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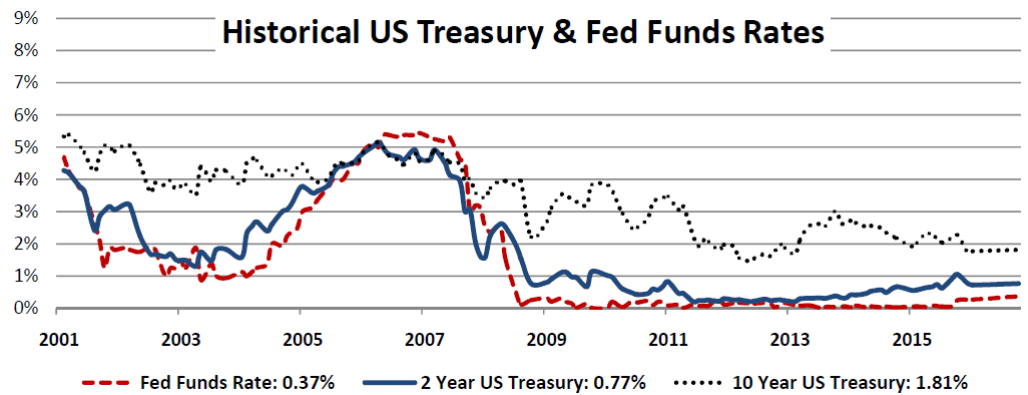
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MFA Economic Outlook

May 4, 2016

HIGHLIGHTS



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" Spring has sprung, the flowers are out and the grass is turning green"

" prices at the pump should remain relatively low"

ABSTRACT

This paper describes our current view of the economic environment.

COMMENTARY

Happy spring! Now, to date myself, I always laugh a little on May first, May Day. The first thing that comes to mind is the classic movie Airplane. Who can forget Roger, Roger? Spring has sprung, the flowers are out and the grass is turning green. It's a great time of the year!

The Economy

The economy has been tepidly springing to life over the past quarter. GDP grew at a modest .5% annualized rate, not unlike the first quarters of the two previous years. By the end of 2014 and 2015, GDP growth ended up at 2.4% for both years, after a sluggish start. Overall, employment data continues to improve. The equity markets have stabilized, even regaining ground lost in the winter. Domestically, almost any market outside of oil is looking fairly good, including housing, a bright spot. Internationally, weaknesses in Japan and Europe have pushed the dollar higher.

Spring reminds us of the cyclical nature of change. As the baby boomers move to the "fourth quarter", a new generation, the millennials, is springing to life, now outnumbering and overshadowing the baby boomers. The millennials are making their mark on our society, and it is showing up everywhere - in the workforce, in technology, and, yes, at the ballot box. This is all part of the seasons, or cycles, of life, growth and death. A bit morbid, I know, just like our GDP growth in the first quarter, but reality.

Oil

Oil prices bottomed out at \$30 a barrel last year and now stand at \$43 per barrel. Prices at the pump have risen accordingly. Inventories worldwide are still at record levels. Production from Iran is just now reaching world markets and is expected to eventually drive up inventories even more. While we have seen some firming in oil prices, we do not see significant changes in the near term. We continue to see some good news and some bad news in oil. Good news in that the prices at the pump should remain relatively low. Bad news in that the "oil patch" will continue to suffer. Texas and North Dakota, in particular, will continue to suffer as a result of an oversupply of oil. If you live by oil, you will die by oil.

" The positive sign appears to be the unemployment rate, currently 5.00%"

We will continue to see relatively cheap gas and aviation fuel. Tourism will continue to benefit. As for me, I am looking forward to enjoying the great outdoors and the many lakes in Northern Michigan this summer.

FOMC

The expectations for an FOMC rate hike have dimmed somewhat for the summer. A modest fall rate hike may be more likely. The FOMC has stated that they would raise interest rates if the conditions warranted. Remember, the dual mandate of price stability and full employment. This means in measurable terms, a 2.00% rate of inflation and less than 5.00% unemployment.

We are still well below the target inflation rate. Depending on your preferred index, we are at 1.00% to 1.68%; not an "inflationary" economy. The positive sign appears to be the unemployment rate, currently 5.00%. However, there is still concern about the unemployment level of unskilled workers and younger workers (specifically 20 to 24 year olds) that have close to a 9.00% unemployment rate.

Rates

Now, the gossip column starts. You may not have heard, but there is a presidential election this fall. Yep, in a democratic society, we do this every 4 years. Now back to the millennials. We have very unusual circumstances and very unusual candidates in this election cycle. This could be painful. Why painful? We have "outliers" that could end up on the ballot. The millennials have changed the rules and thrown tradition out of the proverbial window. Regardless of your view, we have greater uncertainty. Uncertainty is not good for markets, interest rates, and most importantly, the consumer.

So, the theme of the next 6 to 9 months is uncertainty and, of course, sound bites. Get ready for "crazy" and uncertainty and lots of it.

Where does this leave us with interest rates? Our prediction (which started 8 years ago) for the 10 year treasury is unchanged and keeps rolling forward. There is no immediate need for the FOMC to raise interest rates in a meaningful amount any time soon. Can they go up 25 or 50 basis points? Perhaps. But this still has us below 1.00% on Federal Funds.

More importantly, how are you positioned for continuing and persistent low interest rates? If rates are low for 5 more years, how will your income statement look? If you have not done it already, now is the time to prepare for low rates for the foreseeable future. If we are wrong, there is little downside risk.

" If you have not done it already, now is the time to prepare for low rates for the foreseeable future"

Contact Us

Contact your McQueen Financial Advisor to discuss positions to improve earnings today.

Our Forecast:

We expect that the low end of the Federal Funds rate is the current range of 0.25% to 0.50% and the high end for the next few years is 1.00%.

	2016 Q2	2016 Q3	2016 Q4	2017 Q1
Fed Funds	0.25%-0.50%	0.25%-0.50%	0.25%-0.50%	0.50%-0.75%
2 Year Treasury	0.75%	0.80%	0.90%	1.00%
5 Year Treasury	1.25%	1.35%	1.60%	1.70%
10 Year Treasury	1.80%	1.85%	1.90%	2.25%
GDP (Annual)	0.75%	0.85%	1.65%	2.00%
US Unemployment	4.90%	4.90%	5.00%	5.00%
CPI X – YOY	2.10%	2.00%	1.90%	2.10%

About McQueen Financial Advisors, Inc.

McQueen Financial Advisors, Inc. (MFA) is a leading nationwide provider of financial advisory services that has been serving financial institutions since 1999. An SEC-registered investment advisory firm, MFA works only for financial institutions. We provide our services to institutions throughout the United States, with assets ranging from \$20 million to over \$5 billion.

Products and Services

McQueen Financial Advisors, provides the following services to financial institutions throughout the country:

Investment Portfolio Management: As a fixed income investment advisor, we will bring professional, in-house fixed income investment portfolio management to your financial institution at substantial savings. Our process is designed to develop a desired portfolio structure while focusing on your current income and total return with safety of principal.

Municipal and Corporate Credit Review: On a quarterly basis we provide you with a detailed credit review on all municipal and corporate credits. Having and reporting our strong credit culture is a paramount philosophy and daily practice at McQueen Financial Advisors. We focus on credit to ensure that we are able to harness the benefit of credit spread products and take advantage of the additional yield, without taking unnecessary risk.

Asset Liability Management: McQueen Financial Asset Liability Management reports will provide you with recommendations and strategies that are designed to fit your unique needs and provide you with the information you need to make the most informed decisions and add income to your bottom line.

Core Deposit Studies: This report will be an integral part of your Asset Liability Management report. The Core Deposit Study is comprised of two sections. The first is a historical comparison of your deposit rates to market interest rates. The second section is the determination of the duration of your core deposits.

Prepayment Speed Analysis: McQueen Financial has developed a process to determine your actual prepayment speeds. Our Analysis provides a report that shows your actual prepayment speeds, the national or state speeds and our recommended prepayment speeds for your ALM report.

Liquidity Analysis: The liquidity stress testing report covers 30 day, 60 day and 90 day liquidity in current, moderately stressed and severely stressed scenarios. The report is designed to be easy to understand and provide significant detail to allow for a comprehensive view of your liquidity position.

Assumption Stress Testing: McQueen Financial provides a detailed list of the assumptions in your Asset Liability Management report. We have developed a model that stress tests your assumptions and provides you with a detailed analysis of the results. The goal is to understand if an unanticipated change in assumptions would significantly hurt your projected financial performance or risk profile.

Back Testing: The objective of the back testing report is to determine the net interest income projection in your ALM report was reasonable. Our analysis focuses on volume as well as booked interest rates of each interest-sensitive component of the balance sheet. The back-testing analysis is a useful management tool that provides you with a cross-check of ALM inputs and assumptions.

ALM Validation: The objective of the ALM validation report is to provide you with an independent review of your ALM model, your ALM policy, and procedures used to measure interest rate risk. The validation process involves a detailed study of your financial statements, ALM reports, ALM policy and inputs to your model.

Mortgage Servicing Rights Valuations: The Mortgage Servicing Rights Valuation (MSR Valuation) process is an integral step in determining the overall financial success of a financial institution's mortgage operations. By outsourcing your MSR Valuation to McQueen Financial, you will receive an independent third party market valuation.



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