McQueen
Financial Advisors

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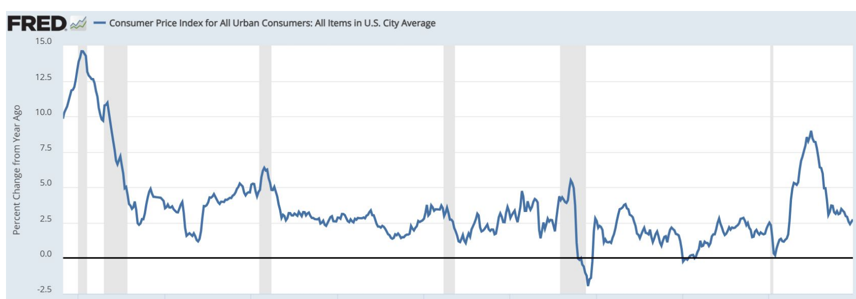
MFA Economic Outlook - 2025

As we close out 2024 we are excited for 2025 and continued prosperity in the USA. The concerns of 2024 are continuing into 2025 and there are possible black swan events that will continue to make predictions difficult. The issues that we will face include:

- Inflation rate
- Unemployment rate
- Debt levels
- Stock market value
- Yield curve steepening
- Federal Funds rate reduction
- Deposit growth
- Loan volume decline

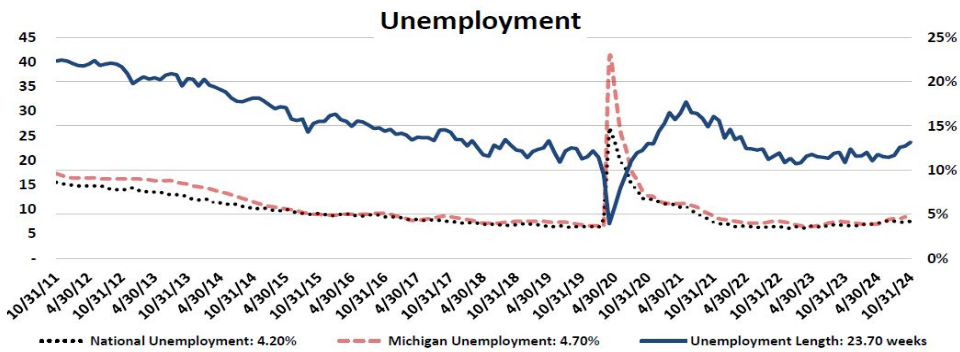
Inflation is still a concern. With anticipations of lower government spending (hopefully) inflation may get under control. The Consumer Price Index (CPI) is now increasing at a 12-month rate of 2.70%, as indicated in the graph below.



Inflation is currently increasing at a slower pace, with Core Personal Consumption Expenditures (PCE) at 2.40% and Core CPI decreasing to 3.30%.

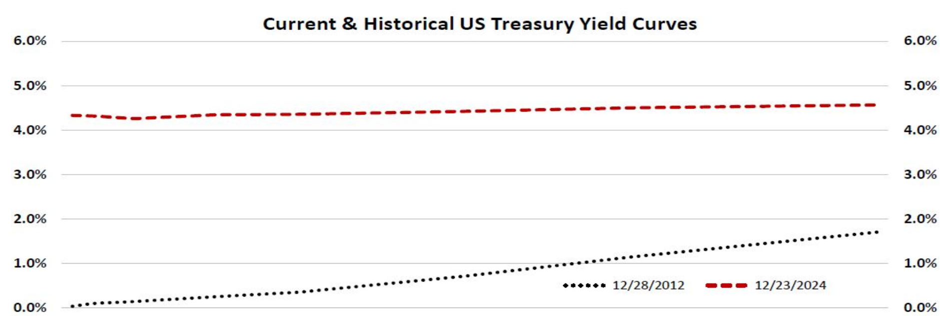
Looking ahead to 2025, inflation is projected to continue to moderate and get closer to the target rate of 2.00%. Energy prices are gradually decreasing, which is a significant help and the Federal Reserve (FED) is actively working to maintain price stability.

Achieving price stability may require some trade-offs in terms of employment. The result of higher interest rates for the last few years should lead to higher unemployment. The graph on the next page shows that unemployment is slowly increasing and the length of unemployment is increasing. And, unemployment is still very low.



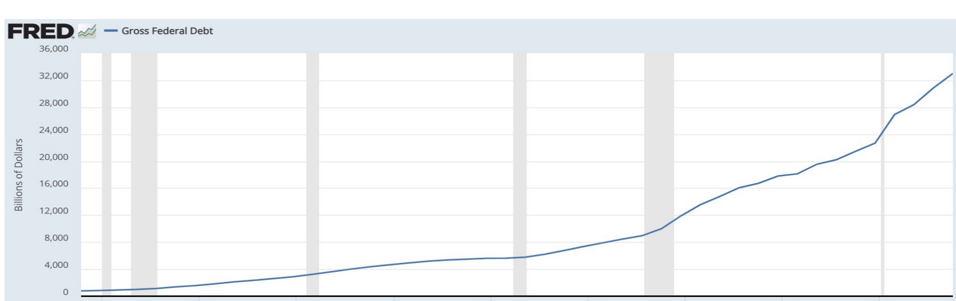
The yield curve continues to steepen based on two major points. One, the market believes that the FOMC is going to slowly continue to lower the Federal Funds rate. Two, higher long term yields are necessary to attract buyers to the glut of debt being issued by the federal government.

"Debt growth in the USA is unsustainable."

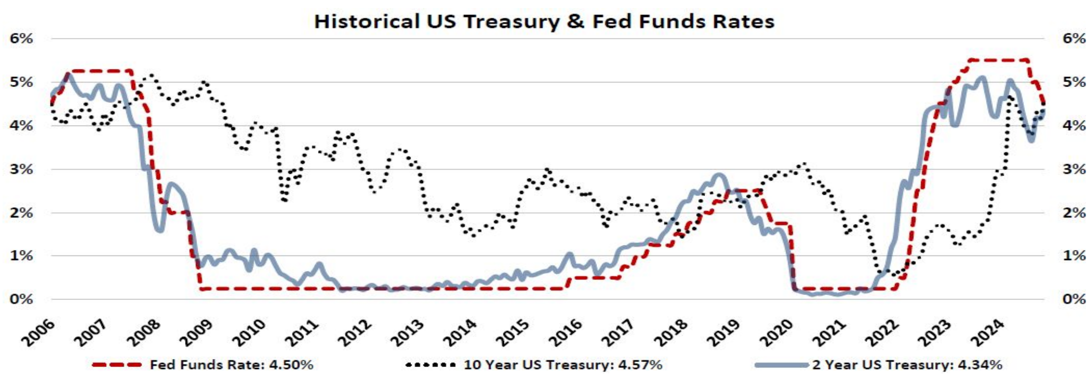


	3 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr
12/28/2012	0.03%	0.14%	0.25%	0.35%	0.71%	1.14%	1.70%
12/23/2024	4.33%	4.26%	4.34%	4.35%	4.42%	4.50%	4.56%
Change	4.30%	4.12%	4.10%	4.00%	3.71%	3.36%	2.86%

Debt growth in the United States of America is unsustainable. In 2023 interest cost on our debt was roughly 10% of revenue. In 2025 it will be over 20% of revenue due to the uncontrolled spending. We need to get control of the outrageous spending by our career politicians.



By looking at the yield curve in an 18-year view (graph below) we can see the pattern that the FOMC has followed in the past. First, they increase rates to slow an overheating economy. Second, rates top out. Third, they lower rates to stimulate the economy. If the economy quickly falters, rates will be reduced quickly. If the economy stays strong, the FOMC will have a more gradual rate lowering process.



"Hopefully a soft landing."

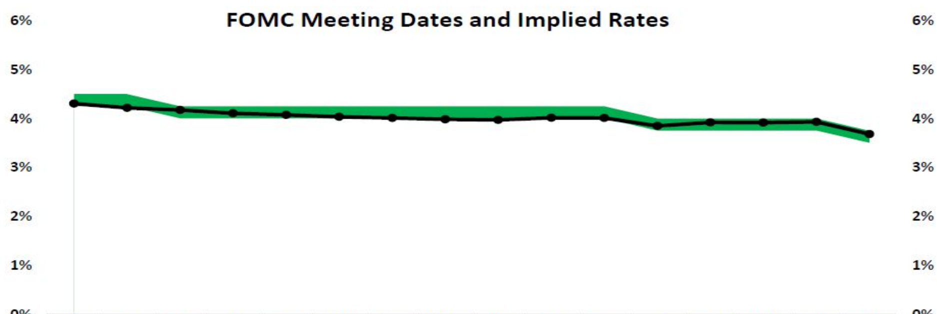
Normally, the FOMC lowers the Federal Funds rates due to slowing of the economy (or a recession). Today, the FOMC appears to be lowering rates with a different strategy. They appear to be lowering rates along with lower inflation. This mix will hopefully provide the much desired soft landing.

A soft landing happens when inflation slows, economic activity stays strong and unemployment does not increase significantly. The stock market is displaying belief in the economy and that we will have a soft landing.

McQueen Financial Advisors 2025 Economic Outlook

The main tool that the Federal Open Market Committee (FOMC) has is the overnight Federal Funds rate. By changing the rate the FOMC can influence economic growth or contraction in the economy.

By reducing the Fed Funds rate the FOMC is trying to either normalize rates (they were to high) or stimulate the economy. This chart projects that the FOMC will lower rates, by 0.25% during 2025.



	1/25	3/25	5/25	6/25	7/25	9/25	10/25	12/25	1/26	3/26	4/26	6/26	7/26	9/26	10/26	12/26
Upper Bound	4.50%	4.50%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.00%	4.00%	4.00%	4.00%	3.75%
Lower Bound	4.25%	4.25%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.75%	3.75%	3.75%	3.75%	3.50%
Implied Rate	4.31%	4.22%	4.17%	4.11%	4.08%	4.04%	4.01%	3.98%	3.97%	4.02%	4.01%	3.85%	3.92%	3.92%	3.94%	3.68%

"The FOMC is predicting lower rates in 2025."

Loan growth is seen as an indicator of the strength of the economy. Additionally, loan growth can be seen as a measurement of affordability of current prices and income. Loan growth is declining as we move into 2025. Two major areas that we see:

One - Mortgage loan originations are significantly lower. This is due to:

- Higher home prices (supply and demand)
- Higher mortgage rates
- Affordability

Two - Auto loan originations are significantly lower. This is due to:

- Higher prices
- Higher loan rates
- Affordability
- Zero percent financing incentives to move inventory

We expect loan growth for 2025 to be in a range of -5.00% to + 5.00%.

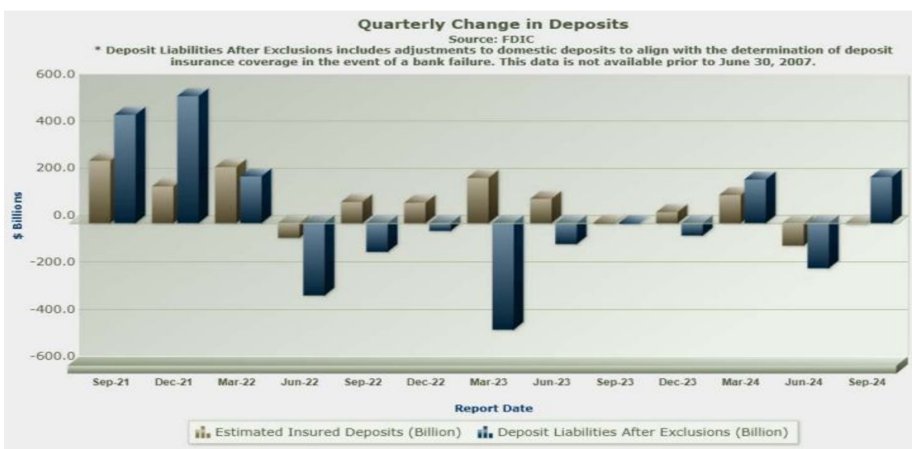
“We expect deposits to increase 2% to 8% in 2025.”

Deposits at banks and credit unions have gone through significant swings over the last few years. The graph below highlights the major changes:

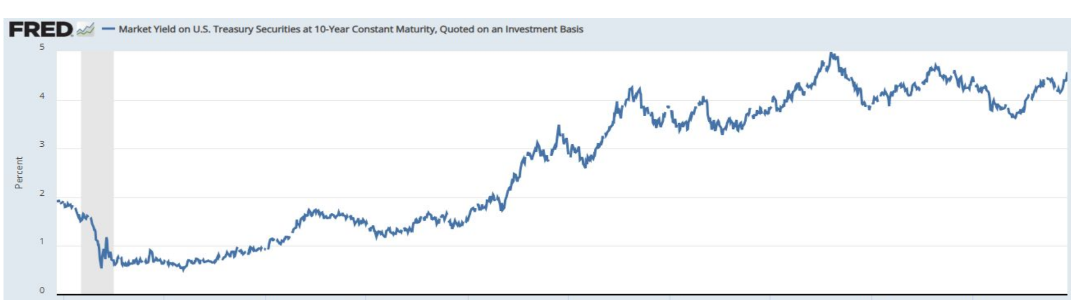
- Stimulus (fee) money in 2020 & 2021
- Quantitative tightening (pulling money out) in 2022 & 2023
- Economic slowing (deposit growth) starting in 2024

We expect that the deposit growth we saw in 2024 will continue into 2025. Deposit growth will continue with the economy slowing (soft landing) and spending lowering (savings increasing).

We expect that deposits in banks and credit unions to grow in 2025 by 2% to 8%. We expect this growth, along with a steeper yield curve to help improve margins.



Investment portfolio management will be a significant conversation in 2025 as we continue to grow investment portfolios by the increase in savings and the reduction of lending opportunities. Investing in longer-term securities without negative convexity will be key. In 2025 you should avoid callable securities.



McQueen Financial Advisors 2025 Economic Outlook

“Loan volume will be lower than desired”.

As we look forward to 2025 we see the following high-level areas to take into account and manage:

1. Higher long-term interest rates and a positively sloped yield curve
2. The FOMC will continue to slowly lower the Federal Funds rate, lowering short-term interest rates
3. Unemployment will grow as the high interest rates from the last few years will slow the economy
4. Deposits will grow as the economy slows and affordability stays challenged
5. Loan volumes will be lower than expected due to affordability issues
6. Housing prices will remain elevated as supply and demand are misaligned
7. Commercial real estate will continue to be challenging

Focus on keeping loans on the books, taking advantage of rising yields, and preparing for potentially increasing loan losses and delinquencies in 2025. With limited loan growth opportunities, 2025 will be a year of build your investment portfolio.

Margin and credit loss reserves will be a key focus in 2025.

Our predictions for 2025:

	Actual	Projected			
	12/31/2024	Mar-2025	June-2025	Sept-2025	Dec-25
Federal Funds Rate	4.50	4.50	4.25	4.25	4.25
SOFR	4.00	4.00	3.75	3.75	3.75
Prime Rate	7.50	7.50	7.25	7.25	7.25
2-Year Treasury	4.24	4.20	4.10	4.20	4.25
5-Year Treasury	4.38	4.40	4.30	4.40	4.50
10-Year Treasury	4.57	4.75	4.70	4.85	5.00
GDP - Annualized	3.10	2.90	2.85	2.85	2.95
CPI-X-YPY	3.30	3.10	3.00	2.90	2.85