

U.S. Outlook

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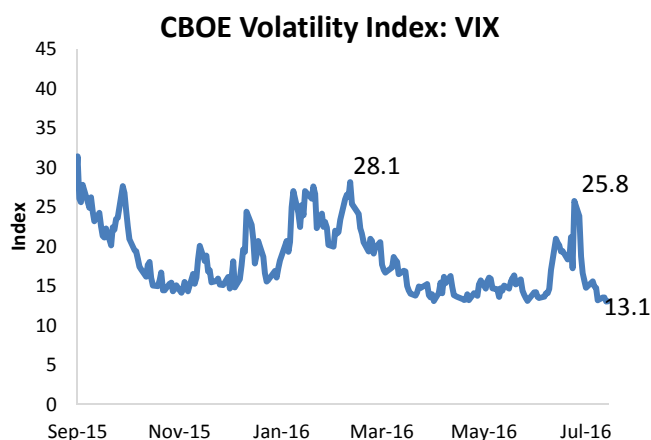
Date	Indicator	For	Estimate	Consensus*	Previous Period
18-Jul-2016	NAHB Housing Market Index	Jul	61	60	60
18-Jul-2016	Net Long-term TIC Flows	May	NA	NA	-\$79.6b
19-Jul-2016	Housing Starts	Jun	1180k	1170k	1164k
19-Jul-2016	Building Permits	Jun	1160k	1150k	1136k
21-Jul-2016	Chicago Fed Nat Activity Index	Jun	NA	NA	-0.5
21-Jul-2016	Initial Jobless Claims	16-Jul	260K	NA	254K
21-Jul-2016	Philadelphia Fed Business Outlook	Jul	5.5	5.0	4.7
21-Jul-2016	FHFA House Price Index MoM	May	0.5%	0.4%	0.2%
21-Jul-2016	Existing Home Sales	Jun	5.45m	5.46m	5.53m
21-Jul-2016	Leading Index	Jun	0.2%	0.2%	-0.2%
22-Jul-2016	Markit US Manufacturing PMI	Jul P	52.0	51.5	51.3

*Consensus from Bloomberg

A Few Breaks in the Clouds this Week

Financial volatility continues to calm in the aftermath of the U.K. vote. The S&P VIX index, a measure of expected stock market volatility, has hit new lows in recent days, as the S&P 500 has hit record highs.

Calm Returns to the U.S. Stock Market



Source: Chicago Board Options Exchange

We think a combination of positive factors are behind these moves. Globally there have been some encouraging political developments and monetary policy signaling. The transition to a new British Prime Minister

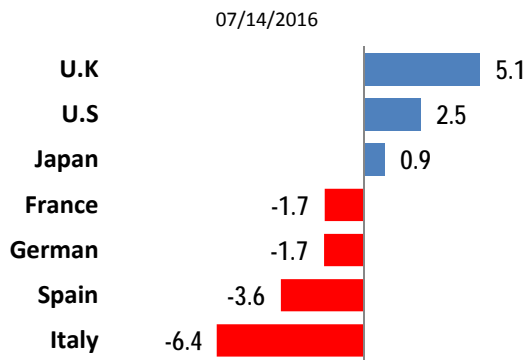
happened sooner than anyone could have hoped, taking some of the political uncertainty out of the equation near-term. And while the Bank of England didn't cut interest rates as the market expected this week, they did promise monetary stimulus in August.

Abenomics in Japan is getting a new lease on life as the Prime Minister and the BoJ mull perpetual bonds, helicopter money, and a new 10- to 20-trillion Yen fiscal stimulus package (equivalent to \$100 to \$200B in U.S. dollars). Stock market losses since the U.K. vote in Europe have been cut substantially in recent days, and for some countries completely reversed.

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Stock Losses in Europe Cut in Half or More

Stock Market Gains and Losses Since BREXIT Referendum

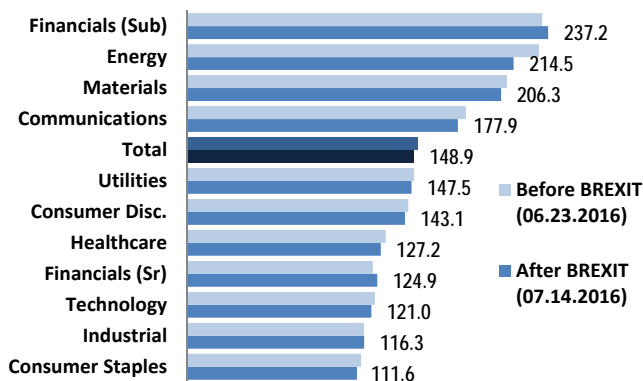


Source: Bloomberg

The improvement in corporate bond credit spreads has been even more impressive. The spreads have actually narrowed for most sectors since the U.K. vote, except for financials and industrials.

Bond Credit Spreads Improve

OAS Spread Vs Treasury



Source: Bloomberg

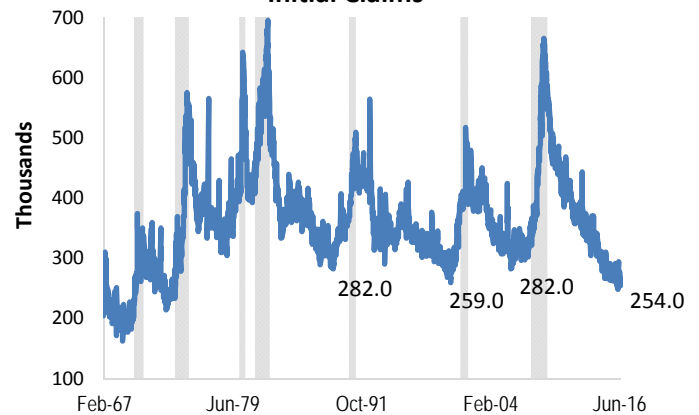
Here in the United States a robust employment report for the month of June helped remind investors that the U.S. expansion still has a considerable amount of momentum behind it. Indeed U.S. consumers are relatively shielded from events abroad, especially if financial contagion is contained and U.S. employers don't slow hiring or start cutting jobs.

The solid U.S. employment trends appear to be holding so far into July. Initial jobless claims over the last two weeks have returned to expansion lows. Some of the lowest levels since the early 1970s.

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Jobless Claims Lowest Since 1973

Initial Claims

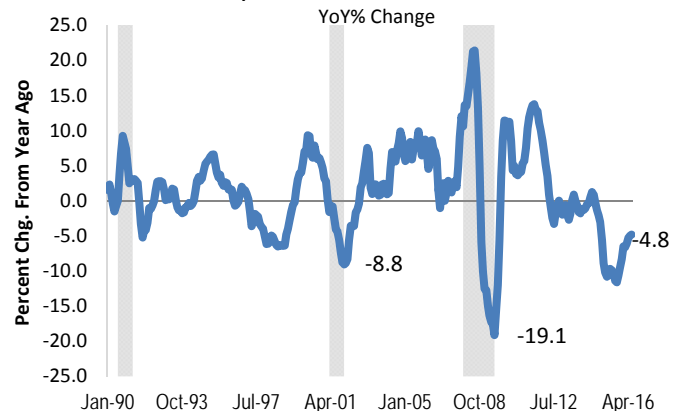


Source: U.S. Employment and Training Administration

Moreover, a strong dollar will help keep inflation on imported consumer goods low allowing household dollars to go further. This should help keep consumers spending.

Consumers Seeing Imported Price Discounts

Import Price Index: All commodities



Source: Bureau of Labor Statistics

But, I'll close with a note of caution: We have yet to see in the data the real economic shock from what occurred last month across the pond. Most of the indicators we have gotten so far are from before the U.K. vote, and more political and financial turmoil could be in store. But at this point, we should feel relieved since financial conditions could have been much worse. For now the political and policy responses around the world have sounded just about the right tone for the markets.

Major Economic Indicators

Economic Data	History								Forecast				Yr/Yr % chg or Annual Avg.			
	2015.1	2015.2	2015.3	2015.4	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2014	2015	2016	2017
Real GDP*	0.6	3.9	2.0	1.4	1.1	2.5	1.9	1.9	2.0	2.1	2.0	1.8	2.4	2.4	1.9	2.0
Personal Consumption Expenditures*	1.7	3.6	3.0	2.4	1.5	4.2	2.8	2.8	2.5	2.5	2.4	2.3	2.7	3.1	2.8	2.7
Non-residential Fixed Investment*	1.6	4.1	2.6	-2.1	-4.5	0.3	1.8	2.0	2.7	2.8	2.9	2.8	6.2	2.8	-0.6	2.4
Private Housing Starts (000s units)	978	1,158	1,158	1,135	1,151	1,195	1,200	1,220	1,240	1,250	1,280	1,300	1,001	1,107	1,192	1,268
Vehicle Sales (mill. Units, annualized)	16.7	17.1	17.8	17.8	17.1	17.1	17.0	17.1	17.0	17.0	16.9	16.9	16.4	17.3	17.1	17.0
Industrial Production*	-1.9	-2.7	1.5	-3.3	-1.6	1.4	1.9	1.8	1.7	1.8	1.7	1.7	3.7	-0.5	-0.4	1.8
Nonfarm Payroll Employment (mil.)	140.8	141.5	142.2	142.9	143.5	143.9	144.4	144.8	145.3	145.8	146.3	146.7	138.9	141.8	144.2	146.0
Unemployment rate	5.6	5.4	5.2	5.0	4.9	4.8	4.8	4.7	4.6	4.6	4.6	4.5	6.2	5.3	4.8	4.6
Consumer Price Index* (percent)	-2.9	2.4	1.4	0.8	-0.3	2.0	2.0	2.1	2.2	2.2	2.3	2.3	1.6	0.1	1.1	2.2
"Core" CPI* (percent)	1.7	2.3	1.8	2.2	2.7	1.8	1.9	2.0	2.0	2.0	2.1	2.1	1.7	1.8	2.2	2.0
PPI (finished goods)* (percent)	-11.0	3.4	-0.4	-4.8	-4.7	1.6	2.1	2.5	2.4	2.2	2.0	2.0	1.9	-3.3	-1.3	2.2
Trade Weighted Dollar (Fed BOG, major)	89.3	90.1	91.7	93.1	93.2	89.5	91.9	93.1	93.4	92.8	92.3	91.9	78.4	91.0	92.1	92.6
Crude Oil Prices -WTI (\$ per barrel)	48	58	46	42	33	45	47	46	46	46	47	48	93	49	43	47

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History								Forecast				Annual Average			
	2015.1	2015.2	2015.3	2015.4	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2014	2015	2016	2017
S & P 500	2,064	2,102	2,027	2,052	1,951	2,075							1,930	2,061		
Dow Jones Industrial Average	17,808	18,004	17,077	17,475	16,663	17,768							16,770	17,591		
Federal Funds Rate (effective)	0.11	0.13	0.13	0.16	0.36	0.37	0.38	0.46	0.63	0.63	0.88	0.96	0.09	0.13	0.39	0.78
Treasury-3 Month Bills (yield)	0.02	0.02	0.04	0.13	0.29	0.26	0.27	0.35	0.53	0.53	0.80	0.88	0.03	0.05	0.29	0.69
Treasury-2 Year Notes (yield)	0.60	0.61	0.69	0.84	0.84	0.78	0.65	0.80	1.04	1.06	1.31	1.41	0.46	0.69	0.77	1.21
Treasury-5 Year Notes (yield)	1.46	1.53	1.56	1.58	1.37	1.25	1.05	1.20	1.49	1.57	1.77	1.87	1.64	1.53	1.22	1.68
Treasury-10 Year Notes (yield)	1.97	2.16	2.22	2.19	1.91	1.76	1.50	1.75	2.02	2.17	2.32	2.47	2.54	2.14	1.73	2.25
Treasury-30 Year Notes (yield)	2.55	2.88	2.96	2.96	2.72	2.58	2.26	2.50	2.77	2.92	3.12	3.32	3.34	2.84	2.52	3.03
Prime Rate	3.25	3.25	3.25	3.29	3.50	3.50	3.50	3.58	3.75	3.75	4.00	4.08	3.25	3.26	3.52	3.90
Libor 3-Mo. U.S. Dollar	0.30	0.30	0.33	0.43	0.67	0.65	0.64	0.72	0.89	0.90	1.14	1.22	0.25	0.34	0.67	1.04
Mortgage-30 Year (yield)	3.72	3.82	3.95	3.90	3.74	3.60	3.50	3.64	3.91	4.06	4.21	4.36	4.17	3.85	3.62	4.14
BAA Corporate (yield)	4.50	4.83	5.24	5.42	5.30	4.67	4.35	4.62	5.00	5.16	5.32	5.60	4.85	5.00	4.74	5.27

Source: Bank of the West Economics, Bloomberg, Federal Reserve