TIAA-CREF Asset Management

2014 Economic Forecast

Timothy Hopper, Ph.D.
Managing Director,
Chief Economist,
TIAA-CREF

Executive summary

- The Federal Reserve's December announcement that tapering would finally begin was accompanied by language stressing the improvement in economic growth. The Fed also reinforced its stance of keeping short-term interest rates low for an extended period of time.
- We forecast the 10-year Treasury yield reaching 3.45% by December 2014. While the end of extremely easy monetary policy is on the horizon, a low-rate environment will prevail for another 18 or more months.
- The Fed is not the only central bank with exceptionally easy monetary policies. The European Central Bank has lowered rates, and the policies of the Bank of Japan are being steered by Prime Minister Shinzo Abe's program of monetary easing and massive fiscal stimulus. Because of this unified global stance, we believe interest rates will increase only modestly.
- The U.S. economy should accelerate evenly throughout the year. We forecast average GDP growth of 2.8% and annualized growth approaching 3.5% by year end. The global economy will also gather speed in 2014, growing 3.7% on average. Europe will continue to emerge from its recession and post an average 0.7% GDP gain. In Asia, the Chinese and Japanese economies will, on average, grow by 7.7% and 2.3%, respectively.
- Monthly jobs growth in the U.S. will consistently exceed 200,000, especially in the back half of the year. A stronger economy will help reduce the jobless rate to 6.5%.

2014 Economic Forecast: U.S. and global economies

In many respects, 2013 was more challenging than it should have been. An economy initially cut loose by the rather benign fiscal cliff episode was ultimately waylaid by two periods of tremendous uncertainty, the first surrounding the Fed's stated intent of abandoning a loose monetary stance and the second by another contentious round of political wrangling.

We come to the end of this year faced with the prospect of another fiscal showdown, which makes judgments about 2014 somewhat difficult. However, while vulnerable to the mood swings in Congress, the economy continues to heal and ultimately has the potential to accelerate growth. Embedded in this potential is the clear improvement seen in several important economies around the world; the continued strengthening of the core of the domestic economy; and several structural trends that promise to add further to the growth rate of the economy, not only in the coming year but for years to come.

It is with these factors in mind that we believe the U.S. economy will grow 2.8% on an average basis in 2014, accelerating roughly evenly throughout the year. The global economy will also gather speed next year, growing 3.7% on an average basis. Of the major economic regions of the world, we expect the eurozone to grow 0.7% and China to grow 7.7% (see Table 1).

Financial Services

Table 1: Real GDP

	Real GDP %		Forecasted Real GDP %, SAAR				
	2013	2014	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
U.S.	1.8	2.8	2.7	2.9	3.0	3.4	3.5
China*	7.8	7.7	**7.7**	7.6	7.6	7.7	7.7
Eurozone	-0.5	0.7	**0.6**	0.7	0.8	0.8	0.9
Japan	1.7	2.3	**2.0**	2.1	2.2	2.4	2.8
World	2.7	3.7					

* Quarterly estimates represent China's seasonally adjusted annual rate (SAAR) and do not correspond to officially published YTD figures.

Sources: Haver Analytics and TIAA-CREF

The recovery at a glance

Forecasting in the current economic environment has been difficult at best because the recovery since the end of the financial crisis has been slow and drawn out. Unlike other recoveries, this one has been characterized by a continued credit squeeze, deleveraging on the part of consumers and businesses, and uncertainty, all of which have changed fundamental relationships between income, debt, and spending. Part of the problem has been the breakdown in the effectiveness of monetary policy. While the Fed has encouraged increased lending through its interest-rate policies, banks have not responded in a traditional manner. Rather, uncertainty about regulatory reform and potential litigation has kept a relative lid on lending growth, partially leading to a lack of credit availability, especially in mortgage markets. However, banks are not the only contributor to the lack of credit growth. Consumers have been deleveraging aggressively over the past five years, partly the result of falling home values and mortgage-related defaults, and partly due to financial restructuring at the household level. Consequently, many of the traditional signals that we look to for growth have either not materialized or have falsely indicated a turning point in the economy.

There are signs that economic growth could accelerate from its current 2% to 2.5% rate to something north of 3% over the coming year.

There have also been many other exogenous forces at work that have slowed the recovery down. Events beginning with the original crisis in Greece and widespread belief in markets that the eurozone might collapse, to the rolling crises in peripheral European countries, or the fear last year of a hard landing in China's economic growth rate, to the political brinksmanship on Capitol Hill have all served to restrain confidence that the economy will recover and that job creation, and therefore incomes, will improve.

Collectively, the combination of strains on the household financial picture has led to a dramatic shift in consumer behavior. Thus, rather than the traditional recovery in which pent-up consumer demand leads to increased spending and an appropriate response from businesses, we have seen continued increases in the savings rate, a lack of spending growth, and a slower response from the production side of the economy.

By way of example, housing is one of the primary sectors that needs to grow before any meaningful recovery can take place in the overall economy. Home values are integral to consumer confidence and spending patterns. They also represent the largest equity pool in most consumers' retirement portfolio.

During the first half of 2012, the housing market began to pick up from the depths of the recession, and with housing prices finally beginning to rise, consumer spending began to increase again, especially in durable goods categories, a traditional signal that consumer spending is picking up and that hiring will soon follow. Instead we saw a continued rise in

home prices and sales but an abrupt halt in consumer spending. This on-again, off-again behavior in consumer spending, business investment spending, and hiring has led to alternating acceleration and deceleration in overall economic growth since 2009.

However, there are signs that economic growth could accelerate from its current 2% to 2.5% rate to something north of 3% over the coming year. This is because the recovery in many sectors across the economy has been moving along, albeit slowly, for a number of years. Consumers are broadly much more capable today of handling increased debt loads. Real wages, while increasing only slowly during the recovery, have turned positive for the first time since 2007.

During the recovery, the corporate sector has arguably done an even better job at deleveraging and cleaning up balance sheets. Government finance is also in much better shape today than it was just a year ago. State and local government spending has turned positive and is showing signs of further strengthening, while restrictive federal spending has eased, an indication that the overall burden of lower government spending has already turned from a drag on growth to a tailwind. Finally, several foreign economies have improved beyond expectations, which should help the domestic export sector, leading to even stronger growth.

The one caveat in this scenario is the unpredictability of the current political environment in Washington. We assume that a deal will be reached, as has been the case in times past, which allows for federal spending growth at about today's level and an appropriate increase in the debt ceiling. We also assume the deal will sideline the fiscal debate until after the 2014 election cycle.

The path to growth

In 2014, we should see an acceleration driven primarily by the return of consumer demand, employment growth, housing, and private investment. And the effects of these factors playing off one another will create a virtuous cycle that will ultimately move the economy towards the oft-mentioned escape velocity.

The keystone to acceleration is continued housing strength. We have witnessed the return of home price indices to near pre-recession levels as investors and now homeowners have waded back into the market. However, while prices have moved upwards, activity is still only in the beginning stages of recovery (see Chart 1). Furthermore, price performance across the country is uneven. Home builders report some difficulty securing land for development, and mortgage requirements are still much more restrictive than in normal times. Thus, new and existing home sales remain somewhat suppressed given the level of prices and economic growth (see Chart 2).

Chart 1: S&P/Case-Shiller 20-City Home Price Index

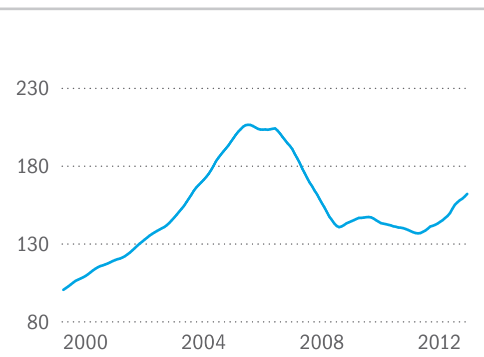
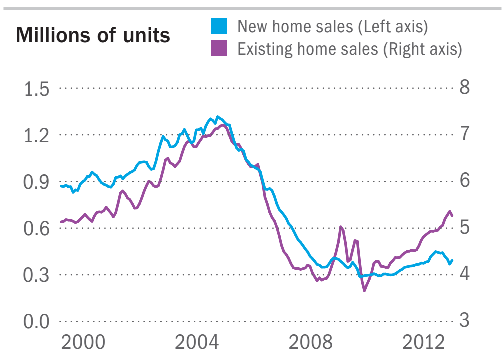


Chart 2: New and existing home sales



Sources: S&P/Case-Shiller, National Association of Realtors, and TIAA-CREF

Home sales have a direct impact on economic growth through new construction. This sector is growing at an annual rate of 10% to 15% in real terms and currently represents upwards of 0.5% of overall growth in the economy. The sale of existing homes and all of the associated businesses, such as real estate agencies, building supply stores, financial intermediaries, contractors and designers, all feed indirectly into gross domestic product and account for roughly 10% to 15% of the economy. Further, outside of the automotive sector, the house is the largest driver of durable goods purchases. Rising home values feed directly into increased consumer spending across the board, while shrinking home values tend to suppress consumer demand.

To that end, home sales, prices, and activity have been moving higher since 2011 and have shifted from a headwind to a tailwind for the economy, as the S&P/Case-Shiller 20-City Composite Home Price Index is up over 11% from year-ago levels through the third quarter. We expect that rate to slow moderately to the 3% to 5% range for next year, partially driven by further increases in activity that will provide more supply to the market, and partially by rising interest rates that will continue to slow sales modestly. Overall, we expect a boost to the economy in the vicinity of 0.5%, up slightly from 2013.

Monetary policy and foreign exchange rates

Besides political wrangling, the major visible risk in 2014 is the impending rise in interest rates. First and foremost, a steep and quick rise would slow housing activity as we saw this year. However, an untimely rise in interest rates would also affect all other interest-rate-sensitive sectors and slow down the entire economy.

We witnessed such a steep rise between May and July of this year when yields of longer-dated Treasuries increased by nearly 1.5% in that short time frame. Not only did housing immediately grind slower, but employment growth and private-sector investment stopped in their tracks. Partly because of this episode, we expect the Federal Reserve will reduce its quantitative easing (QE) program in a measured fashion, while stressing that interest rates will be low for an extended period of time.

Abenomics

Abenomics refers to the extreme stimulus program supported by Japan's Prime Minister, Shinzo Abe. In short, his strategy seeks to raise inflation in a country that has experienced bouts of deflation since the beginning of the 1990s. The program has three thrusts (or arrows): (1) an extremely aggressive quantitative easing program that calls on the Bank of Japan to purchase a variety of financial assets; (2) a dramatic increase in government spending to support asset prices and economic activity; and (3) policy and legal reforms designed to increase real wages and ultimately productivity.

Japan is in what economists call a liquidity trap, a term used to describe a condition in which a country's interest and inflation rates are so low as to discourage production, wage and employment growth, and consumption.

The prescribed remedy is an increase in inflation because this provides an incentive for producers of goods as well as for current consumption (because prices will rise in the future).

The benefits of a successful program would be increased demand across the economy and ultimately stronger economic growth. But there are also near-term consequences of success. For a number of years, Japan has had the single largest economy with positive real interest rates (nominal interest rates minus inflation), which drive demand for the yen carry trade and encourage consumers to buy foreign goods, which slows growth at home. Lower interest rates will upset international capital flows seeking returns that are no longer available in Japan, spur exports (in effect borrowing growth from other countries), and act as a counterweight to rising rates elsewhere in the world. The net effect of all of these forces implies a weaker yen over the medium term.

The Federal Reserve is not the only central bank with exceptionally easy monetary policy. The European Central Bank, which was late to the game, has recently lowered rates, indicating further easing is possible. The ECB has also hinted that further support for European sovereign bonds might be warranted as we move into next year.

Perhaps the most aggressive central bank is the Bank of Japan, whose policies are being steered by "Abenomics," Prime Minister Shinzo Abe's program of monetary easing and massive fiscal stimulus (see the shaded box on the previous page).

It is because of this unified global stance that we believe interest rates will increase modestly, which will limit the rise of long-term rates in the U.S. through the course of this year. Further, we expect the Fed to reintroduce purchases of longer-dated government securities should longer-dated Treasury yields increase too quickly during its taper. Thus, our models suggest that the 10 Year Treasury yield will move from today's 3% to 3.45% by the close of the year (see Table 2).

Along with moderately higher domestic interest rates, we also expect a modestly stronger dollar against most of our major trading partners. Much of this will be driven by an increasing interest-rate gap and relatively stronger economic performance in the U.S. However, not all currencies will fare the same. Improvements on the continent should continue to support the euro to a degree, and the commodity block is unlikely to see a repeat of 2013. The Japanese yen has the highest probability of sliding against the dollar. The carry trade was upended last year with the implementation of Abenomics, which exacerbated currency swings across the globe. But if easy monetary policy continues as it did in 2013, we should expect further structural weakness in the yen.

Driving next year's performance

Economic performance in 2014 will be determined primarily by what consumers decide to do next year. Will building pent up demand finally unleash a wave of increased purchases, or will meager job and wage growth continue to suppress this segment of the economy? While there is certainly enough evidence to support any reader's predisposition, low leverage ratios, improving household wealth, a steady increase in durable good sales, auto sales and housing prices, and a return to revolving credit spending suggest there is more upside risk to consumer spending.

Table 2: U.S. Interest rates and foreign exchange rates

	U.S. interest rates (%) 2014			Foreign exchange rates* Year end	
	Mar	**Dec**		**2013**	**2014**
			Euro	1.35	1.30
Fed funds	0–0.25	0–0.25	**Yen**	105	120
3-mo Treasury	0.09	0.09	**CAD**	0.95	0.92
10-yr Treasury	3.00	3.45	**AUD**	0.92	0.88
Consumer Price Index	1.50	1.50	**BRL (Brazilian *real*)**	2.30	2.45

* The euro, Canadian dollar (CAD) and Australian dollar (AUD) are priced in currency per $, while the yen and Brazilian real are priced in $ per currency.

Sources: Haver Analytics, Federal Reserve and TIAA-CREF

Structurally, there is reason to believe that consumers are again ready to spend more. After five years of deleveraging and improving the household balance sheets, consumers have stabilized their debt levels, and their debt to disposable income has shrunk to multi-decade lows.

Further, income growth, while tepid at best, has nonetheless been rising faster than credit expansion, leaving the average consumer very capable of incurring more debt (see Charts 3 and 4).

However, the real debate surrounding households is not how healthy their balance sheets are or how capable they are of absorbing higher debt levels. The real debate is whether the consumer is willing to spend more even with higher capacity. In other words, have the old relationships between income and spending changed permanently or just for a time period after the financial crisis? Much of the overhang in debt from before the recession is associated with elevated home values. Said another way, the economy's capacity for debt shrank during the recession, thereby forcing the economy to deleverage in the aggregate. This showed up in much higher delinquency and default rates in mortgage markets as well as in revolving credit markets. Thus, much of the deleveraging we have seen has been in the form of writing down debt rather than paying down debt. Today, however, total debt outstanding has stabilized, and there is growth in certain categories such as revolving credit and, in particular, auto lending, which has reached sales of 16.3 million units on an annual basis (see Chart 5).

This shift towards normalization in automotive sales, a resumption in revolving credit purchases, and a pickup in overall credit extension across the economy suggest that consumers are spending again, but perhaps not quite at the clip one might expect given the

Chart 3: Debt to personal disposable income

Percentage

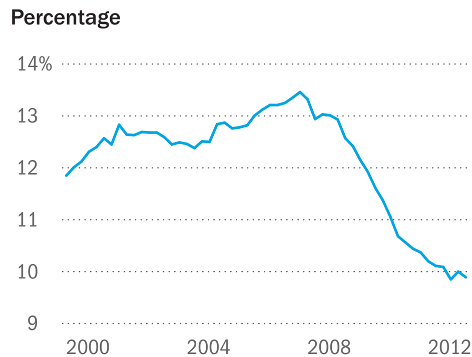
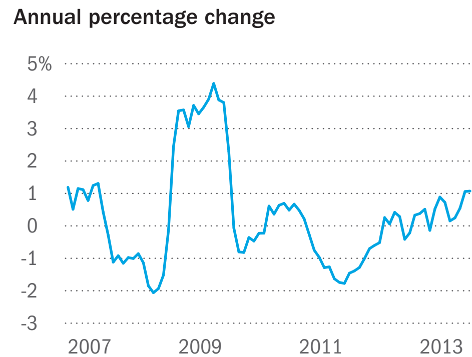


Chart 4: Real hourly wages

Annual percentage change



Sources: Federal Reserve, BLS, Haver and TIAA-CREF

Chart 5: Auto sales

Millions of units sold, SAAR

Sources: BEA, Wards Automotive, TIAA-CREF

stage of the recovery or the aggregate improvement recorded in incomes and employment. The trend in personal consumption expenditures towards the beginning of 2013 was between 2.5% and 2.8%, whereas a more normal rate would be closer to 4% at this stage in the cycle. We expect that consumer spending will pick up from its current 1.4% pace to something closer to 2.8% in 2014.

We expect 2.45 million new jobs will be created in 2014 with an end-of-year unemployment rate of 6.5%.

An equally important signal that growth is here to stay will be a continued improvement in employment gains. Since the end of the recession, monthly employment growth has improved steadily, but it also has been prone to setbacks based on the uneven improvements across the economy, the on-again off-again nature of this recovery, and of course the tremendous amount of regulatory and policy uncertainty we face. However, with steady increases in consumer spending, there will be no choice but for further improvements in job creation. This is because the corporate sector has already spent the last five years improving labor productivity in every possible area. Here again, it is unlikely that we will see "normal" employment growth rates in 2014, but it is likely monthly figures will consistently exceed 200,000, especially in the back half of the year.

Manufacturing is one area that has seen a near-continuous fall in employment since the immediate post-World War II era. For much of the last several decades, U.S. labor markets have shifted along with the economy towards the service sector while manufacturing has been pushed offshore. Despite the fact that the U.S. economy retains the largest manufacturing base in the world, continuous productivity improvements and growth in services have meant the proportion of employment and influence from manufacturing have shrunk.

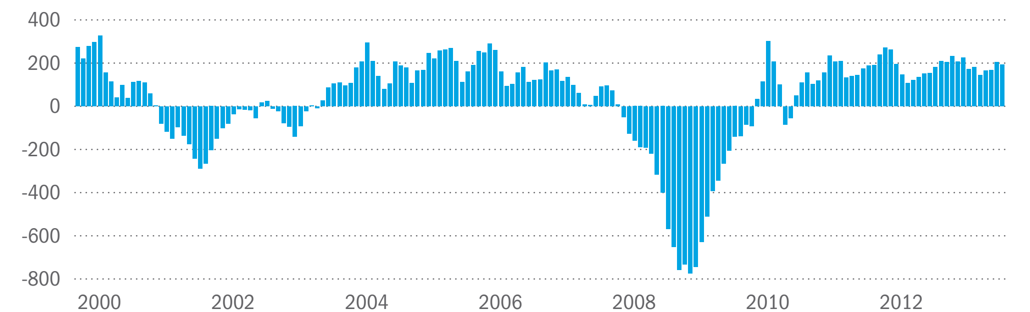
That may be changing for several reasons. First, real wages in the U.S. have fallen since the beginning of the recession while they have generally continued to rise in other countries. With the wage gap closing, transportation costs have become much more important in the global manufacturing cost equation. On the other hand, the wage gap between the European Union, the U.S. and Asia has widened. Consequently, we have started to see an influx of European manufacturers moving production to the U.S., while some Asian-based production has started to shift back to North America, particularly Mexico.

Declining energy costs are also driving resurgence in U.S.-based manufacturing growth. Shale technology and the shift towards cheaper natural gas directly impact the bottom line, which is providing a tremendous incentive to relocate to the U.S. The combined effects of cheaper energy and real wage gains have already led to a pickup in manufacturing growth, unlike what transpired in previous recoveries. However, while this trend will continue to add positively to employment and income growth for years to come, this trend should not be viewed as a panacea. Productivity growth in manufacturing is very strong, and new investment invariably is heavily weighted towards capital rather than labor growth.

One might expect that a steadily improving labor market would drive the unemployment rate much lower than its current 6.7% through the course of 2014. But with an improving labor market, we will also see an increase in the labor participation rate which can, at the beginning of an expansion, actually raise the unemployment rate as discouraged workers reenter the labor force. We expect 2.45 million new jobs will be created next year and an end-of-year unemployment rate of 6.5%.

One area in which we expect the least amount of improvement is in private investment outside of the housing sector. Private investment is divided into several categories based on business spending on things that include buildings, plant and equipment, research and development activities, and even new home construction. There is also an additional category that measures businesses spending on inventories, a tricky category that is difficult to predict but tends to rise when businesses experience increased demand. Broadly related to personal consumption expenditures, it is extremely volatile on a quarterly basis.

Chart 6: Monthly employment gains (thousands)



Sources: BLS, TIAA-CREF

While we are confident of the continued improvement in new home construction, there is less need for expansion of other private investment groupings because there remains enough slack in the economy since the recession's end to absorb further increases in demand. Capacity utilization, which is measured by the Federal Reserve, stands just above 78% compared to a normal cycle average of over 82%. This can also be viewed as a proxy for cost pressures on the corporate sector. With a wider gap between utilization rates and the average, there is less of a reason to see higher costs in the production process. This also, therefore, allows for stronger wage gains without putting overall pressure on inflation.

The improving fiscal picture

Government finance behavior has been radically different during the last five years compared to past recoveries. A typical recession leads to an increase in government spending partly from automatic spending programs to aid the unemployed, for example, and also from extra programs typically initiated or extended to aid in the economic recovery. In fact, the impact of government spending, as a proportion of the entire economy increases relative to the private sector during and immediately following recessions because the government spends more while the private sector generally spends less. Thus, it is normal to see a government sector responsible for much of the acceleration immediately after the recession replaced after several quarters with resurgence in growth in the private sector. This recovery has been marked by an abnormally weak government sector, partly driven by political discord.

The uncertainty caused by regulatory, policy and fiscal inaction has slowed the recovery measurably. But by its very nature, uncertainty is extremely difficult to predict and has been one of the single largest contributors of risk to the forecast. For instance, this time last year we faced a political debate that could have sent an economy poised to grow by 3% or more into a recession.

Perhaps the lesson we learned from several years of political wrangling is that both parties are able to find some middle-ground solution. And this is our presumption with the current debate. We believe there will be a spending solution that avoids a worst-case scenario and raises the debt limit. We further think the solution will sideline the discussion through the next election cycle. This would allow the economy to grow relatively unencumbered by the current uncertainty.

Federal government finance has seen an impressive transformation in the past several years. Congress has operated without a budget since President George W. Bush was in office, choosing instead to pass a series of continuing resolutions and automatic spending risers. After the debt ceiling debate of August 2011, the Budget Control Act (BCA) put in place spending limits (BCA limits) as well as a sequester (see the shaded box below). Sequestration was designed to encourage both sides to agree on a long-term budget path. Of course, no agreement arrived and the sequester was enacted in March 2013. The net impact of this round of spending cuts amounted to a drag on economic growth in the range of 1.5%. Going forward, we expect spending levels more closely aligned with the BCA limits rather than the more restrictive sequester. Thus, the impact of federal spending cuts should continue to diminish as we move forward.

Tax revenue has also been increasing, which lowers the annual deficit and allows for less spending discipline. Tax receipts have been particularly strong at the state and local level. Here we have seen such an improvement that state and local spending growth now outweigh the drag from the lack of federal government spending. We saw the government sector (on a GDP basis) turn positive in the third quarter, and we expect that trend to continue through much of 2014, the net effect of which will add roughly 0.2% to overall growth in the economy.

Sequestration

Sequestration is an agreement designed to cut federal government spending by roughly $1 trillion between 2013 and 2021. However, it does not restrict topline spending but instead imposes roughly equal nominal dollar cuts to military and non-military discretionary spending. Consequently, according to the Congressional Budget Office, overall government spending will rise by nearly $240 billion over this period. Essentially, the sequester simply cuts what was an aggressive increase in spending to something less significant.

The Budgetary Control Act established limits to spending growth that cannot be exceeded. These are generally higher than the sequester cuts, but more importantly, they do not impose across-the-board cuts to all discretionary categories. Under the BCA, federal agencies could see budget cuts that are uneven, allowing the administration to prioritize programs and spending.

The current spending authority ends on January 15, 2014, and the debt ceiling is set to expire on February 7, 2014.

International influences improve

Net exports have performed better than expected this year, and that trend is likely to continue. Part of the reason stems from the increase in shale drilling, which has unlocked oil and natural gas deposits that were previously inaccessible, turning the U.S. into the largest oil producer in the world, and driving our reliance on foreign oil to its lowest level since the mid-1990s. This will likely continue as more of the U.S. economy converts to natural gas usage at the same time that alternative fuels and increased cafe standards lower the demand for gasoline.

The direct impact of an improved trade deficit flows to the bottom line for economic growth. However, it might be tempting to assume that the trade deficit would improve on a one-to-one basis with a reduction in oil imports. But this is not the case, because the net impact of higher incomes in the U.S. will also drive an increase in imports that will partially offset the improvement.

Another unexpected positive during 2013 was an outright increase in demand for U.S. products related to improved economic performance in several economies around the world. Europe spent much of this year in a mild recession, emerging during the second half to positive growth. And while many of the issues afflicting the continent's economy are still present, a collective willingness to deal with the issues is present today, more so than it was in years past. Germany's economy will continue to pull the greatest load, but many of the other economies are improving as well (or as in the case of many of the peripheral countries, less negative growth rates). Collectively, we expect the continent to grow 0.7% in 2014, a swing of more than 1% from this year's level. History also suggests there is close to a one-to-one relationship between economic growth in Europe and export demand from the U.S. Consequently, this should provide a strong force for the domestic economy next year.

China also boosted the global economy. This time last year the consensus view on China's economy called for a reduction in growth from over 8% per year to something closer to 7%. Our expectations have improved through the course of this year, and we now think that 7.5% GDP growth is sustainable in the near term. For 2014, we expect to see 7.7% growth.

More important than the immediate growth rate is the continued emphasis in China on reform. The new administration's efforts to liberalize the economy by allowing more market forces to drive performance have the greatest potential for driving sustainable growth going forward. Of the recently announced changes, financial market reform measures are likely to be the first enacted. The administration has promised to ease capital controls, which will allow more flexibility in the exchange rate as well as improve international capital flows. This promises to increase international direct investment and liberalize the ability of foreigners to invest in Chinese financial markets. These and other reforms will build on past efforts that have transformed the Chinese economy from one that was predominantly agrarian to one of the world's largest economies.

Elsewhere, we expect to see further strengthening in Japan, as continued monetary and fiscal stimulus should provide further support for asset prices, inflation expectations, and consumer purchases.

Across the developing world, growth expectations are partially derived from the strength of the current account balance. In most emerging-market economies, the international investor is responsible for growth on the margin because the size and depth of each of these domestic financial sectors is small and requires international capital to function efficiently. Consequently, we can see large swings in GDP from year to year influenced by exchange-rate and interest-rate cycles.

However, in the other major emerging-market countries, consumption is still relatively healthy. Brazil stands out as an example. In spite of weaker commodity prices and a depreciating real in 2013, the rest of the economy is performing on par. Consequently, we expect to see growth in Brazil stabilize next year.

Conclusions

The core of the U.S. economy continues to heal five years after the recession and today has the potential to accelerate significantly. This is not unlike the economic picture at the beginning of 2013. The impacts of increased taxes, the slowdown in government spending, and policy uncertainties are largely responsible for the shortfall in growth to date. Today, we are faced with another fiscal-cliff-type debate, which may turn out to be a non-event, or which may also create the next significant drag on growth.

We assume that some form of agreement will allow the economy to grow relatively free from uncertainty in 2014, thereby unleashing a growth rate approaching potential. Consumer spending should accelerate modestly from its current levels to something near what we saw at the beginning of 2013, while housing activity will continue to strengthen, but at a slower pace.

We also expect to see increased monetary velocity as the year progresses, which would act to promote growth as well. The most likely scenario given the assumptions surrounding fiscal policy is an economy accelerating evenly throughout 2014, with average growth increasing from 1.8% in 2013 to 2.8% in 2014 and annualized growth at the end of 2014 approaching 3.5%.

Please note that equity and fixed-income investing involves risk.

This material has been prepared by, and represents the views of, Timothy Hopper, and does not reflect the views of any TIAA-CREF affiliate. These views may change in response to changing economic and market conditions. Any projections included in this material are for asset classes only, and do not reflect the experience of any product or service offered by TIAA-CREF. The material is for informational purposes only and should not be regarded as a recommendation or an offer to buy or sell any product or service. TIAA-CREF Asset Management provides investment advice and portfolio management services to the TIAA-CREF group of companies through the following entities: Teachers Advisors, Inc., TIAA-CREF Investment Management, LLC, and Teachers Insurance and Annuity Association® of America (TIAA®). Teachers Advisors, Inc., is a registered investment advisor and wholly owned subsidiary of Teachers Insurance and Annuity Association of America (TIAA).

Financial Services

C14253

306420_383907
(01/14)