CATALYST
Corporate Federal Credit Union

SCAN

News for Member/Owners of Catalyst Corporate Federal Credit Union

SECOND QUARTER 2023

U.S. Treasury Economist Tara Sinclair to Address Labor Market, Economic Forecast at Forum 2023

Tara Sinclair will bring a unique and fresh perspective to Catalyst Corporate's Annual Economic & Payments Forum.

As Deputy Assistant Secretary for Macroeconomics in the Office of Economic Policy at the U.S. Treasury, she balances her academic rigor as a researcher and professional economist with her desire to contribute to the long-term health of the nation's economy. Her presentation at Forum will focus on economic forecasting, labor market conditions and other macroeconomic developments.

In a recent interview, Sinclair shared her response to current market uncertainties, quickly rising interest rates and high inflation, stating that to understand where the economy is headed, it's important to first examine how the U.S. arrived where it is now.

"Compared to the U.S.' long and slow recovery from the 2008 financial crisis, recovery from the COVID-19 economic shock has been remarkable," Sinclair said. The U.S. response to COVID can be simplified, she said, as a strong economic policy alongside the virus-induced shutdown and consequent reopening.

In the labor market, after the initial spike and plummet in unemployment at the beginning of the pandemic, Sinclair noted the labor force participation rate has slowly increased, a considerable number of jobs have been added and some members of the workforce who left employment found more appealing positions in this period known as the "Great Resignation."

"We also saw a much more inclusive recovery than we did from the 2008 crisis," Sinclair said. The earlier recovery reached those in lower wage jobs very slowly. The most recent economic recovery has been experienced broadly, "across socioeconomic statuses, race, employees with disabilities, educational levels, criminal backgrounds and other factors."

Though areas of recovery have occurred across many different sectors in the U.S., Sinclair said, "recoveries and improvements in the labor supply are what can grow the economy over the next decade." Market conditions are improving, she added, employees are in positions they find more desirable, and there is more opportunity for people to participate in the workforce in positions they care about and in which they can be more productive.

"When we consider the future economic outlook of the U.S., one of the major indicators of a healthy economy that we are currently seeing is a robust and thriving job market." Especially in times of market uncertainty, she said that a robust job market is a comforting indicator that both short-term and long-term economic conditions are improving.

Sinclair brings considerable expertise to Catalyst Corporate's Economic & Payments Forum in areas that affect credit unions most. Make plans to join us at this year's event to hear from Sinclair – and more of the best minds in the business – September 18-20. **Early bird registration is now open.** For more information, or to reserve your spot, visit catalystcorp.org/forum.

Annual Meeting Highlights Collaboration, Four Elected to Board

Catalyst Corporate recently held its 12th Annual Meeting of the Members. Chairman of the Board Lin Hodges cited collaboration as a reason for the growth experienced by the organization over the past year: "Despite economic uncertainty, committed volunteers, staff and management collaborated to achieve positive financial results, develop innovative products and services and support the goals of our member credit unions."

Four individuals were re-elected to fill three-year terms on the Board: **Gail Enda,** President/CEO of American Airlines FCU; **Greg Harden,** President/CEO of Arizona Central CU; **Yvonne Kershner,** President/CEO of Brazos Valley Schools CU; and **Trevor Tokishi,** President/CEO of Valley Isle Community FCU.

A video recording is available, along with Catalyst Corporate's 2022 Annual Report, Audited Financials and other related materials at catalystcorp.org/annual-meeting.

SCAN is published quarterly for the member/owners of Catalyst Corporate Federal Credit Union by the Catalyst communications and marketing department. Expanded content and archived issues may be found online at www.catalystcorp.org. For questions or comments on this issue or to submit content ideas for future issues of SCAN, please contact Courtney Wilson at news@catalystcorp.org or 800.442.5763, Ext. 7847.

CATALYST
Corporate Federal Credit Union
6801 Parkwood Boulevard
Plano, Texas 75024
catalystcorp.org

How Can Derivatives Help with Prepayment Risk?

By Mark Wert
Senior Advisor
Catalyst Strategic Solutions

Interest rate volatility is hovering near historic levels. With the 10-year Treasury at 3.5% and new 30-year production at nearly 7%, the spread between the two remains at levels not seen since the financial crises, except briefly at the start of the COVID-19 pandemic.

This increased spread provides a cushion and can help credit unions hedge against higher rates, to a certain degree. Assuming interest rate volatility begins to normalize and the 10-year Treasury remains around 3.5%, the spread between the 10-year Treasury and the 30-year mortgage rate should contract as liquidity/credit concerns abate.

Where are rates going?

When considering interest rate risk exposure, it's important to evaluate whether the Fed is done raising rates. If not, how high do rates need to rise to accomplish the Fed's goals? If rates increase accordingly, how much more will mortgage rates rise?

If term investors remain comfortable with future inflation prospects, and the Fed holds its policy rate steady at around 5.25%, the curve should remain inverted. In turn, the 10-year Treasury rate would have to rise significantly to make a dent in the valuations to new 7% 30-year mortgages. Obviously, higher rates carry risk, but is that where most interest rate risk occurs?

The risks of lower interest rates

Owners of mortgage loans need to be mindful of both higher and lower rates. If rates drop, homeowners making up the new production on the books would look to prepay their 7% mortgages and finance at a lower rate. Assuming those homeowners all refinanced with your credit union, you could lose 100-150 basis points on a long duration asset, reducing your interest income.

The market currently thinks the Fed should cut rates, starting in July, to head off a recession. If a recession occurs, rates will most likely decrease to stimulate growth. In turn, homeowners will prepay their mortgages. Earning assets will enter the books at lower rates, resulting in realized prepayment risk.

Which direction of interest rate risk is more concerning?

Although not definitive, the risk appears to be somewhat biased toward lower rates and prepayment risk. One of the best ways to hedge mortgage prepayment risk is with interest rate options. The nonlinear nature of interest rate options causes their payoff profiles (valuations) to match up better against other interest rate derivatives for hedging downside risk.

Catalyst Strategic Solutions can evaluate your potential interest rate risk and provide solutions, such as interest rate derivatives, to help minimize it in your mortgage portfolio.

For more information, contact your Area Sales Manager today.

Faster Payments: Free Workshops to Educate & Equip

With the launch of the FedNow℠ Service two months away, the nation's real-time payments efforts are moving at top speed and now is the time to prepare. **Do you have questions about this new payment rail?** Catalyst Corporate is your end-to-end partner for all things faster payments.

Join us for one of our free online or in-person workshops on faster payments essentials, and check out the latest industry developments here: catalystcorp.org/fast.