CATALYST Strategic Solutions

Market Overview AND DATA REPORT

JUNE 2018

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2017
ECONOMIC GROWTH				
GDP	Q1	2.2%	2.3%	2.3%
EMPLOYMENT				
Non-farm Payrolls (000s)	May	223	159	2,173
Private Payrolls (000s)	May	218	162	2,155
Unemployment Rate	May	3.8%	3.9%	4.1%
Avg Hourly Earnings (Y/Y)	May	2.7%	2.6%	2.7%
INFLATION				
Wholesale (Y/Y)	Apr	2.6%	3.0%	2.6%
Consumer (Y/Y)	Apr	2.5%	2.4%	2.1%
PCE Core (Y/Y)	Apr	1.8%	1.8%	1.5%
INCOME & SPENDING				
Retail Sales	Apr	0.3%	0.8%	5.6%
Personal Income	Apr	0.3%	0.2%	3.1%
Personal Spending	Apr	0.6%	0.5%	4.5%
AUTO & HOUSING				
Total Auto Sales (MM) Qrtly	Mar	17.15	17.40	17.10
New/Existing Home Sales (MM)	Apr	6.12	6.27	6.19
S&P/Case Shiller HPI (Y/Y)	Mar	6.53%	6.51%	6.27%

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	May-18	Apr-18	May-17
MONEY MARKETS			
Effective Fed Funds	1.70%	1.69%	0.83%
Prime Rate	4.75%	4.75%	4.00%
3 month LIBOR	2.30%	2.36%	1.21%
2 year UST	2.43%	2.49%	1.28%
10 year UST	2.86%	2.95%	2.20%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	4.19%	4.07%	3.44%
CU 30 year Mtg	4.71%	4.59%	4.08%
EQUITY MARKETS			
Dow Jones Industrial Average	24,415.8	24,163.2	21,008.7
NASDAQ Composite	7,442.1	7,066.3	6,203.2
S&P 500	2,706.8	2,648.6	2,411.8
OTHER COMMODITIES			
CRB Index	202.8	202.0	179.8
Crude Oil	67.0	68.6	49.1

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

U.S. employers added 223,000 jobs in May. The additions were spread across sectors, suggesting all areas of the economy are growing. The unemployment rate fell to 3.8 percent, the lowest since 2000. Wages improved on an annual basis, but the tightening labor market suggests wages have room to increase.

Inflation moderated in April. Both PPI and CPI measures were lower than expected. Wholesale food prices, as well as used consumer auto and airfare costs, had significant drops. The price of oil reached the highest level since 2014, which has begun to push gasoline prices.

Retail sales increased for the second month in a row. Sales in April were up 0.3 percent, a good sign that consumer spending is rebounding after a slow first quarter. Clothing store sales jumped the most in over a year. The rise in gasoline prices pushed sales at gas stations up 0.8 percent. Auto sales, on the other hand, rose just 0.1 percent, following a 2.1 percent rise in March.

First quarter GDP was revised slightly lower to 2.2 percent. The decline came from downward revisions to consumer spending, inventory investment and exports. Business spending on equipment and structures was adjusted higher to the best rate in four years. After-tax corporate profits increased the most since 2016, largely a result of the tax change.

The financial markets had a difficult time deciphering the news in May. Trade talks with China, scheduled and then cancelled meetings with North Korea, proposed increased sanctions against Iran, and the rising price of oil created more confusion than conviction as traders and economists tried to make sense of the outcomes. The on-again, off-again talks with China and North Korea kept stock prices and bond yields on a roller-coaster. Even the climb toward three percent on the 10-year Treasury bond wasn't a sure thing, as economists questioned whether a three percent yield was warranted in the current global economic condition. Political issues in Italy at the end of the month proved the doubting economists correct, as the 10-year yield fell 25 basis points in a week. The minutes from the May FOMC meeting indicated that while another rate move could happen "soon," the central bank is not in a hurry to speed up the pace of rate hikes. Some committee members suggested the long-term target rate may be closer to 2.5 percent rather than three percent. As you can see, it was a whirlwind month.

Mortgage rates surged in May to the highest levels since 2011. The 12-basis point spike in rates followed the rise in Treasury yields, as the 10-year note topped three percent. The continued increase in mortgage rates is causing consumers to stretch more to make mortgage payments. Consumers are spending more than double their incomes on mortgage payments now than a year ago. The average 15-year mortgage rate offered by credit unions closed the month at 4.19 percent. The average rate for a 30-year mortgage rose to 4.71 percent. The spread over Treasury yields widened by 25 basis points. The rate for a 15-year mortgage is 75 basis points higher than a year ago. The 30-year rate is 63 basis points higher than a year ago.

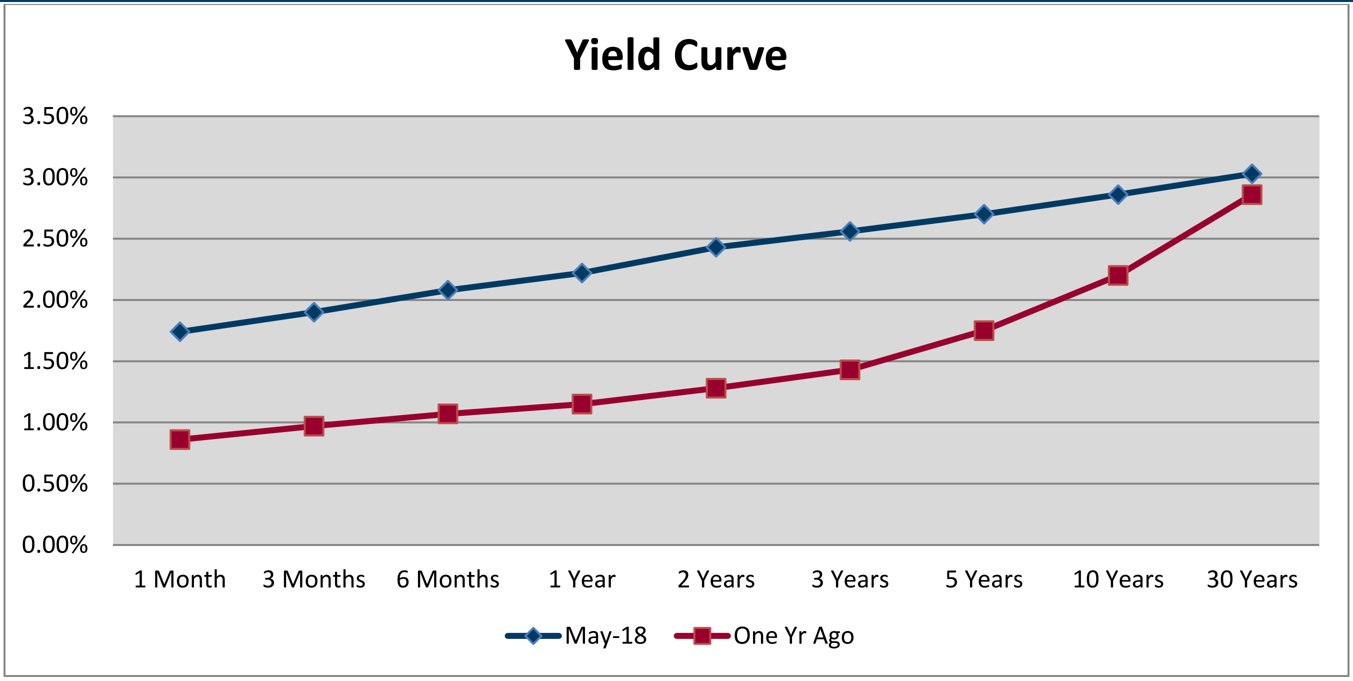
Stocks started May on a rocky footing but managed to turn around as trade pressures and geopolitical issues moderated mid-month. The Dow crossed 25,000 for the first time in two months and the VIX, a fear gauge used by Wall Street, closed below its 20-day moving average for the first time since January. Unfortunately, the end-of-month pre-summer sector rebalancing, political upsets overseas and concerns of a trade war with Canada and Mexico undid most of the gains from earlier in the month. By the end, stocks recovered enough to close with a gain. The Dow was up 1.1 percent, the S&P 500 gained 2.2 percent, and the NASDAQ was the big winner with a gain of 5.3 percent. The Dow remains the one key sector underwater for the year. Year-to-date returns were: Dow -1.3 percent, S&P +1.2 percent and NASDAQ +7.8 percent.

For Credit Unions:

- The spring house selling season got off to a slow start. April sales were down across the board, from new construction to existing homes. Higher prices, rising mortgage rates, and a lack of supply continue to make it more difficult for would-be buyers to find their dream home. Ironically, home builder sentiment rose for the first time this year due to the demand for houses. Builders remain concerned, however, about rising land and materials cost.

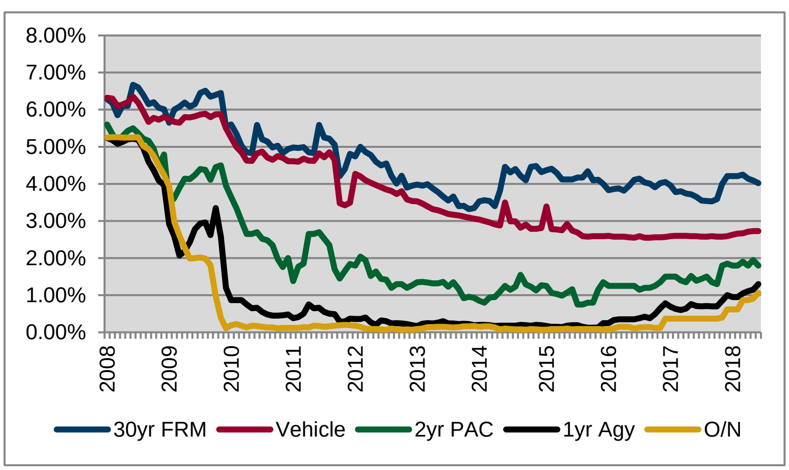
- Spending trumped income gains in April. Personal spending jumped 0.6 percent, the largest increase in five months. Taken together with the 0.3 percent rise in retail sales, all signs point to a healthy rebound in consumer spending for the second quarter. Incomes rose 0.3 percent and included gains in wages, interest income, veteran's benefits and Medicare. The savings rate slipped to 2.8 percent from three percent.

- The price of oil surged in May, pushing gasoline prices to the highest level in four years. The price of a gallon of gas is up 25 percent from a year ago, already reaching $3 a gallon in many cities. The oil industry is reeling from a potential drop in supply if the U.S. reinstates sanctions on Iran. OPEC continues to waffle between setting or relaxing limits on oil production. U.S. gasoline prices are more closely tied to Brent oil, that which is produced overseas. Brent has risen at a faster pace than domestic crude oil.



The long-awaited three percent yield proved to be vulnerable in May. The 10-year Treasury note crossed the 3.03 percent resistance level for the first time since 2014, rising to 3.11 percent, but then fell back below three percent within days. Trade issues and the realization the Fed may not be as aggressive on rate hikes pushed longer- dated yields lower. The yield curve bounced off 11-year lows and widened marginally to 55 basis points at one point. By the end of the month, yields were lower across the board. The two-year note fell six basis points to close the month at 2.43 percent. The 10-year yield closed at 2.86 percent, nine basis points lower. The yield curve narrowed to 43 basis points, three basis points tighter from a month ago and 49 basis points wider from a year ago.

Relative Value of Assets and Funding:

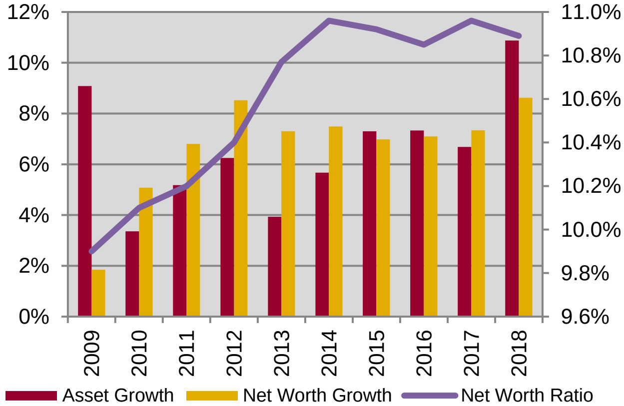


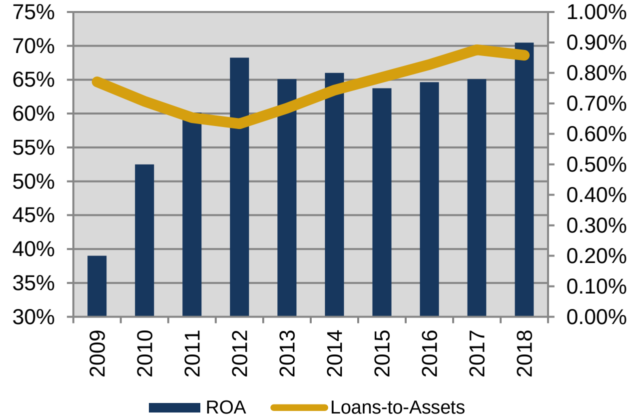
- The spread between loan and investment rates narrowed investment as yields continue to increase faster than loan rates.
- Term deposit rates increased an average of four basis points. Rates in the Northeast and Midwest increased the least amount.
- Auto rates increased an average of five basis points. Rates remain the lowest in the Southeast and highest in the West.

NCUA – March 2018

KEY CREDIT UNION DATA	2013	2014	2015	2016	2017	2018
GROWTH RATES						
Total Assets	3.93%	5.66%	7.33%	7.33%	6.69%	10.88%
Total Loans	7.97%	10.42%	10.49%	10.43%	10.15%	6.08%
Total Shares	3.67%	4.47%	6.86%	7.54%	6.12%	15.19%
Net Worth	7.36%	7.48%	6.92%	7.05%	7.34%	8.63%
CAPITAL ADEQUACY						
Net Worth Ratio	10.77%	10.96%	10.92%	10.89%	10.96%	10.89%
Equity Capital Ratio	10.47%	10.78%	10.66%	10.58%	10.67%	10.49%
Capital Ratio	11.10%	11.40%	11.27%	11.18%	11.31%	11.13%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	14.87%	13.65%	13.47%	13.41%	12.43%	13.69%
Loans-to-Total Assets	60.75%	63.48%	65.35%	67.24%	69.42%	68.62%
Vehicle-to-Total Loans	30.80%	32.29%	33.29%	34.37%	34.74%	35.01%
Real Estate-to-Total Loans	52.51%	51.13%	50.41%	49.60%	41.98%	43.08%
Delinquency Rate	1.01%	0.85%	0.81%	0.83%	0.81%	0.66%
Net Charge-off Rate	0.57%	0.50%	0.48%	0.55%	0.60%	0.60%
"Misery" Index	1.58%	1.35%	1.30%	1.38%	1.41%	1.25%
EARNINGS						
Gross Asset Yield	3.65%	3.66%	3.72%	3.82%	4.03%	4.11%
Cost of Funds	0.59%	0.54%	0.52%	0.53%	0.57%	0.60%
Gross Interest Margin	3.06%	3.12%	3.20%	3.29%	3.47%	3.51%
Less: Provision Expense	0.26%	0.28%	0.35%	0.41%	0.48%	0.48%
Net Interest Margin	2.80%	2.84%	2.85%	2.88%	2.99%	3.03%
Net Operating Expense	2.45%	2.45%	2.47%	2.46%	2.46%	2.49%
Net Income (Return on Assets)	0.78%	0.80%	0.75%	0.77%	0.78%	0.90%
Return on Equity	7.3%	7.2%	6.8%	7.0%	7.1%	2.1%

Source: NCUA (Mar 2018)





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JUNE 2018

NCUA PEER DATA	<$2M	$2-10M	$10-50M	$50-100M	$100-500M	$500M+	Total
NETWORK							
Average Asset Size (000s)	$895	$5,612	$25,113	$71,792	$224,894	$2,006,479	$256,117
Pct of Number of Credit Unions	8%	19%	32%	13%	19%	10%	100%
Pct of Industry Assets	0%	0%	3%	4%	17%	76%	100%
GROWTH RATES							
Total Assets	-22.2%	-12.2%	-0.1%	-0.7%	8.0%	12.7%	10.88%
Total Loans	-42.9%	-24.0%	-12.2%	-10.2%	-0.6%	8.7%	6.08%
Total Shares	-21.3%	-11.2%	0.9%	0.7%	10.5%	17.8%	15.19%
Net Worth	-25.0%	-18.2%	-4.0%	-7.0%	5.8%	10.9%	8.63%
CAPITAL ADEQUACY							
Net Worth Ratio	18.0%	15.0%	12.3%	11.4%	11.0%	10.8%	10.89%
Equity Capital Ratio	17.9%	15.0%	12.1%	11.2%	10.5%	10.4%	10.49%
Capital Ratio	19.1%	15.7%	12.6%	11.6%	11.1%	11.0%	11.13%
BALANCE SHEET COMPOSITION							
Cash & ST Investments-to-Total Assets	40.6%	31.0%	24.9%	20.7%	15.8%	12.4%	13.7%
Loans-to-Total Assets	45.3%	48.3%	50.1%	55.6%	64.7%	71.0%	68.62%
Vehicle-to-Total Loans	57.6%	60.2%	46.3%	41.9%	38.6%	33.6%	35.01%
Real Estate-to-Total Loans	1.6%	7.8%	29.5%	35.3%	38.6%	44.8%	43.08%
Delinquency Rate	3.10%	1.56%	0.96%	0.82%	0.76%	0.62%	0.66%
Net Charge-off Rate	1.34%	0.61%	0.44%	0.52%	0.57%	0.61%	0.60%
"Misery" Index	4.44%	2.17%	1.40%	1.33%	1.32%	1.23%	1.25%
Non-term Shares-to-Total Shares	90.9%	84.9%	80.8%	78.3%	75.9%	72.9%	73.9%
Net Long-term Assets-to-Total Assets	4.5%	9.2%	20.0%	25.2%	31.1%	35.4%	33.7%
EARNINGS							
Gross Asset Yield	4.43%	4.03%	3.59%	3.69%	3.92%	4.19%	4.1%
Cost of Funds	0.47%	0.32%	0.30%	0.32%	0.41%	0.67%	0.60%
Gross Interest Margin	3.96%	3.71%	3.30%	3.37%	3.50%	3.52%	3.5%
Less: Provision Expense	0.67%	0.36%	0.22%	0.27%	0.35%	0.53%	0.48%
Net Interest Margin	3.29%	3.35%	3.07%	3.10%	3.15%	3.00%	3.0%
Net Operating Expense	3.92%	3.24%	2.85%	2.84%	2.85%	2.37%	2.49%
Net Income (Return on Assets)	-0.63%	-0.02%	0.36%	0.52%	0.68%	0.99%	0.90%
Return on Equity	-0.9%	0.0%	0.7%	1.2%	1.6%	2.4%	2.1%
COST EFFICIENCIES							
Avg Loan Balance	$4,633	$6,886	$9,027	$10,024	$12,957	$16,239	$15,037
Avg Share Per Member	$2,375	$4,751	$7,281	$8,281	$9,318	$11,535	$10,676
Avg Compensation per FTE	$19,214	$44,361	$58,080	$61,313	$67,350	$82,465	$76,645
Comp & Benefits-to-Total Assets	0.49%	0.48%	0.42%	0.44%	0.46%	0.38%	0.39%
Pct of Total Operating Expense	45%	51%	48%	48%	51%	53%	52%
Office Occ & Ops-to-Total Assets	0.33%	0.24%	0.23%	0.23%	0.23%	0.18%	0.19%
Pct of Total Operating Expense	30%	26%	27%	25%	26%	25%	25%

Source: NCUA (Mar 2018)

Economic Calendar

JUNE 2018

Monday	Tuesday	Wednesday	Thursday	Friday
			Jobless Claims (Mar)	**1** Non-Farm Payrolls Unemployment Rate ISM Manufacturing Construction Spending
4 Factory Orders	**5** JOLTS ISM Services	**6** Trade Balance	**7** Jobless Claims Consumer Credit	**8** Wholesale Inventories
11	**12** CPI	**13** PPI FOMC Meeting	**14** Jobless Claims Retail Sales Business Inventories  	**15** U. of Mich. Sentiment Empire Manufacturing Industrial Production Capacity Utilization
18	**19** Housing Starts Building Permits	**20** Existing Home Sales	**21** Jobless Claims Leading Economic Index	**22**
25 New Home Sales Consumer Confidence S&P CoreLogic Price Index	**26**	**27** Pending Home Sales Durable Goods Orders	**28** Jobless Claims GDP 1Q18 (revised)	**29** U. of Mich. Sentiment Personal Income Personal Spending