CATALYST Strategic Solutions

Market Overview AND DATA REPORT

MARCH 2018

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2017
ECONOMIC GROWTH				
GDP	Q4	2.5%	2.6%	2.3%
EMPLOYMENT				
Non-farm Payrolls (000s)	Feb	313	239	2,173
Private Payrolls (000s)	Feb	287	238	2,155
Unemployment Rate	Feb	4.1%	4.1%	4.1%
Avg Hourly Earnings (Y/Y)	Feb	2.6%	2.8%	2.7%
INFLATION				
Wholesale (Y/Y)	Jan	2.7%	2.6%	2.6%
Consumer (Y/Y)	Jan	2.1%	2.1%	2.1%
PCE Core (Y/Y)	Jan	1.5%	1.5%	1.5%
INCOME & SPENDING				
Retail Sales	Jan	-0.3	0.0	5.6%
Personal Income	Jan	0.4%	0.4%	3.1%
Personal Spending	Jan	0.2%	0.4%	4.5%
AUTO & HOUSING				
Total Auto Sales (MM)	Feb	16.96	17.07	17.10
New/Existing Home Sales (MM)	Jan	5.97	6.20	6.19
S&P/Case Shiller HPI (Y/Y)	Dec	6.27%	6.13%	6.27%

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Feb-18	Jan-18	Feb-17
MONEY MARKETS			
Effective Fed Funds	1.35%	1.34%	0.57%
Prime Rate	4.50%	4.50%	3.75%
3 month LIBOR	2.02%	1.78%	1.06%
2 year UST	2.25%	2.14%	1.26%
10 year UST	2.80%	2.71%	2.22%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.89%	3.70%	3.51%
CU 30 year Mtg	4.42%	4.17%	4.21%
EQUITY MARKETS			
Dow Jones Industrial Average	25,029.7	26,149.4	20,812.2
NASDAQ Composite	7,273.0	7,411.5	5,825.4
S&P 500	2,713.8	2,823.8	2,363.6
OTHER COMMODITIES			
CRB Index	193.9	197.4	190.6
Crude Oil	61.6	64.7	55.1

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

The U.S. added 313,000 jobs in February, the largest monthly gain since July 2016. Construction, manufacturing and retail posted substantial increases. Almost 800,000 people entered the labor force. The Y/Y wage increase fell to 2.6 percent and was revised lower for January, erasing some of the inflation fears from last month.

Both consumer and producer prices rose more than expected in January, topping increases from the previous month. Prices for outpatient services and apparel increased the most in years. The PCE deflator, a key measure used by the Fed to gauge inflation, remained at 1.7 percent from a year ago.

Manufacturing remains strong, despite orders for durable goods falling in January. Orders were dragged down by a 28 percent decline in aircraft orders. The ISM manufacturing index increased to 60.8 percent, with new orders and production remaining near recent high levels. Export orders reached the highest level since mid-2011.

Fourth quarter GDP was revised slightly lower to 2.5 percent from 2.6 percent. Business investment orders were less than originally reported. Additionally, companies used up inventory to meet demand, creating a drag on growth. Consumer spending remained at a healthy 3.8 percent.

It is good that February is a short month. I am not sure the financial markets could have handled more days of pain. The first full week of the month was considered the worst and most volatile week in the stock market since 2008. Stock investors became spooked by a surge in wages in January, which put the fear of runaway inflation into play. With inflation, come higher prices and the possibility for interest rates to rise. The markets also began to focus on the impact of increased Treasury debt sales that will add upward pressure to interest rates. The Treasury sold $258 billion of T-Bills and notes in one week, including two of the largest T-Bill auctions ever. Equity markets around the world were down 11 to 13 percent in one week. By mid-month, the markets began to embrace the inflation story, along with continued economic growth. Stocks began to stabilize, and bond yields tested the 2.90 percent yield.

Mortgage rates surged in February. The average 15-year mortgage rate offered by credit unions increased 18 basis points to 3.89 percent. The average rate for a 30-year mortgage increased 25 basis points to 4.42 percent. The spread over Treasury yields widened by an average of seven basis points. The rate for a 15-year mortgage is 38 basis points higher than a year ago. The 30-year rate is 21 basis points higher than a year ago.

The non-stop rally in the equity markets came to an abrupt halt in February. A growing fear of inflation and higher interest rates caused investors to re-evaluate the return on equities versus bonds. Computer algorithm trades and renewed volatility took the confidence trade out of the market, beginning what many analysts called a much-needed correction in a long-term bull market. The three key indices ended month-long winning streaks. For the month, the Dow fell 4.3 percent, the S&P 500 was down 3.9 percent, and the NASDAQ closed lower by 1.9 percent. The three indices managed to stay positive for the year, with year-to-date returns, respectively, up 1.25 percent, 1.5 percent and 5.4 percent.

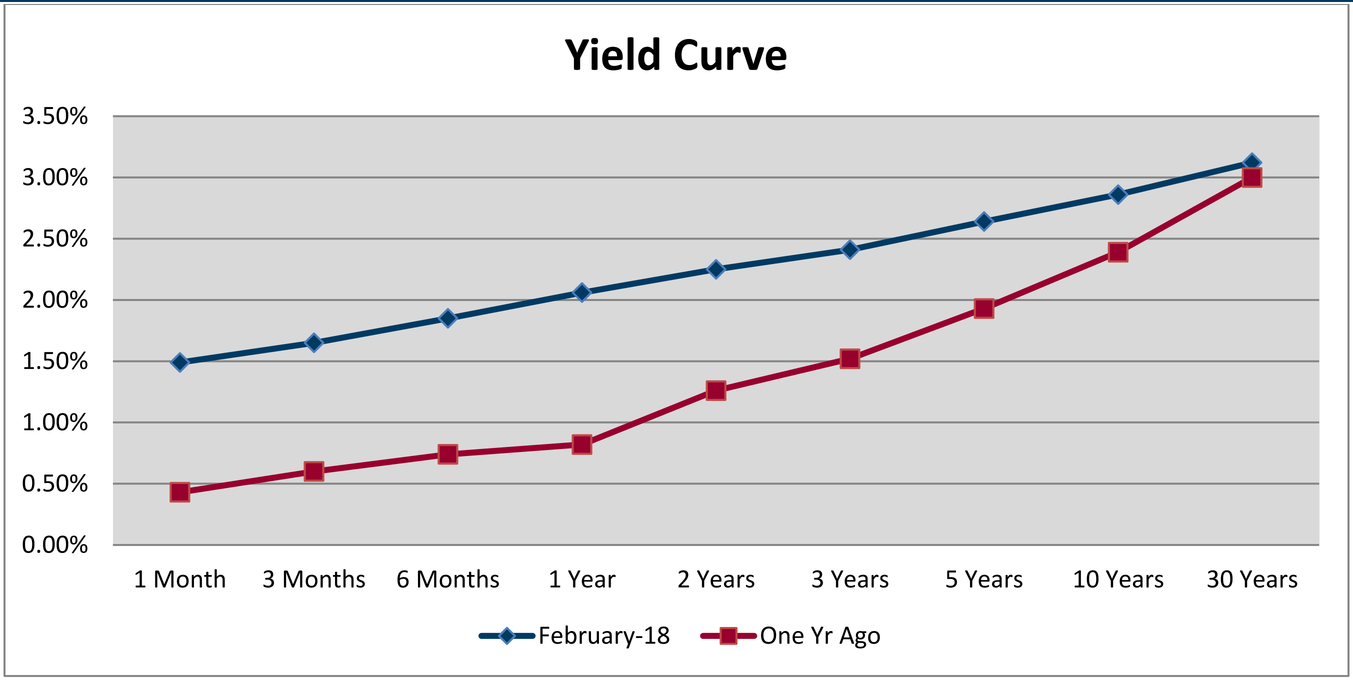
For Credit Unions:

- January was another slow month for home sales. Both existing and new homes posted declines for a second month in a row. The decline did not worry analysts, who believe the slowness continues to be a correction from unusually strong activity at the end of 2017 ahead of the tax-reform announcement. Harsh weather in January also held sales down. The monthly rate of homes available for sale increased slightly, which should help sales in the upcoming spring home-buying season. Home prices continue to increase, rising 6.3 percent from a year ago. Homebuilders' sentiment remains at the highest level since 1999, with the six-month outlook at a 12-year high.

- Auto sales fell 2.4 percent in February, but continue to be healthy. Sales topped the 17-million seasonally adjusted annual rate for the sixth month in a row. Auto dealers cite a combination of higher interest rates, tighter credit conditions and smaller discounts for the decline in sales. If dealer incentives continue to decline, new auto sales could fall below the 17 million mark in March. Buyers may begin to shift to used and certified, preowned vehicles to combat tighter credit and higher loan rates. Sales of cars continue to decline, falling 12.9 percent, as crossover vehicle sales rose 9.6 percent.

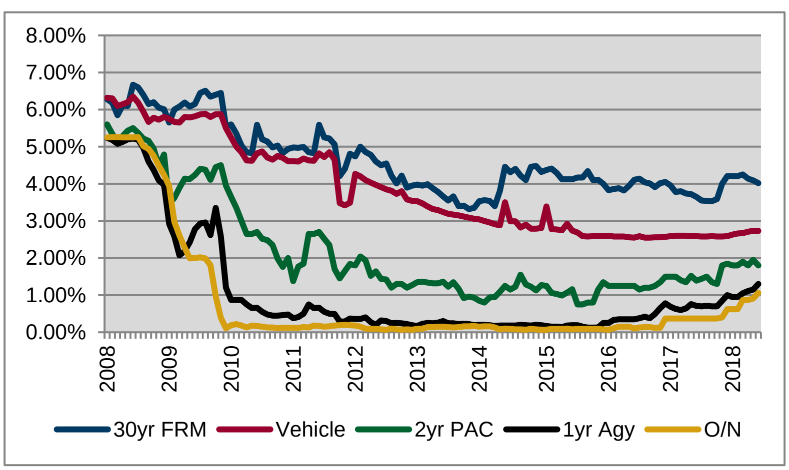
- The savings rate increased to 3.2 percent in January, as incomes rose twice as much as spending. Consumers are beginning to recognize tax savings in their paychecks, which should spill into spending in coming months. The estimated annualized drop in personal taxes in January is $115 billion.

- Credit union assets increased 6.7 percent in 2017, according to year-end NCUA data. Loan growth grew 10.1 percent. Auto loans increased the most, up 11.4 percent. The overall delinquency rate was 81 basis points, down slightly from 2016.



The yield curve steepened four basis points in February, as the long end of the curve adjusted itself to higher inflation valuation. The 10-year Treasury note yield reached 2.95 percent mid-month, the highest yield in five years. The short end of the curve was focused on the upcoming FOMC meeting in March and a 90 percent chance for a rate increase. An increase in Treasury debt sales put pressure on yields across the curve. The two-year note increased 11 basis points to end the month at 2.25 percent. The 10-year yield closed at 2.86 percent, 15 basis points higher. The yield curve widened slightly to 61 basis points, 52 basis points narrower than a year ago.

Relative Value of Assets and Funding:

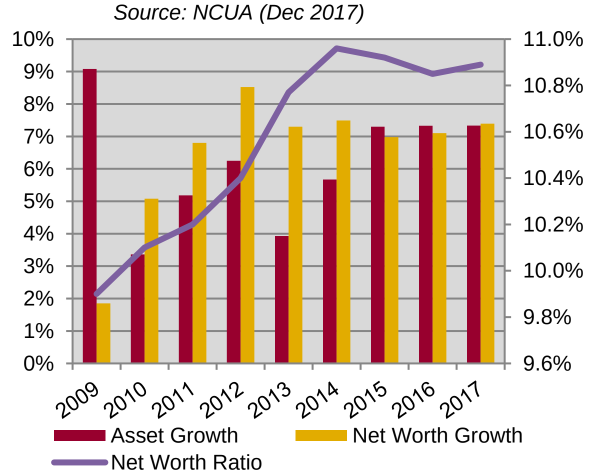


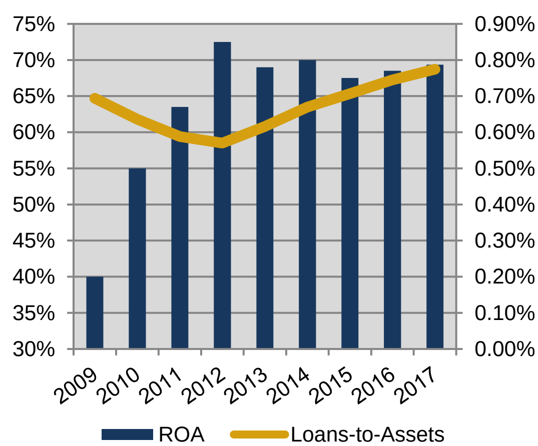
- The spread between loan and investment rates narrowed for the third month, as investment rates increased at a faster pace.
- Credit union share deposit rates were unchanged. Longer-term deposit rates increased an average of three basis points.
- Total investments increased 2.7 percent in 2017, with maturities between one and three years rising the most, 9.0 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

MARCH 2018

Monday	Tuesday	Wednesday	Thursday	Friday
			1 Jobless Claims Auto Sales ISM Manufacturing Construction Spending Personal Income Personal Spending	**2**
5 ISM Services	**6** Factory Orders Durable Goods (Final Jan)	**7** Trade Balance Consumer Credit ADP Employment Fed Beige Book	**8** Jobless Claims	**9** Non-Farm Payrolls Unemployment Rate Wholesale Inventories
12	**13** CPI	**14** PPI Retail Sales Business Inventories	**15** Jobless Claims Empire Manufacturing	**16** Housing Starts Building Permits Industrial Production Capacity Utilization JOLTS
19	**20** FOMC Meeting Begins	**21** Existing Home Sales FOMC Press Release	**22** Jobless Claims Leading Economic Index	**23** Durable Goods (Pre Feb) New Home Sales
26	**27** S&P CoreLogic Price Index Consumer Confidence	**28** Pending Home Sales GDP 4Q17 Revision	**29** Personal Income (Feb) Personal Spending (Feb)	**30** STOCK AND BOND MARKETS CLOSED - GOOD FRIDAY