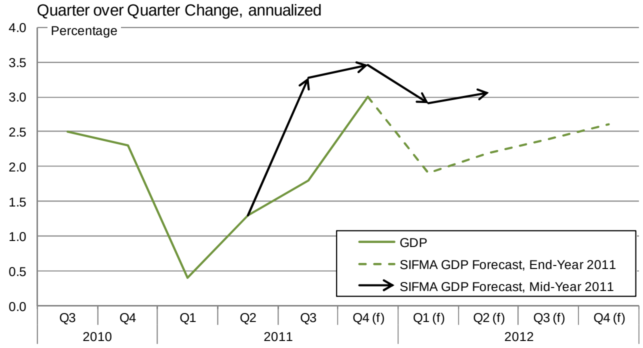
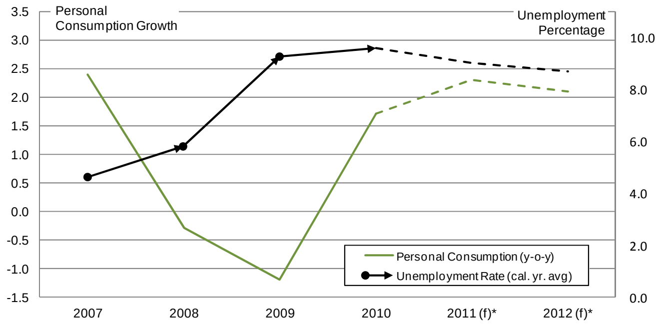
Real GDP Growth Rate
Quarter over Quarter Change, annualized



*(f) Forecast
Source: Actuals: Bureau of Economic Analysis; Forecasts: Median Response to the SIFMA Economic Advisory Roundtable End-Year 2011 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 End-Year 2011 Economic Outlook Survey

U.S. ECONOMIC FORECAST WEAKENS; EU SOVERIGN DEBT AND DOMESTIC POLITICAL RISKS DOMINATE

Members of SIFMA's Economic Advisory Roundtable forecast that the U.S. economy grew at 1.8 percent rate in full-year 2011 and will grow at a rate of 2.2 percent in 2012.[1] This outlook is considerably weaker than at mid-year 2011, when the Roundtable predicted a growth rate of 2.5 percent in 2011 and 3.1 percent in 2012. Concerns over European sovereign debt and economic health dominate the outlook, with domestic politics, fiscal policy, oil prices and regulatory uncertainties remaining significant risks to the outlook.

Forecast Highlights

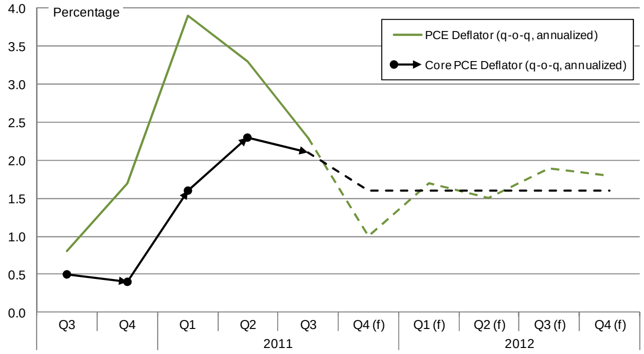
MONETARY POLICY The Roundtable was unanimous in its opinion that the Federal Open Market Committee (FOMC) would not change its current 0.0 to 0.25 percent target federal funds rate earlier than mid-2013. The majority (75 percent) expected a rate hike in 2014, although the timing was more heavily weighted in the first half of the year. Respondents who did not put a date to rate hikes opined that the timing of future rate hikes was primarily dependent on improvement in payroll numbers. A sustained rise in inflationary expectations, risk of European contagion and housing conditions were also noted as important factors.

THE ECONOMY The median forecast called for gross domestic product (GDP) to rise 1.8 percent in 2011 on a year-over-year basis, and by 1.6 percent on a fourth quarter-to-fourth quarter basis.[2] On an annualized basis, respondents expected GDP growth in 2011 to rise steadily from 1.8 percent in the third quarter to 3.0 percent in the fourth quarter.[3] For 2012, the median forecast was 2.2 percent year-over-year and on a fourth quarter-to-fourth quarter basis; on a quarterly basis, GDP growth was expected to fall slightly in the first quarter of 2012 to an annualized rate of 1.9 percent and rise gradually throughout the year to reach 2.6 percent in the fourth quarter.[4]

Unemployment was expected to remain at significantly elevated levels throughout 2011 and 2012, and at somewhat higher levels than forecasted at midyear-2011. Survey respondents expected the full-year average unemployment rate to be 9.0 percent in 2011, declining to 8.7 percent in 2012.[5] Full-year 2011 nonfarm payroll employment gains were estimated to total 1.4 million jobs;[6] for 2012, the median expectation was for a stronger addition of 1.5 million jobs, considerably below the 2.5 million estimated at midyear.[7] However, consumer spending trends were expected to weaken in 2012 despite a better employment outlook, with personal consumption estimated to fall 2.1 percent in 2012, down from 2.3

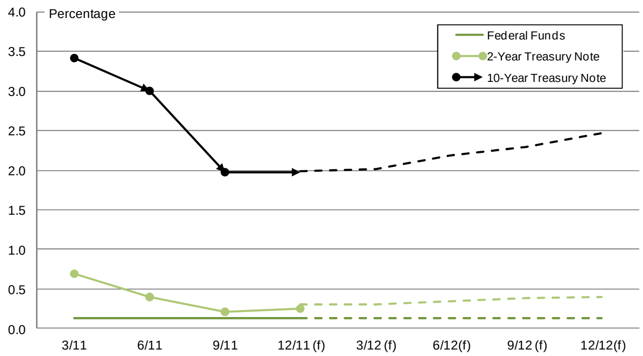
[1] The survey was conducted from December 7 to December 22, 2011. The forecasts discussed in the text and appearing in the accompanying data table are the median values of the individual member firms' submissions, unless otherwise specified.
[2] The full-year 2011 GDP growth forecasts ranged from 1.6 percent to 1.8 percent and on a fourth-quarter-to-fourth quarter basis ranged from 1.4 percent to 1.8 percent.
[3] On a quarterly basis, annualized GDP growth forecasts ranged from 2.2 percent to 3.5 percent in 4Q'11, 0.5 percent to 2.8 percent in 1Q'12, 1.3 percent to 2.7 percent in 2Q'12, 1.3 percent to 3.0 percent in 3Q'12, and 1.0 percent to 3.0 percent in 4Q'12.
[4] The full-year 2012 GDP growth forecasts ranged from 1.8 percent to 2.5 percent and on a fourth-quarter-to-fourth quarter basis ranged from 1.5 percent to 2.8 percent.
[5] The full-year 2011 average unemployment rate forecast ranged from 8.6 percent to 9.2 percent and for 2012 ranged from 8.2 percent to 9.0 percent. The midyear median forecasts were for 8.9 percent and 8.2 percent for 2011 and 2012, respectively.
[6] The full-year 2011 non-farm payroll employment forecasts ranged from a gain of 1.3 million jobs to 1.6 million jobs.
[7] The full-year 2012 non-farm payroll employment forecasts ranged from a gain of 1.0 million jobs to a gain of 2.4 million jobs.

PCE Deflator & Core PCE Deflator



*(f) Forecast
Source: Actuals: Bureau of Economic Analysis; Forecasts: Median Response to the SIFMA Economic Advisory Roundtable End-Year 2011 Economic Outlook Survey

Federal Funds Target Rate and Treasury Yields



Source: Actuals: Bureau of Economic Analysis, Federal Reserve; Forecasts: Median Response to the SIFMA Economic Advisory Roundtable End-Year 2011 Economic Outlook Survey

percent in 2011.[8]

The business capital investment growth estimate for full-year 2011 improved to 8.9 percent from the midyear forecast of 7.5 percent; the 2012 outlook weakened, however, to 7.6 percent from the more robust 8.5 percent predicted at midyear.[9] State and local government spending was expected to shrink by 2.2 percent in 2011 and continue shrinking a further 1.4 percent in 2012.[10] Both estimates were weaker than in at midyear, when they stood at down 1.9 percent and 0.7 percent, respectively, for 2011 and 2012.

The median forecast for "headline" inflation, measured by the personal consumption expenditures (PCE) chain price index, was 2.4 percent for full-year 2011 and 1.7 percent for full-year 2012.[11] The median forecast for the core PCE chain price index was 1.4 percent for full-year 2011 and 1.6 percent for full-year 2012.[12]

The outlook for inflation moderated for 2012 compared to the midyear report. Sixty percent of respondents did not believe inflation to be a concern in 2012, with the balance expressing only moderate concern.[13] Economic slack/unemployment remained the predominant factor in the inflation outlook for 2012, followed by global conditions and fading commodity price concerns. Several economists noted that oil remained the wild card in the inflation outlook.

INTEREST RATES As noted earlier, the Roundtable expected the FOMC to maintain its 0.0 to 0.25 percent federal funds target rate throughout 2012 and beyond. As of December 22, the end of the survey period, the 10-year U.S. Treasury yield was 1.97 percent; the median forecasts for 10-year Treasury rates in 2012 were 2.02 percent for March, 2.19 percent in June, 2.30 percent in September, and 2.47 percent in December.[14] Survey respondents expected credit market risk aversion and economic growth prospects to have the greatest impact on long-term Treasury yields in 2012, distantly followed by FOMC interest rate policy and the budget deficit. Several respondents noted that their forecast assumed no financial blow up in the Euro area.

Approximately 70 percent of survey respondents expected the Fed Funds-to-ten-year Treasury yield curve to steepen over the course of 2012. Opinions were similarly uniform on the spreads of both investment grade and high yield corporate credits; approximately three-quarters of respondents expected spreads to narrow, a fifth expected spreads to remain the same, and the balance expected spreads to widen.

Opinions diverged on the future path of the TED (Treasury bill less LIBOR rate) spread, with only half of survey respondents expecting it to narrow during 2012, a third expecting the spread to remain unchanged, and the balance expecting spreads to widen.

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[8] Personal consumption forecasts ranged from 1.8 percent to 4.8 percent in 2011 and 1.6 percent to 3.8 percent in 2012.
[9] The full-year 2011 business fixed investment forecasts ranged from 5.0 percent to 10.1 percent and for 2012 ranged from 5.6 percent to 11.4 percent.
[10] The full-year 2011 real state and local government spending forecasts ranged from negative 3.0 percent to negative 2.1 percent and for 2012 from negative 2.5 percent to a positive 0.2 percent.
[11] The full-year 2011 PCE deflator forecasts ranged from 2.1 percent to 2.6 percent and for 2012, from 1.2 percent to 3.1 percent.
[12] The full-year 2011 core PCE deflator forecasts ranged from 1.4 percent to 2.0 percent and for 2012, from 1.2 percent to 2.4 percent.
[13] The midyear prognosis was split 40 percent with no concern and 60 percent with moderate concern.
[14] The average 10-year Treasury yield forecasts ranged from 1.5 percent to 2.5 percent for March 2012, 1.8 percent to 2.8 percent for June 2012, from 2.0 percent to 3.0 percent for September 2012, and from 2.0 percent to 3.3 percent for December 2012.

European Fallout

The survey asked about the impact of European Union sovereign debt market conditions on respondents' perception of risk in the U.S. credit markets. All of those who responded to this question agreed that there was increased risk in the U.S. credit markets due to conditions in Europe. Several panelists noted that the U.S. financial markets and economy were greatly exposed to the risk of contagion from a systemic event arising from Europe, and that the increased risk was largely derived from the pass through of financial market strains to the U.S. Respondents also noted that due to fears of contagion, U.S. financials' credit spreads are wider than they would be otherwise. They also opined that because of the "great potential for damage to economic growth and risk sentiment, [heighten risk spreads] spill more generally to nonfinancial credit too" and that investors are focused on these "very visible downside risks to the U.S. financial markets and economy."

Economic Growth

The European debt crisis, normalization of private credit markets and self-correcting adjustments by business and real estate markets were ranked as the three most important factors impacting U.S. economic growth. Other factors mentioned were housing market stability and gasoline prices.

The avoidance of a blow up in Europe, U.S. policy progress and the recovery of the U.S. housing market were the most frequently cited upside risks to the economic forecasts. Other possible positive factors noted were unexpected acceleration in lending and hiring. greater consumer consumption from lower commodities costs and a pickup in consumer and business confidence.

On the downside, contagion from the European sovereign debt crisis and uncertainty over U.S. fiscal policy and "continued disarray in Washington" were the most oft-cited risks to the economic forecast. The concerns over Europe are outlined above; the domestic concerns listed were both on the side of "a general inability…to look at long-term budget trends will hurt growth," as well as fear of a premature and overly austere fiscal tightening. A spike in oil prices and a potential hard landing in China were also noted as downside risks to outlooks.

Deficit Reduction Debate

The supercommittee established by the Budget Control Act in August was tasked with producing a deficit reduction package of at least $1.2 trillion by November 23, 2011. However, the supercommittee failed to reach an agreement by that deadline and automatic budget cuts (sequestration) are set to go into effect in January 2013. The majority of survey respondents (85 percent) believed that some attempt would be made by Congress to change and/or avoid sequestration, and that ultimately the automatic cuts would **not** go into effect as currently written. Most respondents expected some form of modified or reduced budget cuts. With the uncertainty of 2013 post-election, one panelist noted "a continuing dysfunctional government that is unable to negotiate deficit reduction is very worrisome."

Respondents were mixed on the expected impact if sequestration was to go into effect as scheduled in January 2013, ranging from a relatively benign drag of 0.2 to 0.5 percentage points in GDP growth, while others expected a drag of upwards to 1 to 1.5 percentage points.

Financial Regulatory Reform

When asked about the impact of uncertainty or concern over the direction of regulatory policy, 85 percent of respondents estimated a negative impact of up to one percent in GDP in 2011 and 90 percent forecast the same for 2012. Pending regulations mandated by Basel III (global regulatory capital and liquidity requirements) and the Volcker Rule (U.S. restrictions on proprietary trading and investment in hedge and private equity funds by banks or bank affiliates) were cited as having the most negative impact, followed by Dodd Franks' Title VII (OTC derivatives regulation).

Oil Prices

Panelists placed a greater than 50 percent chance on WTI oil prices falling below the $100 per barrel range in 2012, with an approximately 35 percent chance of oil prices moving into the $101 and $150 range and a 15 percent chance of oil prices moving above the $150 per barrel range. The most likely scenario - remaining below $100 per barrel – would have the probability-weighted estimated effect of boosting GDP growth by two-fifths of a percentage point. The $101 to $150 per barrel scenario was predicted to reduce GDP growth by approximately a fifth of a percentage point, while the least likely $150+ per barrel scenario would have the effect of reducing GDP growth by 1.1 percent.

Panelists painted a mixed picture for the path of oil prices in the near- to medium-term, noting that world growth was generally subpar and relatively weak global demand would drive oil prices lower. However, elevated geopolitical risk in oil exporting regions, combined with the expectation of reaccelerating growth in Asia, would suggest a long-term increase in oil prices.

SIFMA ECONOMIC ADVISORY ROUNDTABLE FORECAST

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

	2011	2012
Real GDP	1.8	2.2
Real GDP (4Q – 4Q)	1.6	2.2
CPI	3.2	2.0
CPI (4Q – 4Q)	3.5	1.9
Core CPI	1.7	1.9
Core CPI (4Q – 4Q)	2.1	1.8
PCE deflator	2.4	1.7
PCE deflator (4Q – 4Q)	2.6	1.5
Core PCE deflator	1.4	1.6
Core PCE deflator (4Q – 4Q)	1.9	1.6
Personal Consumption	2.3	2.1
Nonresidential Fixed Investment	8.9	7.6
Housing Starts (millions)	0.6	0.7
Real State & Local Government Spending	(2.2)	(1.4)
Current Account Deficit ($ billions)	466.7	467.0
New Home Sales (millions of units)	0.3	0.3
Existing Home Sales (millions of units)	5.0	5.2
Nonfarm Payroll Employment (change in millions)	1.4	1.5
Unemployment Rate (calendar year average)	9.0	8.7
Federal Budget (FY, $ billions)	(1,297.0)	(1,100.0)

Quarter-to-Quarter % Changes in Annual Rates

	2011				2012			
	I	II	III	IV	I	II	III	IV
Real GDP	0.4	1.3	1.8	3.0	1.9	2.2	2.4	2.6
CPI	6.1	1.6	4.9	1.2	1.8	1.6	2.1	2.0
Core CPI	2.0	2.8	2.0	1.7	1.8	1.8	1.8	1.9
PCE deflator	3.9	3.3	2.3	1.0	1.7	1.5	1.9	1.8
Core PCE deflator	1.6	2.3	2.1	1.6	1.6	1.6	1.6	1.6
Personal Consumption	2.1	0.7	1.7	2.5	2.0	2.2	2.3	2.4
Nonresidential Fixed Investment	2.1	10.3	15.7	7.1	6.2	5.8	6.1	6.4

Interest Rates (monthly average %)

	Mar. 11	Jun. 11	Sep. 12	Dec. 12
Fed Funds	0.13	0.13	0.13	0.13
2 Year Treasury Note	0.26	0.30	0.35	0.38
10 Year Treasury Note	2.02	2.19	2.30	2.47
30 Year Fixed-Rate Home Mortgages	3.9	4.0	4.1	4.2

Exchange Rates (monthly average %)

	Mar. 11	Jun. 11	Sep. 12	Dec. 12
Yen/Dollar	76.6	78.0	78.0	79.0
Dollar/Euro	1.30	1.28	1.26	1.26

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