CATALYST Strategic Solutions

Market Overview AND DATA REPORT

APRIL 2018

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2017
ECONOMIC GROWTH				
GDP	Q4	2.9%	2.5%	2.3%
EMPLOYMENT				
Non-farm Payrolls (000s)	Mar	103	326	2,173
Private Payrolls (000s)	Mar	102	320	2,155
Unemployment Rate	Mar	4.1%	4.1%	4.1%
Avg Hourly Earnings (Y/Y)	Mar	2.7%	2.6%	2.7%
INFLATION				
Wholesale (Y/Y)	Feb	2.8%	2.7%	2.6%
Consumer (Y/Y)	Feb	2.2%	2.1%	2.1%
PCE Core (Y/Y)	Feb	1.6%	1.5%	1.5%
INCOME & SPENDING				
Retail Sales	Feb	-0.1%	-0.1%	5.6%
Personal Income	Feb	0.4%	4.0%	3.1%
Personal Spending	Feb	0.2%	0.2%	4.5%
AUTO & HOUSING				
Total Auto Sales (MM)	Mar	17.40	16.96	17.10
New/Existing Home Sales (MM)	Feb	6.15	6.00	6.19
S&P/Case Shiller HPI (Y/Y)	Jan	6.18%	6.28%	6.27%

Sources:
US Labor Dept; US Commerce Dept; National Association of Realtors; Bloomberg

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Mar-18	Feb-18	Mar-17
MONEY MARKETS			
Effective Fed Funds	1.68%	1.35%	0.82%
Prime Rate	4.75%	4.50%	4.00%
3 month LIBOR	2.31%	2.02%	1.15%
2 year UST	2.27%	2.25%	1.25%
10 year UST	2.74%	2.80%	2.39%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	4.03%	3.89%	3.57%
CU 30 year Mtg	4.50%	4.42%	4.25%
EQUITY MARKETS			
Dow Jones Industrial Average	24,103.1	25,029.7	20,728.5
NASDAQ Composite	7,063.4	7,273.0	5,914.3
S&P 500	2,640.8	2,713.8	2,368.1
OTHER COMMODITIES			
CRB Index	195.4	193.9	185.5
Crude Oil	64.9	61.6	51.7

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

The U.S. added 103,000 jobs in March, following a stronger gain in February. Despite the low performance in March, the three-month average for job gains is 202,000. Harsh weather last month may have played a role in the low job creation. Wages increased 0.3 percent in March. All in all, a good job report for a healthy economy.

Consumer and wholesale prices moderated in February, rising less than half the amount from the previous month. Year-over-year increases were moderate, suggesting inflation is on a stable course. PCE was 1.8 percent in February. Countries around the globe are pushing back timeframes for reaching their inflation targets.

Most of the key manufacturing measures were strong in February. The proxy for business equipment orders increased the most in five months, factory output was broad-based, and the ISM Manufacturing Index rose to 60.8 percent. Increases in export orders and employment point to further expansion at manufacturers.

The economy grew 2.6 percent in 2017, the best pace since 2014. Fourth quarter GDP was revised higher to 2.9 percent on stronger consumer spending. Spending increased 4.0 percent, the best pace in four years. Business spending in structures and equipment increased at 6.8 percent.

March weather came in like a lion across much of the east coast. In similar fashion, storm-like conditions affected the financial markets. The storms began on day one with the announcement of the first round of tariff proposals. Fear of higher costs of goods and the threat of retaliation from U.S. trading partners threw both the stock and bond markets off course. Soon after, the technology sector imploded on news of a data breach at Facebook, which trickled down to most of the key stock indices. In the midst of this turmoil, the Federal Reserve voted to increase the federal funds rate by 25 basis points to a range of 1.50 to 1.75 percent. Fully expected, this rate increase was the sixth in over two years. The Fed increased their projections for economic growth and the pace of rate increases, while lowering the unemployment rate over the next couple of years. Surprisingly, they left the course of inflation unchanged. On the heels of the Fed moves, the second round of tariff proposals was announced, this time directly aimed at China. The proposal shook the markets on a heightened fear of trade wars. By the last week of the month, however, investors rethought the trade war scenario and decided the "bark was worse than the bite." In the end, it appeared the weather forecast was right and a lamb-like April lay ahead.

Mortgage rates increased by double digits again in March. The average 15-year mortgage rate offered by credit unions broke through 4.0 percent for the first time since 2011, closing the month at 4.03 percent, up 14 basis points. The average rate for a 30-year mortgage increased 13 basis points to 4.53 percent. The spread over Treasury yields widened by an average of 25 basis points. The rate for a 15-year mortgage is 46 basis points higher than a year ago. The 30-year rate is 30 basis points higher than a year ago.

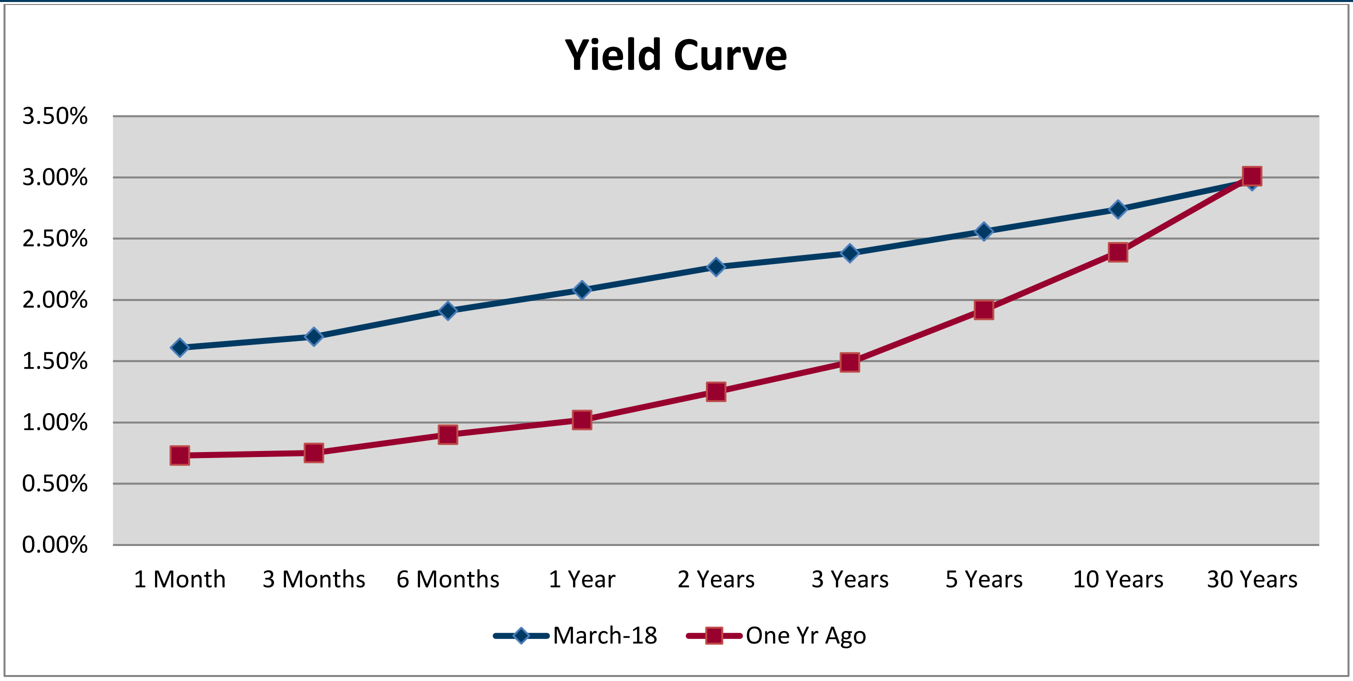
The slide in stocks that began in February continued with a vengeance throughout March. Technology stocks led the way down over concerns of greater regulatory scrutiny due to Facebook's data breach. Higher interest rates and the new tariff policies also weighed on investors deliberating whether the economy can continue to grow. The three key indices posted their second monthly loss in a row. The Dow fell 3.7 percent, the S&P 500 declined 2.7 percent and the NASDAQ closed lower by 2.9 percent. The Dow and S&P 500 ended the quarter down for the first time in 10 quarters. Year-to-date returns were, respectively, -2.5 percent, -1.2 percent and +2.3 percent.

For Credit Unions:

- The housing industry continues to battle against rising prices and not enough of the right inventory. While the end result is the same – a lack of sales – the details are different for new and existing homes. February new home sales fell 0.6 percent as prices increased 9.7 percent. The higher prices are keeping buyers away, even as the number of homes for sale increased to the highest level in nine years. Builders continue to focus on higher-priced homes, where the margins are better. On the other side, sales of existing homes increased for the first time in three months, bringing the level of inventory down 8.1 percent. Rising mortgage rates and tax changes are discouraging current home owners from selling.

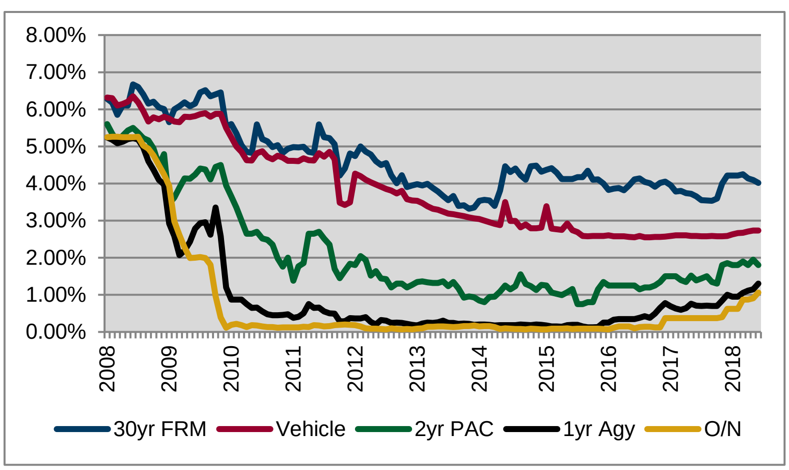
- Auto sales increased 2.6 percent in March to a 17.4 million seasonally adjusted annual rate. The increase in sales was much better than estimates. Stronger fleet sales and larger dealer incentives helped fuel the strong sales activity. General Motors announced they will begin reporting quarterly sales results, instead of monthly data, in an effort to capture a clearer picture of sales activity. Analysts expect other auto dealers to follow the same pattern in coming months. This will make it more difficult for economists to gauge consumer auto buying habits.

- The savings rate increased to 3.4 percent in February, the highest rate since mid-2017. In a repeat of January, incomes rose 0.4 percent, and spending increased 0.2 percent. The wage component of incomes was up 0.5 percent. Most analysts expect consumers to resume spending. Consumer confidence levels are near a 14-year high.



The Treasury curve was at odds with itself in March. A sixth rate hike from the Federal Reserve buoyed the front end, while doubts of growth and higher inflation held down the long end. Weak consumer spending and lower wage growth gave investors enough reason to doubt the economy could make much progress this year. The 10-year Treasury note tried its best to cross the 2.90 percent mark, but failed to close above that key near-term resistance level on any day. The two-year note increased two basis points to end the month at 2.27 percent. The 10-year yield closed at 2.74 percent, 12 basis points lower. The yield curve narrowed to 47 basis points, 14 basis points lower from a month ago and the narrowest spread since 2007.

Relative Value of Assets and Funding:

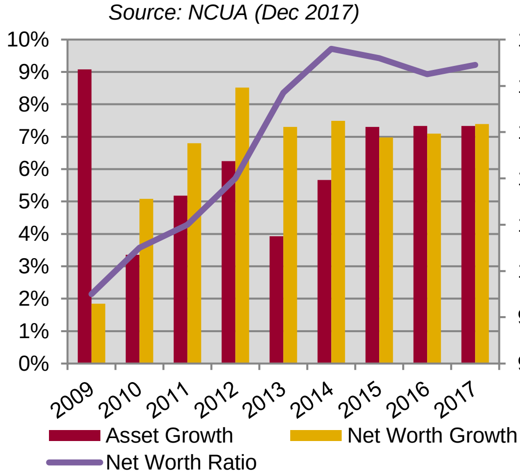


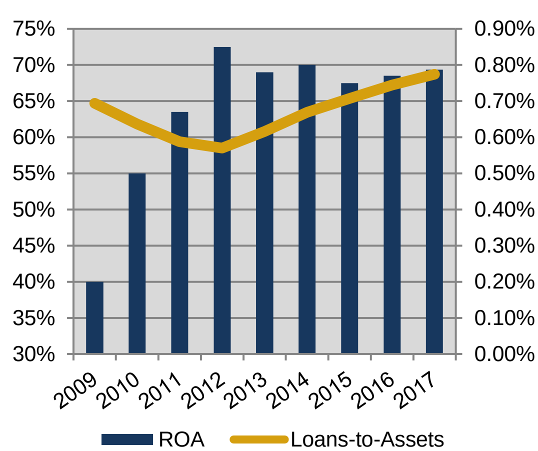
- The spread between loan and investment rates widened, as loan rates moved higher and Treasury yields moved lower.
- Overnight deposit rates remained relatively unchanged, as term deposit rates increased an average of four basis points.
- Overall assets at credit unions increased 6.7 percent in 2017; loan growth was a robust 10.1 percent.

NCUA – December 2017

KEY CREDIT UNION DATA	2012	2013	2014	2015	2016	2017
GROWTH RATES						
Total Assets	6.25%	3.93%	5.66%	7.33%	7.33%	6.69%
Total Loans	4.55%	7.97%	10.42%	10.49%	10.43%	10.15%
Total Shares	6.10%	3.67%	4.47%	6.86%	7.54%	6.12%
Net Worth	8.52%	7.36%	7.48%	6.92%	7.05%	7.34%
CAPITAL ADEQUACY						
Net Worth Ratio	10.43%	10.77%	10.96%	10.92%	10.89%	10.96%
Equity Capital Ratio	10.42%	10.47%	10.78%	10.66%	10.58%	10.67%
Capital Ratio	11.20%	11.10%	11.40%	11.27%	11.18%	11.31%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	17.49%	14.87%	13.65%	13.47%	13.41%	12.43%
Loans-to-Total Assets	58.48%	60.75%	63.48%	65.35%	67.24%	69.42%
Vehicle-to-Total Loans	29.87%	30.80%	32.29%	33.29%	34.37%	34.74%
Real Estate-to-Total Loans	53.58%	52.51%	51.13%	50.41%	49.60%	41.98%
Delinquency Rate	1.16%	1.01%	0.85%	0.81%	0.83%	0.81%
Net Charge-off Rate	0.73%	0.57%	0.50%	0.48%	0.55%	0.60%
"Misery" Index	1.89%	1.58%	1.35%	1.30%	1.38%	1.41%
EARNINGS						
Gross Asset Yield	4.01%	3.65%	3.66%	3.72%	3.82%	4.03%
Cost of Funds	0.73%	0.59%	0.54%	0.52%	0.53%	0.57%
Gross Interest Margin	3.28%	3.06%	3.12%	3.20%	3.29%	3.47%
Less: Provision Expense	0.36%	0.26%	0.28%	0.35%	0.41%	0.48%
Net Interest Margin	2.92%	2.80%	2.84%	2.85%	2.88%	2.99%
Net Operating Expense	2.44%	2.45%	2.45%	2.47%	2.46%	2.46%
Net Income (Return on Assets)	0.85%	0.78%	0.80%	0.75%	0.77%	0.78%
Return on Equity	8.0%	7.3%	7.2%	6.8%	7.0%	7.1%

Source: NCUA (Dec 2017)





NCUA PEER DATA	<$2M	$2-10M	$10-50M	$50-100M	$100-500M	$500M+	Total
NETWORK							
Average Asset Size (000s)	$908	$5,641	$24,936	$71,407	$223,511	$1,974,230	$247,423
Pct of Number of Credit Unions	9%	19%	32%	13%	18%	10%	100%
Pct of Industry Assets	0%	0%	3%	4%	17%	76%	100%
GROWTH RATES							
Total Assets	-6.6%	-6.8%	-3.4%	-1.7%	-1.9%	9.8%	6.69%
Total Loans	-6.0%	-5.5%	-0.9%	-0.1%	1.0%	13.1%	10.15%
Total Shares	-7.0%	-7.2%	-3.6%	-1.9%	-2.2%	9.3%	6.12%
Net Worth	-5.1%	-5.0%	-2.8%	-0.7%	-0.9%	10.5%	7.34%
CAPITAL ADEQUACY							
Net Worth Ratio	18.1%	15.2%	12.4%	11.6%	11.0%	10.8%	10.96%
Equity Capital Ratio	18.1%	15.2%	12.3%	11.4%	10.7%	10.5%	10.67%
Capital Ratio	19.3%	15.8%	12.8%	11.9%	11.4%	11.2%	11.31%
BALANCE SHEET COMPOSITION							
Cash & ST Investments-to-Total Assets	38.1%	29.3%	23.4%	19.0%	14.0%	11.2%	12.4%
Loans-to-Total Assets	47.9%	49.8%	51.6%	57.0%	66.0%	71.6%	69.42%
Vehicle-to-Total Loans	56.2%	59.0%	45.6%	41.2%	38.1%	33.4%	34.74%
Real Estate-to-Total Loans	1.2%	6.3%	27.0%	33.4%	37.2%	43.9%	41.98%
Delinquency Rate	3.26%	1.69%	1.17%	1.03%	0.93%	0.76%	0.81%
Net Charge-off Rate	0.91%	0.62%	0.51%	0.50%	0.60%	0.60%	0.60%
"Misery" Index	4.18%	2.31%	1.68%	1.53%	1.53%	1.37%	1.41%
Non-term Shares-to-Total Shares	90.5%	84.3%	80.0%	77.6%	75.1%	72.3%	73.3%
Net Long-term Assets-to-Total Assets	4.6%	9.9%	20.3%	25.8%	31.8%	35.4%	33.8%
EARNINGS							
Gross Asset Yield	4.30%	3.89%	3.57%	3.66%	3.89%	4.11%	4.0%
Cost of Funds	0.43%	0.34%	0.29%	0.31%	0.39%	0.63%	0.57%
Gross Interest Margin	3.87%	3.56%	3.28%	3.35%	3.51%	3.47%	3.5%
Less: Provision Expense	0.49%	0.32%	0.27%	0.30%	0.46%	0.50%	0.48%
Net Interest Margin	3.38%	3.24%	3.01%	3.05%	3.05%	2.97%	3.0%
Net Operating Expense	3.61%	3.03%	2.76%	2.77%	2.75%	2.36%	2.46%
Net Income (Return on Assets)	-0.31%	0.09%	0.31%	0.44%	0.47%	0.89%	0.78%
Return on Equity	-1.8%	0.6%	2.5%	3.9%	4.4%	8.1%	7.1%
COST EFFICIENCIES							
Avg Loan Balance	$4,534	$6,867	$8,908	$10,002	$12,875	$15,991	$14,807
Avg Share Per Member	$2,215	$4,658	$7,047	$8,084	$9,110	$11,285	$10,415
Avg Compensation per FTE	$20,402	$32,900	$56,504	$59,176	$65,274	$78,383	$72,893
Comp & Benefits-to-Total Assets	2.06%	1.95%	1.68%	1.72%	1.80%	1.45%	1.53%
Pct of Total Operating Expense	49%	53%	48%	48%	50%	52%	51%
Office Occ & Ops-to-Total Assets	1.33%	0.98%	0.94%	0.90%	0.94%	0.69%	0.75%
Pct of Total Operating Expense	32%	27%	27%	25%	26%	25%	25%

Source: NCUA (Dec 2017)

Economic Calendar

APRIL 2018

Monday	Tuesday	Wednesday	Thursday	Friday
2 ISM Manufacturing Construction Spending	**3** Auto Sales	**4** ADP Employment ISM Services Factory Orders Durable Goods (Feb)	**5** Jobless Claims Trade Balance	**6** Non-Farm Payrolls Unemployment Rate Consumer Credit
9	**10** PPI Wholesale Inventories	**11** CPI FOMC March Minutes	**12** Jobless Claims	**13** JOLTS
16 Retail Sales Empire Manufacturing Business Inventories	**17** Housing Starts Building Permits Industrial Production 	**18** Fed Beige Book	**19** Jobless Claims Leading Economic Index	**20**
23 Existing Home Sales	**24** New Home Sales Consumer Confidence S&P CoreLogic Price Index	**25**	**26** Jobless Claims Wholesale Inventories Durable Goods (Mar)	**27** GDP 4Q17 Final
30 Personal Income Personal Spending Pending Home Sales				