CATALYST Strategic Solutions

Market Overview AND DATA REPORT

FEBRUARY 2018

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2017
ECONOMIC GROWTH				
GDP	Q4	2.6%	3.2%	2.3%
EMPLOYMENT				
Non-farm Payrolls (000s)	Jan	200	160	2,173
Private Payrolls (000s)	Jan	196	166	2,155
Unemployment Rate	Jan	4.1%	4.1%	4.1%
Avg Hourly Earnings (Y/Y)	Jan	2.9%	2.7%	2.9%
INFLATION				
Wholesale (Y/Y)	Dec	2.6%	3.1%	2.6%
Consumer (Y/Y)	Dec	2.1%	2.2%	2.1%
PCE Core (Y/Y)	Dec	1.5%	1.5%	1.5%
INCOME & SPENDING				
Retail Sales	Dec	0.4	0.9	5.6%
Personal Income	Dec	0.4%	0.3%	3.1%
Personal Spending	Dec	0.4%	0.8%	4.5%
AUTO & HOUSING				
Total Auto Sales (MM)	Jan	17.1	17.8	17.1
New/Existing Home Sales (MM)	Dec	6.19	6.46	6.19
S&P/Case Shiller HPI (Y/Y)	Nov	6.21%	6.10%	5.61%

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Jan-18	Dec-17	Jan-17
MONEY MARKETS			
Effective Fed Funds	1.34%	1.33%	0.56%
Prime Rate	4.50%	4.50%	3.75%
3 month LIBOR	1.78%	1.84%	1.03%
2 year UST	2.14%	1.88%	1.20%
10 year UST	2.71%	2.41%	2.45%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.70%	3.56%	3.53%
CU 30 year Mtg	4.17%	4.06%	4.21%
EQUITY MARKETS			
Dow Jones Industrial Average	26,149.4	24,719.2	19,864.1
NASDAQ Composite	7,411.5	6,903.4	5,614.8
S&P 500	2,823.8	2,673.6	2,278.9
OTHER COMMODITIES			
CRB Index	197.4	193.9	192.0
Crude Oil	64.7	60.4	55.5

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

The U.S added 200,000 jobs in January, more than expected. The job additions were broad-based, with most industries adding workers. Wages increased 0.3 percent in January for a year-over-year gain of 2.9 percent. The wage gains came from minimum wage increases, bonus and salary increases, some stemming from the recent tax overhaul.

Consumer and producer prices moved in opposite directions during December. Core consumer prices jumped 0.3 percent during the month and 2.3 percent from a year ago. Shelter prices accounted for 80 percent of the index’s rise. Producer prices declined due to a drop in service prices and a 0.7 percent decline in food prices. The core PCE index climbed 1.9 percent.

The manufacturing sector continued the momentum from 2017 into January. The ISM manufacturing index was 59.1 percent in January, a touch below December, but solidly in expansion mode. Fourteen of the 18 tracked industries reported growth.

The economy expanded 2.6 percent in the final quarter of 2017. Large gains in consumer and business spending once again were the key factors that kept the economy chugging along. Strong demand for imported goods and growing inventories hampered growth. The country grew 2.5 percent for the year, compared to 1.8 percent in 2016.

January was not a month for the weak-of-heart investor. Stocks and bonds exploded in opposite directions to post the largest moves in over a year. Stock prices were boosted as the first wave of corporate earnings was better than expected for most industries. Earnings are on track to rise more than 12 percent from a year earlier. The Federal Open Market Committee's press release acknowledged strength in the labor market, wages and spending, but cautioned it could be "some time" before the fed funds rate reaches it maximum target. Once stocks began their ride up in January, bond yields moved higher, breaking through several resistance levels. It did not help when the Treasury announced it will increase the amount of long-term debt it sells this quarter by $66 billion, for a total of $441 billion, the largest quarterly amount borrowed in eight years. Even a two-day correction in stocks just before month end wasn't enough to change the euphoria felt about the economy.

Mortgage rates increased in January, following the jump in Treasury yields. The average 15-year mortgage rate offered by credit unions increased 14 basis points to 3.70 percent. The average rate for a 30-year mortgage increased 11 basis points to 4.17 percent. The spread over Treasury yields widened by an average of 12 basis points. The rate for a 15-year mortgage is three basis points higher than a year ago. The 30-year rate is four basis points lower than a year ago.

The stock market began 2018 full of vigor. Not even the worst one-day decline since mid-2017 could take the thunder out of the market. Stock investors became nervous when the sharp rise in interest rates began to threaten stocks' yield dividend. The Dow and S&P 500 indices closed higher for the 10th month in a row and posted the biggest one-month gains since March 2016. For the month, the Dow was up 5.8 percent, the S&P 500 was up 5.6 percent and the NASDAQ closed up 7.4 percent.

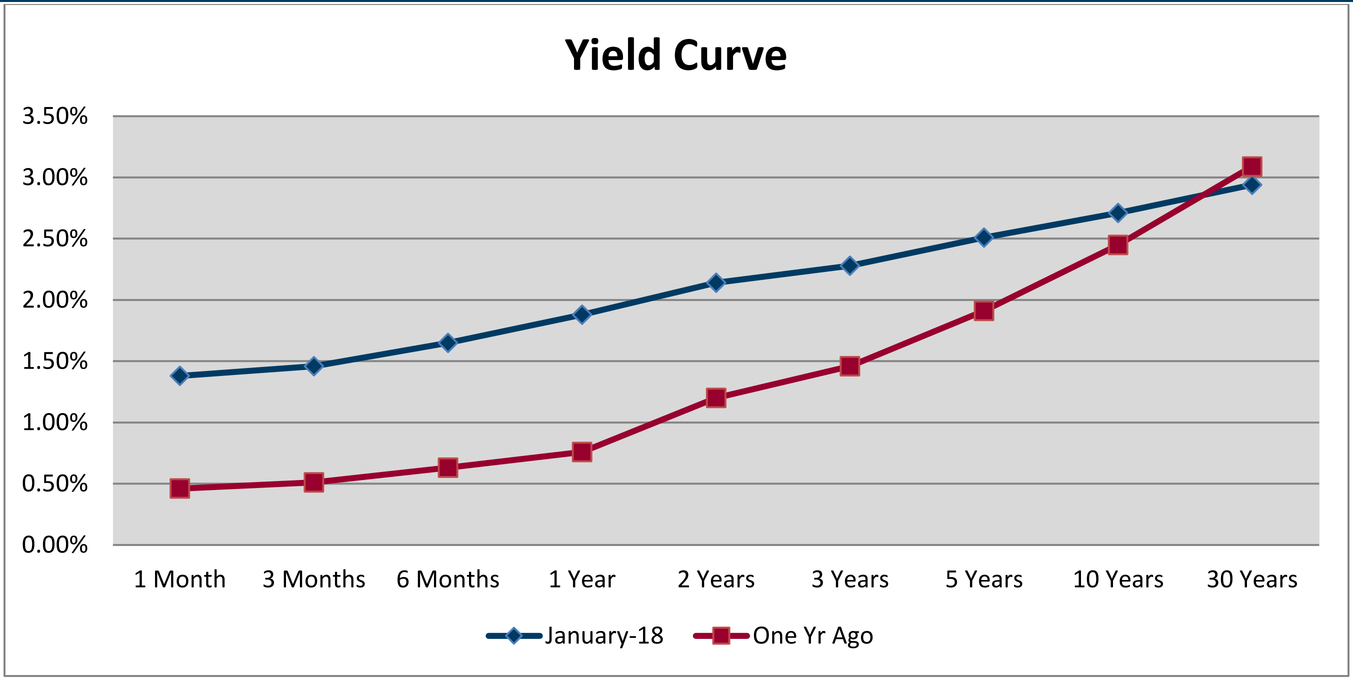
For Credit Unions:

- As bright as November was for the housing market, December was gloomy. Housing activity was low in all areas, except pricing, which continues to move higher. New home sales declined 9.3 percent, the biggest drop in over a year. Sales of existing homes were down 3.6 percent. The declines are clearly corrections from above average growth earlier in the quarter due to post-hurricane rebuilding and buying ahead of the impending tax changes. Inventory continues to decline, making it more difficult to fill demand. Construction on new homes fell 8.2 percent, with single-family homes alone down 11.8 percent. Builders continue to face a lack of available land and skilled workers, as well as rising material costs.

- Auto sales crossed the 17 million mark for the third January in a row, although at a slower pace than a year ago. With auto sales totaling 17.1 million on an annualized basis, auto dealers are bracing for a tougher year in 2018. Much of the pent-up demand for new cars was fulfilled in 2017. Higher interest rates will make it more difficult for consumers to absorb the rising costs of autos. The average transaction price increased 1.9 percent. Most car companies are reducing inventory for the first quarter of the year.

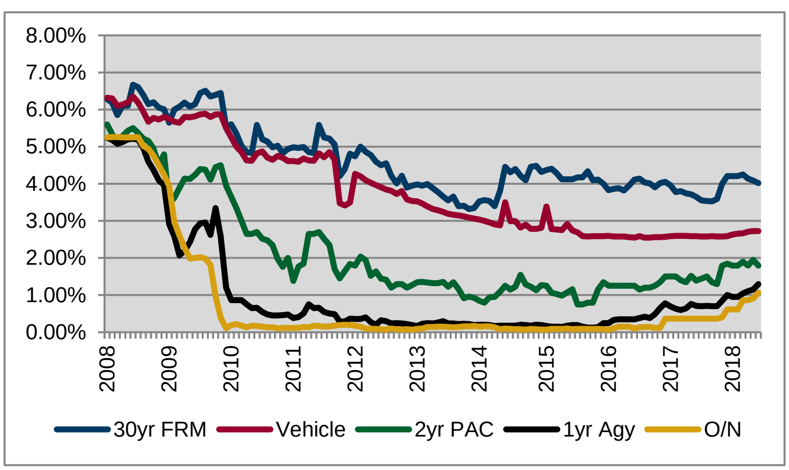
- Consumer confidence rebounded in January after dipping slightly the previous month. Consumers remain more optimistic about the solid pace of growth in the country, but are somewhat uncertain about income growth over coming months.

- The personal savings rate slipped to 2.6 percent in the fourth quarter. This compares to 3.3 percent in the third quarter. The savings rate was 6.1 percent in 2015. Household debt levels have increased to $15.1 trillion at the end of September 2017, from $13.4 trillion in 2011. At the same time, U.S. household net worth has increased from $56 trillion in 2008 to $97 trillion at the end of September 2017.



Treasury yields are on their way up; there is no other way to say it. In January, Treasury note yields along the curve jumped the most in one month since the presidential election in 2016. The 10-year flirted with a key resistance level of 2.63 percent, the high mark from 2017, most of the month. In the end, the bellwether note rose by 33 basis points to close the month at 2.71 percent. The two-year note increased 26 basis points to end the month at 2.14 basis points. The yield curve widened slightly to 57 basis points from 53 basis points at the end of the year. The yield curve was 125 basis points a year ago.

Relative Value of Assets and Funding:

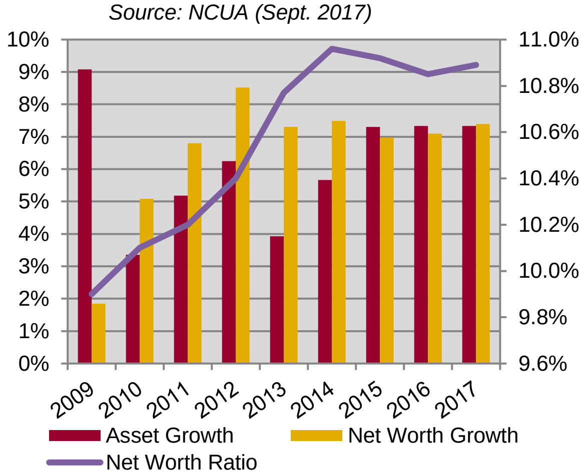


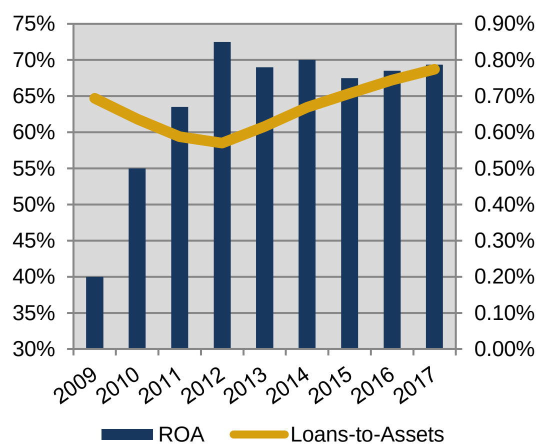
- The spread between loan and investment rates continued to narrow due to the surge in Treasury yields in January.
- Share deposit rates are two basis point higher from November, and term deposit rates are an average of 4.5 basis points higher.
- Economists are speculating the Federal Reserve will raise interest rates as early as March.

NCUA – September 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%	7.33%
Total Loans	4.55%	7.97%	10.42%	10.49%	10.43%	10.41%
Total Shares	6.10%	3.67%	4.47%	6.86%	7.54%	7.09%
Net Worth	8.52%	7.36%	7.48%	6.92%	7.05%	7.39%
CAPITAL ADEQUACY						
Net Worth Ratio	10.43%	10.77%	10.96%	10.92%	10.89%	10.89%
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%	11.30%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	17.49%	14.87%	13.65%	13.47%	13.41%	12.94%
Loans-to-Total Assets	58.48%	60.75%	63.48%	65.35%	67.24%	68.72%
Vehicle-to-Total Loans	29.87%	30.80%	32.29%	33.29%	34.37%	34.82%
Real Estate-to-Total Loans	53.58%	52.51%	51.13%	50.41%	49.60%	41.90%
Delinquency Rate	1.16%	1.01%	0.85%	0.81%	0.83%	0.79%
Net Charge-off Rate	0.73%	0.57%	0.50%	0.48%	0.55%	0.56%
"Misery" Index	1.89%	1.58%	1.35%	1.30%	1.38%	1.35%
EARNINGS						
Gross Asset Yield	4.01%	3.65%	3.66%	3.72%	3.82%	3.98%
Cost of Funds	0.73%	0.59%	0.54%	0.52%	0.53%	0.55%
Gross Interest Margin	3.28%	3.06%	3.12%	3.20%	3.29%	3.44%
Less: Provision Expense	0.36%	0.26%	0.28%	0.35%	0.41%	0.47%
Net Interest Margin	2.92%	2.80%	2.84%	2.85%	2.88%	2.97%
Net Operating Expense	2.44%	2.45%	2.45%	2.47%	2.46%	2.45%
Net Income (Return on Assets)	0.85%	0.78%	0.80%	0.75%	0.77%	0.79%
Return on Equity	8.0%	7.3%	7.2%	6.8%	7.0%	5.4%

Source: NCUA (Sept. 2017)





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FEBRUARY 2018

NCUA PEER DATA	<$2M	$2-10M	$10-50M	$50-100M	$100-500M	$500M+	Total
NETWORK							
Average Asset Size (000s)	$897	$5,604	$24,863	$71,551	$222,988	$1,946,696	$241,683
Pct of Number of Credit Unions	9%	19%	32%	13%	18%	9%	100%
Pct of Industry Assets	0%	0%	3%	4%	17%	76%	100%
GROWTH RATES							
Total Assets	-9.3%	-6.9%	-3.1%	0.8%	-2.8%	10.8%	7.33%
Total Loans	-10.4%	-7.2%	-1.5%	2.1%	-0.7%	13.8%	10.41%
Total Shares	-9.3%	-7.1%	-3.1%	0.7%	-3.0%	10.6%	7.09%
Net Worth	-8.9%	-6.1%	-3.3%	0.0%	-2.9%	11.1%	7.39%
CAPITAL ADEQUACY							
Net Worth Ratio	17.9%	15.0%	12.3%	11.4%	10.9%	10.8%	10.89%
Equity Capital Ratio	17.8%	15.0%	12.2%	11.3%	10.7%	10.5%	10.67%
Capital Ratio	19.1%	15.6%	12.7%	11.7%	11.2%	11.2%	11.30%
BALANCE SHEET COMPOSITION							
Cash & ST Investments-to-Total Assets	38.9%	29.9%	23.7%	19.4%	14.5%	11.7%	12.9%
Loans-to-Total Assets	47.2%	49.0%	50.9%	56.6%	65.2%	71.0%	68.72%
Vehicle-to-Total Loans	57.7%	59.1%	45.8%	41.1%	38.1%	33.5%	34.82%
Real Estate-to-Total Loans	1.0%	6.4%	26.6%	33.6%	37.3%	43.8%	41.90%
Delinquency Rate	3.55%	1.66%	1.14%	1.03%	0.86%	0.75%	0.79%
Net Charge-off Rate	0.73%	0.59%	0.50%	0.54%	0.51%	0.57%	0.56%
"Misery" Index	4.28%	2.26%	1.63%	1.57%	1.37%	1.32%	1.35%
Non-term Shares-to-Total Shares	90.5%	84.4%	79.7%	77.4%	75.1%	72.3%	73.3%
Net Long-term Assets-to-Total Assets	4.9%	9.9%	20.4%	25.9%	31.7%	35.0%	33.5%
EARNINGS							
Gross Asset Yield	4.17%	3.84%	3.53%	3.72%	3.79%	4.06%	4.0%
Cost of Funds	0.32%	0.32%	0.28%	0.31%	0.37%	0.61%	0.55%
Gross Interest Margin	3.85%	3.52%	3.25%	3.41%	3.42%	3.45%	3.4%
Less: Provision Expense	0.46%	0.30%	0.26%	0.33%	0.39%	0.50%	0.47%
Net Interest Margin	3.39%	3.22%	2.99%	3.08%	3.03%	2.95%	3.0%
Net Operating Expense	3.58%	3.02%	2.76%	2.82%	2.73%	2.35%	2.45%
Net Income (Return on Assets)	-0.19%	0.11%	0.31%	0.36%	0.52%	0.90%	0.79%
Return on Equity	-0.8%	0.6%	1.9%	2.4%	3.7%	6.1%	5.4%
COST EFFICIENCIES							
Avg Loan Balance	$4,699	$6,863	$8,897	$10,035	$12,853	$15,879	$14,710
Avg Share Per Member	$2,258	$4,649	$7,052	$8,053	$9,119	$11,300	$10,412
Avg Compensation per FTE	$18,993	$43,626	$56,152	$58,656	$65,020	$78,537	$73,041
Comp & Benefits-to-Total Assets	1.45%	1.44%	1.25%	1.29%	1.34%	1.09%	1.15%
Pct of Total Operating Expense	48%	53%	48%	48%	50%	52%	51%
Office Occ & Ops-to-Total Assets	0.96%	0.73%	0.70%	0.68%	0.70%	0.52%	0.56%
Pct of Total Operating Expense	32%	27%	27%	25%	26%	25%	25%

Source: NCUA (Sept. 2017)

Economic Calendar

FEBRUARY 2018

Monday	Tuesday	Wednesday	Thursday	Friday
			1 Jobless Claims Auto Sales ISM Manufacturing Construction Spending	**2** Non-Farm Payrolls Unemployment Rate Factory Orders Durable Goods (Final Dec)
5 ISM Services	**6** JOLTS Trade Balance	**7** Consumer Credit	**8** Jobless Claims	**9** CPI
12	**13**	**14** FRB Beige Book Retail Sales Business Inventories Wholesale Inventories 	**15** Jobless Claims PPI Empire Manufacturing Industrial Production Capacity Utilization	**16** Housing Starts Building Permits
19 	**20**	**21** Existing Home Sales FOMC January Minutes	**22** Jobless Claims Leading Economic Index	**23**
26 New Home Sales	**27** S&P CoreLogic Price Index Durable Goods (Pre Jan) Consumer Confidence	**28** ADP Employment Pending Home Sales GDP 4Q17 revision		