FIFTH THIRD SECURITIES

US Economic Review & 2019 Outlook

AFP® ASSOCIATION FOR FINANCIAL PROFESSIONALS Nashville

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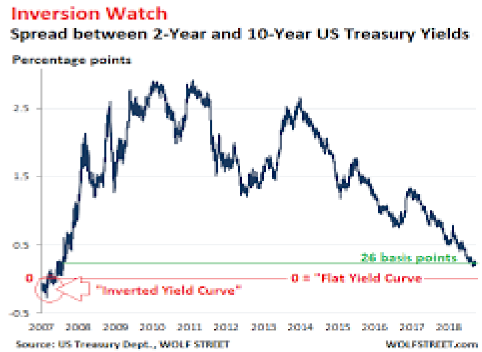
John N. Dunlevy, CFA®
Managing Director - Fixed Income Strategy
941.329.4636
john.dunlevy@53.com

Todd A. Shearer
Managing Director – Head of Fixed Income Sales
615.519.6126
todd.shearer@53.com

Many Factors Could Impact US Economy In 2019



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I) Broad Economic Overview

Consensus Economic Forecasts 2018-2020

	Quarterly								Annual			
	Actual			Forecast					Actual	Forecast		
	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	2017	2018	2019	2020
US Economic Activity												
Real GDP (YoY%)	2.6	2.9	3.0	3.1	3.1	2.8	2.5	2.3	2.2	2.9	2.6	1.9
Real GDP (QoQ% SAAR)	2.2	4.2	3.5	2.6	2.4	2.5	2.3	2.0				
Consumer Spending (QoQ% SAAR)	0.5	3.8	3.6	2.8	2.4	2.4	2.3	2.2	2.5	2.7	2.7	2.1
Government Spending (QoQ% SAAR)	1.5	2.5	2.6	2.5	2.0	1.8	1.6	1.4	-0.1	1.7	2.3	1.2
Private Investment (QoQ% SAAR)	9.6	-0.5	15.1	4.1	4.0	4.2	4.0	3.1	4.8	5.6	4.2	3.1
Exports (QoQ% SAAR)	3.6	9.3	-4.4	3.6	3.0	3.0	3.0	2.8	3.0	4.3	2.7	2.8
Imports (QoQ% SAAR)	3.0	-0.6	9.2	4.1	4.0	4.0	3.5	3.7	4.6	4.6	3.9	3.2
Labor Market												
Unemployment (%)	4.1	3.9	3.8	3.7	3.6	3.6	3.6	3.6	4.4	3.9	3.6	3.7
Non Farm Payrolls (000s SA, monthly)	155	208	118	197	170	162	150	140	175	205	155.0	125
Average Hourly Earnings (YoY%)	2.6	2.8	2.8	3.1	3.1	3.2	3.1	3.2	2.7	2.8	3.1	3.0
External Balance												
Curr. Acct. (% of GDP)	-2.3	-2.2	-2.3	-2.4	-2.5	-2.6	-2.6	-2.6	-2.3	-2.4	-2.6	-2.5
Budget (% of GDP)	-3.7	-3.7	-3.8	-4.5	-4.6	-4	-4.4	-5.0	-3.4	-3.9	-4.6	-4.6
Government Debt (% of GDP)	77.0	77.1	77.1	77.1	77.5	77.7	78.1	78.9	76.5	77.7	79.0	80.9

After improved economic growth during 2018 (i.e. y/y growth of 3.1%), the economy is expected to slow next year. This expected slowdown is due to declining fiscal stimulus, higher interest rates, and wider credit spreads which could potentially negatively impacting business investment.

Source: Bloomberg

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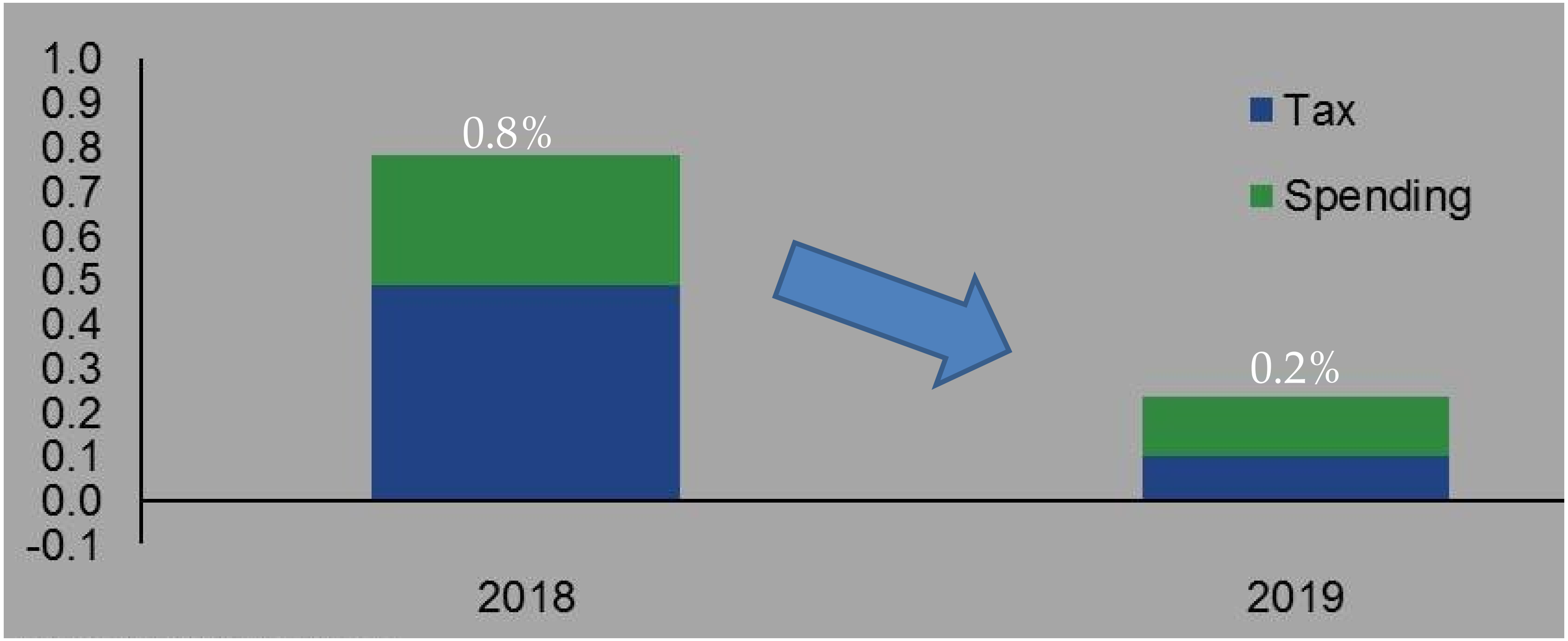
US Economic Growth is expected to slow in 2019

Projected Real GDP Growth due to Fiscal Stimulus y/y



Source: Morgan Stanley, Fifth Third Securities

This slowing in fiscal stimulus next year is expected to mostly negatively impact the level of Personal Consumption (i.e. Consumer Spending) component of Real GDP.

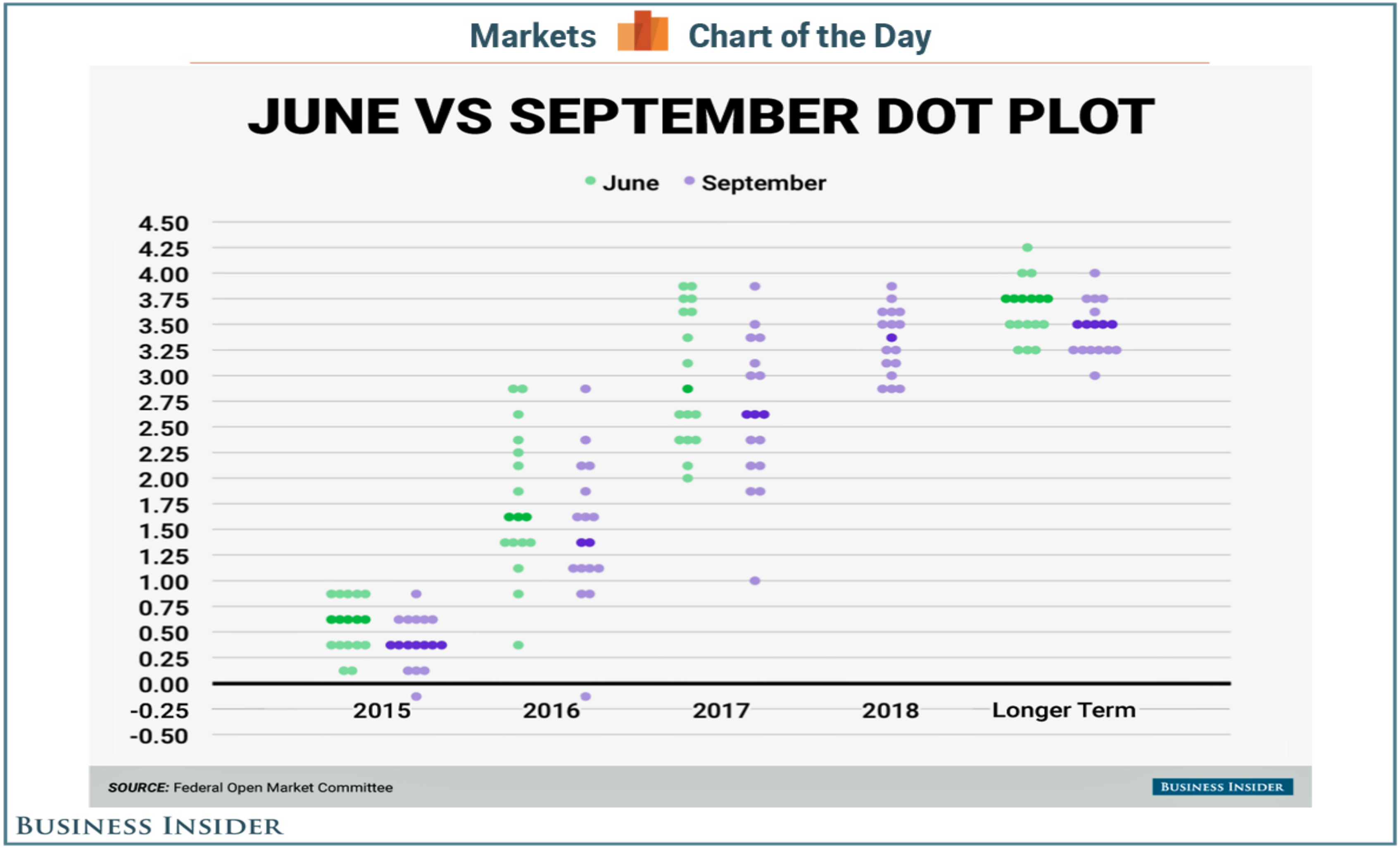
Consensus Interest Rate Forecast & US Housing

	Quarterly Data								Annual Data			
	Actual			Forecast					Actual	Forecast		
	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	2017	2018	2019	2020
Interest Rates												
Fed Funds Rate-Upper Limit Avg	1.75	2.00	2.25	2.45	2.70	2.95	3.10	3.15	1.50	2.45	3.15	3.05
3-Month LIBOR %	2.31	2.34	2.40	2.68	2.85	3.04	3.20	3.27	1.69	2.68	3.27	3.25
2-Year Note (%)	2.27	2.53	2.82	2.95	3.05	3.16	3.24	3.28	1.89	2.95	3.28	3.25
10-Year Note (%)	2.74	2.86	3.06	3.20	3.30	3.36	3.41	3.44	2.41	3.20	3.44	3.46
FF-2-Yr (bps)	52	53	57	50	35	21	14	13	39	50	13	20
2s-10s Spread (bps)	47	33	24	25	25	20	17	16	52	25	16	21
Price Indices												
CPI (YoY%)	2.20	2.70	2.60	2.40	2.20	2.30	2.40	2.30	2.1	2.5	2.3	2.2
PCE Price Index (YoY%)	1.90	2.20	2.20	2.10	2.10	2.10	2.20	2.20	1.7	2.1	2.1	2.1
Core PCE (yoy%)	1.80	1.90	2.00	2.00	2.00	2.10	2.10	2.20	1.6	1.9	2.1	2.2
Housing Market												
Housing Starts (000s SAAR)	1273	1318	1250	1261	1279	1282	1289	1294	1211	1266	1290	1321
New Home Sales (000s SAAR,)	638	670	630	627	626	634	643	651	620	629	655	662
Existing Home Sales (Mln SAAR)	5.5	5.5	5.4	5.4	5.4	5.4	5.5	5.5	5.5	5.4	5.5	5.5
Building Permits (000s SAAR)	1329	1326	1284	1300	1313	1323	1323	1331	1260	1311	1323	1339

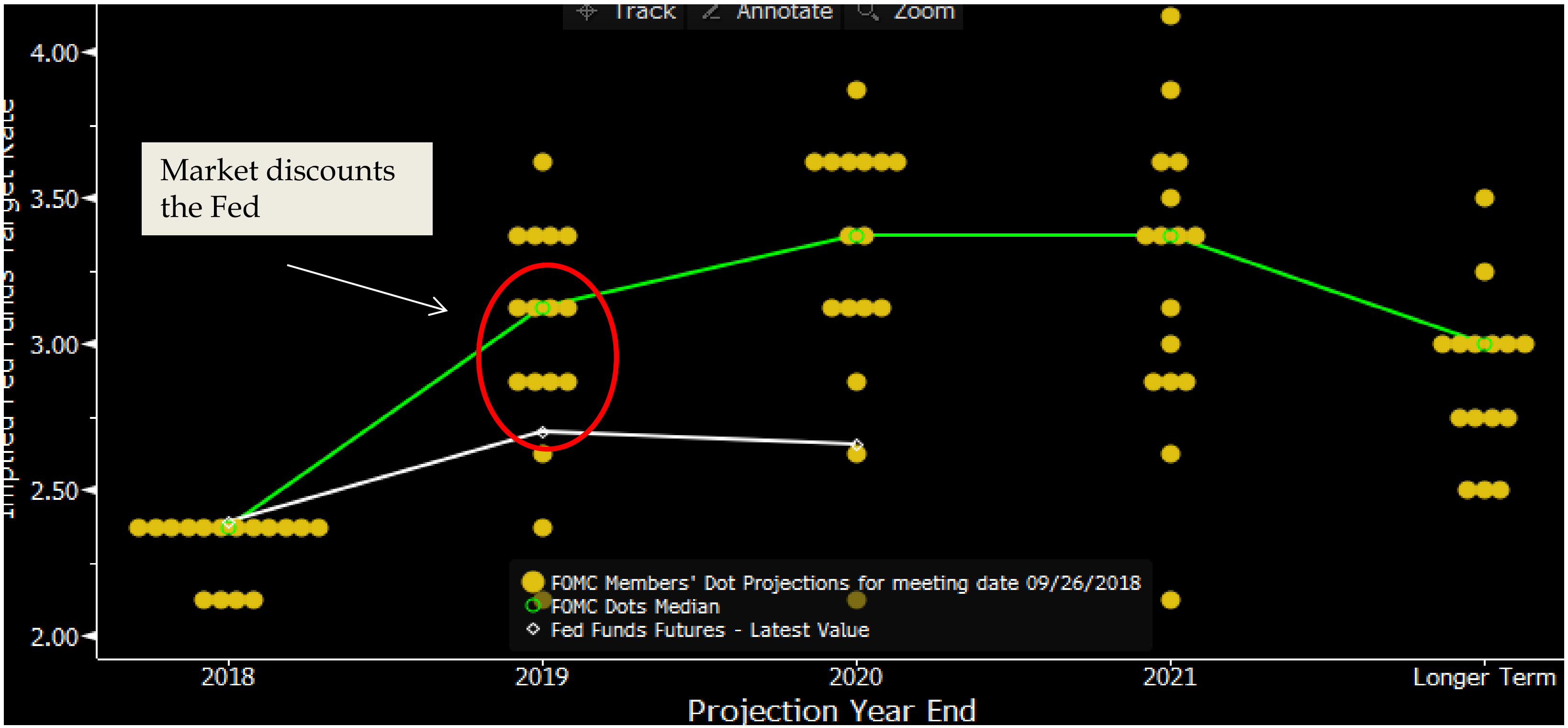
Since Fed Chair Powell recently indicated that we may be "just below" the neutral rate, the number of expected FOMC rate hikes in 2019 has fallen. The recent partial inversion of the curve has also made the markets less hawkish on the outlook for additional rate hikes.

Source: Bloomberg

FOMC DOT Plot, Sept., 2015



Fed Funds Futures Pricing vs. Sept. FOMC Dots

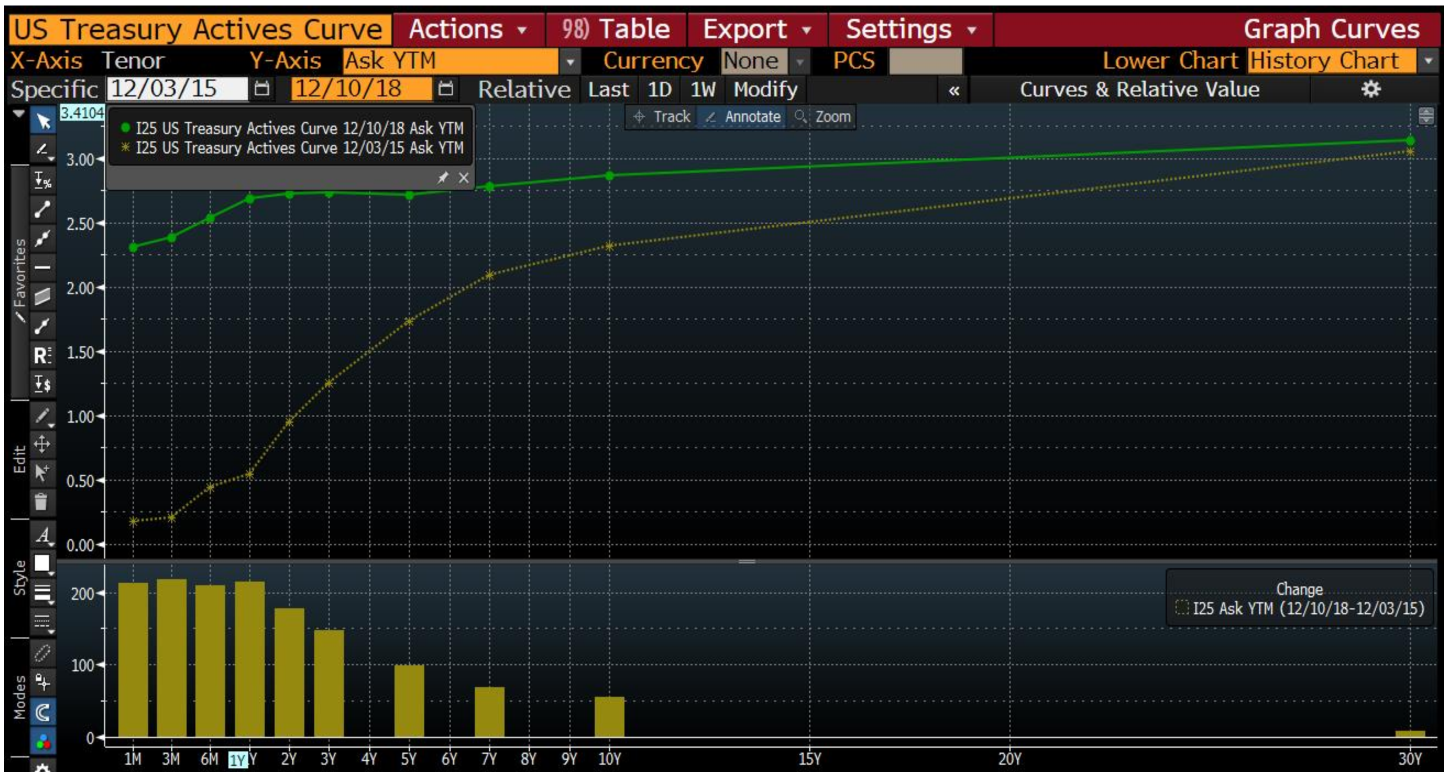


Source: Bloomberg

As shown above, the Fed Funds Futures market (white line) is currently pricing in about two fewer (25 bps) rate hikes in 2019 vs. the September dot-plot median.

Since We Last Met…

Yield Curve Change—12/3/15 and 12/10/18

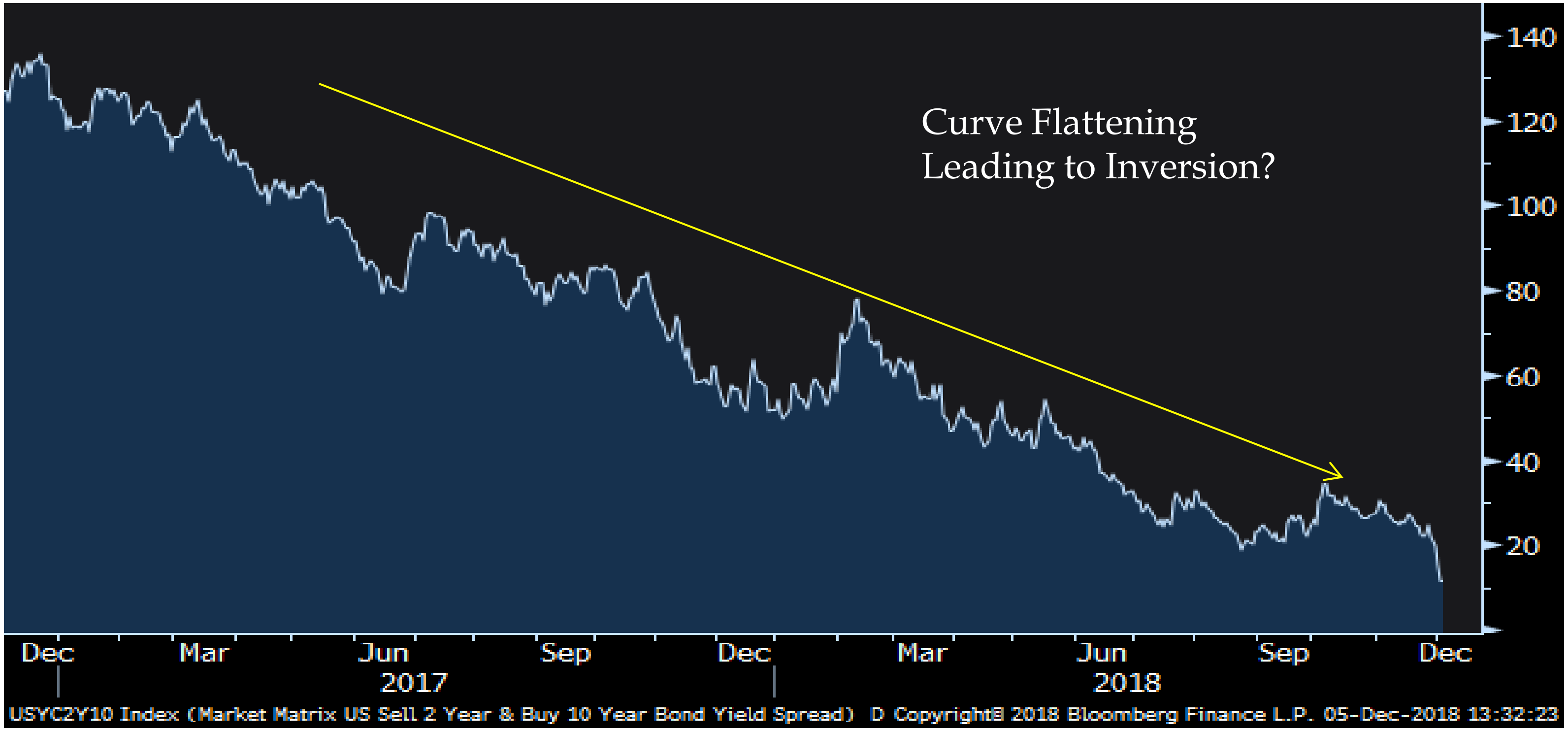


Source: Bloomberg

As of 12/3/15, the Fed Fund target rate was 0.25% and was hiked to 0.50% on 12/17/15. Today, the upper bound is 2.25%.

The Great Unknown:-Future Yield Curve Shape

2s-10s Treasury curve 2016-Present



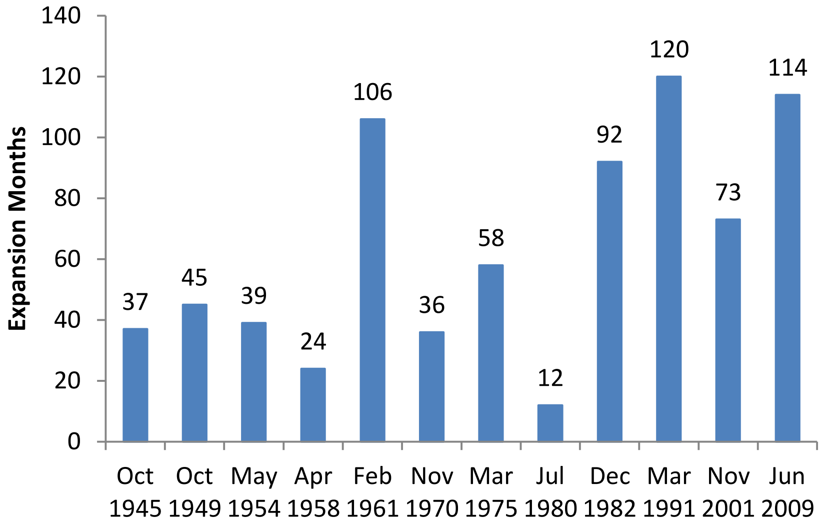
Source: Bloomberg

As shown above, the 2s-10s curve has flattened steadily since December 2016 moving from +135 bps to its current level of +11 bps (its flattest level since 2007)

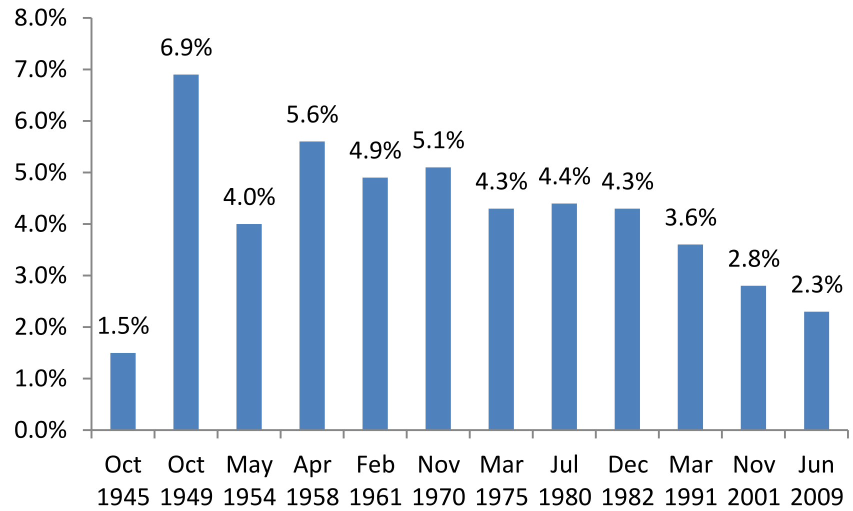
II) Reviewing the US Economy

The US Economy Is In Late-Cycle Expansion Mode

US Economic Expansion Periods (Months)



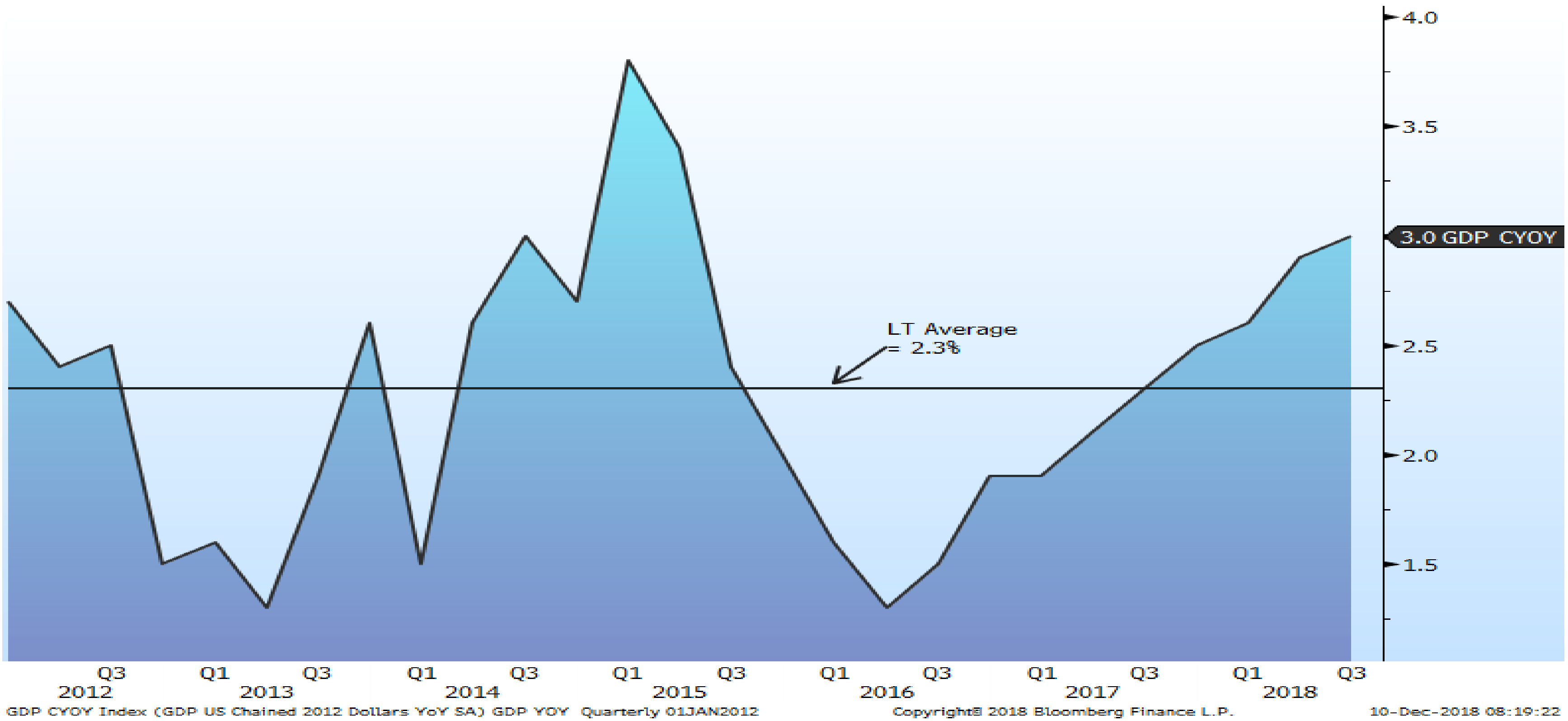
US Economic Expansions (Annual GDP Growth)



Source: Wikipedia, Fifth Third Securities

While the current expansion is now the second longest at 114 months or 9.5 years, it has produced below-average growth of 2.3% vs. the average of 4.1% for the last 12 US economic expansions.

US Economic Growth is improving

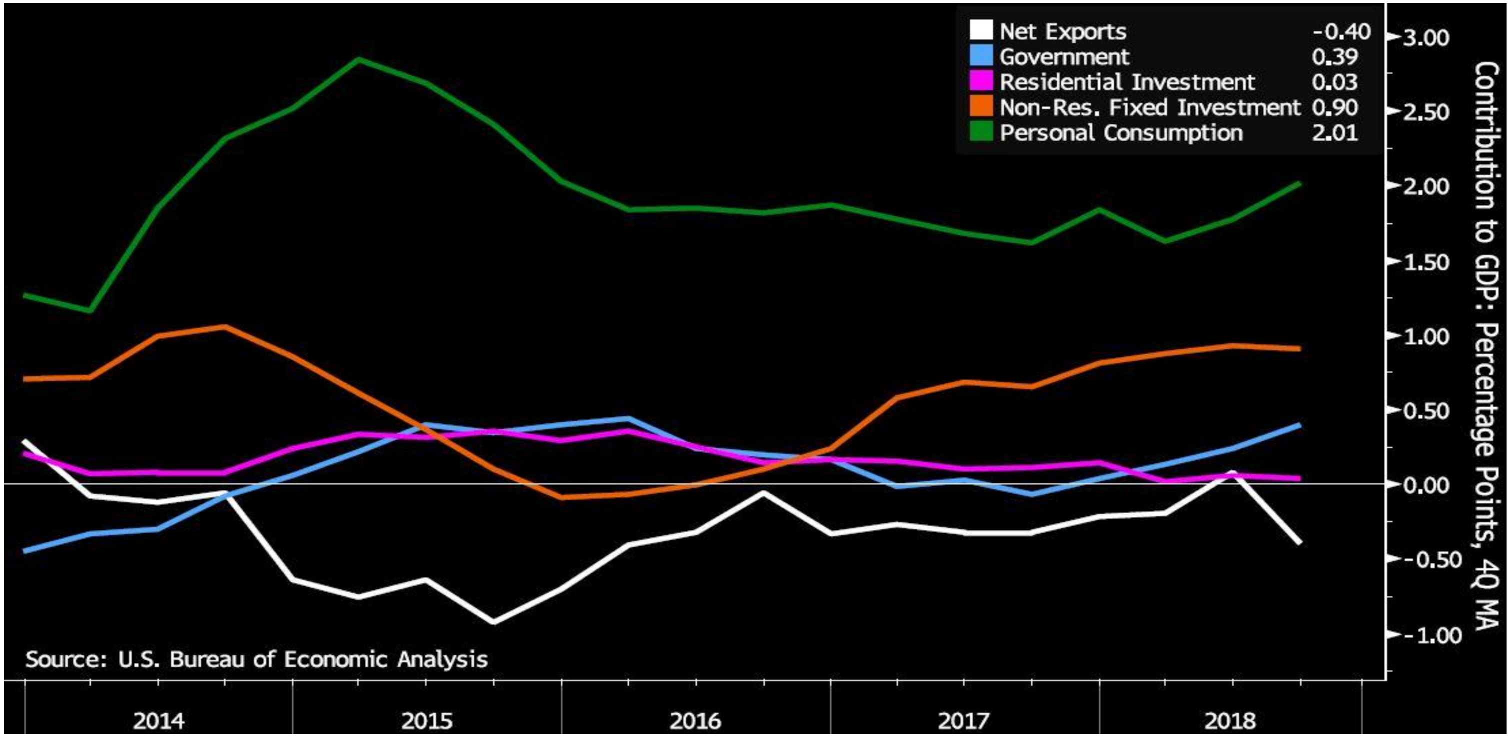


Source: Bloomberg

Tax cuts and higher domestic spending levels combined with a strengthening labor market have resulted in improved US GDP growth. Strong 2nd & 3rd q/q GDP numbers of 4.2% & 3.5% have lifted the y/y Real GDP growth rate to 3.0% for the first time since Q2 2015.

Examining The Components of GDP Growth

Recent Components of y/y GDP Growth

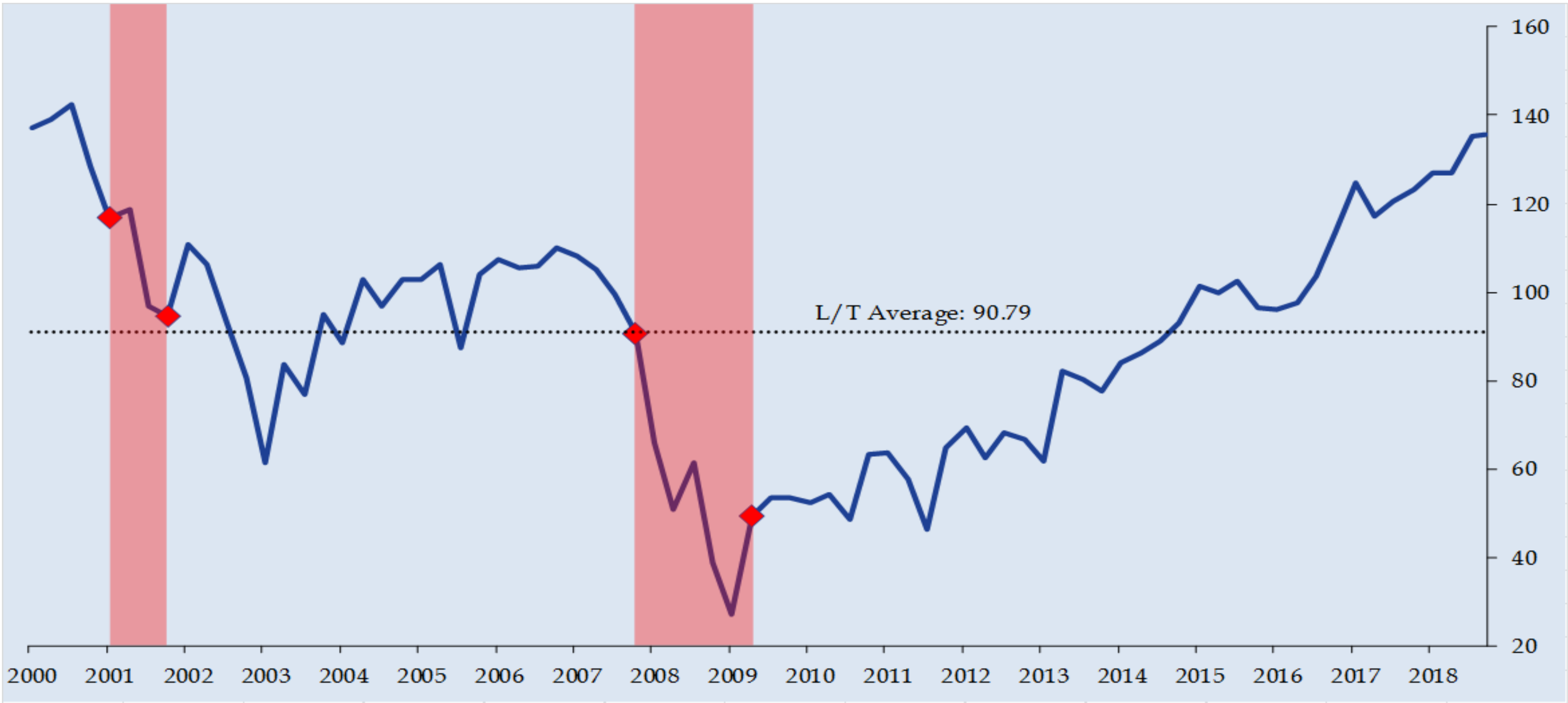


Source: Bloomberg

The recent improvement in GDP has been fueled by three segments-Personal Consumption, Business Investment, and increased Government Spending (including disaster recovery).

US Consumer Confidence Index

Conference Board Consumer Confidence Index



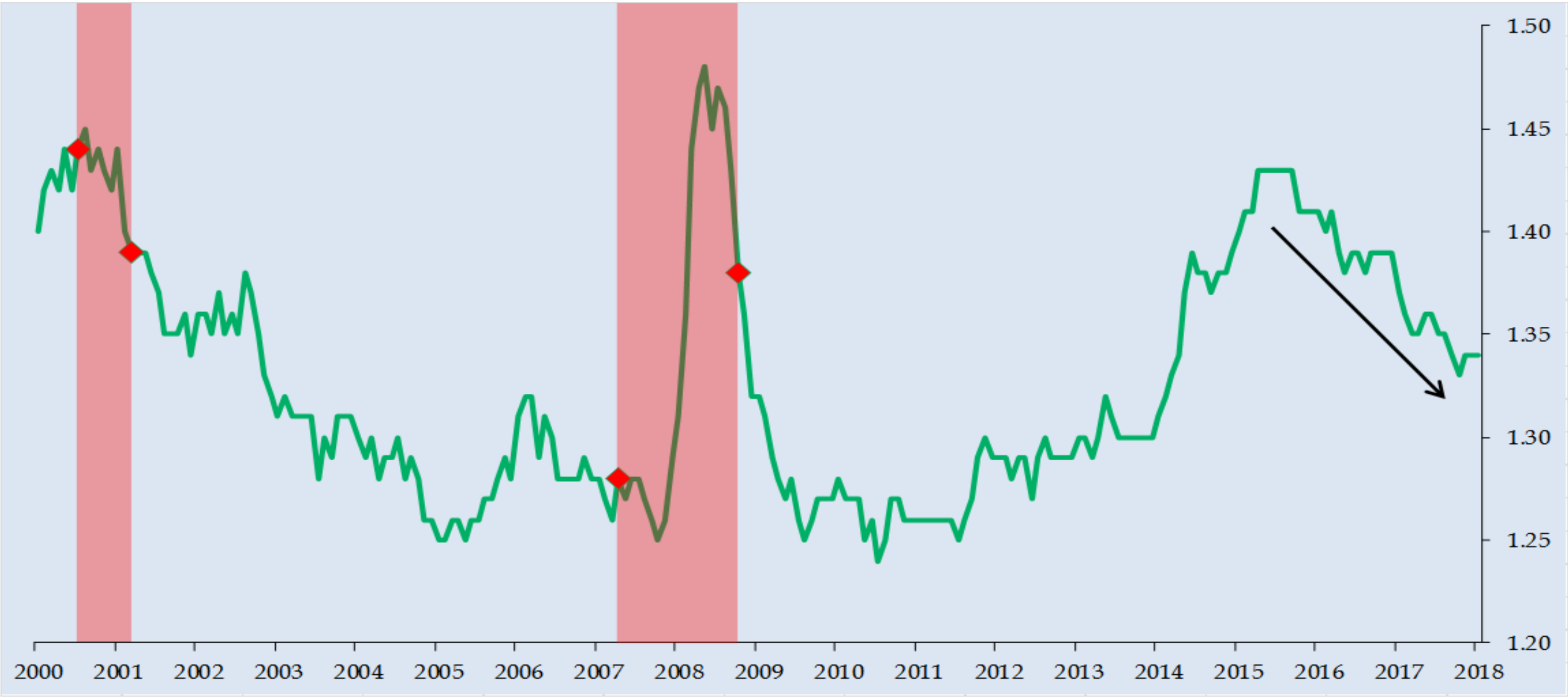
Note: Red shaded areas signify US recessionary periods.

Source: Bloomberg

Consumer Confidence has recently surged to its highest levels since 2000.

Inventory to Sales Ratio

US Business Inventory to Sales Ratio



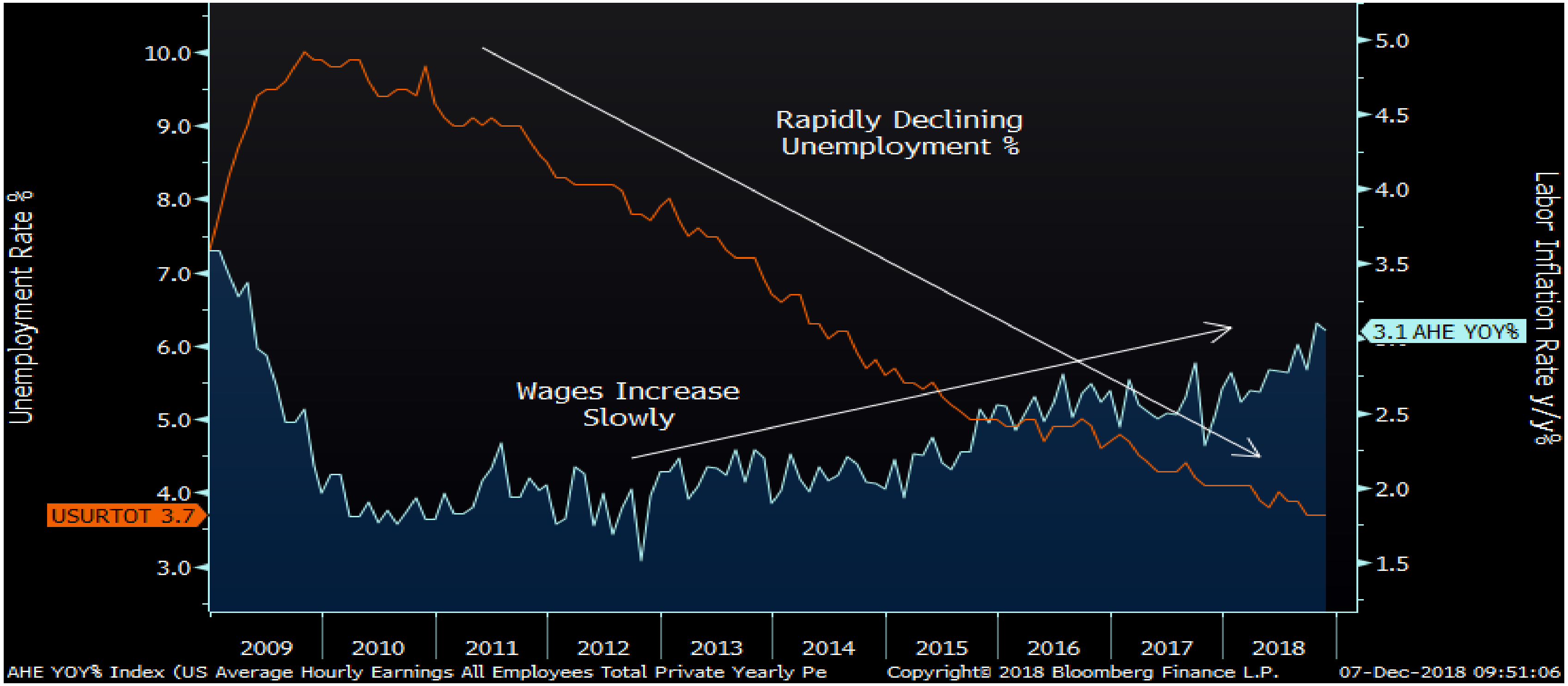
Note: Red shaded areas signify US recessionary periods.

Source: Bloomberg

Total business inventory-to-sales ratio has declined sharply since its cyclical peak in Q1 2016. Low inventory levels are positive for GDP growth since business owners are more willing to produce goods.

Wages are moving higher…finally

Unemployment Rate (left grid), Average Hourly Earnings (right grid)

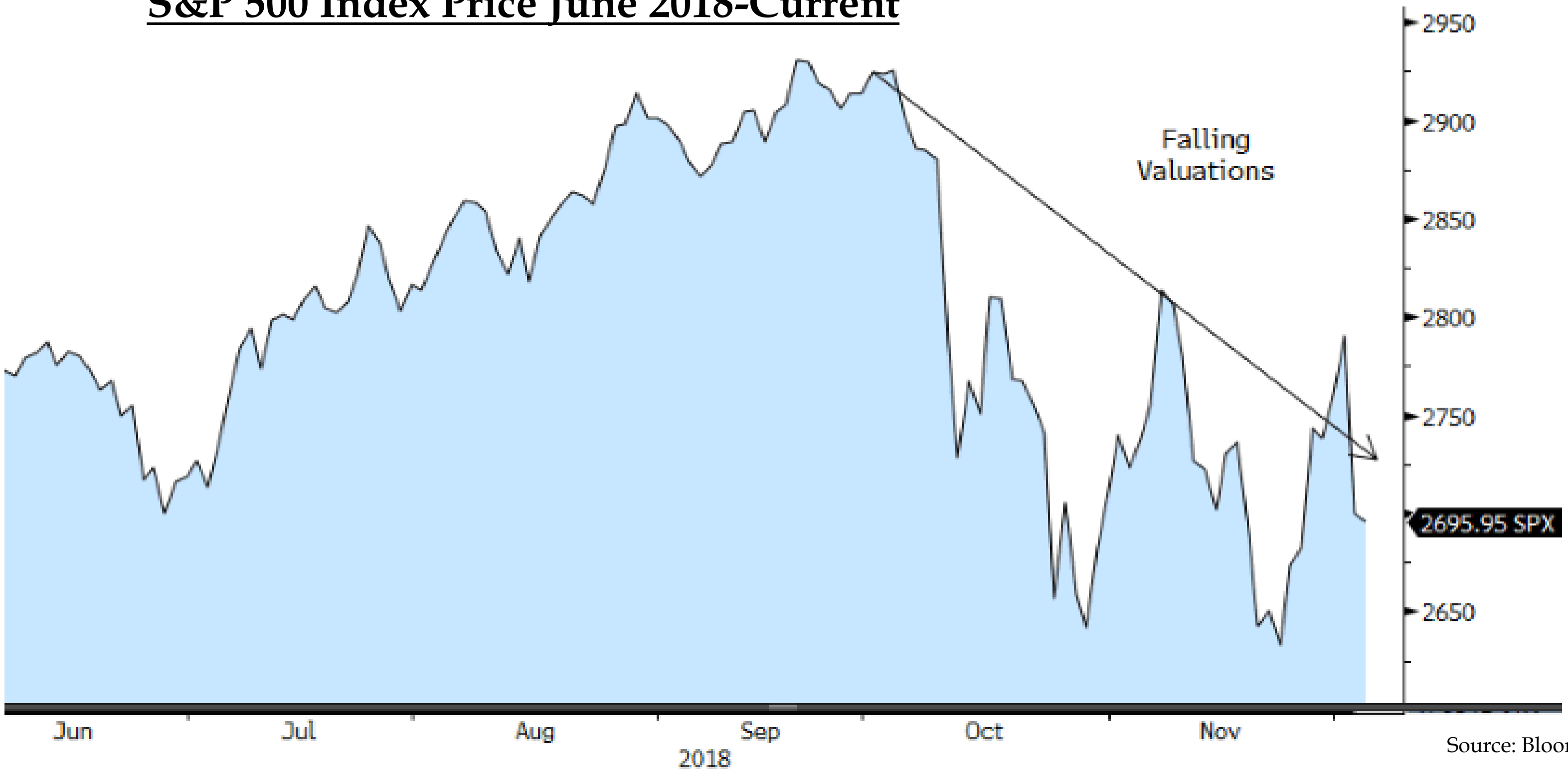


Source: Bloomberg

The Fed had been frustrated by the slow increase in Wage growth despite the sharp fall in Unemployment. Now wage inflation has moved above 3.0% for the second straight month.

Equity Prices have fallen sharply since Q3

S&P 500 Index Price June 2018-Current



Source: Bloomberg

US Equity prices have fallen by 8% from their highs in late September largely wiping out their entire gains for all of 2018. Market volatility has also moved sharply higher this year.

Corporate Bond Spreads have also widened

BOA/ML Corporate Bond Index Spreads

Source: Bloomberg

Lower equity prices has also adversely impacted investor views on corporate credit. The Corporate Bond Index is currently at its widest level of the year and widest spread since 2016.

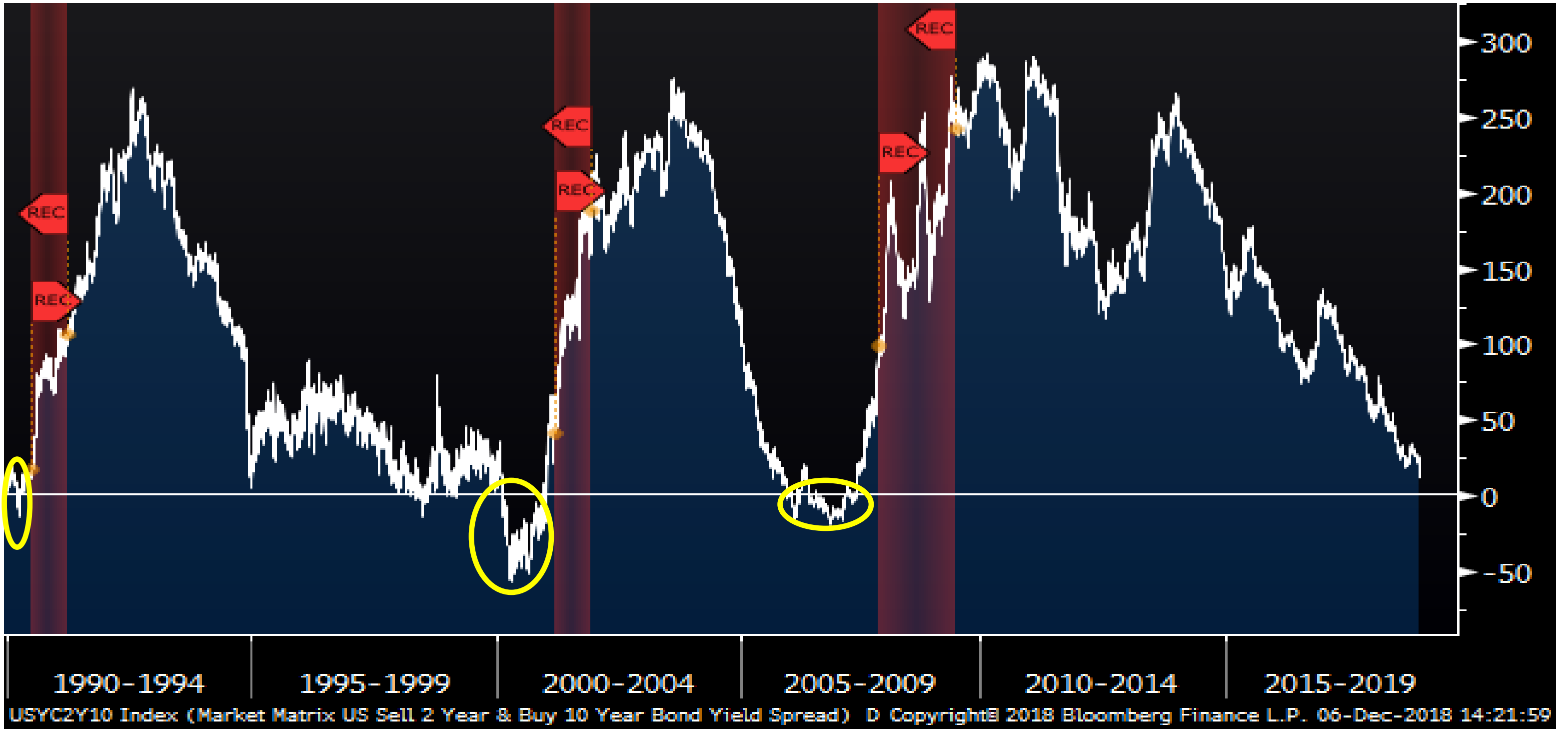
III) 6 Potential Economic Headwinds

1) Yield Curve Inversion

Yield curve inversions have historically led to US recessionary periods.

Treasury Curve Inversions Have Preceded Recessions

2s-10s Treasury Curve Inversions & US Recessions

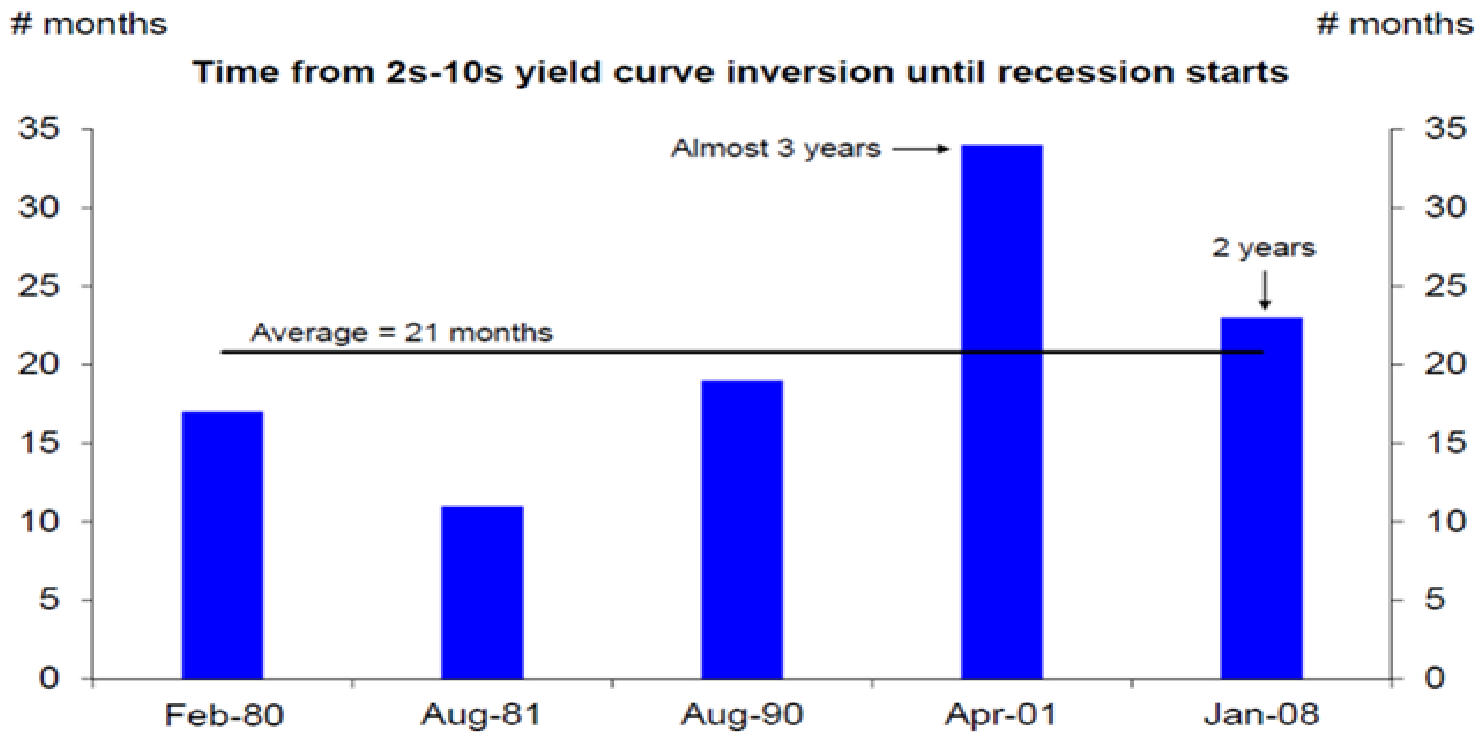


Note-Red shaded areas = US recessionary periods . Yellow circled areas are 2s-10s Yield Curve Inversions

Source: Bloomberg

Yield curve inversions have preceded all economic recessions since 1955. During the past five yield curve inversions (going back to 1978), a US recession has followed an average of 21 months later.

Inversions of 2s-10s curve=Recession?

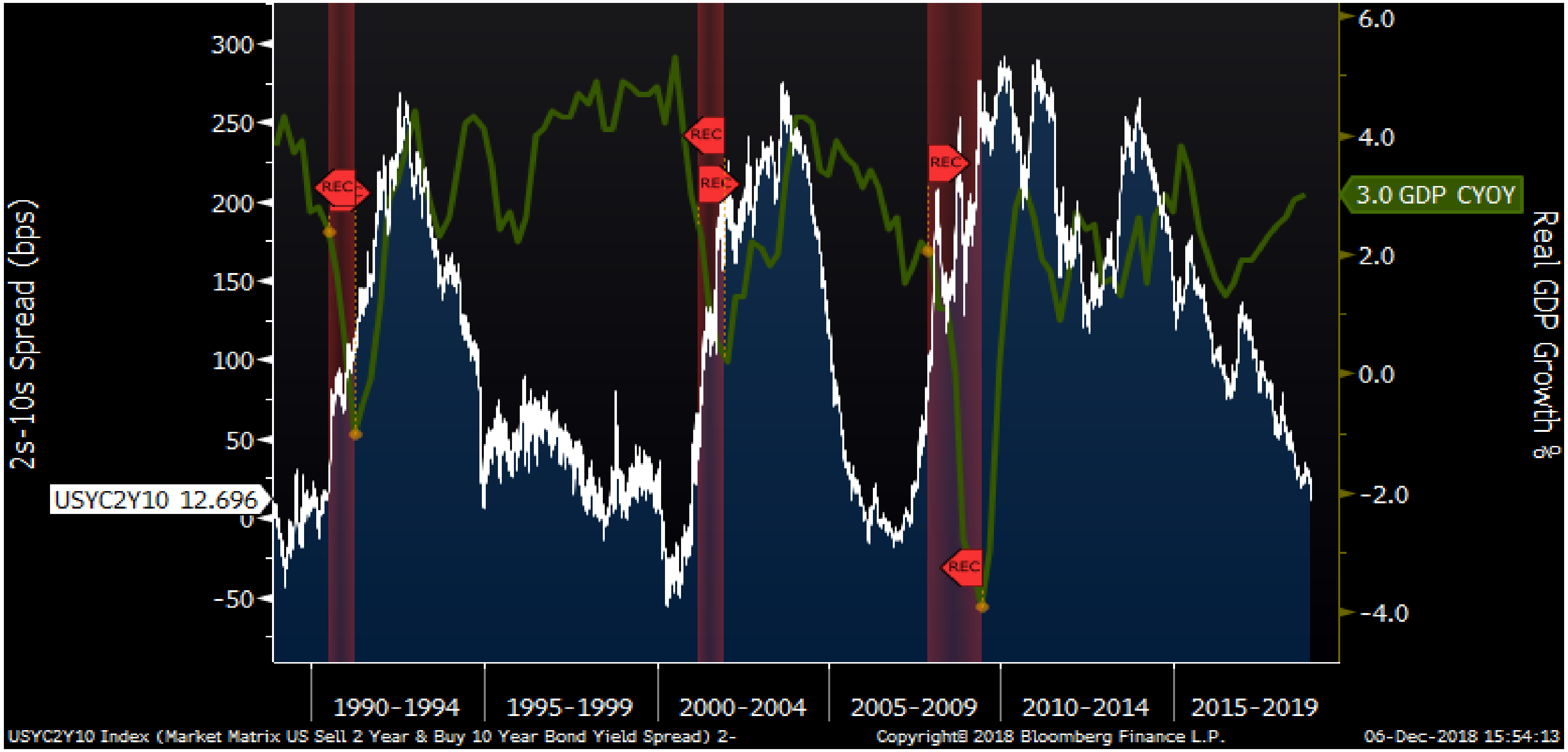


Source: Deutsche Bank

During each of the last five 2s-10s curve inversions an economic recession followed 10-34 months later.

Is this time different?

2s-10s Spread (left grid), Real GDP (right grid)



Note-Red shaded areas = US recessionary periods .

Many say inversion may not lead to recession and this time is different. Maybe, maybe not. While the economy currently seems on rather firm footing with Real GDP running at 3.0% y/y, at the time of the last three 2s-10s curve inversions Real GDP was at 3.1%. 4.2% and 4.3% respectively.

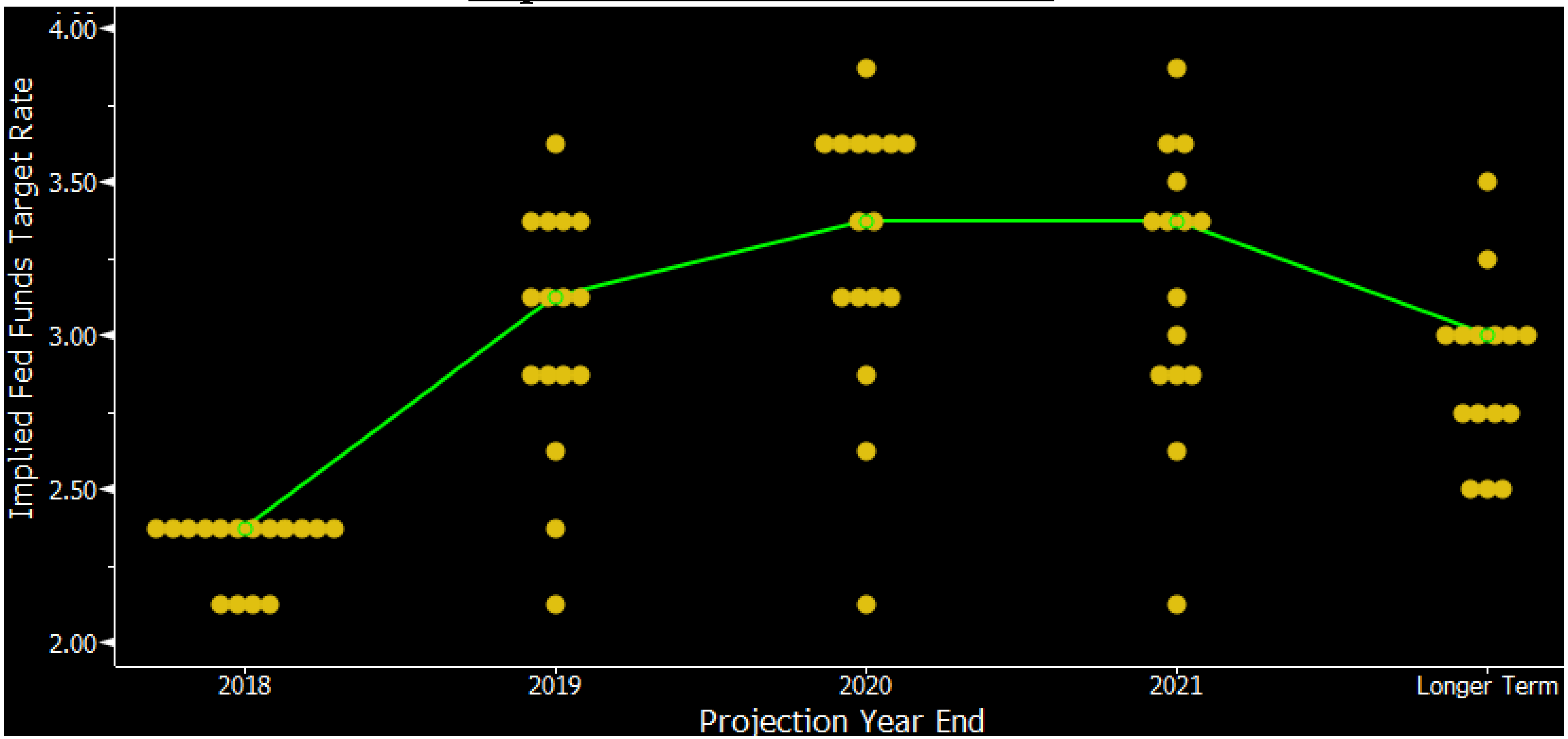
Source: Bloomberg

2) An Aggressive Federal Reserve

An aggressive tightening FOMC policy appears to be causing the yield curve to flatten as the short-end of the curve has increased by more than 200 bps since mid-2016.

Curve Inversion Potential & the Federal Reserve

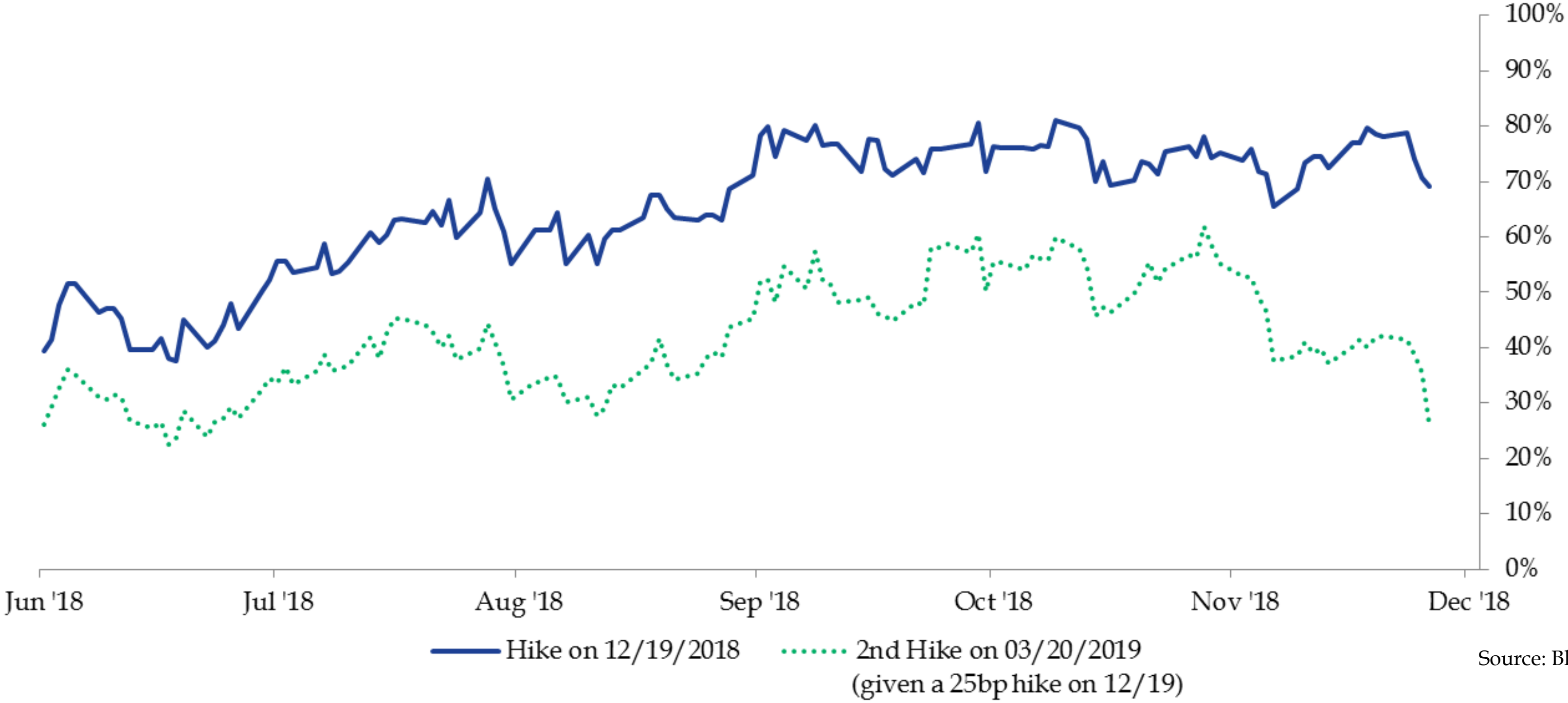
September FOMC Dot-Plots



Source: Bloomberg

After already hiking the Fed Funds Rate by 2.00% in a series of 25 bps hikes, the FOMC could be planning another 1.25% in hikes by the end of 2020. The Trump Administration has complained about the pace of these rate hikes.

Probability of 2018-19 FOMC Rate Hikes



Source: Bloomberg

The market is pricing in a 68% chance of a rate hike at the December FOMC meeting and around a 30% implied probability of a second rate hike in March 2019.

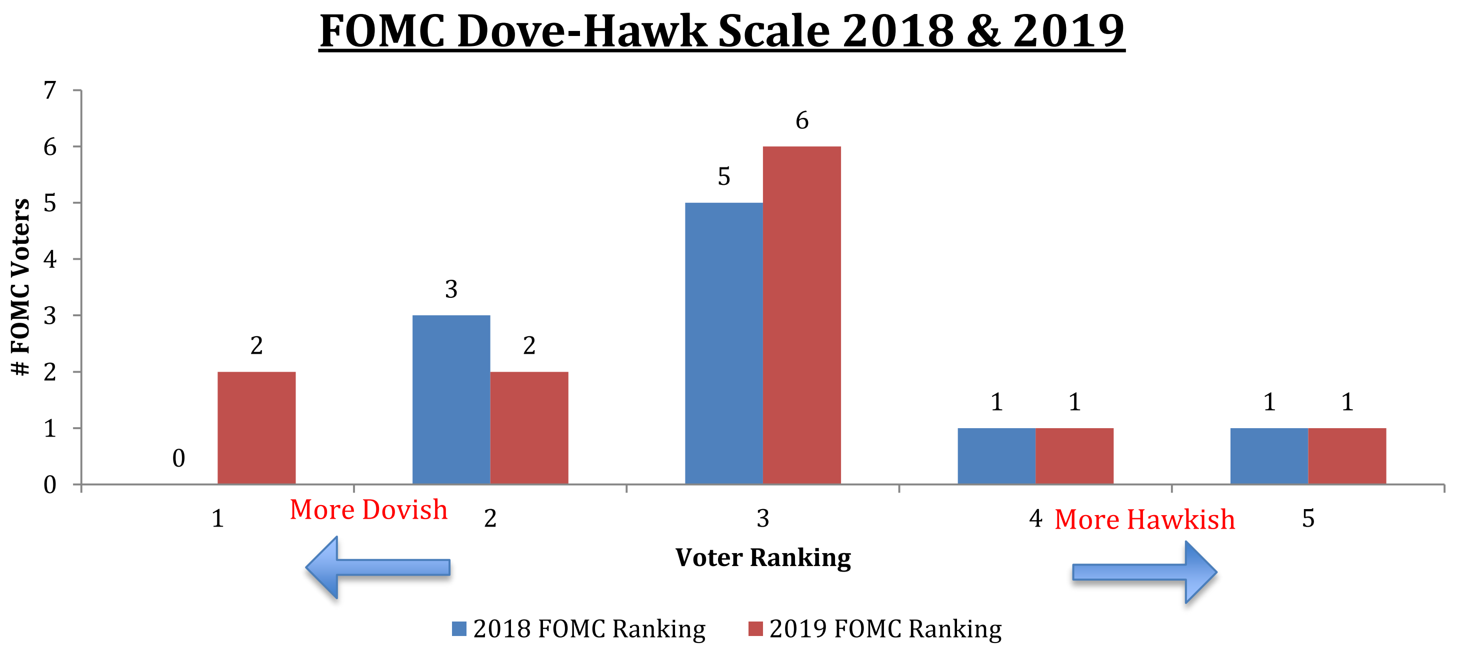
Central Banks not so good at "Soft Landings"

Most Common Contributing Factors to Economic Recessions

Source: Capital Economics

A recent study by Capital Economics showed that excessively tight monetary policy was the most common reason cited for 29 of the last 45 G7 economic recessions since 1960.

2019 FOMC Voters more Dovish?



Sources: Bloomberg, Deutsche Bank, LH Meyer, Fifth Third Securities

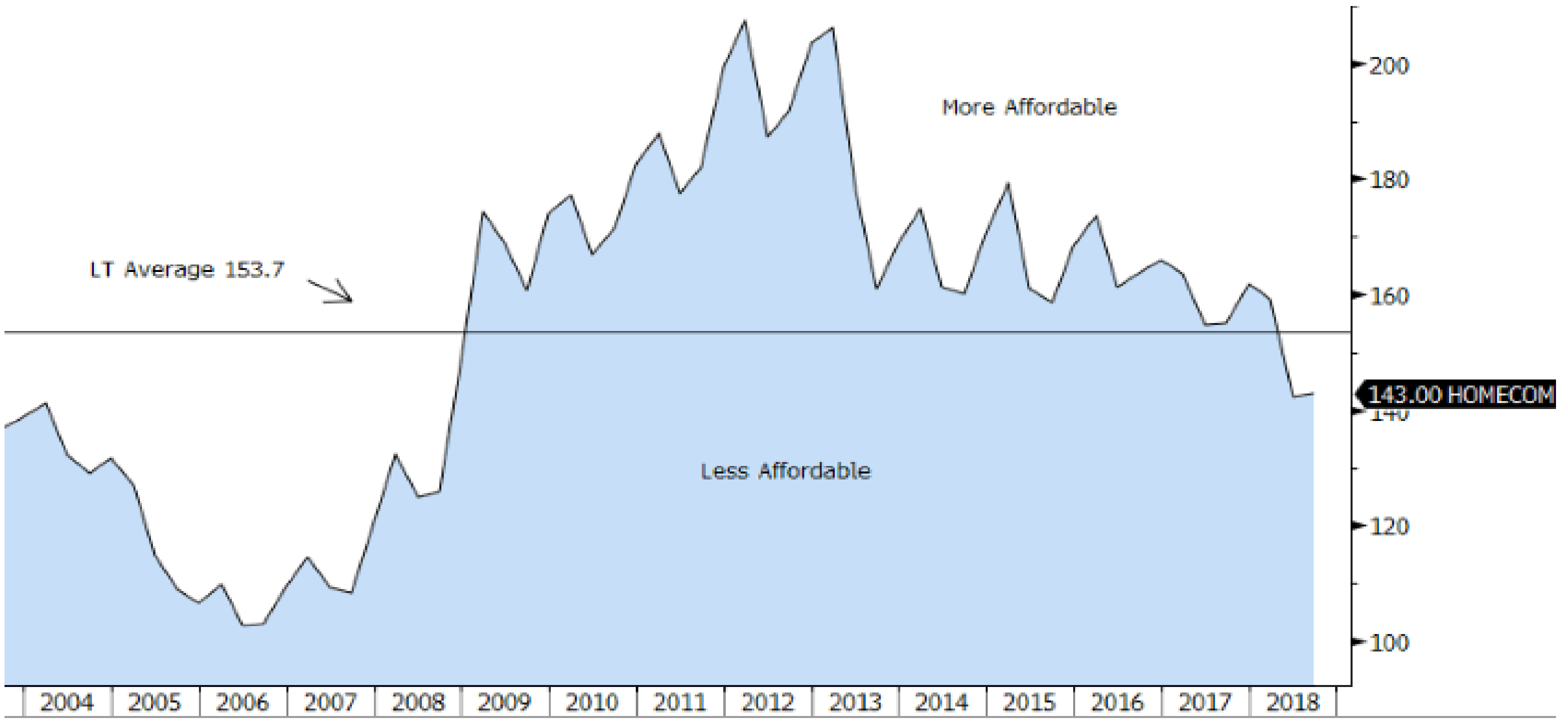
Pundits expect the new group of FOMC voters to have a more dovish tilt in 2019 relative to the current voters.

3) Higher Rates=>Housing & Auto Markets Softening?

The pace of sales in the housing market appears to be slowing and recent auto sales are off 10% from last year's pace. Both markets may be negatively impacted by affordability issues. Both of these industries are important for overall economic growth.

Housing Affordability Levels Have Been Falling

National Association of Realtors Housing Affordability Index

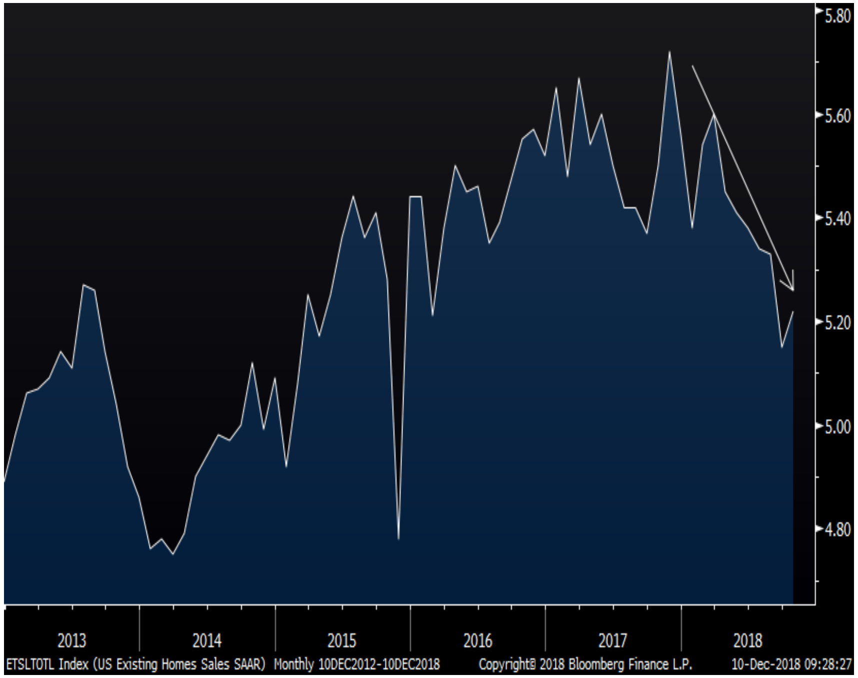


Source: Bloomberg

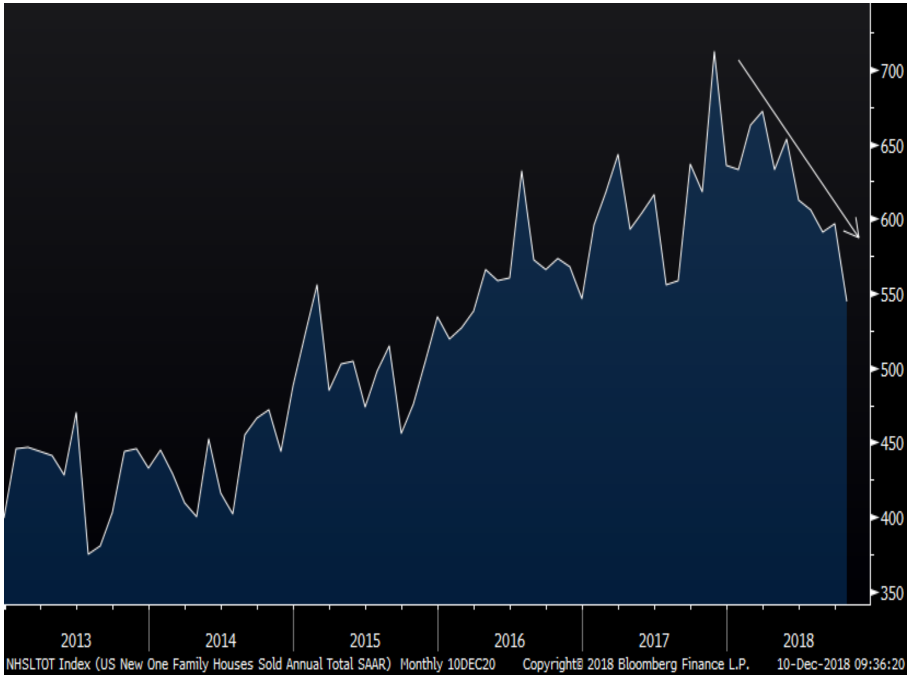
Housing Prices have grown at a much faster pace that household incomes resulting in falling levels of Home Price affordability. This trend also worsened due to higher mortgage interest rates during 2018.

Housing Sales Data Has Weakened

Existing Home Sales



New Home Sales

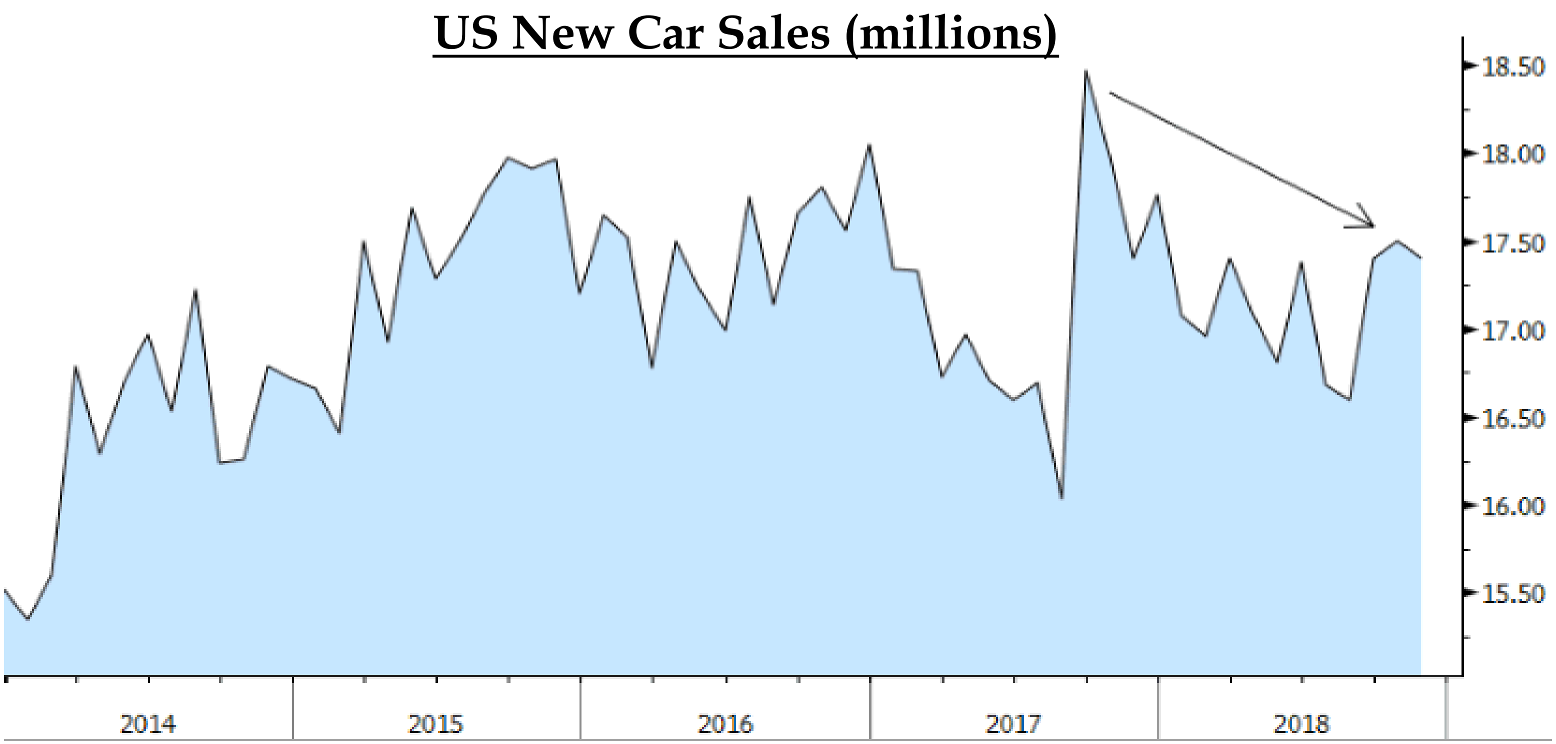


Source: Bloomberg

The trend of Housing Sales data has softened so far this year. This could be due to affordability concerns coupled with limited realtor inventories as well as higher US mortgage rates.

Fifth Third Securities

US Auto Sales also seem to have "affordability problem"



Source: Bloomberg

New Car Sales are now down by 1.1 million units from their September 2017 peak. Despite improved economic growth this year, sales are down due to affordability issues. These include sticker price increases, higher interest rates and stiff competition from more affordable late model used cars.

4) Potential Trade-Conflicts/Trade-Wars

The financial markets have become overly obsessed with the ongoing trade frictions with China. Currently following the G-20 Meeting between President Trump and President Xi, both sides have agreed to a 90 day truce in order to work on striking a trade deal.

Trade Talks & Primary Products coming into US

Largest US Imports by Country of Origin

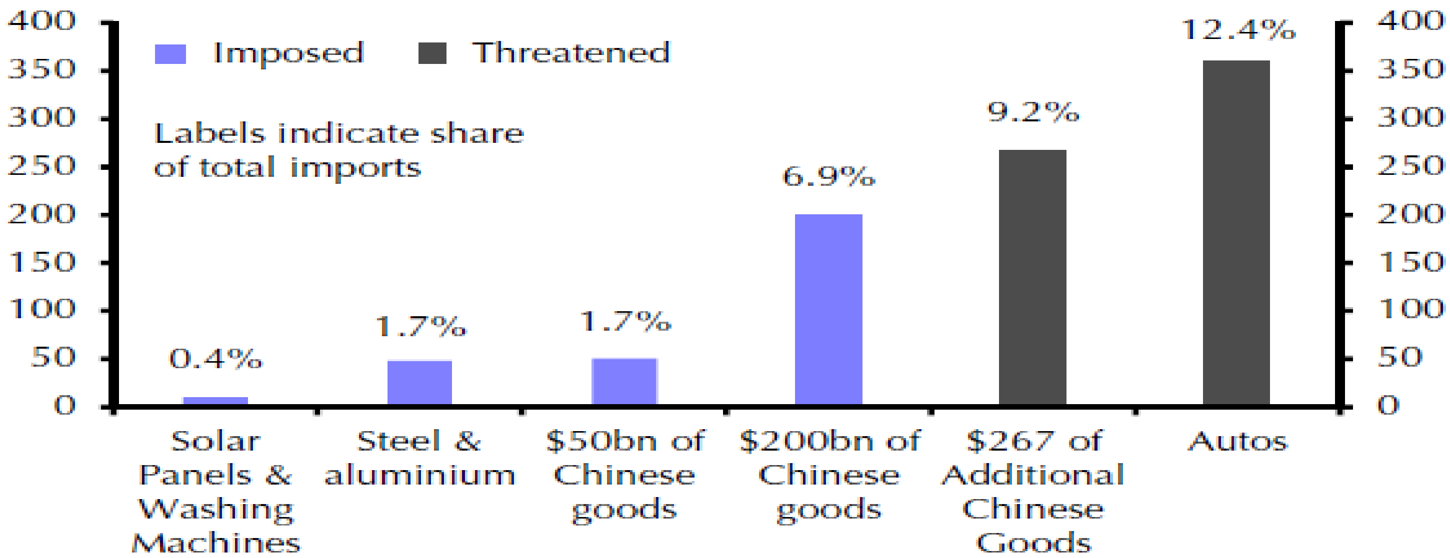
Exporter:	Most important US imports	Second most important imports	Third most important imports	Fourth most important imports
Mexico	Car parts	Trucks and buses	Cars	Computers
Germany	Cars	Pharma	Airplanes	Car parts
Japan	Cars	Car parts	Machines	Airplanes
Korea	Cars	Cell phones	Car parts	Petroleum
Canada	Oil	Cars	Re-imports	Car parts
United Kingdom	Pharma	Cars	Re-imports	Airplanes
China	Cell phones	Apparel	Computers	Computer access.

Source: Deutsche Bank

The President's trade deal discussions often involve the Auto industry.

US Trade Policy: Fairness via Import Tariffs

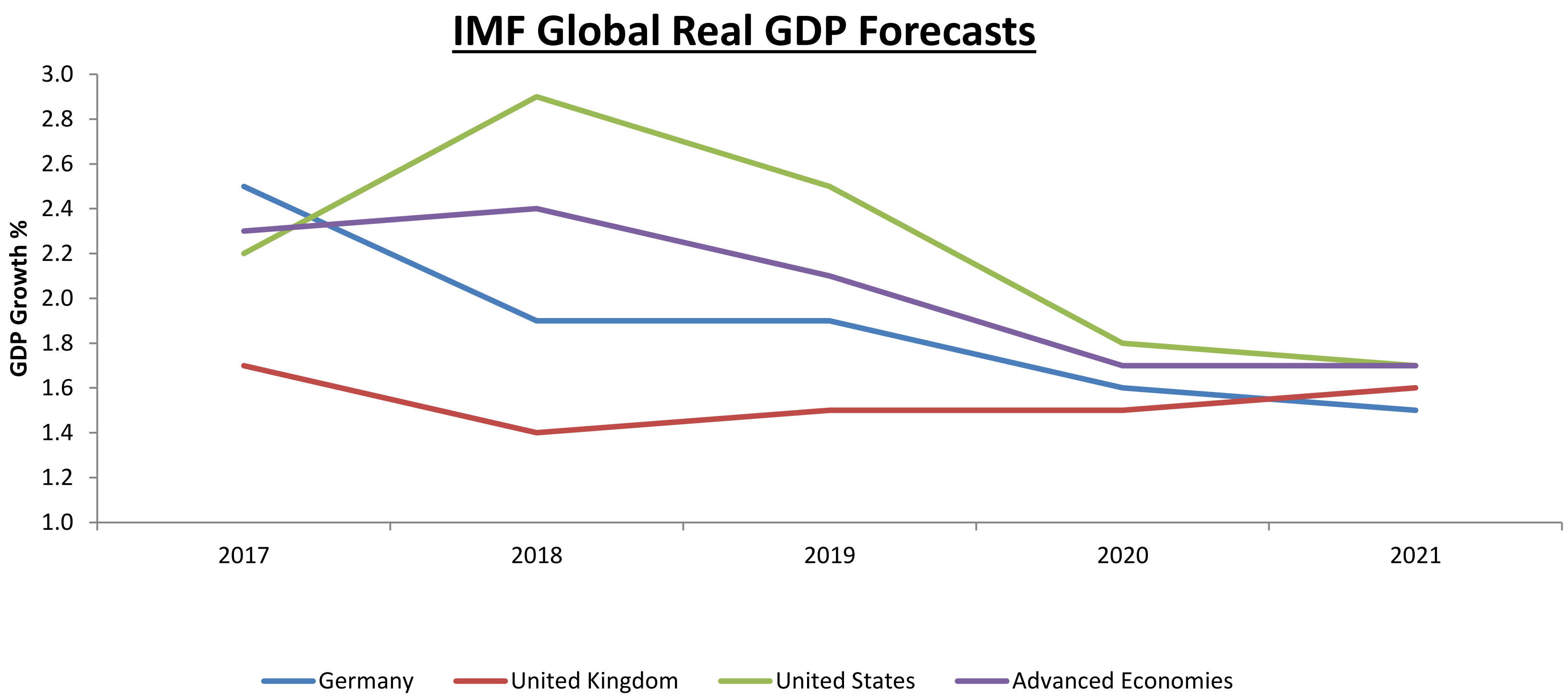
Imports impacted by Trade Policy Tariffs



Source: Capital Economics

Tariffs implemented to date should not have a big impact on US consumer prices or the overall economy. However the proposed tariffs could impact an additional 20%+ of total US imports.

Global Growth Slowing?

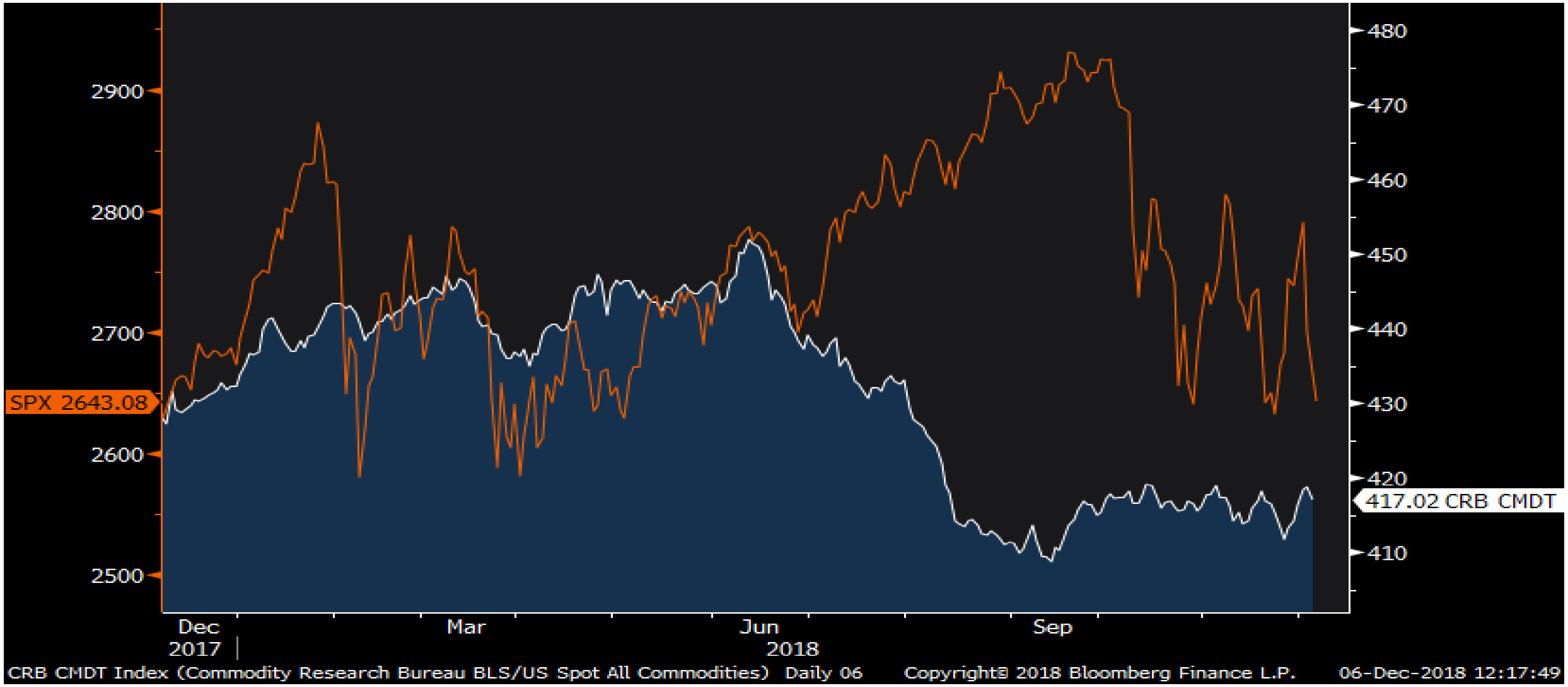


Source: IMF

The IMF is forecasting slower economic growth globally including in the US with Real GDP declining from 2.9% to 2.5% and 1.8% for 2018-2020. This forecast is below the GDP forecast of the Federal Reserve which is calling for US GDP growth of 3.1%, 2.5% and 2.0% respectively.

Commodity Prices are weak=> Slower Growth?

CRB Commodity Price Index (right grid), S&P 500 (left grid)



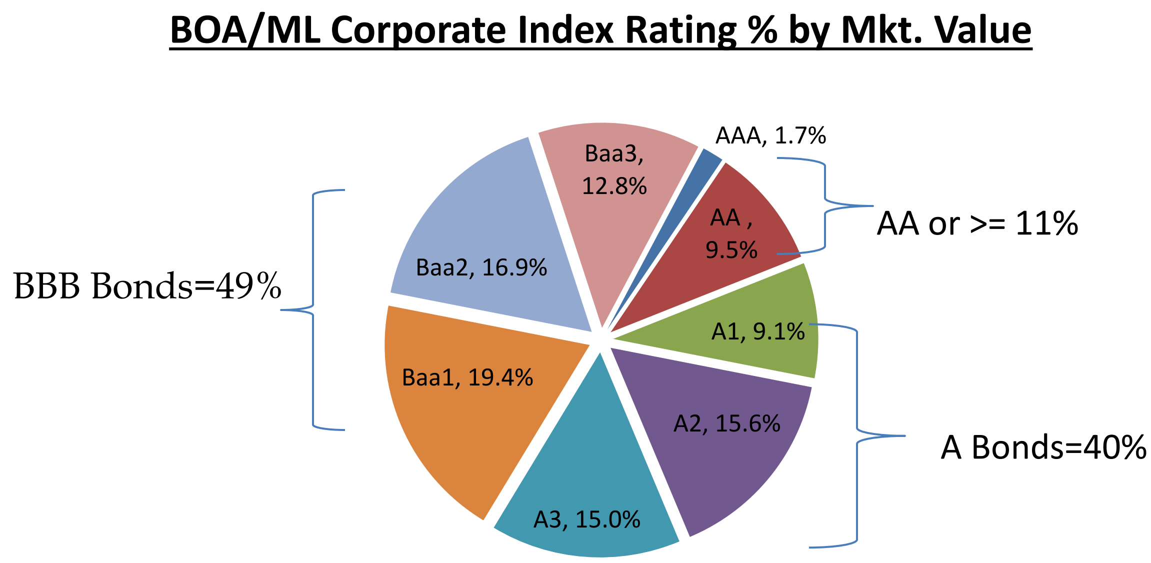
Source: Bloomberg

Falling Commodity prices (white line) often reflects lower future global growth. As shown in the chart below, they also seem to lead price changes in the S&P 500.

5) Corporate Bond Credit Risk

BBB-rated Corporate Bonds: “they aren't what they used to be”

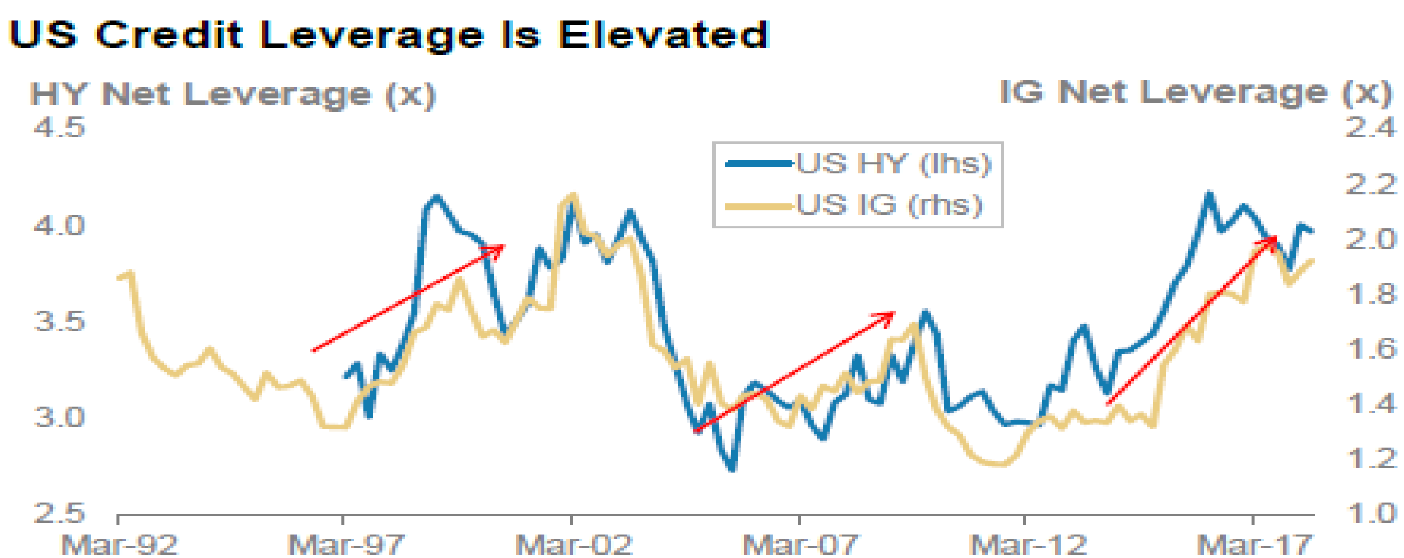
BBB Rated Corporate Bonds Now Nearly 50% of Index



Source: CreditSights

The credit quality of the overall Corporate Bond Index has deteriorated since 2008. That is, BBB-rated bonds now comprise nearly 50% of the overall IG index compared with 33% in 2008.

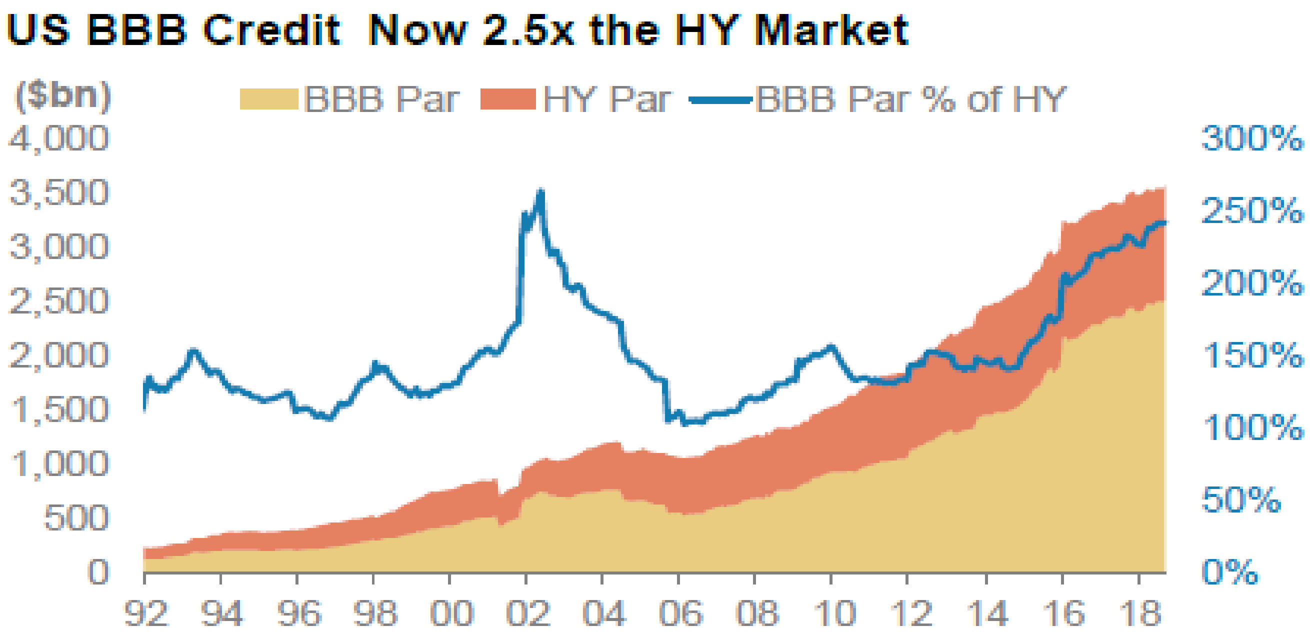
IG Corporate Bond Risk Profile (Continued)



Source: Morgan Stanley

Rising levels of BBB-rated bond Leverage combined with lower Interest Coverage increases the risk of credit downgrades in the event of a recession. Further the Leverage Ratio on these BBB bonds now averages 3.2x vs. 2.1x in 2007 while 37% of BBBs now have a Leverage Ratio of 5.0 or more.

BBB-Rated Corporate Market vs. High-Yield



Source: Morgan Stanley

The BBB-rated part of the IG Corporate Bond market has grown to 2.5x the size of the entire High-Yield market. This could result in a sharp increase in the size of the High-Yield market during the next economic downturn.

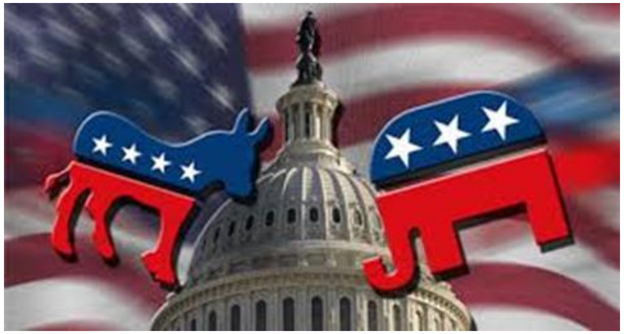
Also Duration Risk is Rising

BOA/ML US Broad Market Index

Source; Bloomberg

The Duration of the BOA/ML US Broad Index has extended meaningfully since the Great Recession resulting in more interest rate risk for the index investors.

6) Divided Government



Slower growth could result from the midterm elections which resulted in the Democrats gaining control of the House of Representatives. This is expected to slow President Trump's economic growth agenda, as Democrats seems to be committed to pursuing their Triple-I objectives:

- I- Infrastructure Spending
- I-Investigating the Administration
- I-Impeachment

In addition, House Democrats are also planning to try to finance their Infrastructure Spending objective by raising taxes on US Corporations and Higher Income Individuals.

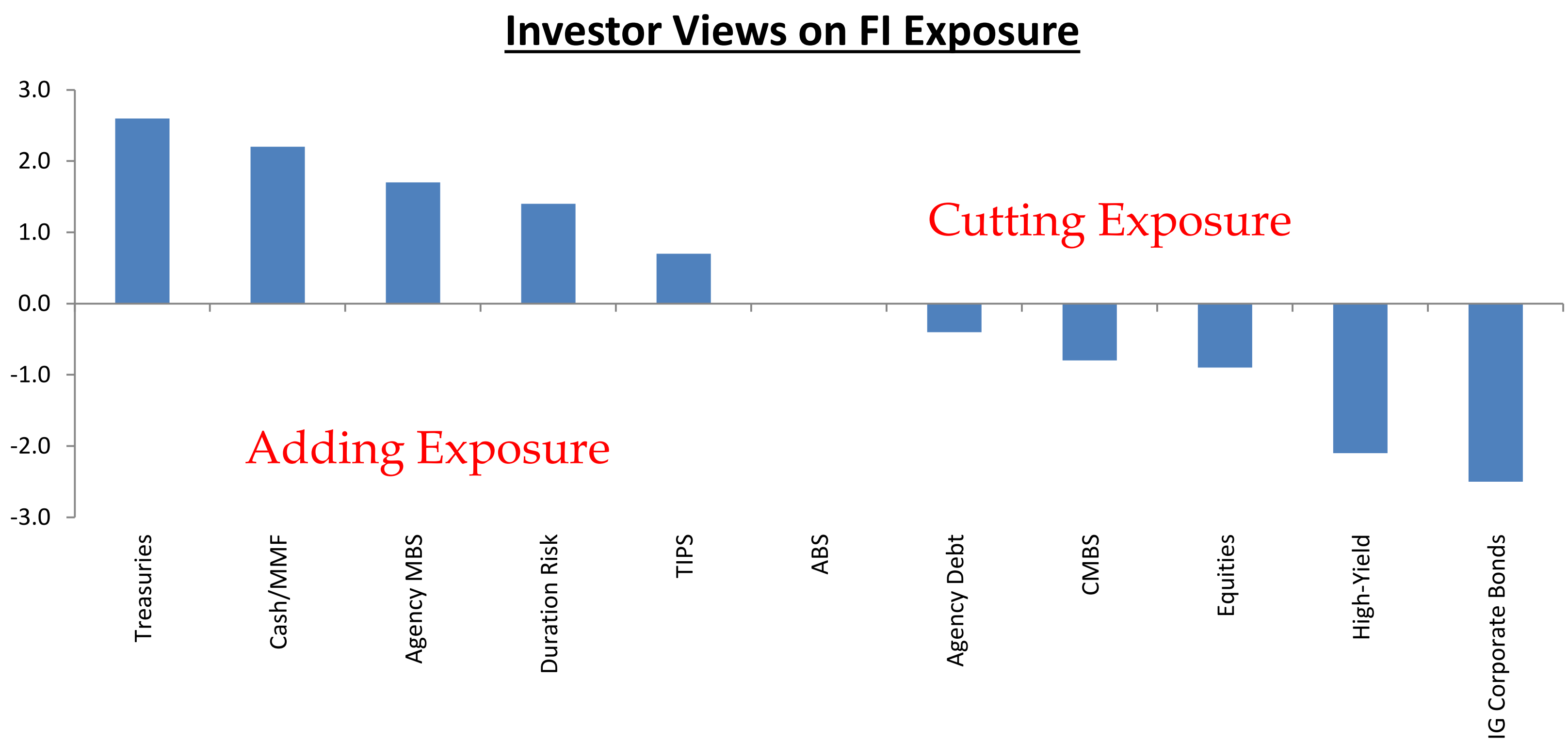
IV) Final Thoughts

Consensus Views for 2019

• Rates	Range bound , 10-Yr 2.75%-3.25%
• Fed Funds	2 to 3 hikes before y/e 2019
• Inflation	Core PCE <= 2.0%
• Yield Curve	2s-10s Flatter, potential inversion by mid-2019
• Duration	Short of Benchmark, but modestly longer vs. 2018
• Volatility	Higher Volatility may be the new normal
• Agency MBS	Impact of Fed Balance Sheet reduction overstated?
• Agency Debt	Limited supply, buying opportunity on higher Volatility?
• Corporate Bonds	Up in Quality bias, defensive sector tilt
• Municipal Bonds	Less event risk vs. Corporates, steep curve is a +

Source: Bloomberg, JP Morgan, Morgan Stanley, Fifth Third Securities

JP Morgan Investor Survey: FI Exposure Changes in 2019



JP Morgan's 2019 Investor survey revealed that Portfolio Managers are planning to add Treasuries, Cash/MMF, Agency MBS and extend duration next year, while trimming Corporate Bond and Equity Exposure.

Source: JP Morgan

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Definitions

Real Gross Domestic Product (GDP): An inflation-adjusted measure that reflects the value of all goods and services produced in a given year, expressed in base-year prices. Often referred to as "constant-price," "inflation-corrected" GDP or "constant dollar GDP".

Consumer Spending: Consumer spending is another term for voluntary private consumption, or an exchange of money for goods and services. Contemporary measures of consumer spending include all private purchases of durable goods, nondurables and services. In a purely free market, the aggregate level of private consumer spending in an economy is necessarily equal to the total market value of economic output.

Government Spending: Government purchases are expenditures made in the private sector by all levels of government, such as when a government entity contracts a construction company to build office space or pave highways.

Private Investment: is the measure of physical investment used in computing GDP in the measurement of nations' economic activity. This is an important component of GDP because it provides an indicator of the future productive capacity of the economy.

Export: An export is a function of international trade whereby goods produced in one country are shipped to another country for future sale or trade. The sale of such goods adds to the producing nation's gross output. If used for trade, exports are exchanged for other products or services in other countries.

Import: An import is a good or service brought into one country from another. The word "import" is derived from the word "port," since goods are often shipped via boat to foreign countries. Along with exports, imports form the backbone of international trade; the higher the value of imports entering a country, compared to the value of exports, the more negative that country's balance of trade becomes.

Consumer Price Index: The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living; the CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

Personal Consumption Expenditures (PCE): A measure of price changes in consumer goods and services. Personal consumption expenditures consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services. It is essentially a measure of goods and services targeted toward individuals and consumed by individuals.

Core Inflation: Core inflation reflects the long-term trend in a particular price level. It is a measure of inflation that excludes certain items that face volatile price movements because in finding out the legitimate long run inflation, short-term price volatility and transitory changes in price must be removed. Core inflation is most often calculated using the consumer price index (CPI), which eliminates products — usually those in the energy and food sectors — that can have temporary price shocks because these shocks can diverge from the overall trend of inflation and give a false measure of inflation.

Unemployment: The unemployment rate is the share of the labor force that is jobless, expressed as a percentage. It is a lagging indicator, meaning that it generally rises or falls in the wake of changing economic conditions, rather than anticipating them. When the economy is in poor shape and jobs are scarce, the unemployment rate can be expected to rise. When the economy is growing at a healthy rate and jobs are relatively plentiful, it can be expected to fall.

Definitions

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Underemployment Rate: Underemployment is a measure of employment and labor utilization in the economy that looks at how well the labor force is being utilized in terms of skills, experience and availability to work. Labor that falls under the underemployment classification includes those workers who are highly skilled but working in low paying jobs, workers who are highly skilled but working in low skill jobs and part-time workers who would prefer to be full time. This is different from unemployment in that the individual is working but is not working at his full capability.

Labor Force Participation Rate: The participation rate is a measure of the active portion of an economy's labor force. It refers to the number of people who are either employed or are actively looking for work. During an economic recession, many workers often get discouraged and stop looking for employment, resulting in a decrease in the participation rate.

US Home Affordability Index: The Housing Affordability Index measures whether or not a typical family earns enough income to qualify for a mortgage loan on a typical home at the national and regional levels based on the most recent price and income data.

Existing Home Sales: An economic indicator of both the number and prices of existing single-family homes, condos and co-op sales over a one-month period. The existing home sales report is released monthly by the U.S. National Association of Realtors. It is a lagging indicator as it tends to react after a change in mortgage rates.

US Dollar Index: The U.S. dollar index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

Citicorp IG Corporate Bond Index: The Corporate Investment Grade (Treasury Rate-Hedged) Index is a US Dollar-denominated index that measures the performance of investment-grade corporate debt. The index consists of a long position in investment-grade corporate bonds and a duration-matched short position in US Treasury bonds. The investment-grade portion of the index offers exposure to the more liquid, cash-pay bonds.

Definitions

Nonfarm Payroll: Nonfarm payroll is a term used in the U.S. to refer to any job with the exception of farm work, unincorporated self-employment, and employment by private households, the military and intelligence agencies. Proprietors are also excluded. The U.S. Bureau of Labor Statistics releases closely-followed monthly data on nonfarm payrolls as part of its Employment Situation Report. The headline figure, the change in the total number of nonfarm payrolls compared to the previous month, is used as a gauge of economic health.

Current Account: The difference between a nation's savings and its investment. The current account is an important indicator about an economy's health. It is defined as the sum of the balance of trade (goods and services exports less imports), net income from abroad and net current transfers. A positive current account balance indicates that the nation is a net lender to the rest of the world, while a negative current account balance indicates that it is a net borrower from the rest of the world. A current account surplus increases a nation's net foreign assets by the amount of the surplus, and a current account deficit decreases it by that amount. The current account and the capital account are the two main components of a nation's balance of payments.

Budget Deficit: A budget deficit is an indicator of financial health in which expenditures exceed revenue. The term budget deficit is most commonly used to refer to government spending rather than business or individual spending, but can be applied to all of these entities. When referring to accrued federal government deficits, the deficits are referred to as the national debt.

Federal Funds Rate: The interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The federal funds rate is generally only applicable to the most creditworthy institutions when they borrow and lend overnight funds to each other. The federal funds rate is one of the most influential interest rates in the U.S. economy, since it affects monetary and financial conditions, which in turn have a bearing on key aspects of the broad economy including employment, growth and inflation. The Federal Open Market Committee (FOMC), which is the Federal Reserve's primary monetary policymaking body, telegraphs its desired target for the federal funds rate through open market operations.

2-Year US Treasury: A 2-year treasury debt obligation issued by the United States government that matures in 2 years.

10-Year US Treasury: A 10-year treasury debt obligation issued by the United States government that matures in 10 years.

Federal Reserve Board/FOMC or "Fed"- is the main governing body of the Federal Reserve System. It is charged with overseeing the Federal Reserve Banks and with helping implement monetary policy of the United States. Governors are appointed by the President of the United States and confirmed by the Senate for staggered 14-year terms

2/10 Treasury Spread- The difference between the yield of the current 10-Year US Treasury Note minus the yield of the current 2-year Treasury Note. This spread is often used when referring to the slope of the Treasury yield curve

New home sales are an economic indicator which records sales of newly constructed residences in the United States

Housing Starts- The number of new residential construction projects that have begun during any particular month

Existing Home Sales- An economic indicator of both the number and prices of ***existing*** single-family ***homes***, condos and co-op ***sales*** over a one-month period.

Definitions

Disposable Income: Disposable income, also known as disposable personal income (DPI), is the amount of money that households have available for spending and saving after income taxes have been accounted for. Disposable personal income is often monitored as one of the many key economic indicators used to gauge the overall state of the economy.

Corporate Profit: Net income with inventory replacement and differences in income tax and income statement depreciation taken into consideration.

Treasury Inflation Protected Securities (TIPS): Treasury inflation protected securities (TIPS) refer to a treasury security that is indexed to inflation in order to protect investors from the negative effects of inflation. TIPS are considered an extremely low-risk investment since they are backed by the U.S. government and because the par value rises with inflation, as measured by the Consumer Price Index, while the interest rate remains fixed.

Headline CPI: The figure through which headline inflation is reported that is released monthly by the Bureau of Labor Statistics. The CPI calculates the cost to purchase a fixed basket of goods, as a way of determining how much inflation is occurring in the broad economy. The CPI uses a base year and indexes the current year's prices according to the base year's values.

Core PCE: Personal consumption expenditures (PCE), or the PCE Index, measure price changes of consumer goods and services. Expenditures noted on the index include actual expenditures and expenditures that are attributed to households in the United States; data that pertains to services, durables and non-durables is measured through the index.

Nonfarm Payroll: Nonfarm payroll is a term used in the U.S. to refer to any job with the exception of farm work, unincorporated self-employment, and employment by private households, the military and intelligence agencies. Proprietors are also excluded. The U.S. Bureau of Labor Statistics releases closely-followed monthly data on nonfarm payrolls as part of its Employment Situation Report. The headline figure, the change in the total number of nonfarm payrolls compared to the previous month, is used as a gauge of economic health.