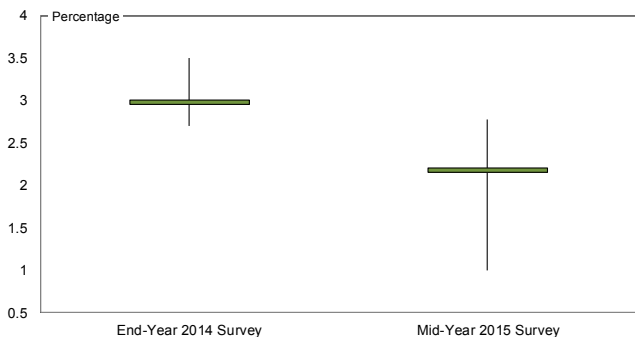
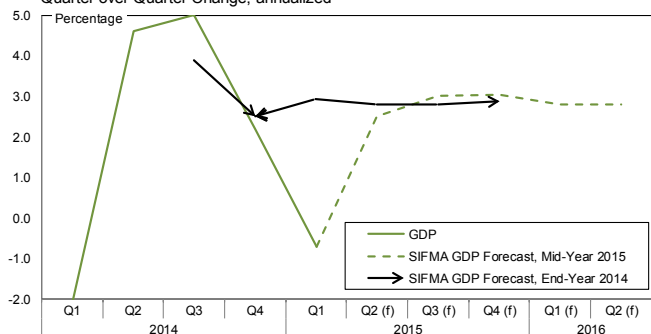


Full Year 2015 GDP Growth Estimates
End-Year 2014 vs Mid-Year 2015



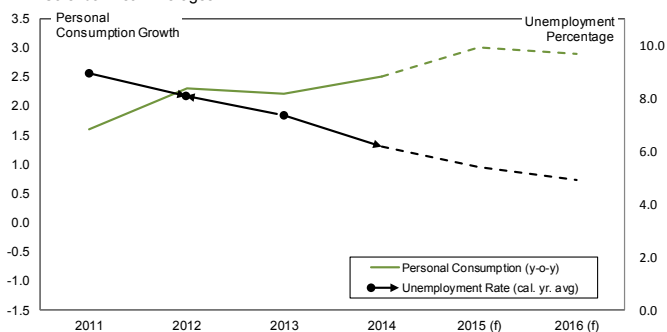
Sources: SIFMA Economic Advisory Roundtable End-Year 2014 and Mid-Year 2015 Economic Outlook Surveys

Real GDP Growth Rate
Quarter over Quarter Change, annualized



*(f) Forecast
Source: Actuals: Bureau of Economic Analysis; Forecasts: SIFMA Economic Advisory Roundtable Mid-Year 2015 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: SIFMA Economic Advisory Roundtable Mid-Year 2015 Economic Outlook Survey

2015 GDP OUTLOOK WEAKENS TO 2.2 PERCENT; MONETARY POLICY REMAINS KEY CONCERN

SIFMA’s Economic Advisory Roundtable forecasted that the U.S. economy will grow at a 2.2 percent rate in full-year 2015, rising to 2.8 percent in full-year 2016.¹ The mid-year outlook for full-year 2015 is considerably weaker than the Roundtable’s end-year 2014 prediction of 3.0 percent, mainly due the very weak start to the year.

The Roundtable continues to expect the Federal Open Market Committee (FOMC) to raise the currently 0.0 to 0.25 percent target federal funds rate range in the near term, with nearly 90 percent of respondents expecting the first rate hike to come before the end of the third quarter 2015, and the balance by year end. Similar to the views expressed in the 2014 end-year survey, the Roundtable expects the FOMC to begin curtailing investment and shrinking the Federal Reserve’s balance sheet by early 2016: nearly 40 percent expect reinvestment to end in 1Q’16, another third in 2Q’16, and the balance in 3Q’16 or 4Q’16.

THE ECONOMY The median mid-year forecast called for 2015 gross domestic product (GDP) to grow by 2.2 percent on a year-over-year basis and by 1.9 percent on fourth quarter-to-fourth quarter basis, weaker than predicted in the end-year survey.²

On a quarterly basis, respondents expected 2Q’15 GDP growth to be 2.5 percent on an annualized basis, rising to 3.0 percent in 3Q’15 and 3.1 percent in 4Q’15.³

For full-year 2016, GDP growth is forecast to rise to 2.8 percent on a year-over-year basis.⁴ Quarterly, annualized GDP growth is predicted to be 2.8 percent in the first and second quarters of 2016.⁵

Employment is expected to continue to improve. Survey respondents forecast the full-year average unemployment rate to fall to 5.4 percent in 2015 and decline further to 4.9 percent in 2016.⁶ Employers are expected to add 2.7 million workers to their payrolls in 2015,⁷ falling slightly to 2.4 million in 2016.⁸ Expectations for consumer spending trends rose from predictions at end-year 2014, with personal consumption estimated to be 3.0 percent in 2015 (compared to the median expectation of 2.7 percent in the end-year survey) and 2.9 percent in 2016.⁹

¹ The mid-year 2015 survey was conducted from May 26, 2015 to June 5, 2015. 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 2015 GDP growth forecasts ranged from 1.0 percent to 2.8 percent and on a fourth-quarter-to-fourth quarter basis ranged from 0.8 percent to 2.6 percent.

³ On a quarterly basis, annualized GDP growth forecasts ranged from 0.9 percent to 3.6 percent in 2Q’15, 1.4 percent to 4.0 percent in 3Q’15, and 1.5 percent to 3.6 percent in 4Q’15.

⁴ The full-year 2016 GDP growth forecasts ranged from 1.4 percent to 3.4 percent.

⁵ On a quarterly basis, annualized GDP growth forecasts in 2016 ranged from 1.6 percent to 3.7 percent in 1Q’16 and 1.3 percent to 3.2 percent in 2Q’16.

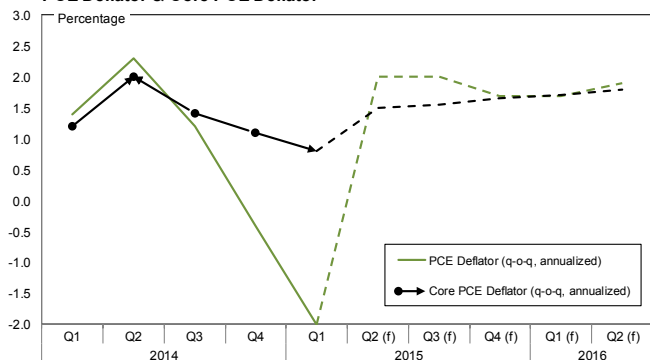
⁶ The full-year 2015 average unemployment rate forecast ranged from 5.1 percent to 5.5 percent and for 2016 ranged from 4.5 percent to 5.5 percent.

⁷ The full-year 2015 non-farm payroll employment growth forecasts ranged from 2.1 million jobs to 3.2 million jobs.

⁸ The full-year 2016 non-farm payroll employment growth forecasts ranged from 1.4 million jobs to 3.4 million jobs.

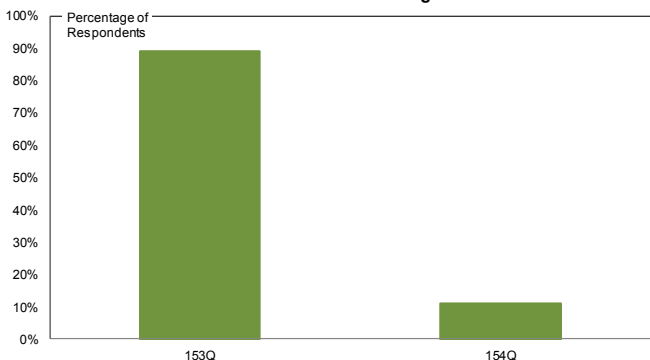
⁹ Personal consumption growth forecasts ranged from 2.5 percent to 3.3 percent in 2015, and 2.0 percent to 3.5 percent in 2016.

PCE Deflator & Core PCE Deflator



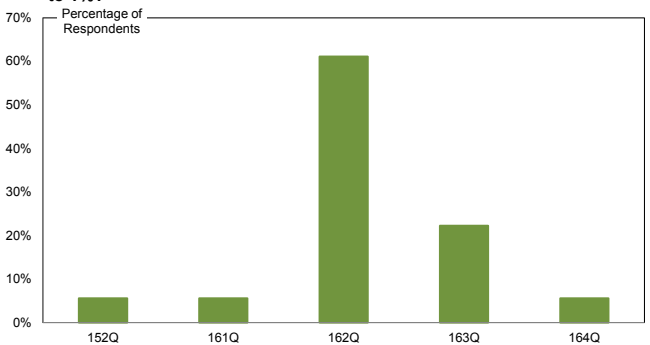
*(f) Forecast
 Source: Actuals: Bureau of Economic Analysis; Forecasts: SIFMA Economic Advisory Roundtable Mid-Year 2015 Economic Outlook Survey

When Will the FOMC Raise the Fed Funds Target Rate?



Source: SIFMA Economic Advisory Roundtable Mid-Year 2015 Economic Outlook Survey

When Will the Lower End of Fed Funds Target Rate Range Rise to 1%?



Source: SIFMA Economic Advisory Roundtable Mid-Year 2015 Economic Outlook Survey

Business capital investment growth estimates for full-year 2015 weakened considerably, dipping to 3.0 percent (from the 5.8 percent forecasted at end-year 2014), but improving to 4.6 percent in 2016.¹⁰ The outlook for state and local government spending also weakened to a median estimate of 0.9 percent growth in 2015 (versus 1.6 percent growth forecast at end-year 2014), followed by 1.6 percent growth in 2016.¹¹

The median forecast for “headline” inflation, measured by the personal consumption expenditures (PCE) chain price index, also weakened considerably from the end-year forecast, with 0.5 percent growth expected for full-year 2015 (compared to 1.3 percent previously forecast), rising to 1.8 percent in 2016.¹² The median forecast for the core PCE chain price index was 1.3 percent (down from 1.6 percent from end-year) for full-year 2015 and 1.7 percent for full-year 2016.¹³

The outlook for core inflation remains moderate for 2015 and 2016. Over 70 percent of respondents expect core inflation to remain between 1.3 percent and 1.6 percent by the end of 2015, while 10 percent expect core PCE inflation to be above 1.6 percent and the balance below 1.3 percent. For 2016, 83 percent of respondents expected core PCE inflation to remain between 1.5 percent and 2.0 percent by the end of 2016, with 11 percent expecting core PCE inflation to be above 2 percent and the balance below 1.5 percent.

Economic slack/employment was the dominant factor in the core inflation outlook, as in prior surveys, followed by the strength of the U.S. dollar and commodity prices pass through. One respondent noted that “when wage growth finally accelerates, inflation will follow.”

MONETARY POLICY As referenced earlier, the Roundtable continues to expect the FOMC to raise its 0.0 to 0.25 percent target federal funds rate range in 2015. Nearly 90 percent of respondents expected the Fed’s first rate hike to occur in the third quarter of 2015, with the balance expecting the first rate hike in the fourth quarter of 2015.

Survey respondents were nearly unanimous that labor market conditions are the most important factor in the FOMC’s decision to raise rates, followed by inflation or inflationary expectations and economic activity. One respondent noted, “Employment growth is the key to tightening. [N]othing else matters at this point.” Another respondent added that “the timing of the first rate hike is less important than the pace of tightening after the first move, and that

pace is likely to be very gradual.” When asked whether the Fed should wait until core PCE inflation was clearly rising – and not just forecast to rise – before raising rates, the majority (63 percent) of respondents responded “no.”

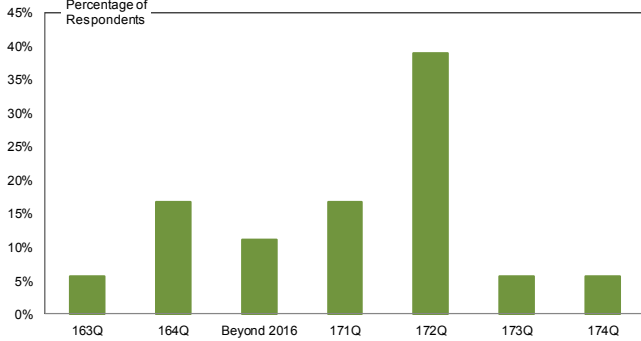
¹⁰ The full-year 2015 business fixed investment forecasts ranged from (0.5) percent to 4.2 percent and for 2016 ranged from 2.0 percent to 7.3 percent.

¹¹ The full-year 2015 real state and local government spending forecasts ranged from (2.0) percent to 1.4 percent and for 2016 ranged from 0 percent to 3.0 percent.

¹² The full-year 2015 PCE deflator forecasts ranged from 0.2 percent to 1.1 percent and for 2016, from 1.2 percent to 2.5 percent.

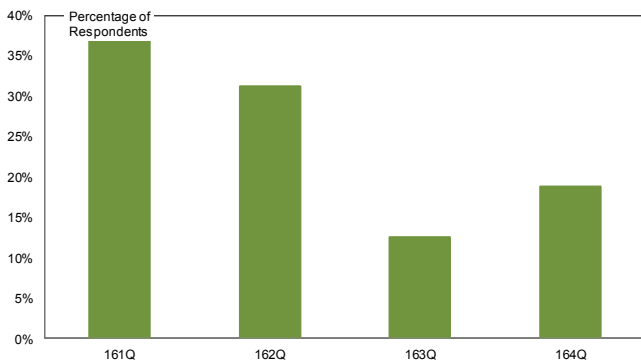
¹³ The full-year 2015 core PCE deflator forecasts ranged from 1.0 percent to 1.8 percent and for 2016, from 1.2 percent to 2.3 percent.

When Will the Lower End of the Fed Funds Target Rate Range Rise to 2%?



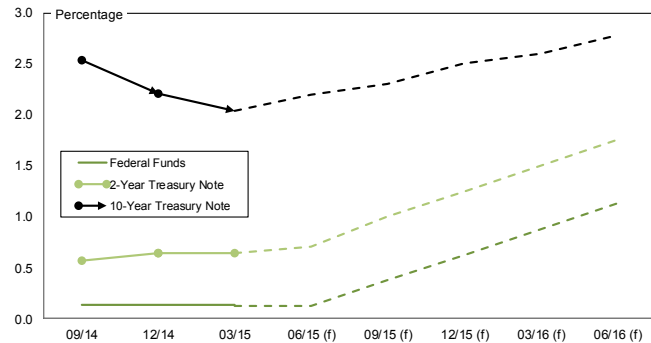
Source: SIFMA Economic Advisory Roundtable Mid-Year 2015 Economic Outlook Survey

When Will the FOMC End Balance Sheet Reinvestment?



Source: SIFMA Economic Advisory Roundtable Mid-Year 2015 Economic Outlook Survey

Federal Funds Target Rate and Treasury Yields



*(f) Forecast
Source: Actuals: Bureau of Economic Analysis, Federal Reserve; Forecasts: SIFMA Economic Advisory Roundtable Mid-Year 2015 Economic Outlook Survey

Asked when the lower end of target federal funds rate range would reach 1 percent, over 70 percent of respondents expected the rate to be reached by the 2Q'16, 22 percent in 3Q'16 and the balance in 4Q'16. Expectations for when the lower end of target federal funds rate range would reach 2 percent spanned from the second half of 2016 (22 percent) to the first half of 2017 (55 percent) and the second half of 2017 (11 percent) with the remainder answering more generally "beyond 2016."

Although the Fed concluded its asset purchase program in October 2014, it has continued to maintain accommodative financial conditions through its policy of rolling over Treasury securities as well as reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities into agency mortgage-backed securities. Asked when the reinvestment policy would end, all of the respondents expected this policy to at least begin to come to an end in 2016, with nearly 70 percent expecting it in the first half of 2016 and the remainder in the second half. A few respondents expected an early taper specifically for mortgage-backed securities (MBS), rather than a full runoff.

In March 2015, the FOMC released its latest economic projections, which were notably lower than its projections in December 2014. When asked whether the FOMC's downgrade impacted their outlooks for the first rate hike, respondents were split: a little over half (59 percent) of the respondents reported that the Fed's downgraded projections did not change their expectations for the first rate hike, while the balance reported an impact on their outlooks.

The April FOMC statement revealed a robust discussion about whether first quarter 2015 weakness in economic activity was believed to be temporary or persistent; survey respondents unanimously agreed that the first quarter weakness was temporary, rather than permanent. Despite this, nearly three-fourths (69 percent) of respondents expected a downgrade of the FOMC's economic forecast in its June outlook, while a fifth expected an upgrade and the balance expected no change.

INTEREST RATES As of June 5, 2015 (the end of the survey period), the 10-year U.S. Treasury yield was 2.41 percent; the median survey forecasts for 10-year Treasury rates were 2.20 percent in June 2015, 2.30 percent in September 2015, 2.50 percent in December 2015, 2.60 percent in March 2016 and 2.78 percent in June 2016.¹⁴

Roughly two-thirds of respondents expected the Treasury yield curve (Fed funds-to-ten year Treasury yield spread) to flatten by the end of 2015, with a quarter expecting the curve to steepen and the balance, no change.

Nearly 60 percent of survey respondents expected the TED (Treasury bill less LIBOR) spread to remain the same by the end of 2015, while a quarter expected the spread to widen and the balance expected the spread to narrow.

¹⁴ The average 10-year Treasury yield forecasts ranged from 1.85 percent to 2.50 percent for June 2015, from 2.05 percent to 2.75 percent for September 2015, from 2.10 percent to 3.00 percent for December 2015; from 2.15 percent to 3.25 percent in March 2016, and from 2.20 percent to 3.50 percent for June 2016.

Opinions were similarly dispersed over the path of investment-grade (IG) and high-yield (HY) spreads. Two-fifths of respondents expected IG spreads to narrow by the end of 2015, a third expected spreads to remain the same and the balance expected spreads to widen. Respondents were evenly split three-ways on the path of HY spreads.

Risks to Growth: Global Economic Growth, Corporate Capital Expenditures on the Upside; Weak Consumer Spending, Global Slowdown on the Downside

Respondents were asked to rank factors by their potential impact on U.S. economic growth in the second half of 2015. FOMC rate policy was considered the most important factor on U.S. economic growth, followed by private credit market conditions and business confidence, although one respondent considered the “release of pent-up demand by U.S. consumers” to be among the most influential factors to growth in the second half of 2015.

Upside and downside risks to the growth forecasts varied considerably among respondents. The impact of the global economy was the most frequently cited upside risk (a quarter of respondents) as well as the second most cited risk to the downside (20 percent). Other upside influences included capital expenditure and wage growth.

On the downside, weak consumer spending was the most frequently cited downside risk (25 percent) to the economic outlook. To a lesser extent, “taper tantrums” from Fed hikes, weak business investment and a strong dollar trailed global economic slowdown as other downside risks to the economic outlook.

Oil Prices

Panelists placed a 60 percent chance on WTI oil prices remaining between \$55 and \$75 a barrel in the remainder of 2015, with the balance split between prices moving higher or lower from this range. Relative to a scenario where oil prices had remained at \$100 a barrel in 2014 and 2015, respondents estimated that the most likely scenario – oil prices remaining in the \$55 and \$75 per barrel range – had boosted growth by 40 basis points.

Respondents estimated the equilibrium price for WTI at \$71 per given continued moderate growth.¹⁵ One respondent noted a “slower, more volatile recovery relative to prior cycles and expect[s] prices will grind higher . . . before normalizing in 2018-2019.”

Policy-Related Issues

As in prior surveys, resolution of corporate tax reforms, followed by immigration reform were noted as the two pending policy issues with the greatest potential impact on the U.S. economy, followed distantly by positive resolution of “fast track” authority. Other issues that respondents felt would merit a positive impact were income tax reform/flat tax: “[w]e desperately need tax reform, but it’s difficult to achieve as nobody wants to give up their tax breaks;” and the debt ceiling: “[t]ending to the debt ceiling sooner rather than later would be helpful. . . if Washington decides that they want to spend more, they will need to ensure that it is legal to borrow more.”

When asked about the impact of concern or uncertainty over the direction of financial regulatory policy on 2015 economic growth, respondents were far more negative than in the previous survey, with three-fourths of respondents estimating a negative impact of up to 50 basis points, six percent expecting more than a 50 percent impact and only 19 percent expecting no impact. At year-end 2014, responses were flipped, with two thirds of respondents estimating no impact and one third a negative impact of up to 50 basis points.

¹⁵ The range for estimates of the equilibrium oil price was \$60 per barrel to \$85 per barrel.

SIFMA ECONOMIC ADVISORY ROUNDTABLE FORECAST

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

	2015	2016
Real GDP	2.2	2.8
Real GDP (4Q – 4Q)	1.9	N/A
CPI	0.2	2.1
CPI (4Q – 4Q)	1.4	N/A
Core CPI	1.8	2.0
Core CPI (4Q – 4Q)	2.1	N/A
PCE deflator	0.5	1.8
PCE deflator (4Q – 4Q)	0.9	N/A
Core PCE deflator	1.3	1.7
Core PCE deflator (4Q – 4Q)	1.4	N/A
Personal Consumption	3.0	2.9
Nonresidential Fixed Investment	3.0	4.6
Housing Starts (millions)	1.1	1.2
Real State & Local Government Spending	0.9	1.6
Current Account Deficit (\$ billions)	472.3	518.5
New Home Sales (millions of units)	0.5	0.6
Existing Home Sales (millions of units)	5.1	5.3
Nonfarm Payroll Employment (change in millions)	2.7	2.4
Unemployment Rate (calendar year average)	5.4	4.9
Federal Budget (FY, \$ billions)	(485.0)	(500.0)

Quarter-to-Quarter % Changes in Annual Rates

	2015			2016	
	II	III	IV	I	II
Real GDP	2.5	3.0	3.1	2.8	2.8
CPI	2.5	2.4	1.9	2.0	2.0
Core CPI	2.3	1.8	1.9	2.0	2.0
PCE deflator	2.0	2.0	1.7	1.7	1.9
Core PCE deflator	1.5	1.6	1.7	1.7	1.8
Personal Consumption	2.7	3.1	3.0	2.9	2.7
Nonresidential Fixed Investment	2.0	5.0	4.9	4.9	4.9

Interest Rates (monthly average %)

	Jun. '15	Sep. '15	Dec. '15	Mar. '16	Jun. '16
Fed Funds	0.13	0.38	0.63	0.88	1.13
2 Year Treasury Note	0.70	1.0	1.24	1.50	1.75
10 Year Treasury Note	2.20	2.30	2.50	2.60	2.78
30 Year Fixed-Rate Home Mortgages	3.90	4.01	4.22	4.36	4.44

Exchange Rates (monthly average %)

	Jun. '15	Sep. '15	Dec. '15	Mar. '16	Jun. '16
Yen/Dollar	122.0	124.0	125.0	125.0	127.0
Dollar/Euro	1.10	1.06	1.05	1.02	1.03

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