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Date: November 7, 2014

**TO: MEMBERS, INVESTMENT COMMITTEE**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 4 – Market Outlook and Economic Update
<b>II. NAME AND PROGRAM:</b>	General-Re New England Asset Management
<b>III. ACTIVITY:</b>	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

**V. EXECUTIVE SUMMARY:**

The purpose of the attached is to illustrate the current dynamics of the fixed income markets, with particular focus on the implications of the Fed policy on interest rates. It is our conclusion that rates will go higher, and despite uncertainty in timing, one can expect a continued flattening in the curve and volatility to move higher throughout 2015.

**VI. ANALYSIS**

Interest rates will move higher causing volatility in the short to intermediate maturities in the nearer term. While the current inflation expectations are muted (benefitting longer maturities and the US dollar), we remain cautious. 2015 should bring modestly higher rates, a flattened curve, and bouts of volatility that will pressure risk markets.





# **Market Outlook and Economic Update**

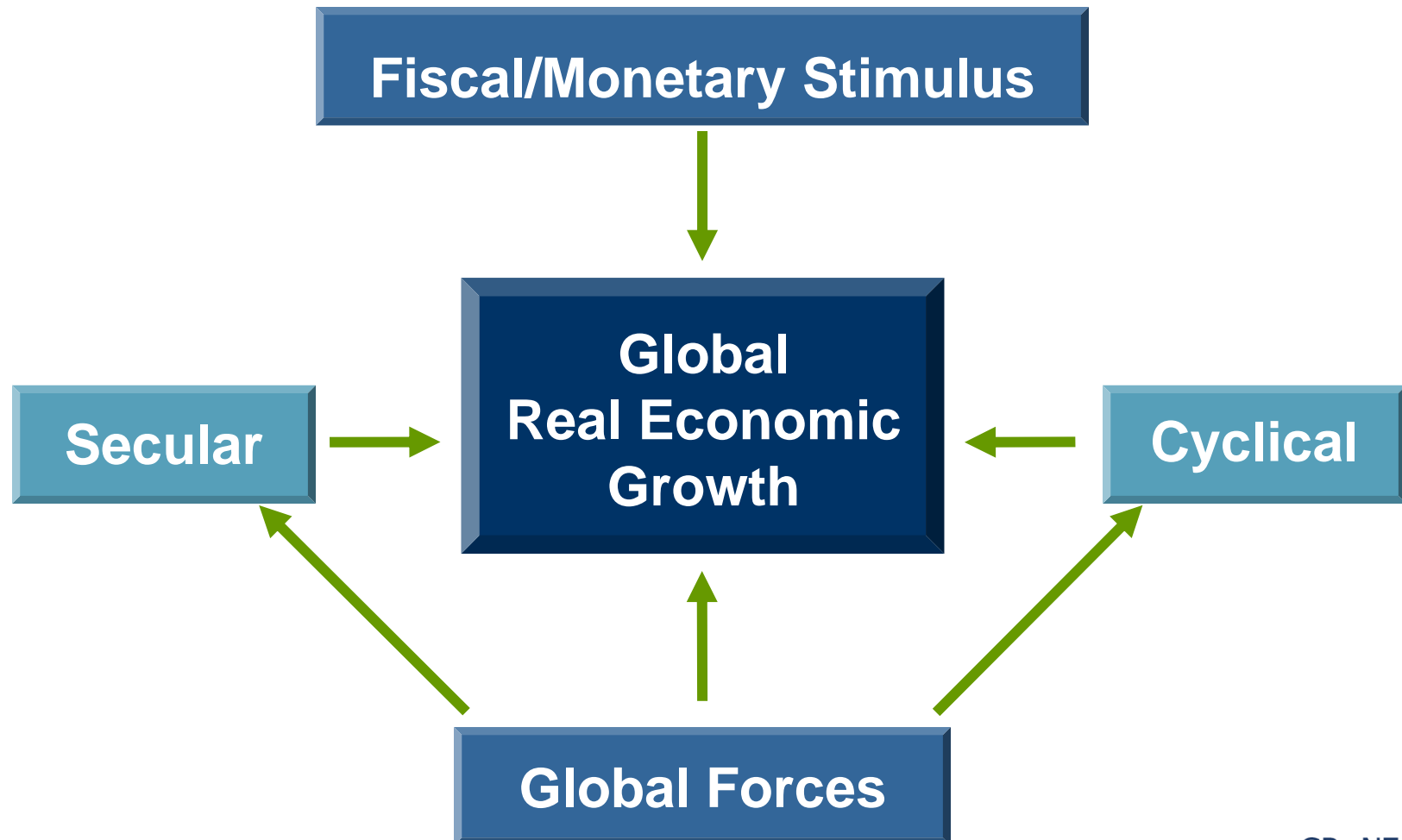
## **Investment Committee – Open Agenda Item 4**

### **November 20, 2014**

## **General-Re New England Asset Management**



# Economic Framework



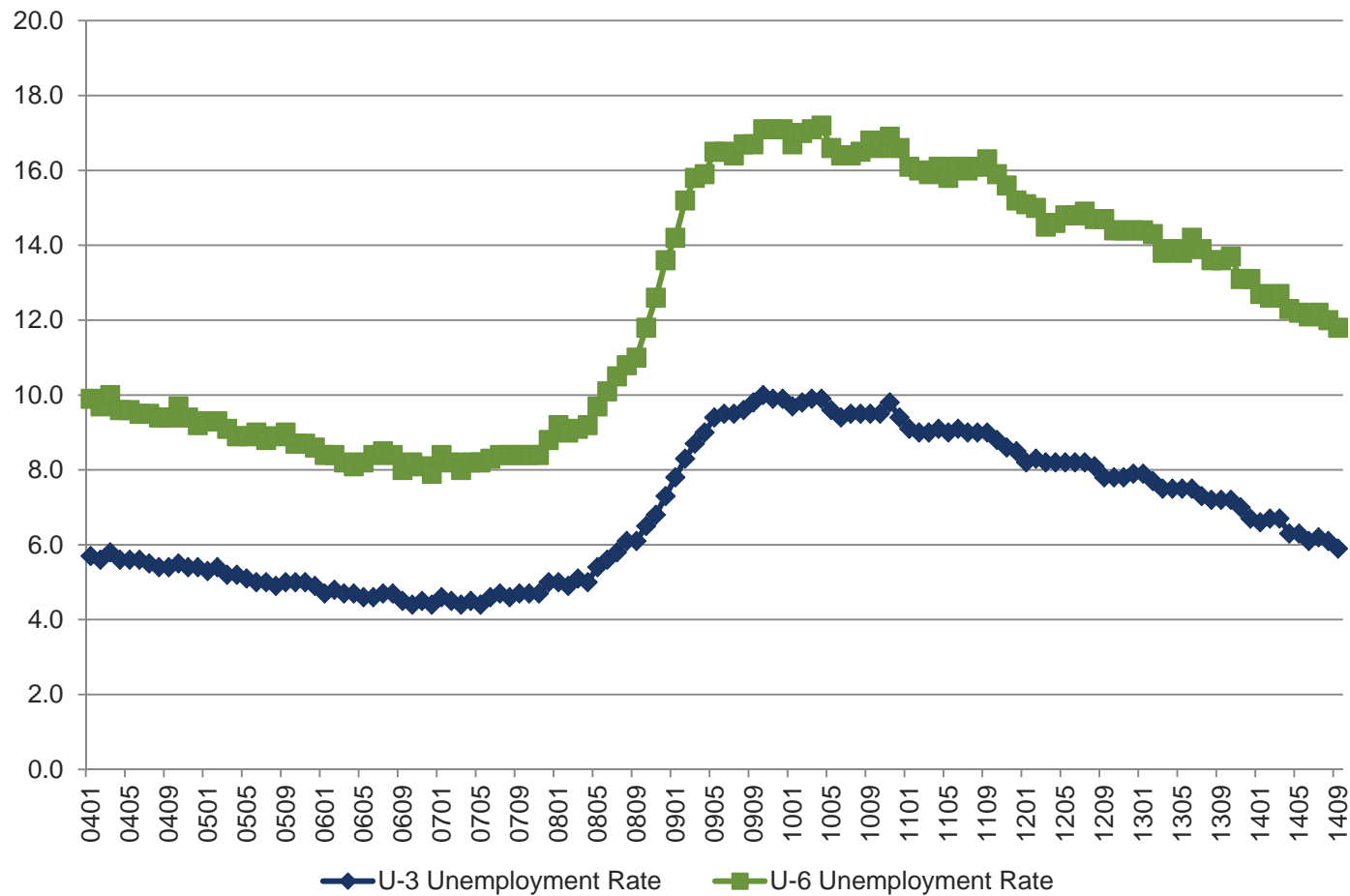
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# Unemployment Rates – U3 and U6



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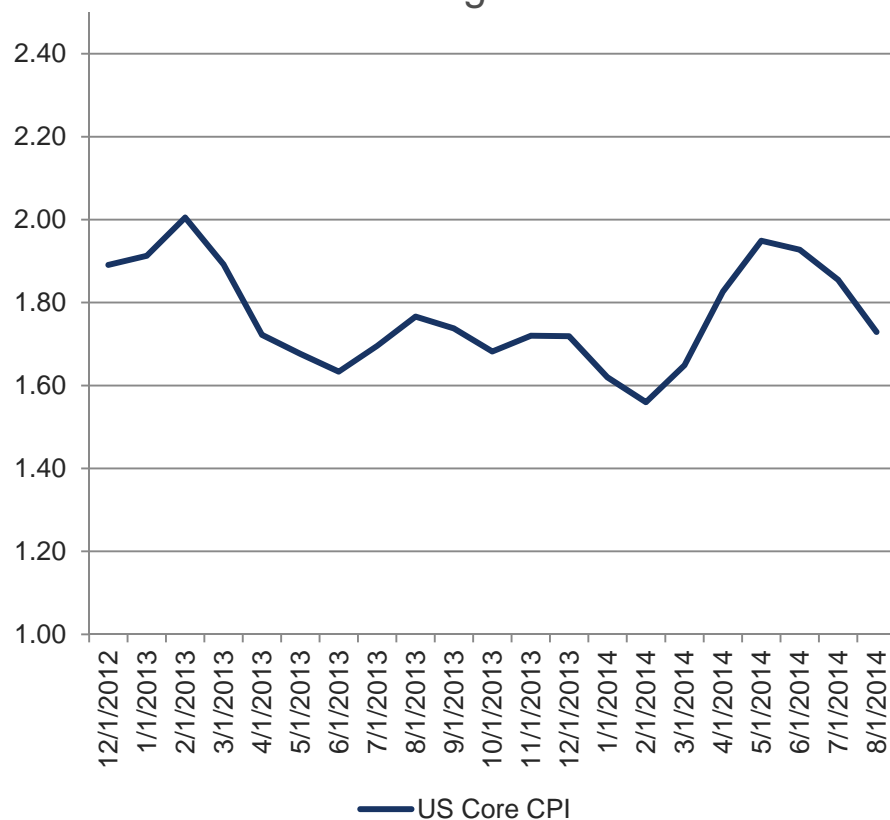
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Source: Haver Analytics, GR NEAM

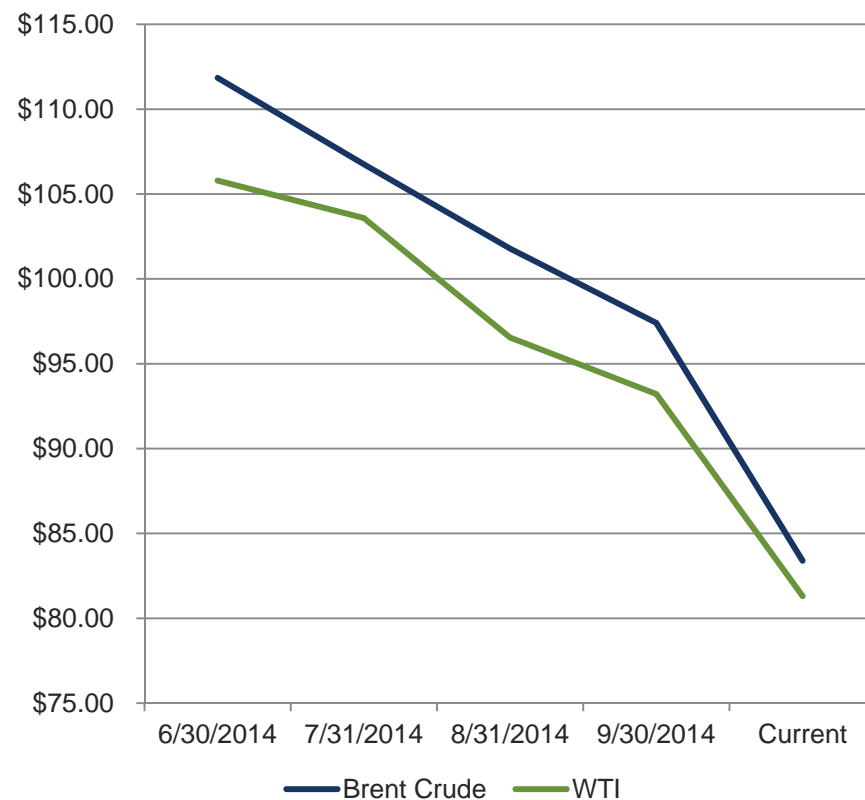


# Inflation and Oil Prices

Percent Change in Core CPI



Price of Brent Crude and WTI



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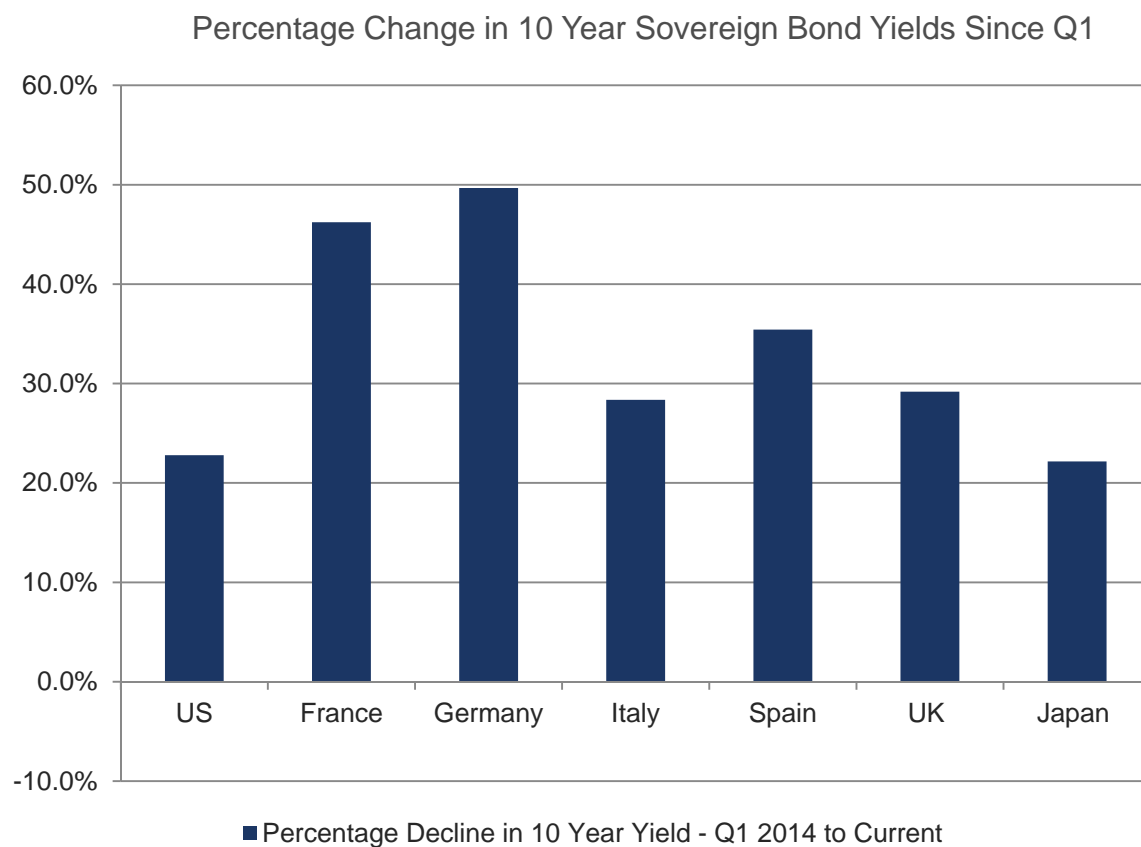
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# Global Bond Yields



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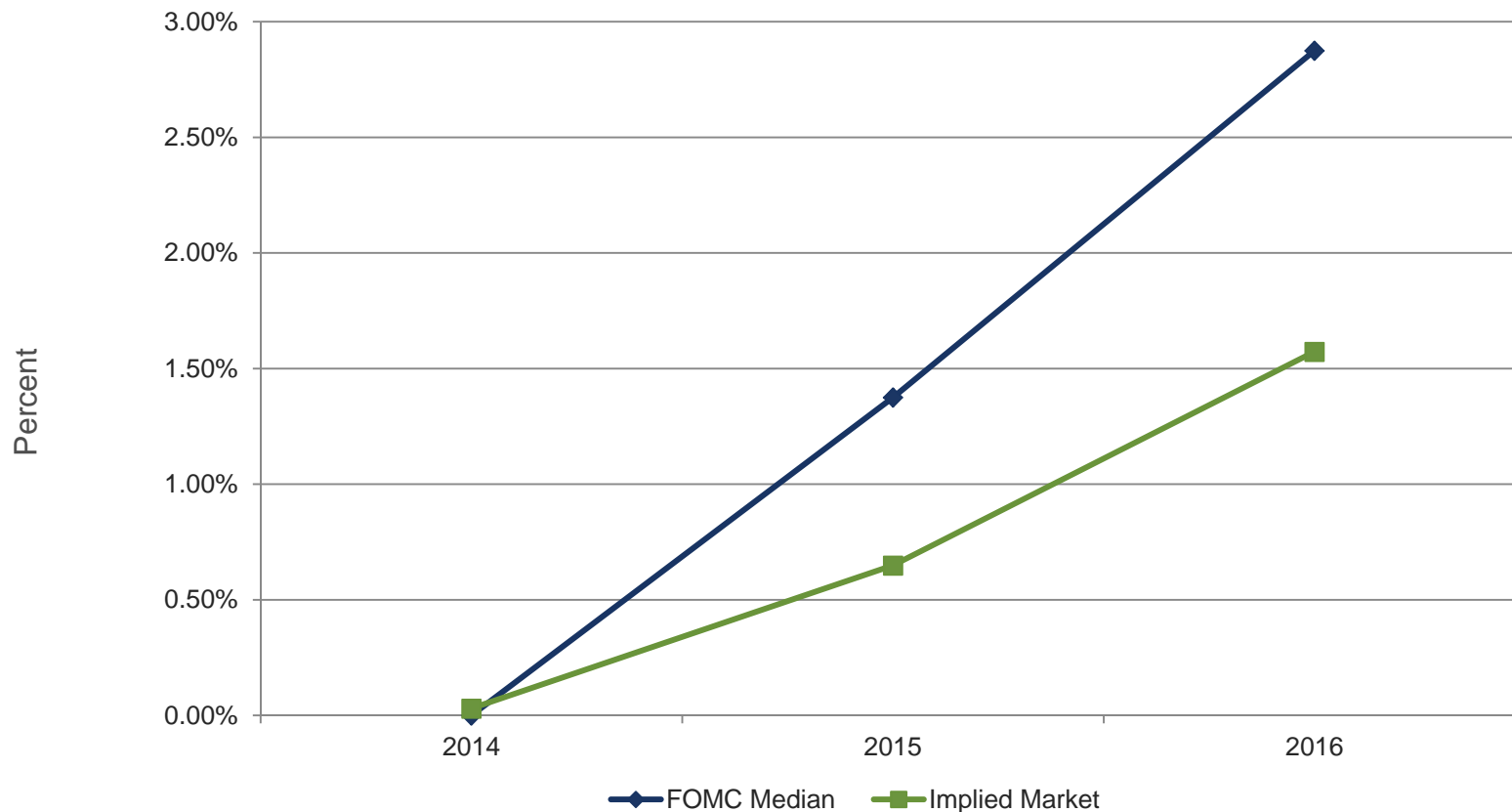
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# Forward Guidance – What is the Fed Thinking Today?

Fed Funds - Summary of Economic Projections & Implied Market Levels



Source: Monetary Policy Report of the Board of Governors of the Federal Reserve

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# Capital Market Implications

- The direction of short term interest rates in the U.S. is well established – higher
- The short to intermediate maturities (2 to 5 years) will be most exposed to increases in the Fed Funds rate
- Longer term yields have benefitted from reduced inflation expectations and the relative attractiveness of dollar based assets.
- Most likely scenario is modestly higher rates and a flatter yield curve over the next 12 months
- Risk Assets and Risk Premiums are likely to experience some pressure as QE fades but more constructive medium term
- Volatility will be the big loser – almost certainly going higher