



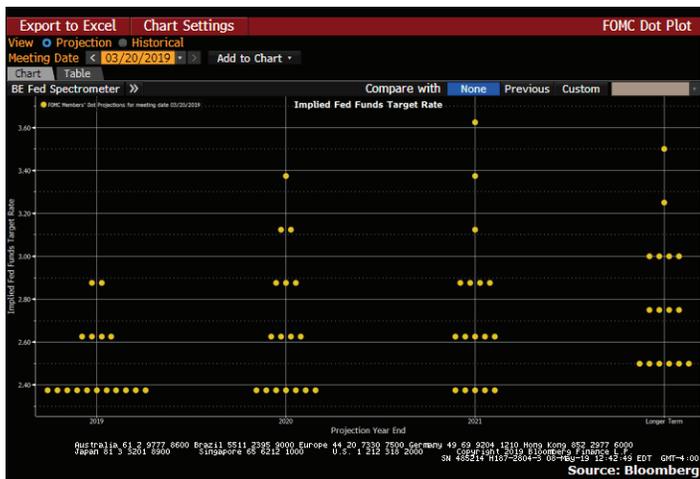
## TheNEWS

### The Dot Plot Explained

The Federal Open Market Committee (FOMC) is a twelve-member committee consisting of members of the Federal Reserve Board and regional Reserve Bank presidents. The FOMC has eight regularly scheduled meetings throughout the year to discuss and assess economic and financial conditions, monetary policy, and risks to long-run goals such as price stability, unemployment, and sustainable economic growth.

While the committee meets eight times a year, only one meeting each quarter involves a Summary of Economic Projections. One element of these quarterly summaries that garners a lot of attention is the dot plot which is a visual representation of where each member of the FOMC thinks the Federal funds rate should be at the end of each of the next three years as well as into the future. While the dot plot is not an official tool of the FOMC, it does provide some insights as to what various members of the FOMC are thinking.

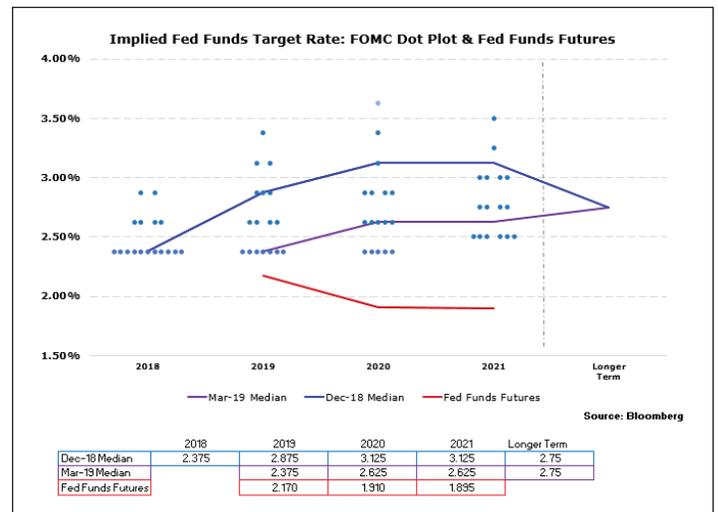
Below is the most recent dot plot from the March 2019 FOMC meeting:



Each dot represents where an individual member of the FOMC thinks the Federal funds rate should be at the end of the year given the current economic information. As seen above, the latest dot plot now reflects that the majority of the FOMC members believe that the Federal funds rate should not be raised or lowered in 2019. In addition, the dot plot indicates that the FOMC believes that one more increase in the Federal funds rate

in 2020 or 2021 will potentially complete the current tightening cycle that began in December of 2015.

Further examination of the dot plot provides additional insight into the thought process of the FOMC. The chart below shows the past two dot plot assessments along with the respective Fed Funds Futures contracts. The Fed Funds Futures contracts (shown in red) represent how the market is pricing the Federal funds rate in the future. Noticeably, both the FOMC and market have significantly lowered the expectations of the Federal funds rate. The market has fully priced in a 25-basis point cut to the Fed funds rate by the March 2020 meeting with additional decreases in the following months. The FOMC is still leaning toward an additional increase, however, it is currently in a “wait and see” mode until additional economic data, especially inflation data, provides enough information for either an increase or decrease in the Fed funds rate.



The dot plot can be an insightful and useful tool when examining the Fed funds rate and future projections. With recent changes in the FOMC language, VIP does not expect any changes to the Federal funds rate in 2019. Interest rates have increased from the record lows experienced for almost a decade and presently offer the VIP Participants the potential for additional interest income for the time being.

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## The**ECONOMY**

### Market Resilient but Risks Remain

In April, the U.S. equity markets maintained momentum following the strongest first quarter performance in twenty-one years with several major equity indices hitting fresh record highs. The S&P 500 rose nearly 4.00% in April following a 13.00% gain in the first quarter. For the year to date, risk assets have been supported by a generally favorable domestic macroeconomic backdrop, an encouraging start to the corporate earnings season, and the Federal Reserve's dovish pivot which also helped to quell investor concerns of a potential monetary policy overshoot.

Global economic growth remains positive but has become increasingly uneven as elevated trade tensions and slowing growth in China have weighed on the industrial sectors in Europe and other export-driven economies. While recent Chinese policy stimulus has shown some signs of stabilizing these trajectories, the U.S. economy is exhibiting familiar late-cycle indicators and is now in its 118th month of expansion, the second longest expansion since 1854 according to data from the National Bureau of Economic Research. First quarter U.S. GDP growth expanded at a 3.20% annualized pace, surpassing expectations for 2.50% growth. However, outsized contributions from inventory accumulation and net exports are likely unsustainable and suggest some payback is likely in the second quarter.

Inflation fears have receded, generally in support of the Fed's patient approach to policy normalization and recent dovish pivot. The Fed's preferred measure of inflation (core PCE) has risen just 1.60% over the past year and remains well below the Fed's 2.00% target. Treasury yields continued to trend modestly lower over the period with prices supported by still-benign inflation, a dramatic shift in Fed expectations, and lingering concerns regarding the impact of ongoing U.S./China trade tensions on expectations for global growth. Pricing in the Fed fund futures markets continues to reflect no expectation of additional rate hikes, and the implied probability of a December 2019 rate cut has risen to nearly 59%.

### Treasury Yields

MATURITY	5/6/19	4/5/19	CHANGE
3-Month	2.365%	2.422%	-0.057%
6-Month	2.443%	2.451%	-0.008%
1-Year	2.381%	2.416%	-0.034%
2-Year	2.290%	2.339%	-0.049%
3-Year	2.247%	2.289%	-0.042%
5-Year	2.263%	2.305%	-0.042%
10-Year	2.469%	2.495%	-0.026%
30-Year	2.888%	2.903%	-0.015%

Source: Bloomberg

### Agency Yields

MATURITY	5/6/19	4/5/19	CHANGE
3-Month	2.422%	2.383%	0.039%
6-Month	2.466%	2.443%	0.023%
1-Year	2.483%	2.465%	0.018%
2-Year	2.342%	2.386%	-0.044%
3-Year	2.314%	2.355%	-0.041%
5-Year	2.368%	2.404%	-0.036%

Source: Bloomberg

### Commercial Paper Yields (A-1/P-1)

MATURITY	5/6/19	4/5/19	CHANGE
1-Month	2.410%	2.460%	-0.050%
3-Month	2.510%	2.550%	-0.040%
6-Month	2.560%	2.600%	-0.040%
9-Month	2.590%	2.610%	-0.020%

Source: Bloomberg

### Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q1 '19	3.20%
US Unemployment	Apr '19	3.60%
ISM Manufacturing	Apr '19	52.80
PPI YoY	Mar '19	1.40%
CPI YoY	Mar '19	1.90%
Fed Funds Target	May 7, 2019	2.25% - 2.50%

Source: Bloomberg