CARILLON GROUP OF RAYMOND JAMES®

Navigating the Current Interest Rate Environment

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Navigating the Current Interest Rate Environment

- Navigational Beacons
- Rough Waters
- Smooth sailing

Navigational Beacons

Federal Reserve

Bond Market

The Fed’s three main functions are to:

- provide and maintain an effective and efficient payments system,
- supervise and regulate banking operations , and
- conduct the nation’s monetary policy

Monetary Policy 101

The Fed can use four tools to conduct monetary policy:

1) Discount Rate

2) Reserve Requirement

3) Interest on Reserves

3) Open Market Operations

Discount Rate

The **discount rate** is the interest rate Reserve Banks charge commercial banks for short-term loans.

Reserve Requirement

Reserve requirements are the portions of deposits that banks must hold in cash, either in their vaults or on deposit at a Reserve Bank.

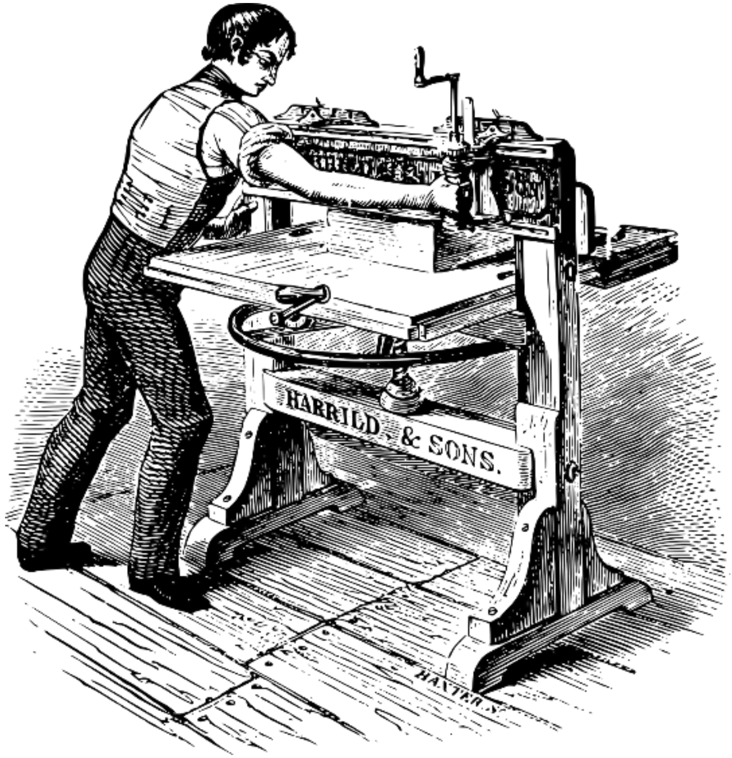
Interest on Reserves

The newest and most frequently used tool given to the Fed by Congress after the Financial Crisis of 2007-2009.

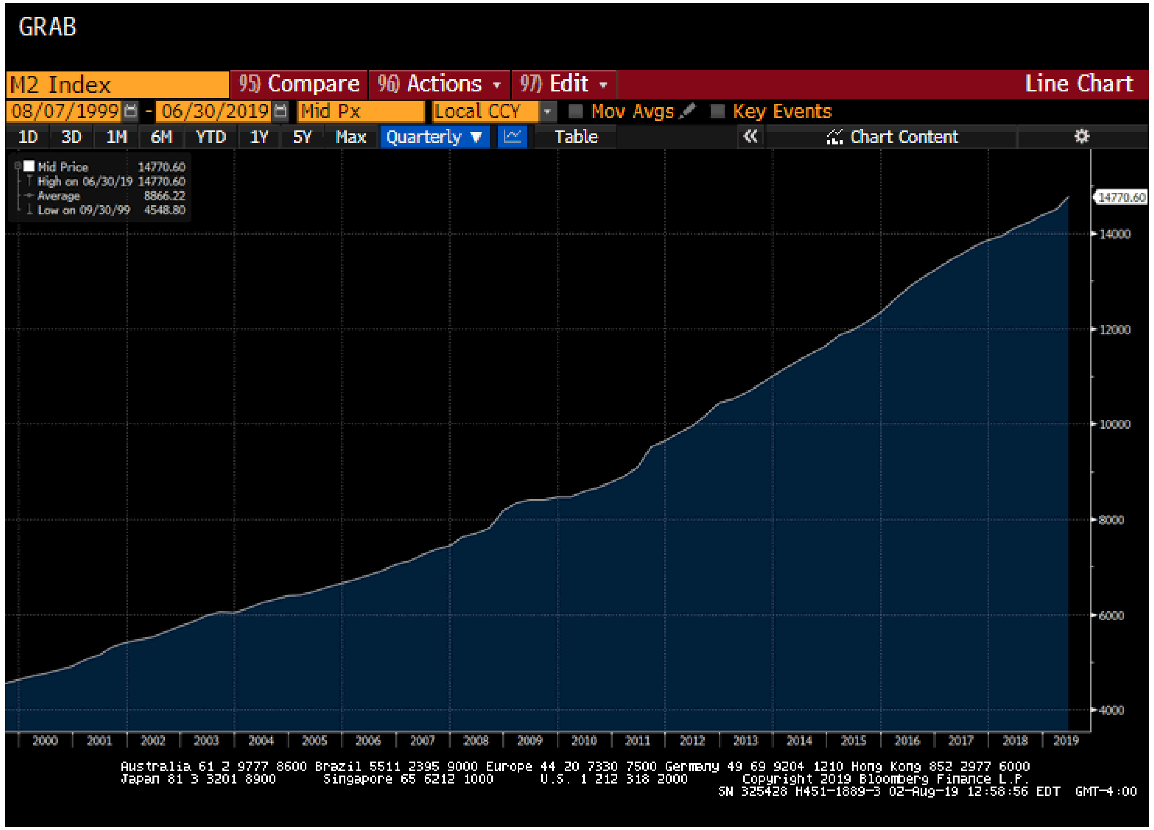
Open Market Operations

Open market operations involves, the buying and selling of U.S. government securities.

$ policy =



M2



M2 is a measure of the money supply that includes cash, checking deposits, and easily convertible near money. It is a broader measure of the money supply that M1, which just include cash and checking deposits. M2 is a closely watched as an indicator of money supply and future inflation, and as a target of central bank monetary policy.

Source: Bloomberg

Excess Bank Reserves

Excess reserves are capital reserves held by a bank or financial institution in excess of what is required by regulators, creditors or internal controls. For commercial banks, excess reserves are measured against standard reserve requirement amounts set by central banking authorities. These required reserve ratios set the minimum liquid deposits (such as cash) that must be in reserve at a bank; more is considered excess. Excess reserves may also be known as secondary reserves.

Source: Bloomberg

The Bond Market

The bond market is really several markets: the Treasury bond market, the corporate bond market and the municipal bond market to name three.

What Moves the Bond Market?

The bond market moves when expectations change about **economic growth and inflation**. Unlike stocks, whose future earnings are anyone's guess, bonds make fixed payments for a certain period of time. Investors decide how much to pay for a given bond (that is, for a stream of fixed payments of a certain length) based on how much they expect inflation to erode the value of those fixed payments.

Fed Forecast

Economic Growth

GRAB

96) Chart | 97) Set as Default View | Economic Forecasts

Country/Region/World | Contributor Federal Reserve | Yearly | Quarterly

United States | Browse | Private | Official | Compare to Composite

Actual / Forecasts

Indicator	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Economic Activity										
Real GDP (YoY%)	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.1	2.0	1.8
Industrial Production (YoY...	3.0	2.0	3.1	-1.0	-2.0	2.3	4.0			
Price Indices										
CPI (YoY%)	2.1	1.5	1.6	0.1	1.3	2.1	2.5			
PCE Price Index (YoY%)							1.9	1.5	1.9	2.0
Core PCE (yoy%)	1.9	1.5	1.6	1.3	1.6	1.6	2.0	1.8	1.9	2.0
Labor Market										
Unemployment (%)	8.1	7.4	6.2	5.3	4.9	4.4	3.9	3.6	3.7	3.8
Non Farm Payrolls (000s S...										
Average Hourly Earnings (...	2.2	1.9	2.0	2.5	2.7	2.7	3.3			

50) News Headlines | NSE »

51) Bloomberg Consensus Global Rate Forecasts as of Aug. 20 (Table) BN 08/20
52) OPEC August Report: World Oil Demand/Supply Balance (Table) BN 08/16
53) SURVEY REPORT: U.S. Economic Forecasts in Aug. 2019 BN 08/08
54) SURVEY REPORT: Fed Will Cut in July, Keep Balance Sheet Runoff BN 07/25
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Source: Bloomberg

Private Economists Forecast

Economic Growth

GRAB

96) Chart | 97) Set as Default View | Economic Forecasts

Country/Region/World | Contributor | Contributor Composite | Yearly | Quarterly

United States | Browse | Private | Official

Actual / Forecasts | Probability of Recession 35.0%

Indicator	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Economic Activity										
Real GDP (YoY%)	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.3	1.8	1.8
Consumer Spending ...	1.5	1.5	3.0	3.7	2.7	2.6	3.0	2.5	2.2	2.0
Government Spendin...	-2.1	-2.4	-0.9	1.9	1.8	0.7	1.7	2.2	1.5	1.1
Private Investment (...	11.0	6.9	5.6	4.9	-1.3	4.4	5.1	2.8	1.9	2.6
Exports (YoY%)	3.4	3.6	4.2	0.5	0.0	3.5	3.0	0.4	1.8	2.3
Imports (YoY%)	2.7	1.5	5.0	5.3	2.0	4.7	4.4	1.8	2.3	2.9
Industrial Production (Yo...	3.0	2.0	3.1	-1.0	-2.0	2.3	4.0	1.2	1.3	1.5
Price Indices										
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PCE Price Index (YoY%)							2.0	1.5	1.9	2.0
Housing Market										
Housing Starts (000s SAA...							1261	1250	1269	1273
New Home Sales (000s S...							616	652	655	663
Existing Home Sales (Mln...							5.4	5.3	5.4	5.4
Building Permits (000s S...							1310	1302	1332	1332
Labor Market										

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Source: Bloomberg

Fed Forecast

Inflation

GRAB

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Country/Region/World: United States | Browse | Contributor: Federal Reserve | Yearly | Quarterly | Private | Official | Compare to Composite

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Source: Bloomberg

Private Economists

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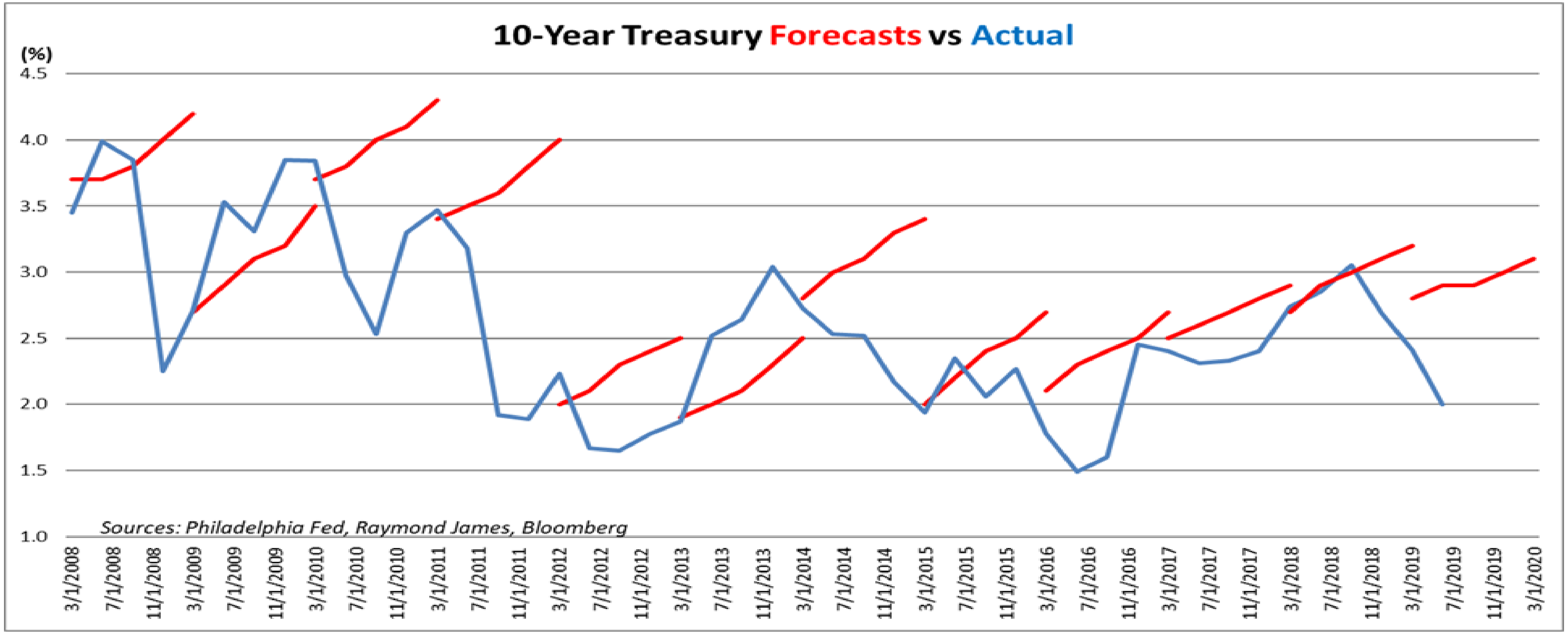
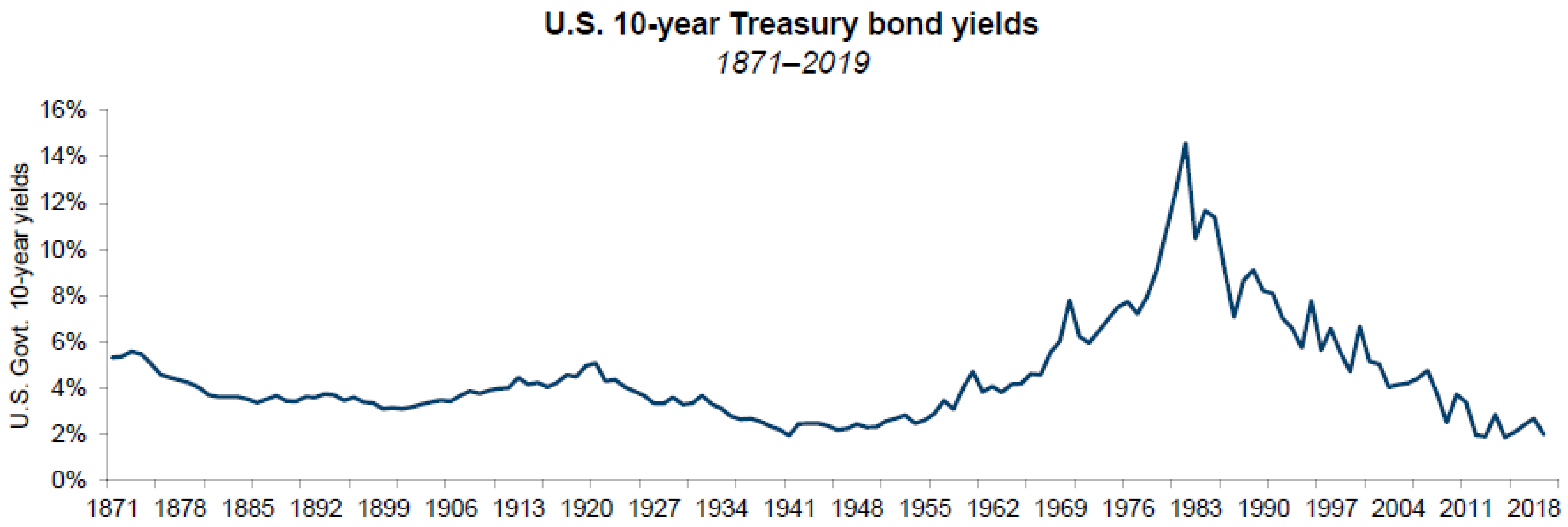
Source: Bloomberg

10 year Treasury Forecast vs Actual



Rough Waters



Source: U.S. Treasury, "Irrational Exuberance," Robert Shiller, March 2000, Bloomberg, Columbia Threadneedle Investments. Data as of 6/28/2019. **Past performance is not a guarantee of future results.**

Case for Higher Rates

Higher Inflation?

Case for Higher Rates

Higher Inflation?

Tax Cut Fueled Growth?

Case for Higher Rates

Higher Inflation?

Tax Cut Fueled Growth?

Scaling Back of Quantitative Easing?

Case for Higher Rates

Higher Inflation?

Tax Cut Fueled Growth?

Scaling Back of Quantitative Easing?

Fed Rate Hikes?

Case for Higher Rates

Higher Inflation?

Tax Cut Fueled Growth?

Scaling Back of Quantitative Easing?

Fed Rate Hikes?

Tariffs?

Case for Higher Rates

Higher Inflation?

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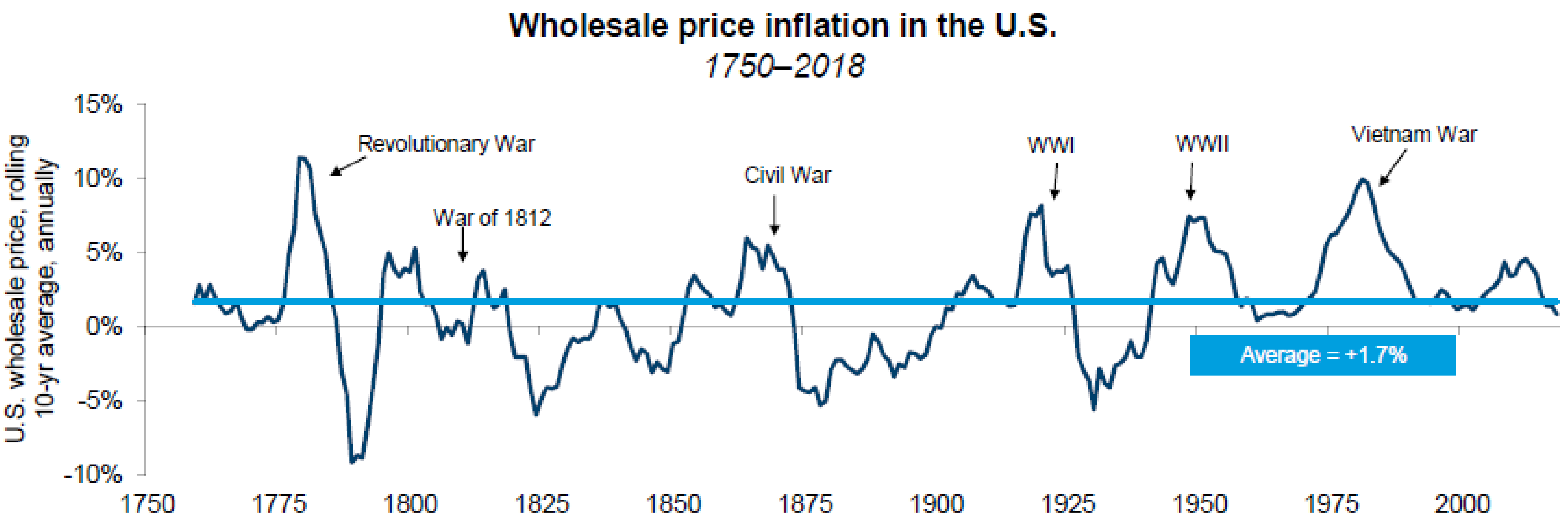
Fed Rate Hikes?

Tariffs?

War?

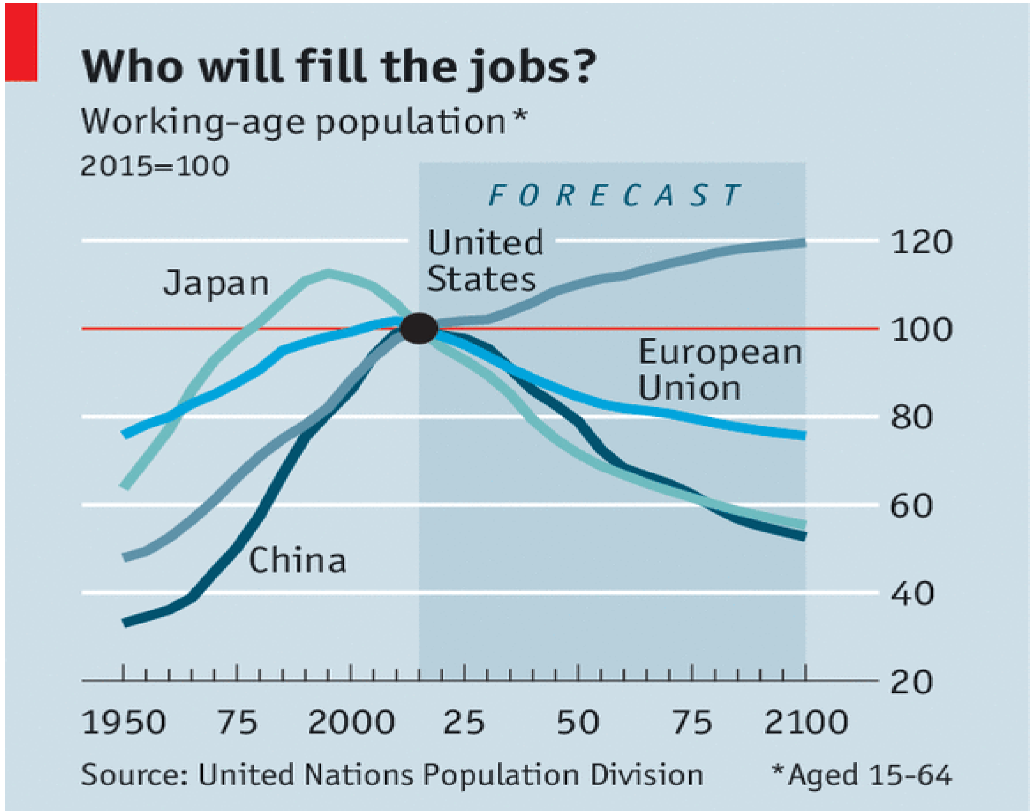


Source: Historical Statistics of United States, Bureau of Labor Statistics, data as of 12/31/2018, updated annually. Wholesaler prices refer to producer prices rather than consumer prices. Past performance does not guarantee future results.

The Case for Lower Rates

Demographics

The Vanishing Worker



The Case for Lower Rates

Demographics

The Dollar

US Trade Weighted Dollar

The trade-weighted US dollar index, also known as the broad index, is a measure of the value of the United States dollar relative to other world currencies. It is a trade weighted index that improves on the older U.S. Dollar Index by using more currencies and the updating the weights yearly (rather than never). The base index value is 100 in Jan 1997.

Source: Bloomberg

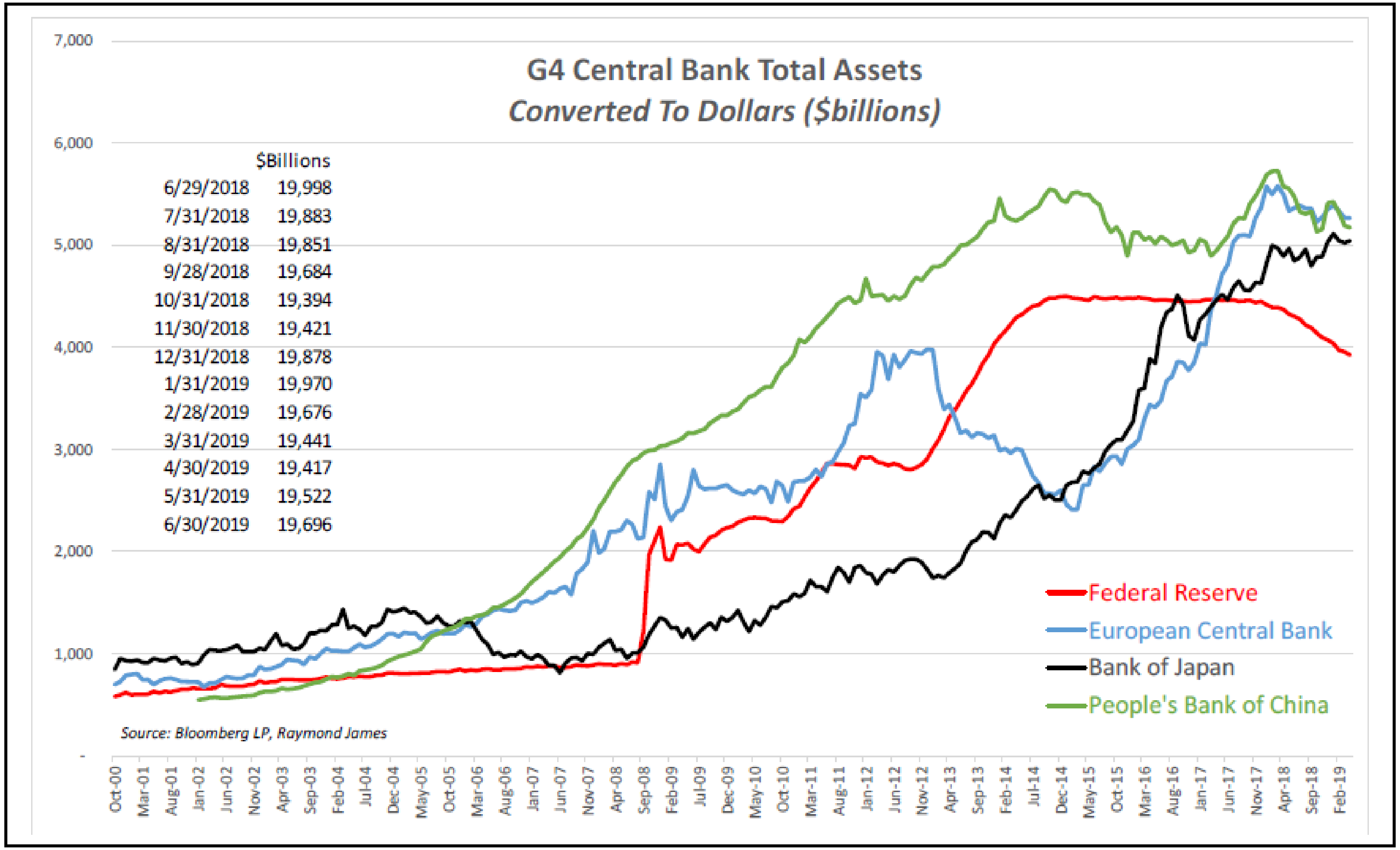
The Case for Lower Rates

Demographics

The Dollar

World Monetary Policy

4G Central Bank Total Assets



The Case for Lower Rates

Demographics

The Dollar

World Monetary Policy

Competing Sovereign Debt

Foreign Sovereign Rates

World Bond Markets				
	2-Year	5-Year	10-Year	30-Year
United States	1.464	1.348	1.473	1.953
Canada	1.334	1.166	1.141	1.407
France	-0.810	-0.754	-0.396	0.435
Germany	-0.912	-0.919	-0.706	-0.191
Greece	-	0.949	1.617	-
Ireland	-0.438	-0.525	-0.063	0.764
Italy	-0.280	0.315	0.875	1.928
Japan	-0.289	-0.347	-0.284	0.112
Netherlands	-0.881	-0.832	-0.556	-0.198
Spain	-0.572	-0.360	0.109	0.992
Sweden	-0.651	-0.718	-0.353	-
United Kingdom	0.334	0.274	0.406	0.916

** as of 09/03/2019*

Source: Bloomberg LP, Raymond James

The Case for Lower Rates

Demographics

The Dollar

World Monetary Policy

Competing Sovereign Debt

Geopolitical Uncertainty

Zero Interest Rate Policy

Why Own Bonds?

Know Your Risks

Credit Risk

Interest Rate Risk

Reinvestment Risk

Stay Disciplined

Have a plan

Stay Informed

Get a buy-in

Conclusion

Disclaimers

The information contained in this presentation does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise.

Credit Risk: The possibility that a bond issuer will fail to repay interest and principal in a timely manner. Also called default risk.

Interest Rate Risk: The possibility that a bond fund will decline in value because of an increase in interest rates.

Reinvestment Risk: The probability that an investor will be unable to reinvest cash flows (e.g., coupon payments) at a rate comparable to the current investment's rate of return.