

February 3, 2017

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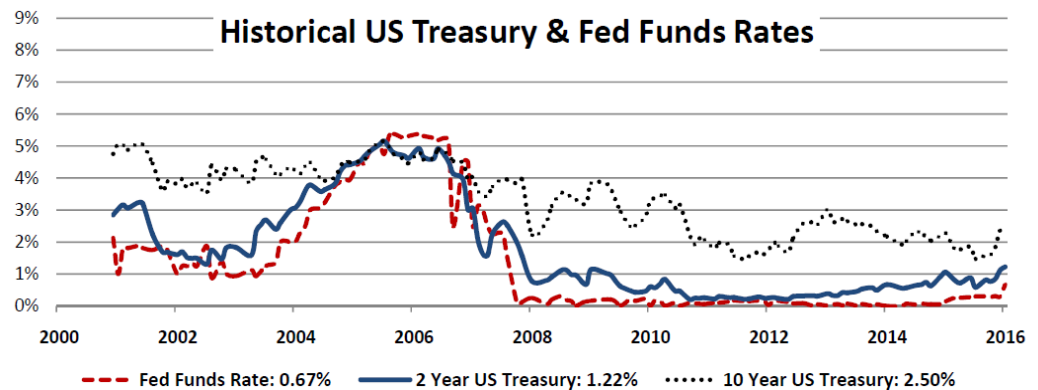
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MFA Economic Outlook February 3, 2017

HIGHLIGHTS



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" We are roaring to just over 20,000 on the DOW. New all - time highs."

ABSTRACT

This paper describes our current view of the economic environment.

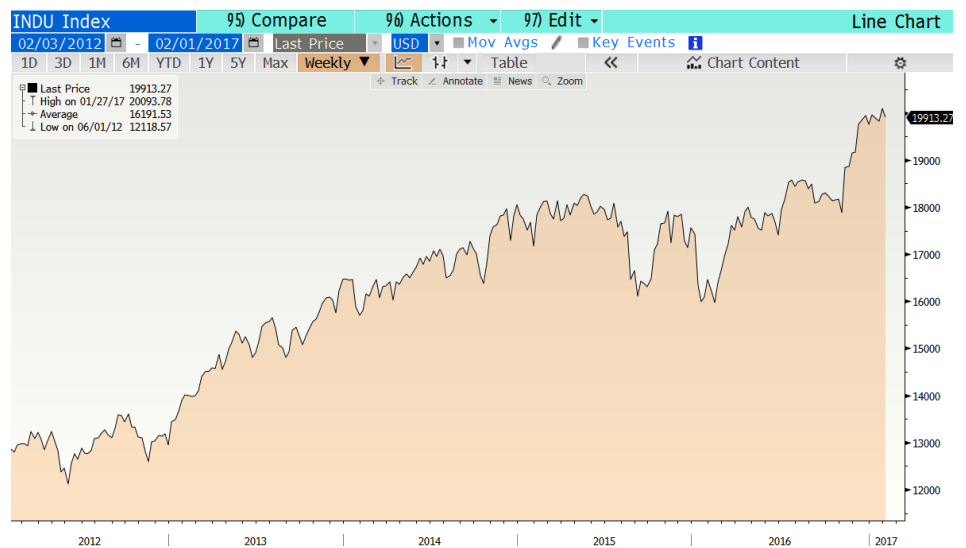
COMMENTARY

In our last economic update, we discussed how the air is getting crisp and the leaves are turning spectacular colors. Further, I pointed out that the "political circus" is about to close. Wow, I was off on the political circus ending. So, as we continue the political and media circus of 2017, we have the following economic and interest rate positions update for 2017.

What is going on?

Stock Market:

We are roaring to just over 20,000 on the DOW. New all-time highs. After the election of Donald Trump, the market celebrated with a buying spree and optimism. Even the esteemed stock picker Warren Buffet purchased a new additional \$12 billion in stock from the Election Day to year end. I guess political position and profits do not always mix, as Warren was with Her.

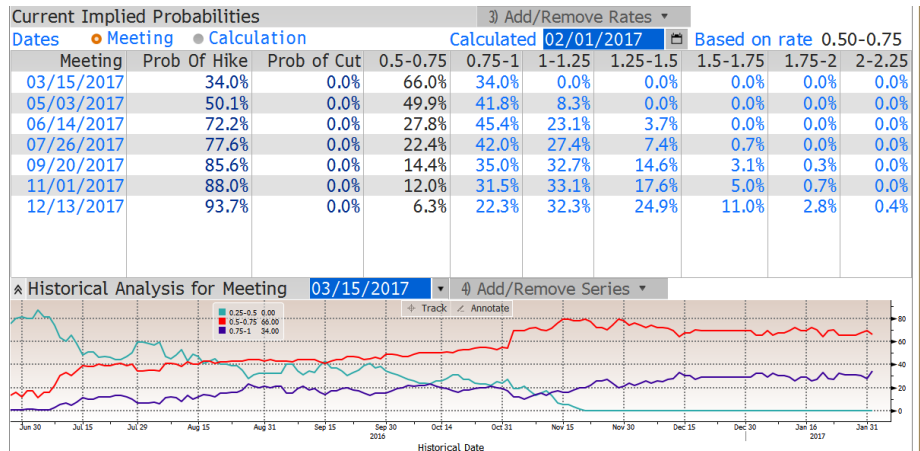


“ As of today, the forward yield curve is projecting a 0.25% increase in the Fed Funds rate in June and another increase possibly in December.”

One must think about the sustainability of the recent gains in the market. The PE ratio of the S&P 500 has increased from 20.93 to 24.74 in the last 12 months. So, it is important that earnings continue to increase. Can they?

Interest rates:

The FOMC increased the Federal Funds Rate in January from a spread of 0.25% - 0.50% to 0.50% - 0.75% resulting in an effective Federal Funds Rate of 0.66%. As of today, the forward yield curve is projecting a 0.25% increase in the Fed Funds rate in May and another increase possibly in September. This would result in a range of 1.00% to 1.25%. Please see the Fed Funds Futures graph below:



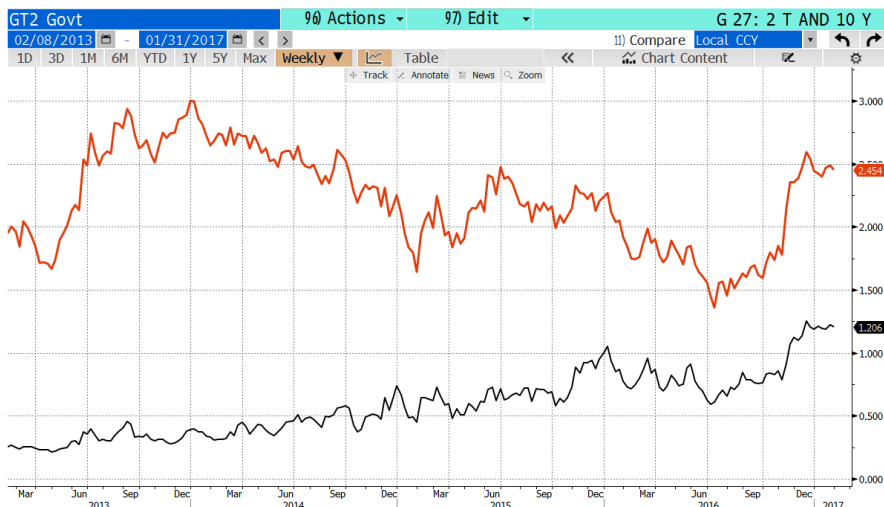
Uncertainty:

As we enter the Chinese year of the Rooster, it appears that all bets are off. We are seeing a fast pace of executive orders and action out of the new White House (House of Trump now). The actions are infuriating and/or causing celebrations. The political divide in the country seems to continue to deepen without a sign of constraint on any side.

What we see as the result is a continued divided country (and more so world) and continued and growing uncertainty. Uncertainty has a habit of causing volatility. Volatility can be your friend, as long as you do not panic and you look at the big picture.

“ As we enter the Chinese year of the Rooster, it appears that all bets are off. ”

To fully appreciate this volatility, please see the graph below depicting the 2-year and 10-year Treasury over the past two years:



By the Numbers

GDP:

It has been stuck in a low 1.50% to 2.00% annual growth. There are some signs that we are pushing above the 2% level, but reluctantly. We continue to be well below the target consensus long term growth rate of 3%. On a positive note, we are beginning to see business optimism increase, and consumer sentiment increase. Consumer spending continues to be reasonable, but automotive sales are starting to show signs of a decline. Housing, while not what it used to be, is strong. We have adjusted to lower fuel prices with no significant changes in the foreseeable future, as oil and natural gas inventories worldwide are flush and production, especially in the U.S., continues to be strong.

Debt continues to rise significantly. Over the past 8 years, we have doubled the outstanding debt of our country from \$9 trillion to \$19 trillion. This is an irresponsible position, and it is not sustainable. Especially in a low growth environment. We need to balance our budgets before our debt is unsustainable.

Inflation:

Depending on the measurement, we are anywhere between 1.75% and 2.30%. Inflation remains low, but it is growing a bit. Inflation is not an issue today.

Employment:

Unemployment is close to 5.00% all over our country. Most economists consider this nearly full employment. Employment is even better if you have skills that are in demand.

Our Forecast:

The FOMC will increase rates in May to a range 0.75% - 1.00%. Further, we believe that they may raise the Fed Funds rate in September by another 0.25% to a range of 1.00% to 1.25%. We still believe that interest rates will remain low for the foreseeable future.

	2016 Y/E	2017 Q1	2017 Q2	2017 Q4
Fed Funds	0.50%-0.75%	0.50%-0.70%	0.75%-1.00%	1.00%-1.25%
2 Year Treasury	1.19%	1.40%	1.75%	2.00%
5 Year Treasury	1.92%	2.25%	2.50%	3.00%
10 Year Treasury	2.44%	2.75%	3.00%	3.50%
GDP (Annual)	1.50%	2.00%	1.80%	2.30%
US Unemployment	4.60%	4.70%	4.80%	4.90%
CPI X – YOY	2.10%	2.50%	2.20%	2.50%

Using our Economic Forecast for your Portfolio Management:

Managing your bond portfolio is a substantial key to your economic success. To properly manage your portfolio, we need to carefully understand your Asset Liability Management (ALM) position. By using your ALM data, your portfolio will be designed to optimize your interest rates risk position and your earnings.

Contact Us

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

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.

ALM 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.



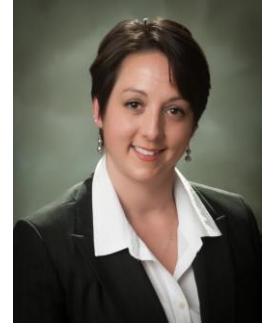
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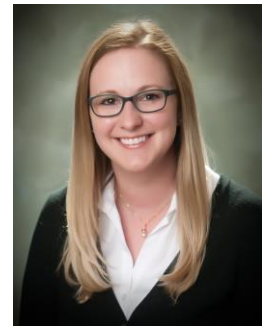
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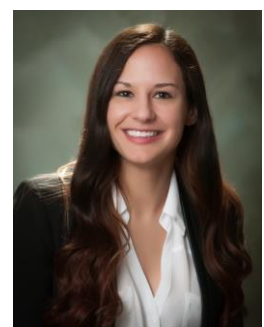
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Additional information is available upon request.