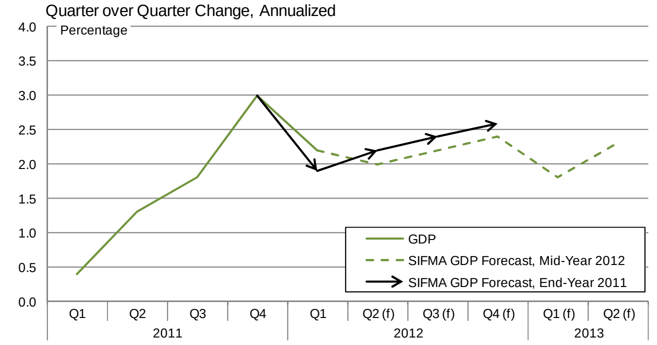
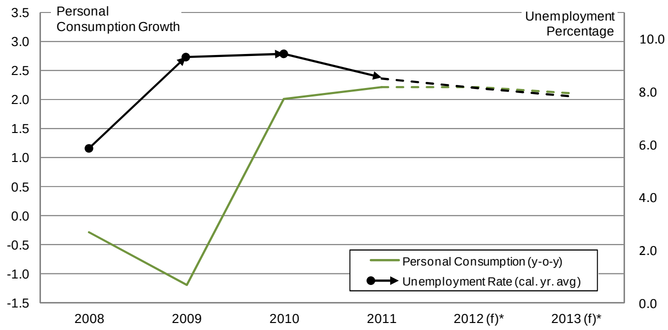
Real GDP Growth Rate
Quarter over Quarter Change, Annualized



*(f) Forecast
Source: Actuals: Bureau of Economic Analysis; Forecasts: Median Response to the SIFMA Economic Advisory Roundtable Mid-Year 2012 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 2012 Economic Outlook Survey

U.S. ECONOMIC FORECAST WEAKENS SLIGHTLY; EU SOVERIGN DEBT AND DOMESTIC POLITICAL CONCERNS DOMINATE OUTLOOK

Members of SIFMA's Economic Advisory Roundtable forecast that the U.S. economy will grow at 2.1 percent rate in full-year 2012 and will grow at a rate of 2.1 percent in 2013.[1] This outlook is slightly weaker than the Roundtable's 2011 end-year prediction of a 2.2 percent growth rate in 2012. Concerns over European sovereign debt and U.S. fiscal policy dominate the outlook.

Forecast Highlights

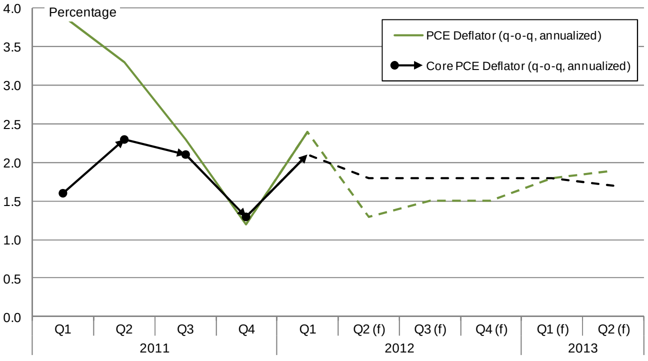
MONETARY POLICY The Roundtable was unanimous in its opinion that the Federal Open Market Committee (FOMC) would not change its current 0.0 to 0.25 percent target federal funds rate range through 2013. Of those respondents that put a date to a rate hike, approximately half expected a rate hike mid- to late-2014. Respondents who did not put a date to rate hikes opined that the timing of future rate hikes was dependent upon meaningful improvement on unemployment (generally at or below 7 percent) and solid GDP growth.

THE ECONOMY The median forecast called for gross domestic product (GDP) to rise 2.1 percent in 2012 on a year-over-year basis, and by 2.2 percent on a fourth quarter-to-fourth quarter basis.[2] On an annualized basis, respondents expected GDP growth in 2012 to rise steadily from 2.0 percent in the second quarter to 2.4 percent in the fourth quarter.[3] For 2013, the median forecast was 2.1 percent year-over-year; on a quarterly basis, the GDP growth rate was expected to fall in the first quarter of 2013 to an annualized 1.8 percent and rise to 2.3 percent in the second quarter.[4]

Unemployment was expected to remain at elevated levels throughout 2012 and 2013, with levels on pace with those forecasted in end-year 2011. Survey respondents expected the full-year average unemployment rate to drop slightly to 8.1 percent in 2012 (compared to 8.2 percent forecasted at end-year 2011), declining to 7.8 percent in 2013.[5] Full-year 2012 non-farm payroll employment gains were estimated to total 1.9 million jobs;[6] for 2013, the median expectation was for a slightly weaker addition of 1.8 million jobs.[7] Consumer spending trends, however, were expected to weaken in 2013 despite a better employment outlook, with personal consumption estimated to fall to 2.1 percent in 2013, down from the 2.2 percent expected in 2012.[8]

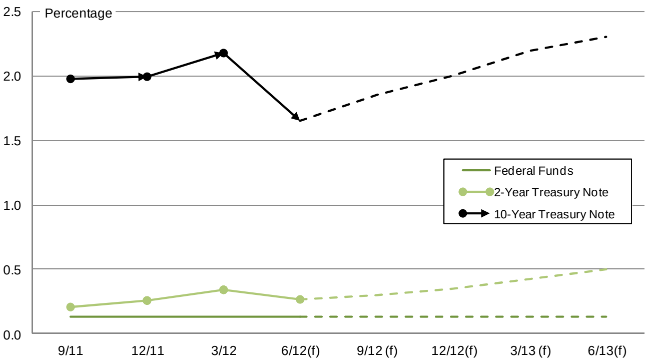
[1] The survey was conducted from May 31, 2012 to June 12, 2012. The forecasts discussed in the text and appearing in the accompanying data table are the median values of the individual member firms' submissions, unless otherwise specified.
[2] The full-year 2012 GDP growth forecasts ranged from 1.7 percent to 2.6 percent, and on a fourth-quarter-to-fourth quarter basis ranged from 1.6 percent to 2.9 percent.
[3] On a quarterly basis, annualized GDP growth forecasts ranged from 1.1 percent to 2.9 percent in 2Q'12, 1.3 percent to 3.2 percent in 3Q'12, 1.0 percent to 3.3 percent in 4Q'12, 0.9 percent to 3.0 percent in 1Q'13, and 1.7 percent to 3.1 percent in 2Q'13.
[4] The full-year 2013 GDP growth forecasts ranged from 1.4 percent to 3.0 percent.
[5] The full-year 2012 average unemployment rate forecast ranged from 8.0 percent to 8.2 percent and for 2013 ranged from 7.5 percent to 8.3 percent. The 2011 end-year median forecast was 8.2 percent.
[6] The full-year 2012 non-farm payroll employment growth forecasts ranged from 1.2 million jobs to 2.1 million jobs.
[7] The full-year 2013 non-farm payroll employment growth forecasts ranged from 1.0 million jobs to 2.2 million jobs.
[8] Personal consumption growth forecasts ranged from 1.7 percent to 2.5 percent in 2012, and 1.0 percent to 3.0 percent in 2013.

PCE Deflator & Core PCE Deflator



*(f) Forecast
Source: Actuals: Bureau of Economic Analysis; Forecasts: Median Response to the SIFMA Economic Advisory Roundtable Mid-Year 2012 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 Mid-Year 2012 Economic Outlook Survey

The business capital investment growth estimate for full-year 2012 weakened considerably from the 7.6 percent forecasted at end-year 2011, to 5.8 percent. Growth was expected to remain the same in 2013, at the median expectation of 5.9 percent growth.[9] State and local government spending was expected to shrink by 1.8 percent in 2012, and then increase slightly by 0.1 percent in 2013.[10] The 2012 estimate is considerably weaker than that estimated at end-year 2011, when respondents expected a decline in state and local government spending of 0.7 percent for 2012.

The median forecast for "headline" inflation, measured by the personal consumption expenditures (PCE) chain price index, was 1.8 percent for full-year 2012 and 1.7 percent for full-year 2013.[11] The median forecast for the core PCE chain price index was 1.8 percent for full-year 2012 and 1.8 percent for full-year 2013.[12]

The outlook for inflation continued to be moderate for 2012 compared to the end-year 2011 report. Over 85 percent of respondents did not believe inflation to be a concern in 2012, with the balance expressing only moderate concern.[13] One factor contributing to the moderate outlook on inflation from end-year 2011 was the unexpectedly weak May 2012 non-farm payrolls report. This concern was reflected in answers from respondents with economic slack/employment as the dominant factor in the inflation outlook for 2012, followed by global conditions and fiscal policy as factors. Several respondents noted that deflationary risk was higher than before. One noted that, aside from the volatile commodities prices, there were no real fundamental drivers for higher inflation.

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. As of June 12, 2012 (the end of the survey period), the 10-year U.S. Treasury yield was 1.6 percent; the median forecasts for 10-year Treasury rates were 1.65 percent for June 2012, 1.85 percent in September 2012, 2.00 percent in December 2012, 2.19 percent in March 2013, and 2.30 percent in June 2013.[14] Survey respondents expected the European debt crisis to have the greatest impact on long-term Treasury yields in 2012, followed by credit market risk aversion/flight to quality, economic growth prospects, and inflationary expectations.

Approximately 70 percent of survey respondents expected the Fed Funds-to-ten-year Treasury yield curve to steepen over the remainder of 2012, while 60 percent expected the future path of the TED (Treasury bill less LIBOR) spread to remain unchanged. Opinions were also split on the path of investment-grade spreads, with half of respondents expecting the spread to narrow, while the other half expected the spread to remain the same. Approximately half of respondents expected high-yield corporate spreads to narrow, a third to remain the same and the balance to widen.

[9] The full-year 2012 business fixed investment forecasts ranged from 4.4 percent to 6.8 percent and for 2013 ranged from 3.8 percent to 10.3 percent.
[10] The full-year 2013 real state and local government spending forecasts ranged from negative 3.0 percent to no growth in spending and for 2013 from negative 2.3 percent to a positive 1.4 percent.
[11] The full-year 2012 PCE deflator forecasts ranged from 1.6 percent to 2.3 percent and for 2013, from 0.9 percent to 2.6 percent.
[12] The full-year 2012 core PCE deflator forecasts ranged from 1.6 percent to 2.3 percent and for 2013, from 1.2 percent to 2.5 percent.
[13] The end-year prognosis was split 60 percent with no concern and 40 percent with moderate concern.
[14] The average 10-year Treasury yield forecasts ranged from 1.4 percent to 2.1 percent for June 2012, 1.4 percent to 2.5 percent for September 2012, from 1.5 percent to 2.75 percent for December 2012; from 1.75 percent to 3.0 percent for March 2013; and from 2.0 percent to 3.25 percent June 2013.

Quantitative Easing

The survey asked questions about further potential quantitative easing by the Fed. The majority of respondents (65 percent) expected the Fed to conduct further quantitative easing ("QE3"). When asked what conditions would trigger further easing, respondents were generally in agreement that subpar GDP and weak job growth, rising deflationary risks, and potential contagion from Europe were the likely primary triggers for a third round of quantitative easing.

The timing for QE3 was expected to be near-term, with nearly all respondents who anticipated further quantitative easing expecting an announcement at the June 20, 2012 FOMC meeting and action to be taken in June to September 2012. While a majority of respondents that anticipated QE3 expect the Fed to act through purchases of long-term securities such as Treasuries and agency mortgage-backed securities (MBS), a small minority (17 percent) expect the extension of 'Operation Twist' instead.[15]

U.S. Economic Growth; EU Risk Dominates the Downside

The European debt crisis, normalization of private credit markets and self-correcting adjustments by business and real estate markets remain the three most important factors impacting U.S. economic growth.

Lower oil prices and an unexpected increase in consumer demand were the most oft-cited upside risks to economic forecast. Other positive factors were job growth, the recovery of the housing market and a positive resolution of the "fiscal cliff."

On the downside, contagion from European sovereign debt and banking crisis remained the dominant factor cited, with 75 percent of respondents listing it among their top downside risks. When asked about how the European debt crisis would impact U.S. GDP growth over the next twelve months, 90 percent of respondents opined that it would lower GDP growth by up to 100 basis points (bps).

In particular, approximately three fourths of respondents expected the possible exit of Greece from the euro to lower the value of the euro vs. U.S. dollar, U.S. interest rates and U.S. GDP growth, with the remaining quarter of respondents remaining neutral on the impact to the U.S. A respondent noted that the situation in Europe would likely continue to "fester" for some time, and a Greek default and exit would be "messy, but . . . need not be inherently destabilizing for the global financial system."[16]

Falling Off a "Fiscal Cliff"?

The "fiscal cliff" was the second most frequently cited downside risk. Recent discussions among policy makers and in the media have also focused on the so-called "fiscal cliff" that the U.S. economy is heading toward at the end of 2012 and beginning of 2013. This "fiscal cliff" encompasses four policy issues: (1) expiring tax cuts; (2) the debt ceiling; (3) appropriations; and (4) sequestration. The majority of respondents believed that of the four factors, expiring tax cuts would have the greatest negative impact on the U.S. economy, followed by sequestration, appropriations, and lastly the debt ceiling. Three-quarters of respondents believed that the uncertainty over the potential impact of the "fiscal cliff" would lower GDP growth by up to 100 bps in the next six months, while 15 percent believed there would be no impact; the balance believe that the uncertainty would lower GDP growth by more than 100 bps.

All survey respondents opined that some attempt would be made by Congress to mitigate the "fiscal cliff", with the majority expecting a temporary extension of the Bush era tax cuts. A few respondents expected either reductions in, or the outright elimination of, sequestering as well. Several

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[15] "Operation Twist" was the action of the Fed to extend the average maturity of its portfolio through the sale of $400 billion of short-term Treasuries to fund the purchase of long-term Treasuries. The operations were conducted from September 2011 to June 2012.

[16] Wells Fargo, "What Happens if Spain or Italy Leaves EMU?" June 7, 2012.

commented that most, if not all four aspects of the "fiscal cliff" will be postponed. Respondents generally expected some form of a budget plan, similar to the framework put forth by Bowles-Simpson, or a gradual phase in of fiscal cuts.

Respondents predicted that congressional action is highly dependent on the November elections, and that the only action they might take is a short term postponement. Nearly all respondents opined that uncertainty over fiscal policy will continue to negatively impact GDP growth in 2013, split fairly evenly between those expecting a negative impact of up to 100 bps and those expecting a negative impact of over 100 bps.

Oil Prices

Panelists placed approximately a 70 percent chance on WTI oil prices remaining below $100 per barrel in 2012, with a 25 percent chance of prices moving into the $101 and $150 range and only a 5 percent chance for oil prices moving above $150 per barrel. The most likely scenario – oil prices remaining below $100 per barrel – would have an estimated effect of boosting GDP growth by one-fifth of a percentage point. The $101 to $150 per barrel scenario was predicted to reduce GDP growth by approximately a tenth of a percentage point, while the $150+ per barrel scenario would have the effect of reducing GDP growth by two-fifths of a percentage point. Panelists noted that slower global growth and weaker demand would put downward pressure on oil prices.

Regulatory Reform

In June, the three federal banking agencies[17] released a final rule and proposed rules establishing an integrated regulatory capital framework. The final rule is the U.S. adoption of Basil 2.5; the proposed rules would set the Basel III framework and the institute the changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.[18] Capital standards (and associated liquidity requirements) are expected to be some of the most impactful amongst current regulatory reform efforts. When asked about the impact of financial regulatory reform uncertainty on economic growth, 70 percent of respondents opined that such uncertainty had lowered the rate of economic growth by up to 100 bps over the past six months, 20 percent determined there was no impact and the balance believed the impact to be greater than 100 bps. When asked about the potential impact of uncertainly over financial regulatory reform on economic growth over the coming six months, over 80 percent of respondents expected economic growth to be lowered by up to 100 bps, 11 percent expected no impact, with the balance expecting an impact greater than 100 bps.

[17] Office of the Comptroller of the Currency; Board of Governors of the Federal Reserve System; and Federal Deposit Insurance Corporation, Risk-Based Capital Guidelines: Market Risk, June 7, 2012.
[18] Federal Reserve, Press Release, http://federalreserve.gov/newsevents/press/bcreg/20120607a.htm, June 7, 2012.

SIFMA ECONOMIC ADVISORY ROUNDTABLE FORECAST

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

	2012	2013
Real GDP	2.1	2.1
Real GDP (4Q – 4Q)	2.2	
CPI	2.1	1.8
CPI (4Q – 4Q)	2.1	
Core CPI	2.2	2.0
Core CPI (4Q – 4Q)	1.6	
PCE deflator	1.8	1.7
PCE deflator (4Q – 4Q)	1.8	
Core PCE deflator	1.8	1.8
Core PCE deflator (4Q – 4Q)	1.9	
Personal Consumption	2.2	2.1
Nonresidential Fixed Investment	5.8	5.9
Housing Starts (millions)	0.7	0.8
Real State & Local Government Spending	(1.8)	0.1
Current Account Deficit ($ billions)	502.8	500.0
New Home Sales (millions of units)	0.4	0.4
Existing Home Sales (millions of units)	4.7	4.9
Nonfarm Payroll Employment (change in millions)	1.9	1.8
Unemployment Rate (calendar year average)	8.1	7.8
Federal Budget (FY, $ billions)	(1,167.5)	(900.0)

Quarter-to-Quarter % Changes in Annual Rates

	2012				2013	
	I	II	III	IV	I	II
Real GDP	2.2	2.0	2.2	2.4	1.8	2.3
CPI	3.7	1.4	1.6	1.7	1.9	1.9
Core CPI	0.2	2.4	2.0	2.0	2.0	2.0
PCE deflator	2.4	1.3	1.5	1.5	1.8	1.9
Core PCE deflator	2.1	1.8	1.8	1.8	1.8	1.7
Personal Consumption	2.9	2.3	2.2	2.1	1.7	1.9
Nonresidential Fixed Investment	(2.1)	5.8	6.0	6.1	5.6	6.0

Interest Rates (monthly average %)

	Jun. 12	Sep. 12	Dec. 12	Mar. 13	Jun. 13
Fed Funds	0.13	0.13	0.13	0.13	0.13
2 Year Treasury Note	0.27	0.30	0.35	0.42	0.50
10 Year Treasury Note	1.65	1.85	2.00	2.19	2.30
30 Year Fixed-Rate Home Mortgages	3.7	3.8	3.9	4.0	4.1

Exchange Rates (monthly average %)

	Jun. 12	Sep. 12	Dec. 12	Mar. 13	Jun. 13
Yen/Dollar	79.0	80.0	79.7	80.9	81.0
Dollar/Euro	1.25	1.22	1.23	1.22	1.25

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