beneath the headline unemployment number. In Janet Yellen's June 6th speech she mentioned tentative signs of faster wage growth, however there was a sharp downturn in the latest jobs report.¹⁹ 2.5 2 1.5 1/1/2011 3/1/2011 5/1/2011 7/1/2011 1/1/2012 3/1/2012 5/1/2012 3/1/2012 1/1/2012 1/1/2012 1/1/2013 3/1/2013 3/1/2013 1/1/2013 1/1/2013 1/1/2013 1/1/2013 1/1/2013 1/1/2013 1/1/2008 3/1/2008 5/1/2008 7/1/2008 1/1/2009 3/1/2009 5/1/2009 7/1/2009 11/1/2009 1/1/20103/1/2010 5/1/2010 7/1/2010 9/1/2010 3/1/2014 5/1/2014 9/1/2014 1/1/2015 5/1/2007 9/1/2007 .1/1/2007 1/1/2008 9/1/2009 11/1/2010 7/1/2014 1/1/2014 9/1/2015 /1/2007 /1/2015 1/2016 3/1/2007 9/1/2008 7/1/2015 /1/2016 5/1/2015 1/1/2015 /1/2016

Source: Fred - Federal Reserve Bank of St. Louis Economic Data⁷

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Jobs: Labor Market Conditions Index



Change in Labor Market Conditions Index

Index Points, Seasonally Adjusted

		The Fed's Labor Market Conditions Index is Janet Yellen's preferred measure to gauge the overall health and direction of the labor market. The index is composed of a large set of labor factors, including, the unemployment rate, labor force participation rate, hours worked, wage growth, etc. and summarizes the labor market. This index turned negative in January 2016, signaling deterioration, and has continued downward each month since. It hit it's lowest level reading since 2009 during the summer, then bounced back, but the latest reading released at the beginning of September signaled deterioration. ²⁰
06 00 07 07 07		2 2 2 2 2 2 1 1 1 1 1 1 1 1 1 1 1 1 1 1
8/1/2006 10/1/2006 12/1/2007 2/1/2007 6/1/2007 6/1/2007 8/1/2007 10/1/2007	12/1/2007 2/1/2008 6/1/2008 6/1/2008 8/1/2008 110/1/2008 12/1/2009 6/1/2009 6/1/2009 8/1/2009 8/1/2009 110/1/2009	2/1/2010 6/1/2010 8/1/2010 10/1/2010 12/1/2011 8/1/2011 10/1/2011 11/1/2012 12/1/2012 12/1/2013 12/1/2013 8/1/2013 12/1/2013 8/1/2014 12/1/2013 8/1/2014 12/1/2014 8/1/2014 12/1/2015 12/1/2015 12/1/2015 12/1/2016 12/1/201

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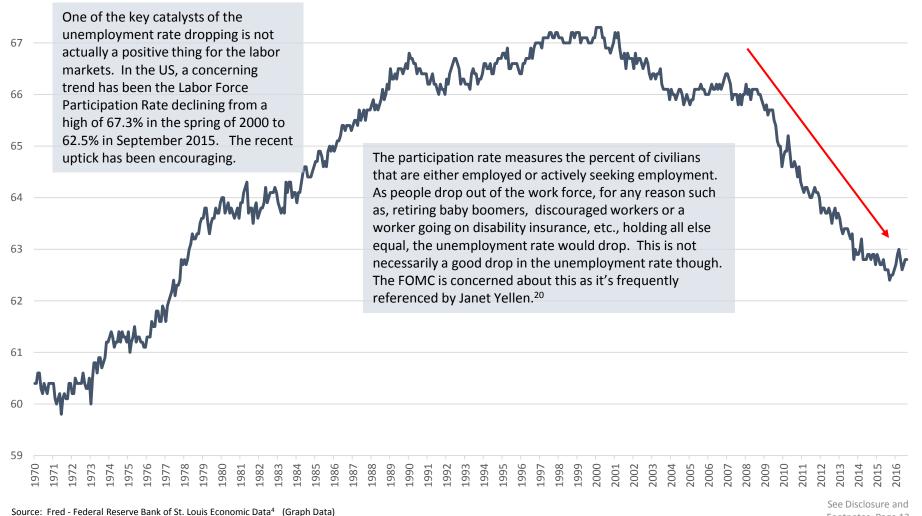
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Jobs: Labor Force Participation Rate

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Civilian Labor Force Participation Rate Percent, Seasonally Adjusted



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Footnotes, Page 13

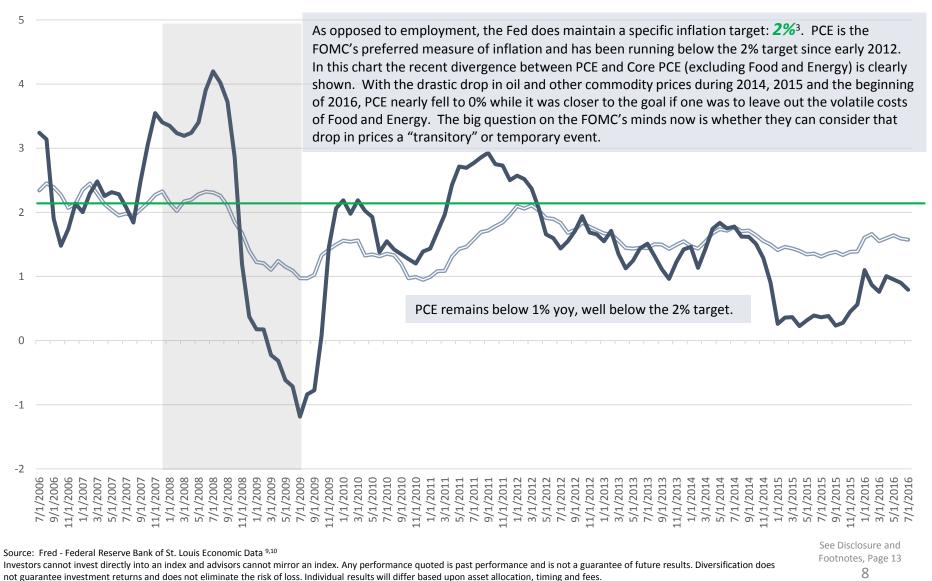
7

Inflation: PCE



Personal Consumption Expenditures Excluding Food and Energy

Personal Consumption Expenditures

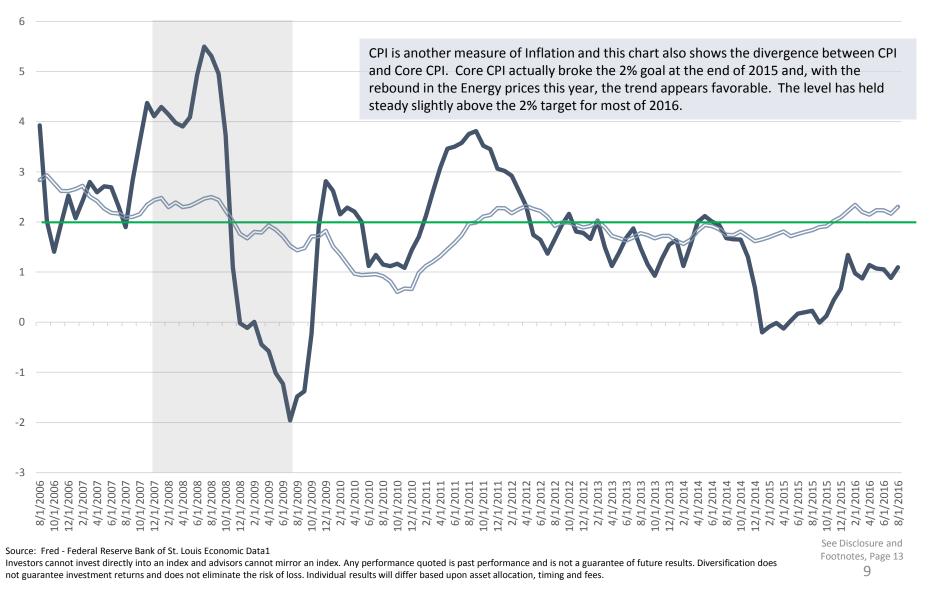


Inflation: CPI



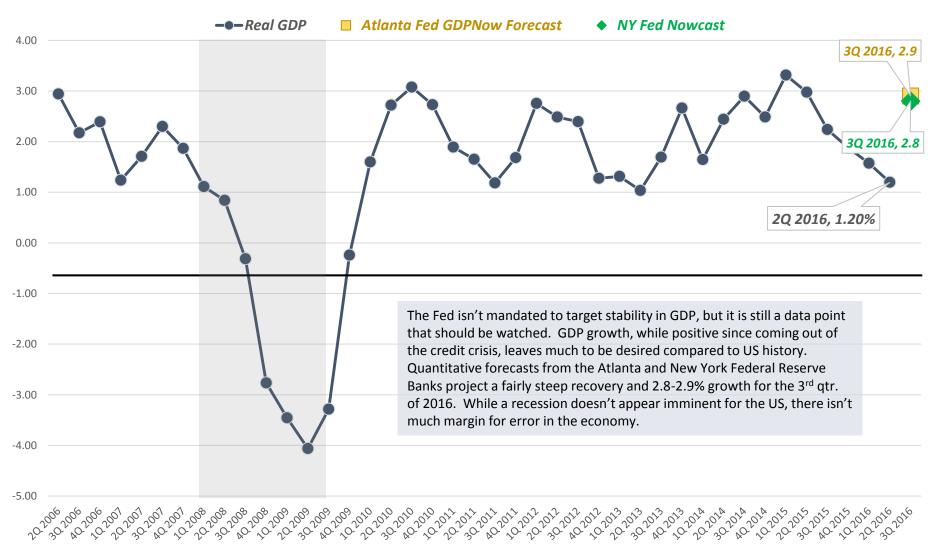
Consumer Price Index for All Urban Consumers: All Items

Consumer Price Index for All Urban Consumers: All Items Less Food and Energy



GDP





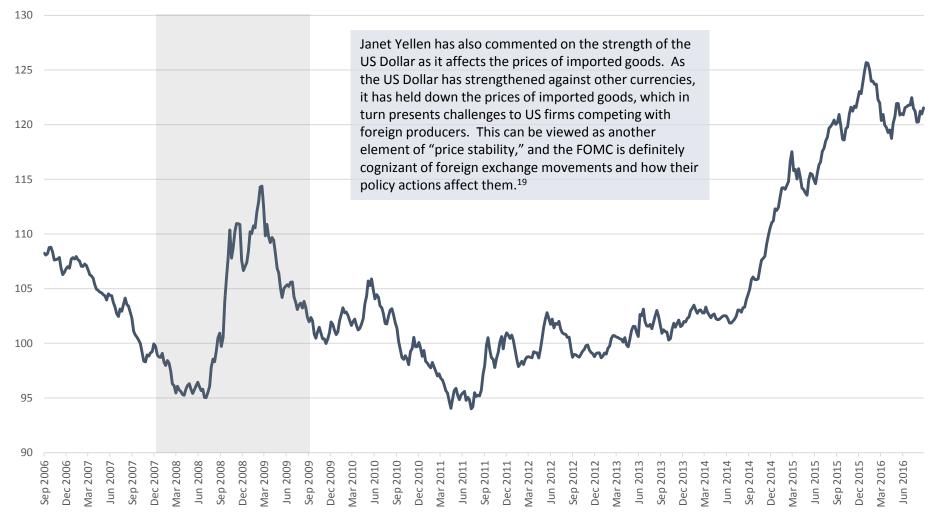
Source: Fred - Federal Reserve Bank of St. Louis Economic Data¹³ (Historical GDP Graph Data), Atlanta Fed¹⁴, New York Fed¹⁵ Investors cannot invest directly into an index and advisors cannot mirror an index. Any performance quoted is past performance and is not a guarantee of future results. Diversification does not guarantee investment returns and does not eliminate the risk of loss. Individual results will differ based upon asset allocation, timing and fees. See Disclosure and Footnotes, Page 13 10

US Dollar: Prices of Imported Goods



Trade Weighted U.S. Dollar Index: Broad

Index Jan 1997=100, Not Seasonally Adjusted



Source: Fred - Federal Reserve Bank of St. Louis Economic Data¹⁶ (Graph Data), Federal Reserve⁶

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Yield Curve



9/19/2016 ••••• 6/30/2016 = 12/31/2015**10-Year Treasury Minus 2-Year Treasury** 3.5 The yield curve spent most of 2016 1.25 flattening. The 10-year dropped as The yield curve continued to flatten investors moved into safe bonds and over the summer to its lowest level 1.2 3 the 2-year moving up slightly, since before the financial crisis. After possibly in anticipation of the Fed Brexit, the 10-year yield hit an all-1.15 time record low.18 raising it's target rate. 2.5 1.1 **Flattening during** 1.05 1st and 2nd Quarter 2 0.95 1.5 0.9 **Steepening recovery** during 3rd Quarter 0.85 However we've seen a steep reversal as rate increase and economic 0.8 0.5 growth expectations have risen. 0.75 21311015 11311016 21211016 31311016 43012016 51311016 613012016 71311016 81311016 0 5 Yr 20 Yr 30 Yr 1 Mo 3 Mo 6 Mo 1 Yr 2 Yr 3 Yr 7 Yr 10 Yr

US Treasury Yield Curve

Source: Fred - Federal Reserve Bank of St. Louis Economic Data¹⁷ (Right hand Graph Data), US Treasury¹⁸ (Left hand Graph Data) Investors cannot invest directly into an index and advisors cannot mirror an index. Any performance quoted is past performance and is not a guarantee of future results. Diversification does not guarantee investment returns and does not eliminate the risk of loss. Individual results will differ based upon asset allocation, timing and fees.

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Footnotes

- 1. https://research.stlouisfed.org/fred2/series/UNRATE
- 2. https://research.stlouisfed.org/fred2/series/U6RATE
- 3. https://www.federalreserve.gov/faqs/money_12848.htm
- 4. https://research.stlouisfed.org/fred2/series/CIVPART
- 5. https://research.stlouisfed.org/fred2/series/PAYEMS
- 6. https://www.federalreserve.gov/newsevents/speech/yellen20160606a.htm
- 7. https://research.stlouisfed.org/fred2/series/AHETPI
- 8. https://research.stlouisfed.org/fred2/series/FRBLMCI
- 9. https://research.stlouisfed.org/fred2/series/PCECTPI
- 10. https://research.stlouisfed.org/fred2/series/PCEPILFE
- 11. https://research.stlouisfed.org/fred2/series/T10YIE
- 12. https://research.stlouisfed.org/fred2/series/T5YIE
- 13. https://research.stlouisfed.org/fred2/series/GDPC1
- 14. https://www.frbatlanta.org/cqer/research/gdpnow.aspx?panel=1
- 15. https://www.newyorkfed.org/research/policy/nowcast.html
- 16. <u>https://research.stlouisfed.org/fred2/series/TWEXB</u>
- 17. https://research.stlouisfed.org/fred2/series/T10Y2Y
- 18. https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield
- 19. https://www.federalreserve.gov/newsevents/speech/2016speech.htm
- 20. http://www.federalreserve.gov/newsevents/speech/yellen20140822a.htm



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