McQueen Financial Advisors

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MFA Economic Outlook

4th Quarter, 2019

Happy Fall!

As we close in on the last three months of 2019, it is now time to update our viewpoint on the economy, our industry, and interest rate projections for 2020. As we look forward, the theme of volatility becomes clearly evident.

Please see important disclosures on Page 10 of this document.

McQueen Financial Advisors Q4 2019 Economic Update

ABSTRACT

This paper describes our current view of the economic environment.

COMMENTARY

What is going on with the Federal Open Market Committee (FOMC)?

"Growth is slowing. The economy is not shrinking"

Short-Term Federal Funds:
The FOMC has been in the news more than we expected, and I am sure much more than they have wanted. The non-political FOMC has been brought into the political limelight as a detractor to the economy. The growth in the economy is slowing, and it is not shrinking. There is significant uncertainty and a presidential election just around the corner. Economic concerns have resulted in the FOMC decreasing the Federal Fund rate to 2.00%.

As we look forward, we expect that the FOMC will reduce the Federal Funds rate due to the following:

- Slowing growth
- Uncertainty
- Low to no inflation
- Low rates around the world

By the end of 2019, we expect the Federal Funds rate to be in a range of 1.50% to 1.75%.

Fed Funds Futures

2.00%	9.6%	6.2%	4.3%	3.7%	3.2%	2.8%	2.5%	2.2%	2.0%	1.7%	1.7%
1.75%	90.4%	62.0%	44.8%	39.3%	34.2%	30.4%	27.7%	24.8%	22.7%	19.9%	19.0%
1.50%		31.8%	41.1%	41.6%	41.3%	40.4%	39.4%	38.1%	36.8%	34.9%	34.2%
1.25%			9.8%	14.1%	18.0%	20.9%	22.8%	24.7%	25.9%	27.4%	27.8%
1.00%				1.3%	3.2%	5.0%	6.5%	8.4%	9.9%	12.1%	12.8%
0.75%						0.6%	1.0%	1.6%	2.3%	3.3%	3.7%
0.50%										0.6%	0.7%
0.25%											
Date	10/30/19	12/11/19	1/29/20	3/18/20	4/29/20	6/10/20	7/29/20	9/16/20	11/5/20	12/16/20	1/27/21
Projected Rate	1.77%	1.69%	1.61%	1.57%	1.54%	1.51%	1.48%	1.46%	1.43%	1.40%	1.39%

The Economy

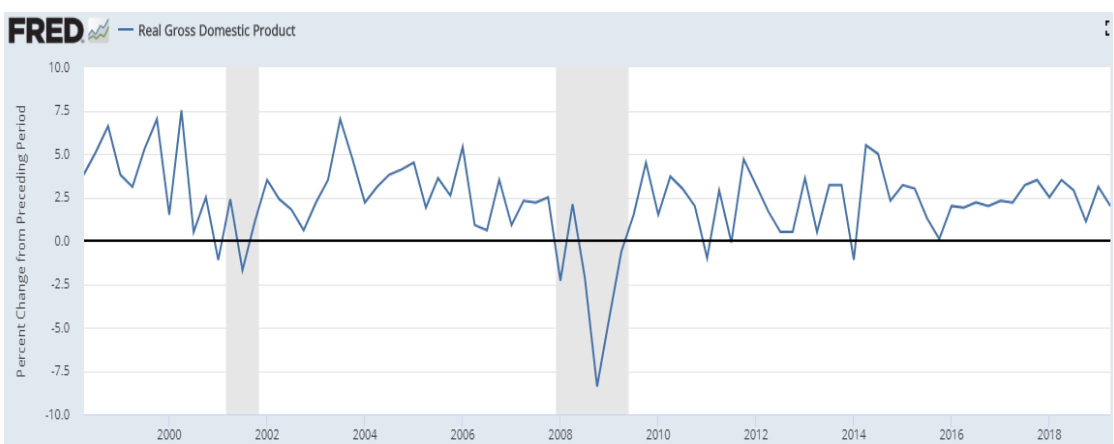
The view of the economy is vastly different based on who you ask. Political polarization has resulted in media polarization. The reality of the economy is inconsistent with what the media reports, at best. When we rise above the rhetoric, and look at the standard measures of the economy, we see positive points.

What are they?

- Positive GDP growth
- Low inflation
- Full Employment

Let's look at each of these points.

GDP:
The Gross Domestic Product is positive and relatively strong compared to recent history. While there are concerns of slowing, we are still growing!



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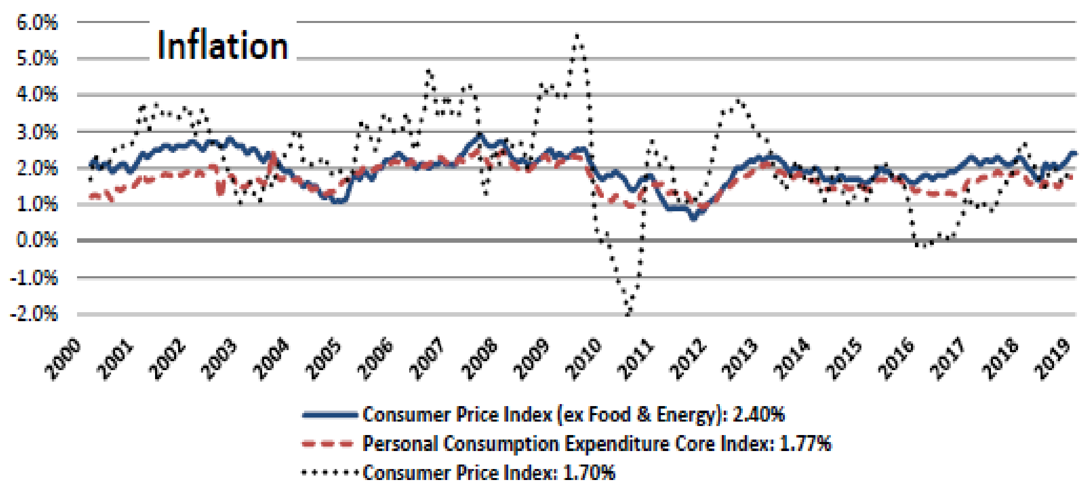
Inflation is not a problem:

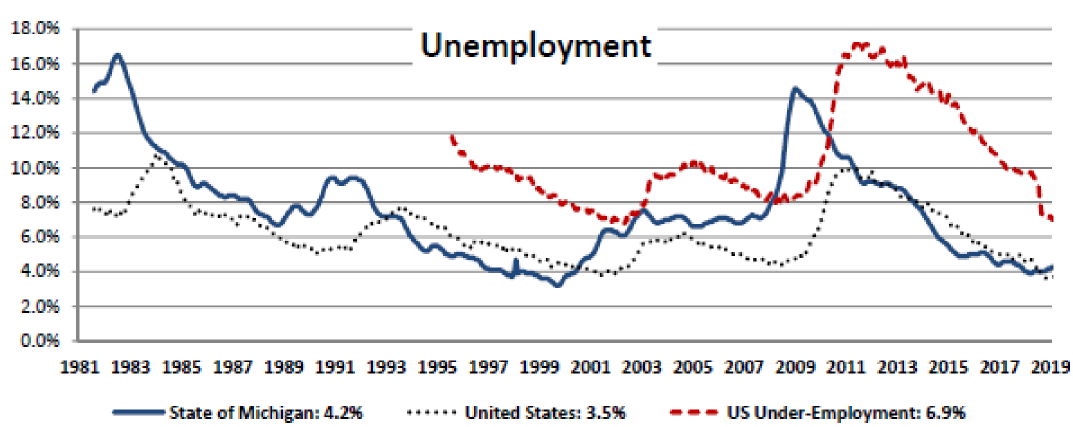
Inflation is still low, and we believe that the technological revolution will limit price increases. One can use their cell phone to compare products and prices instantly. The Personal Consumption Expenditure Core Index is currently running at 1.77%.



Unemployment:

Unemployment hit an all-time new record low of 3.50%. Job openings are greater than the number of unemployed. It is hard to have a recession when everyone has a job.

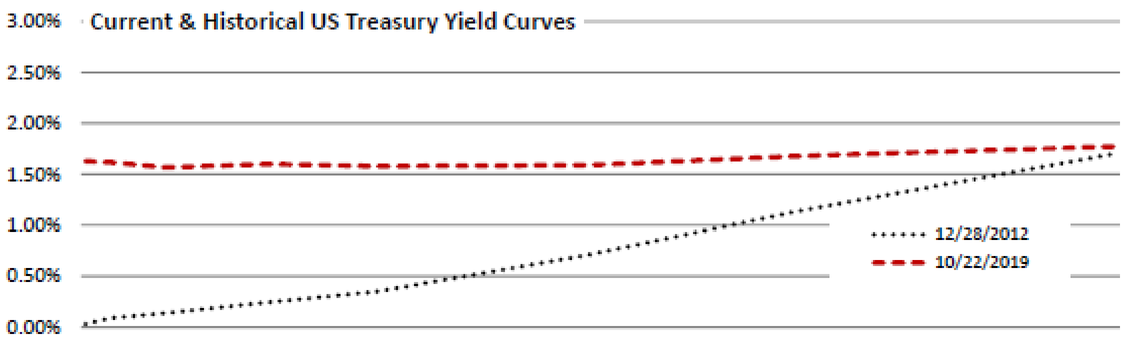
"Unemployment is at an all-time new record low of 3.50%."



"The market is predicting much lower short-term treasury yields."

US Treasury yield curve is reverting back to 2012:

The yield curve has been going from steep to inverted. Now it appears to be starting the next step, which will be the return to a steep yield curve. This is happening as the Federal Reserve lowers the short term rates. Also, it is important to remember the extreme low yields of other government bonds around the world.



	3 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr
12/28/2012	0.03%	0.14%	0.25%	0.35%	0.71%	1.14%	1.70%
10/22/2019	1.63%	1.57%	1.60%	1.58%	1.59%	1.68%	1.77%
Change	1.60%	1.43%	1.35%	1.23%	0.88%	0.54%	0.07%

Short-term interest rates should continue to decline.

The market is predicting much lower short-term treasury yields in the near future.

Our outlook on long-term US Treasuries is for a smaller change relative to short term maturities. We expect the 10-year US Treasury yield will remain relatively unchanged and low for the foreseeable future. A rate between 1.00% and 2.00% appears reasonable, given the economic environment.

"A recession will be difficult with strong housing demand."

What is going on with home values?

Home values keep rising. The S&P/Case-Shiller Home Price Index for the entire United States increased 2.0% over the past 12 months. This is good if you own a home, but difficult if you are looking for a home.

One of the interesting changes in the housing market is the lack of focus on starter homes by builders. It appears that building starter homes is not a profitable business, given the cost of materials, municipal fees, and labor. This lack of starter home growth is paired with the graduation of millennials from college to first-time jobs in reasonably large quantities. This is the making of an interesting supply and demand problem.

A recession will be difficult with strong housing demand.

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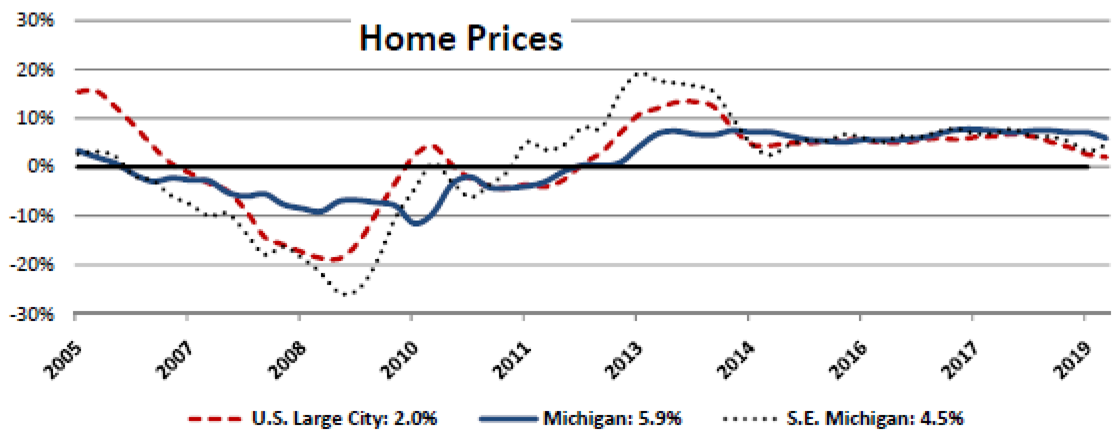
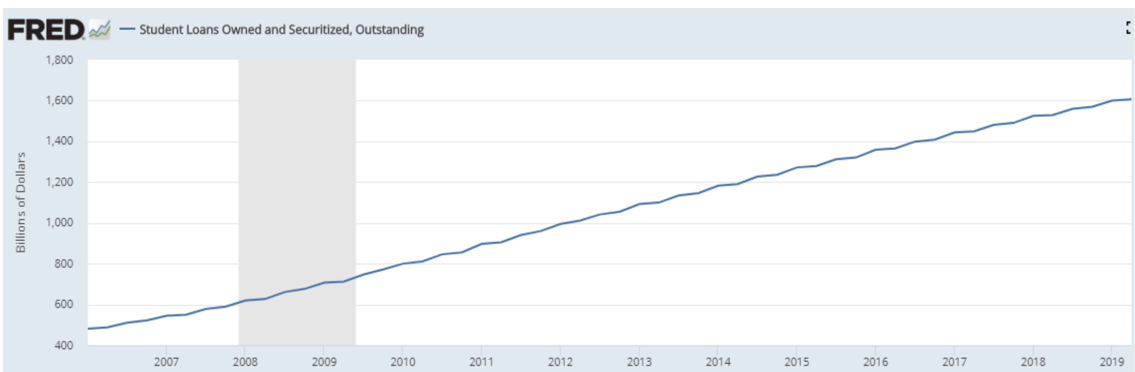


Debt, Debt, and more Debt:

Student loans continue to grow at a non-sustainable pace. As we close in on the 2020 presidential election, there is a lot of chatter about the forgiveness of student loans. All of us at McQueen Financial believe in education. I cannot, in good conscious recommend that you purchase or put student loans on your books given the political uncertainty; they are another source of debt.

As you can see in the following chart, student loans have increased from just over $400 billion to nearly $1.5 trillion in just 10 years. The average kid graduating from college has over $44,000 in debt.

"I cannot in good conscience recommend purchasing student loans."



The unknown is something that worries us:

Black Swan events, or unpredicted events, can cause interest rates to move substantially. There are a plethora of national and worldwide issues that keep jumping up into the spotlight. The unknown can cause significant market changes, which have historically resulted in lower stock prices and lower bond yields.

Repo Market:

The unrest in the repo market has led the Federal Reserve to announce that it is going to buy U.S. Treasuries to stabilize the market. The Fed plans on buying 60 billion dollars in U.S. Treasury Bills a month, starting in mid-October and continuing at least through the second quarter of next year.

The Fed has further insisted that this is not quantitative easing, the introduction of new money into the money supply by a central bank, as it is "technical measures" to support the implementation of the Fed's policy. Could this be old money from the Quantitative Easing portfolio maturities?

"More than cars get repo'd."

Where do we go from here?

We expect a continued slow decrease in the Federal Funds rate. We expect this is being done to keep rates in line with inflation and the economy. We expect the 10-year Treasury to remain in a range of 1.00% to 2.00%. We expect continued slow growth, especially with the dysfunction in Washington.

What is keeping me up at night?

Margins are getting tighter. Deposits have a limited amount to decline.
Loans and investments have a lot more to decline.

Interest Rate projection for year end 2019 and 2020:

	12/19	3/20	6/20	9/20	12/20
Federal Funds	1.75	1.75	1.50	1.50	1.25
Prime Rate	4.75	4.75	4.50	4.50	4.25
2-Year Treasury	1.40	1.30	1.35	1.34	1.40
5-Year Treasury	1.37	1.32	1.40	1.45	1.50
10-Year Treasury	1.55	1.52	1.60	1.65	1.65
GDP - Annualized	2.00	1.75	1.75	2.00	2.50
CPI-X-YOY	2.20	2.00	1.75	1.90	2.10

About McQueen Financial Advisors, Inc.

McQueen Financial Advisors, Inc. (MFA) is a leading nationwide provider of financial advisory services, 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 an SEC Registered Investment Advisor, we 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 can 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.

Merger Valuations: McQueen Financial Advisors' Merger Valuation services are designed to provide you with the expertise, experience, and data to help you fully understand a potential transaction. We ensure you understand the risks and rewards inherent in each unique opportunity.

Transaction Advisory: McQueen Financial Advisors transaction advisory professionals work with strategic buyers and sellers across the full spectrum of merger and acquisition engagements. We are committed to delivering to our clients meaningful insights, recommendations, and analysis on a potential transaction.

CECL: The Current Expected Credit Loss (CECL) standard is the new accounting model for recognition of credit losses for both loans and investments. For clients who choose to calculate CECL internally, we provide Loan-Level Details, Loss Severity, and Environmental Factors. For clients who choose to outsource their CECL solution, we provide a turnkey CECL solution.

Core Deposit Study: 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 Backtesting: The objective of the backtesting 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 backtesting 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.

McQueen Financial Advisors, Inc. (MFA) has prepared this document based on information we have received from a variety of sources. While we believe this information is reliable, we make no representation as to its accuracy or completeness and are not responsible for any errors or omissions or for the results obtained from the use of such information. Any opinions or estimates expressed herein reflect our judgment at the date hereof and are subject to change.

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Additional information is available upon request.