



## Investment Trends & Insights For Credit Unions



Jason Haley, Chief Investment Officer, ALM First Financial Advisors

Jay Johnson, President, Trust for Credit Unions



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# Today's Agenda

- ALM First Market Update
- Credit Union Trends
- TCU Portfolios Update





September 20, 2022

# Market Update

# Speaker



**Jason Haley**  
Chief Investment Officer



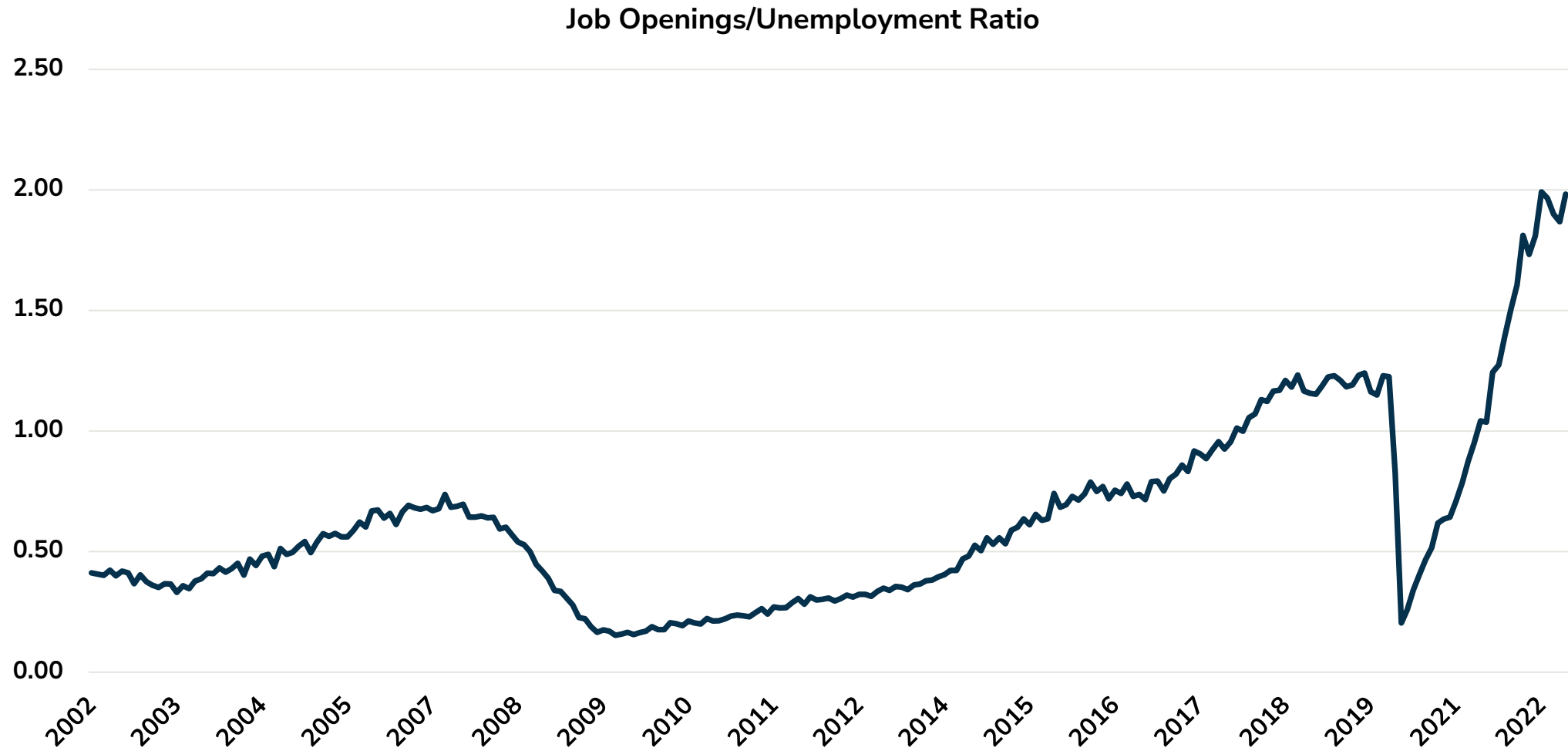
- **“Higher For Longer”**

- Jerome Powell looked to squash any hopes for a near-term “Fed pivot” with a hawkish Jackson Hole speech
  - Speech was the shortest by a Fed leader at the symposium since 2010, likely an effort to reduce risk of some obscure comment being misconstrued as dovish
  - Said price stability may require a **“sustained period of below-trend growth”** via **“softening of labor market conditions”** that will **“bring some pain to households and businesses”**
    - Not very different from message of the last 3+ months
- Powell and other Fed leaders maintained the position that interest rate policy will likely need to remain restrictive for some time, and multiple Fed leaders suggested a 4%+ funds rate will be necessary

- **Labor market & inflation data still running hot**

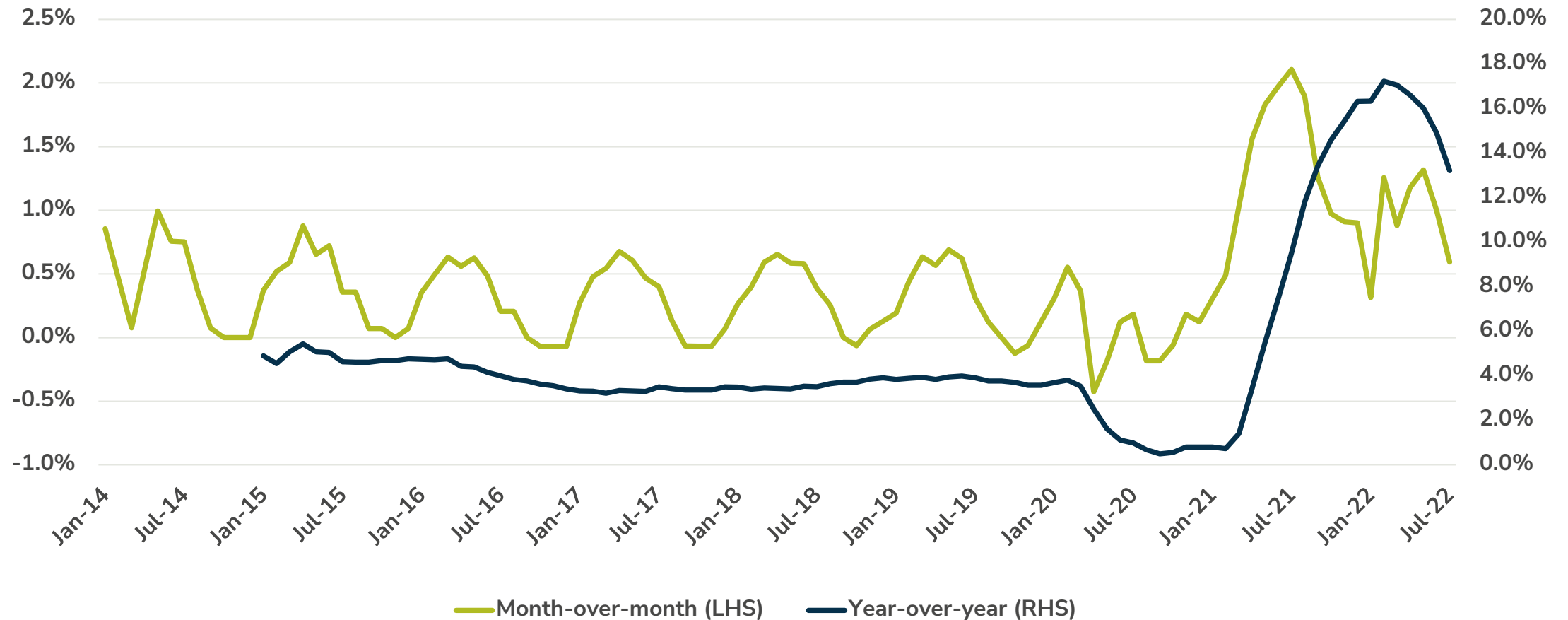
- July job openings unexpectedly rose above 11.2mm in July, bringing the ratio of openings to total unemployed persons back up to 2:1
  - August jobs report less robust than expected, but still very strong
- August CPI report surprised to the upside for both headline and core price
  - Stickier categories, like shelter costs, posted 2<sup>nd</sup> highest m/m gains of 2022, lagging only June
  - Food prices up 0.8% increased 0.8% m/m

# Historically High Job Openings



# Higher Rent Prices Pressuring Core CPI

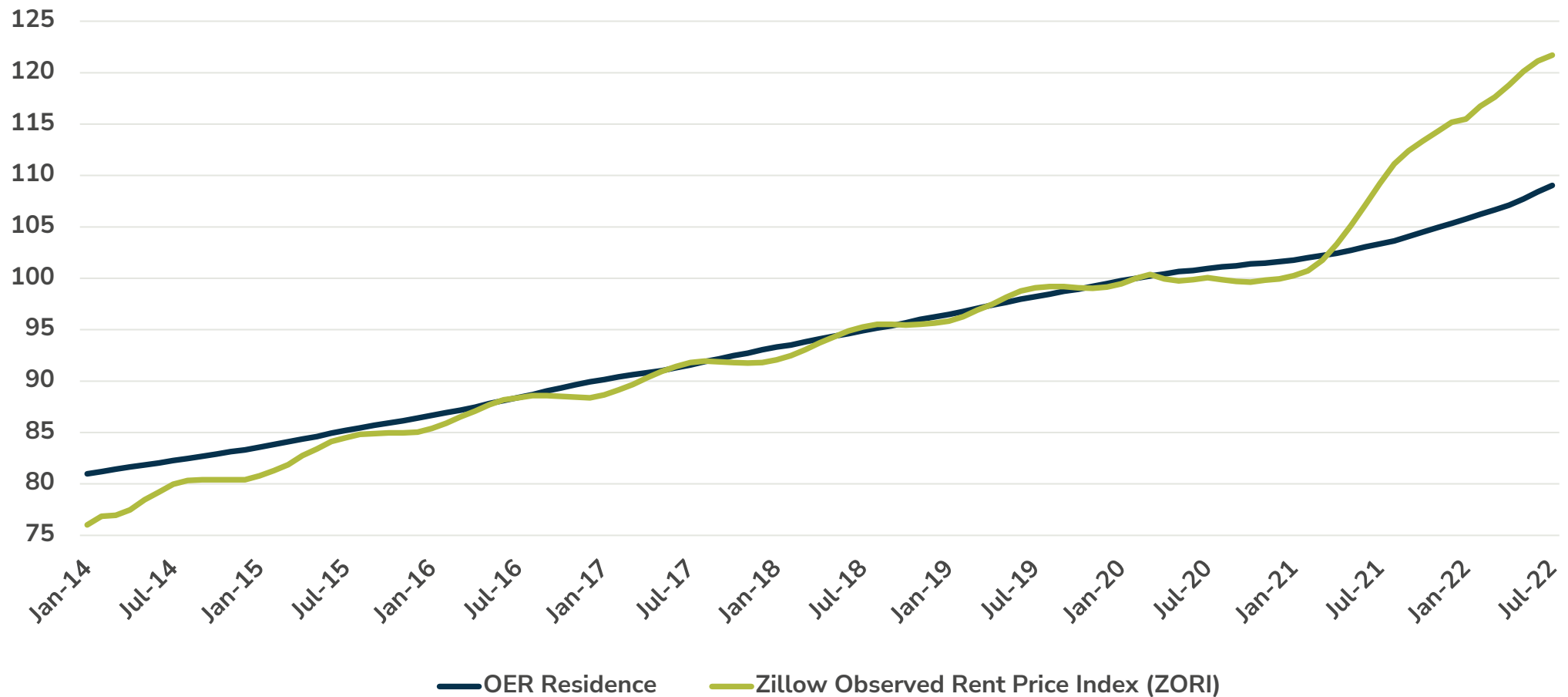
National Rent Price Growth  
Zillow Observed Rent Price Index (ZORI)



Source: Zillow, ALM First

# Zillow Rent Index Vs. CPI Owners Equivalent Rent (OER)

Zillow Rent Index Vs. CPI Owners Equivalent Rent  
February 2020 = 100



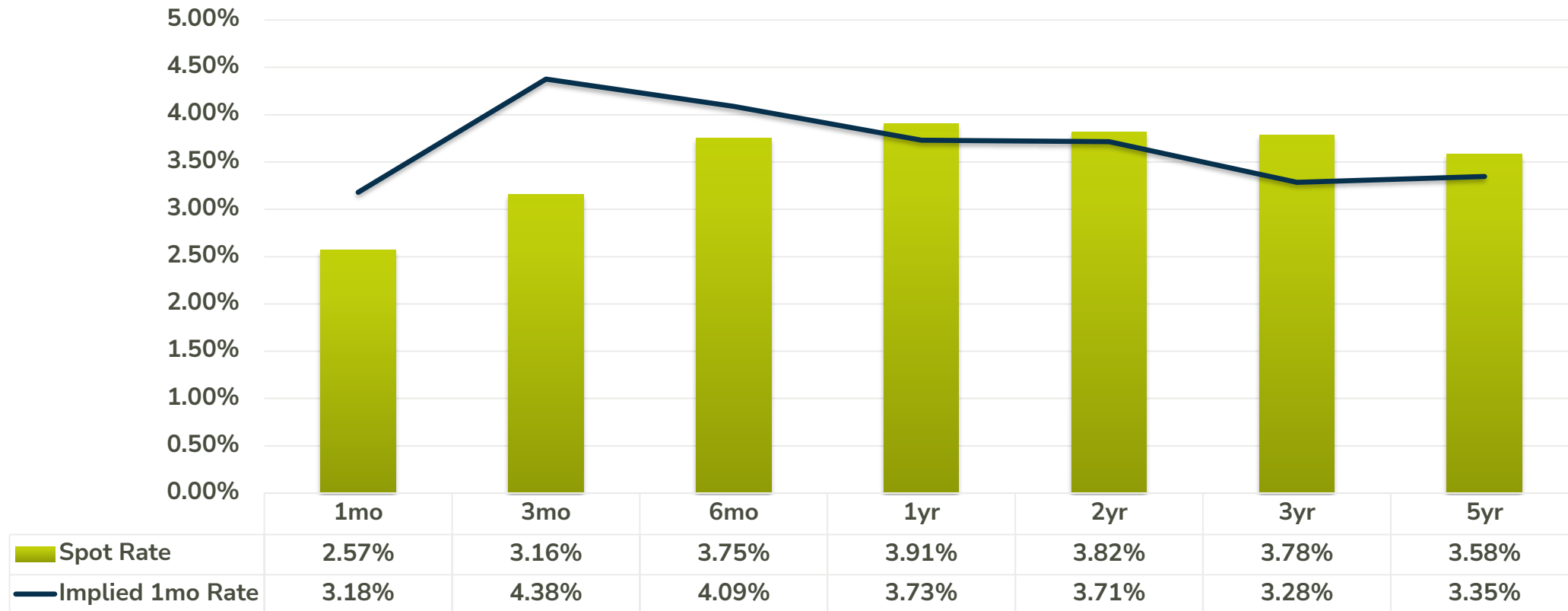
- **Treasury yields sharply higher since July**
  - Front-end yields have surpassed mid-June highs and now at the highest level since 2007
  - Treasury curve flatter, but long-end yields also higher on Fed's higher for longer pledge
- **Interest rate volatility still elevated; spreads wider**
  - Vol will likely remain elevated until there is more clarity around the path of inflation and subsequent Fed policy
  - Spreads have leaked wider in September across most sectors
- **July fixed income performance was just a glimmer of what could come when inflation subsides**
  - August was the third worst month of 2022 for broad fixed income performance amid the sharp increase in yields and spread widening in certain sectors

Treasury Curve			
Tenor	9/16/2022 (%)	7/31/2022 (%)	Change (bps)
1-Month	2.51	2.12	0.39
3-Month	3.09	2.32	0.78
6-Month	3.79	2.84	0.95
1-Year	3.93	2.89	1.04
2-Year	3.87	2.88	0.98
3-Year	3.83	2.81	1.02
5-Year	3.63	2.68	0.96
10-Year	3.45	2.65	0.80
20-Year	3.78	3.21	0.57
30-Year	3.51	3.01	0.50
Curves			
3mo-10yr	0.36	0.33	0.02
2yr-5yr	-0.24	-0.21	-0.03
2yr-10yr	-0.42	-0.24	-0.18
2yr-30yr	-0.35	0.13	-0.48
5yr-10yr	-0.18	-0.03	-0.16

Source: Bloomberg

# What's Currently Priced In?

Front-End Treasury Yields: What's Currently Priced In?  
As of 9/16//22



# Credit Union Trends



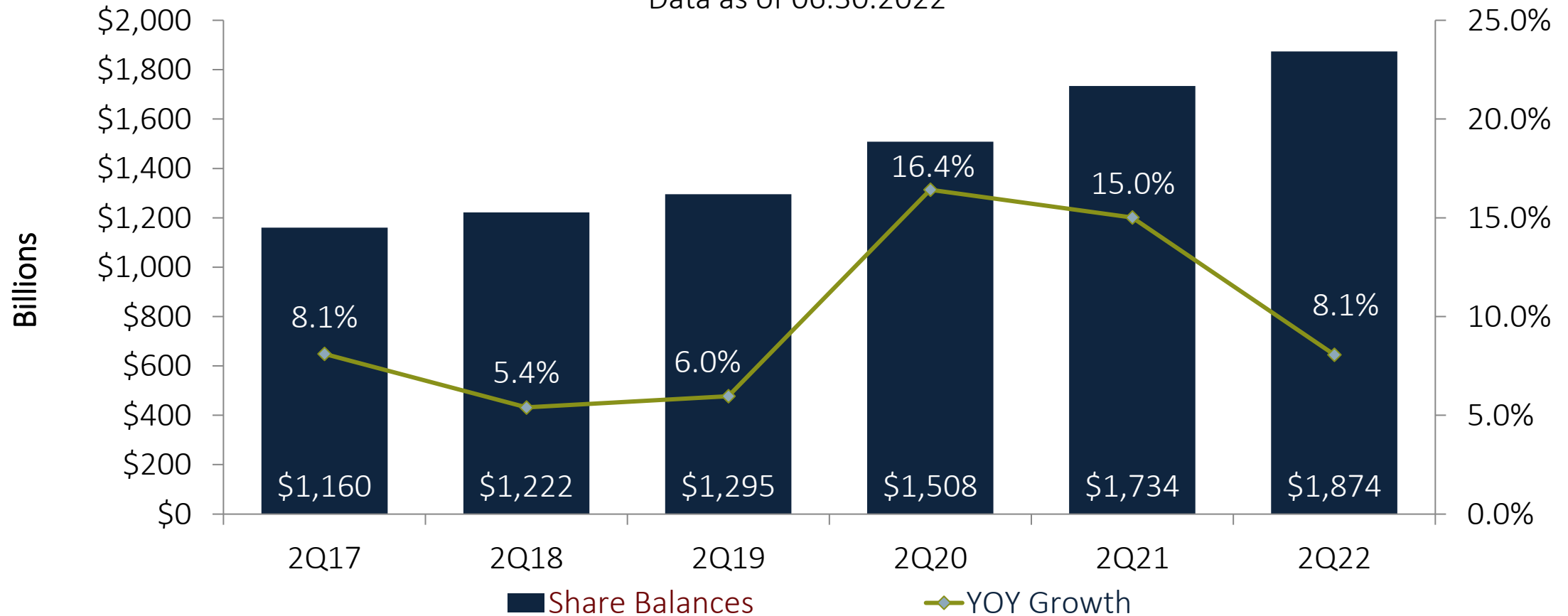
Loan growth nearly doubles share growth, a significant shift from the past three years

	6/30/2022	12-Mo. Growth	6/30/2021	12-Mo. Growth
Assets	\$2,158.6B	8.0%	\$1,999.4B	13.0%
Loans	\$1,400.3B	16.1%	\$1,205.7B	4.9%
Shares	\$1,874.4B	8.1%	\$1,734.5B	15.0%
Investments	\$657.3B	-6.2%	\$701.0B	31.3%
Capital	\$205.6B	-3.7%	\$213.4B	7.7%
Members	133.9M	4.2%	128.5M	3.9%

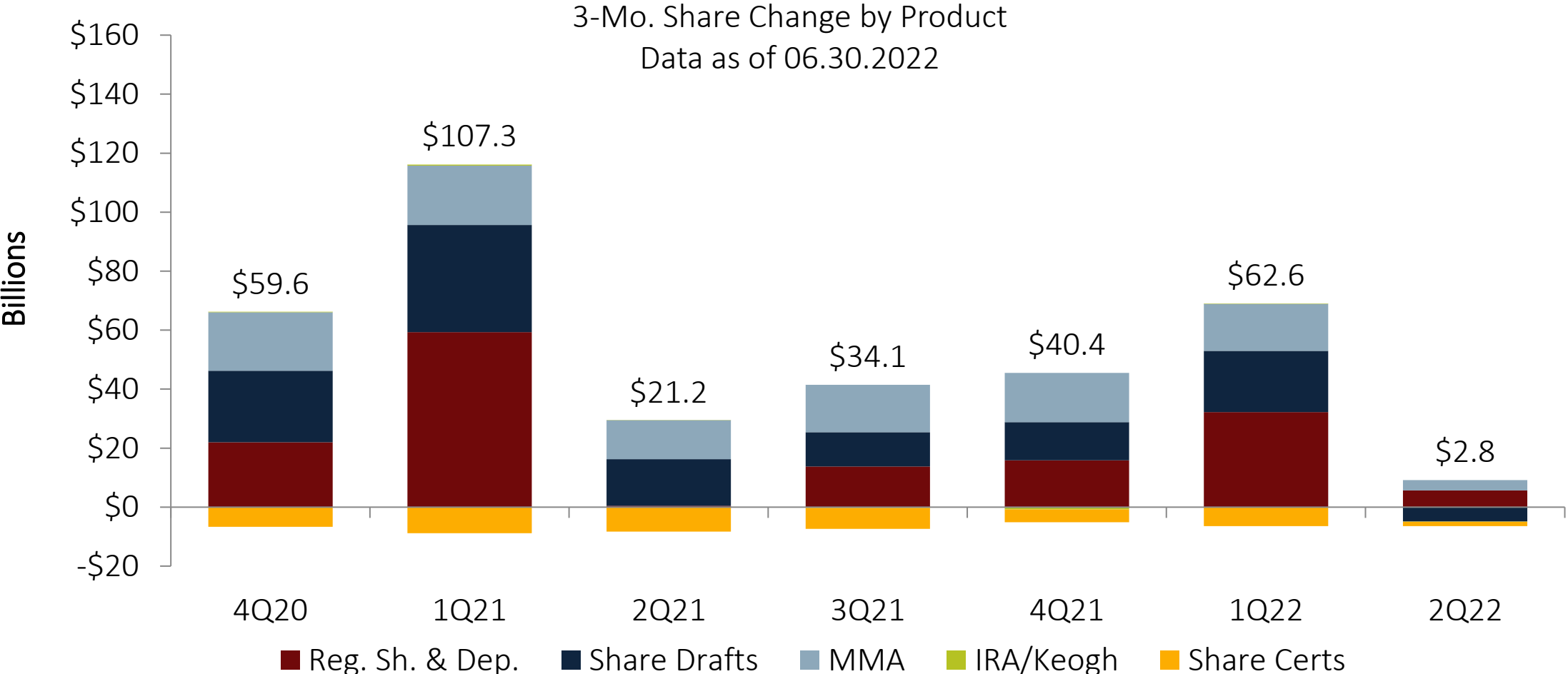


# Share growth slows from its pandemic pace

Total Share Balances and Annual Growth  
Data as of 06.30.2022

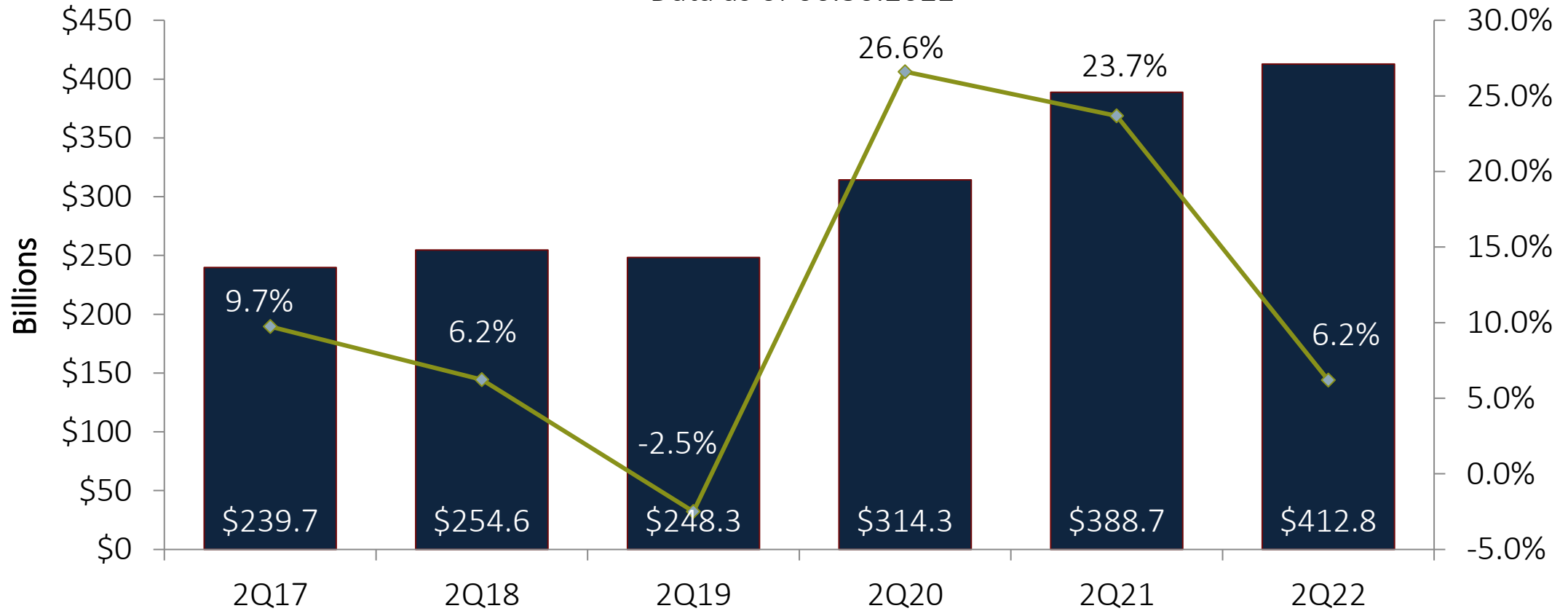


# The second quarter marks the smallest net quarterly share growth since 3Q18

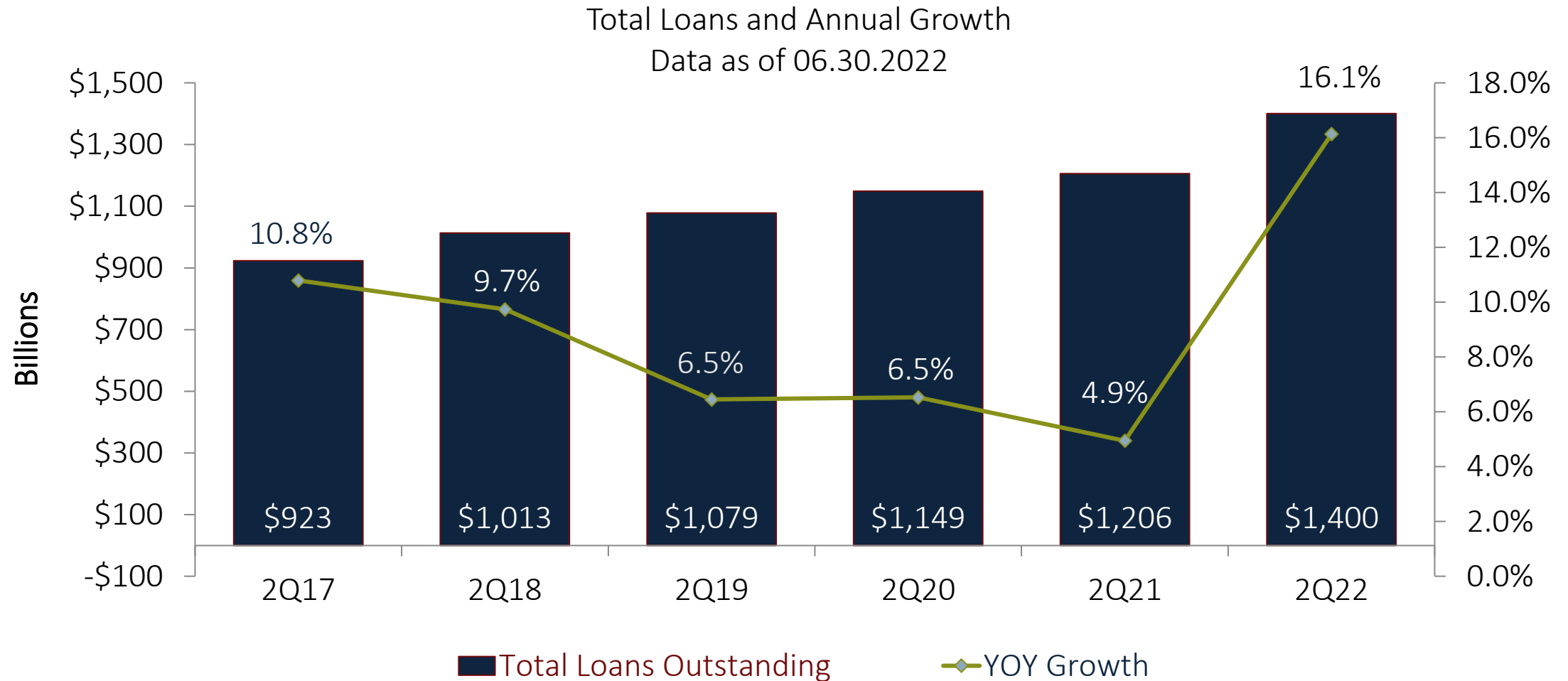


# Mid-year loan originations top \$400 billion for the first time

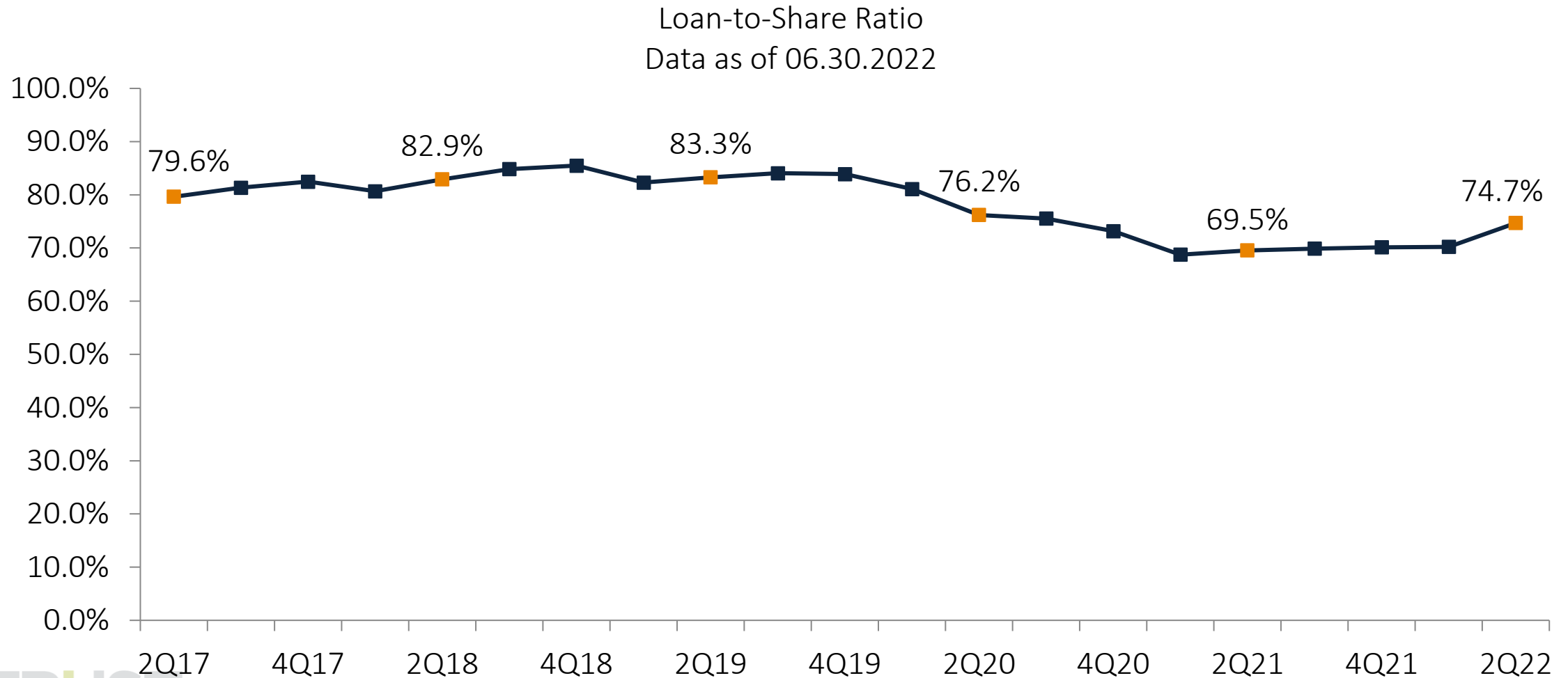
YTD Loan Originations and Annual Growth  
Data as of 06.30.2022



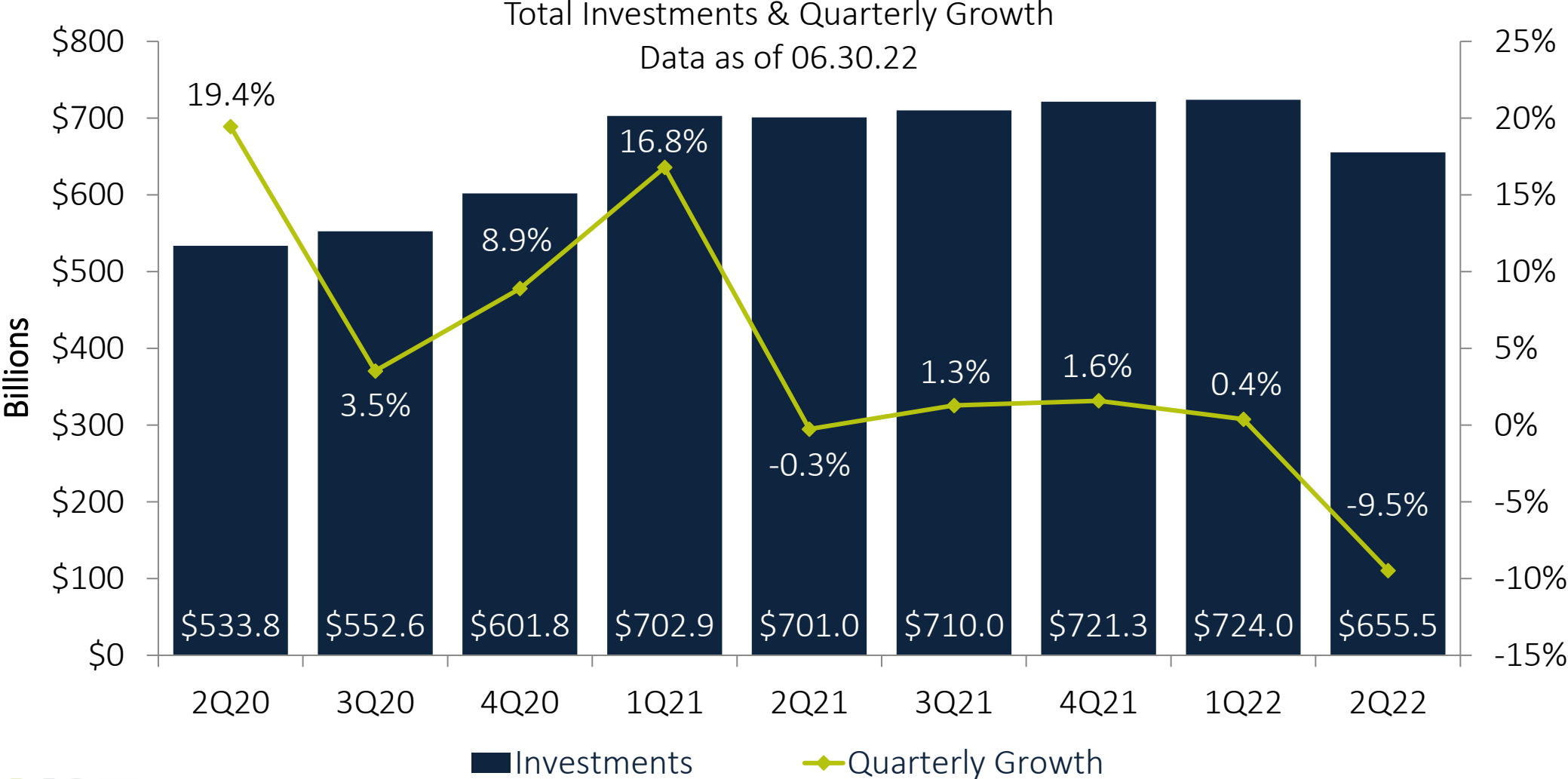
# Loan growth reaches the highest annual rate in nearly two decades



# The loan-to-share ratio jumps 4.5 percentage points in 2Q22; largest quarterly increase on record

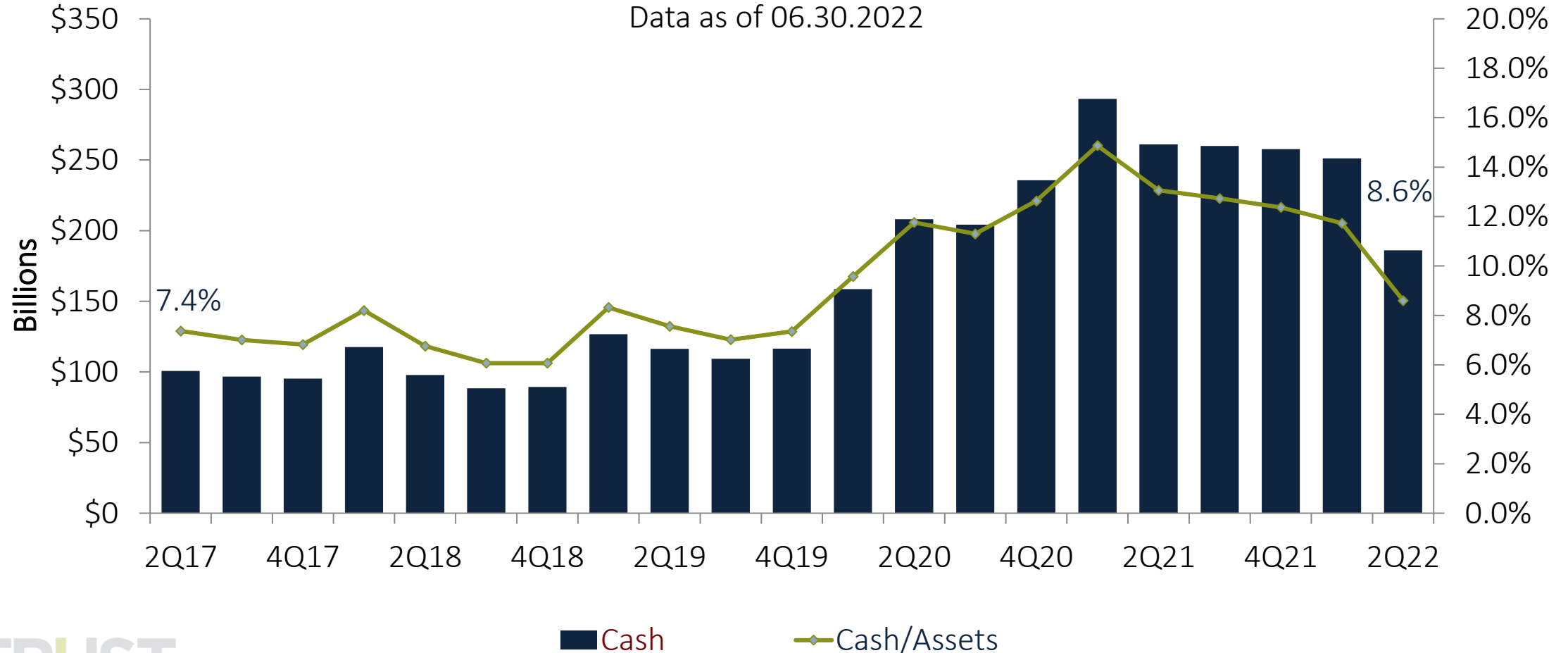


# Investment portfolio shrinks as liquidity tightens

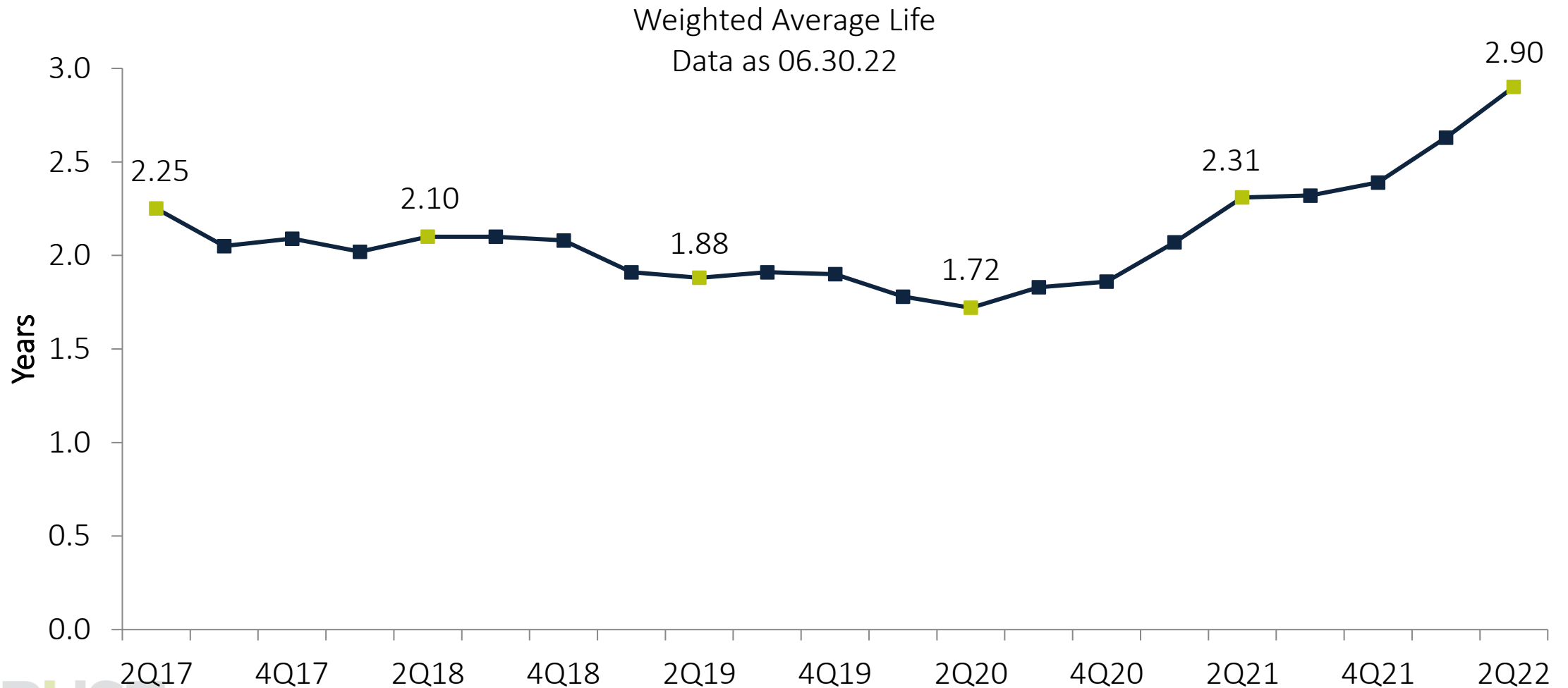


# Cash balances decline for five straight quarters

Cash Balances and % of Total Assets  
Data as of 06.30.2022

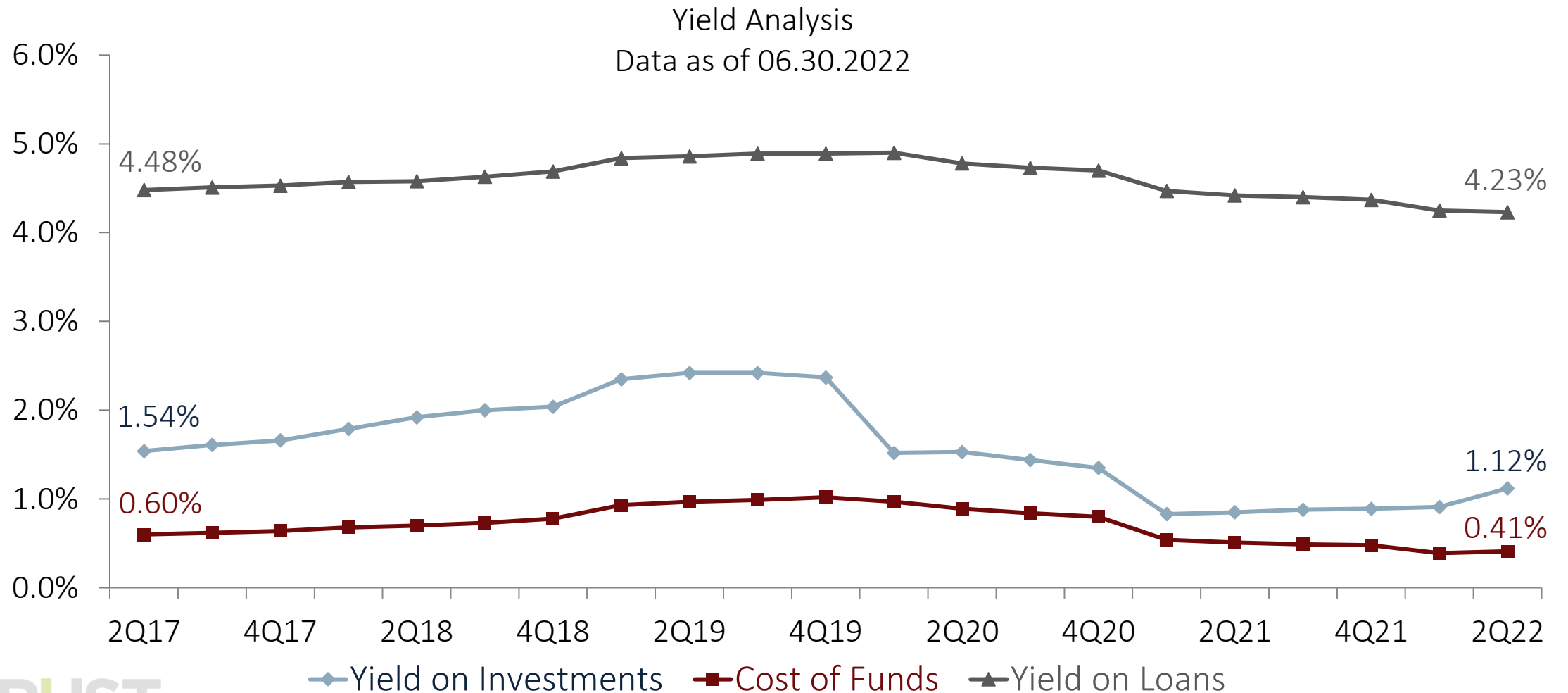


# Portfolio maturities have extended as cash is deployed

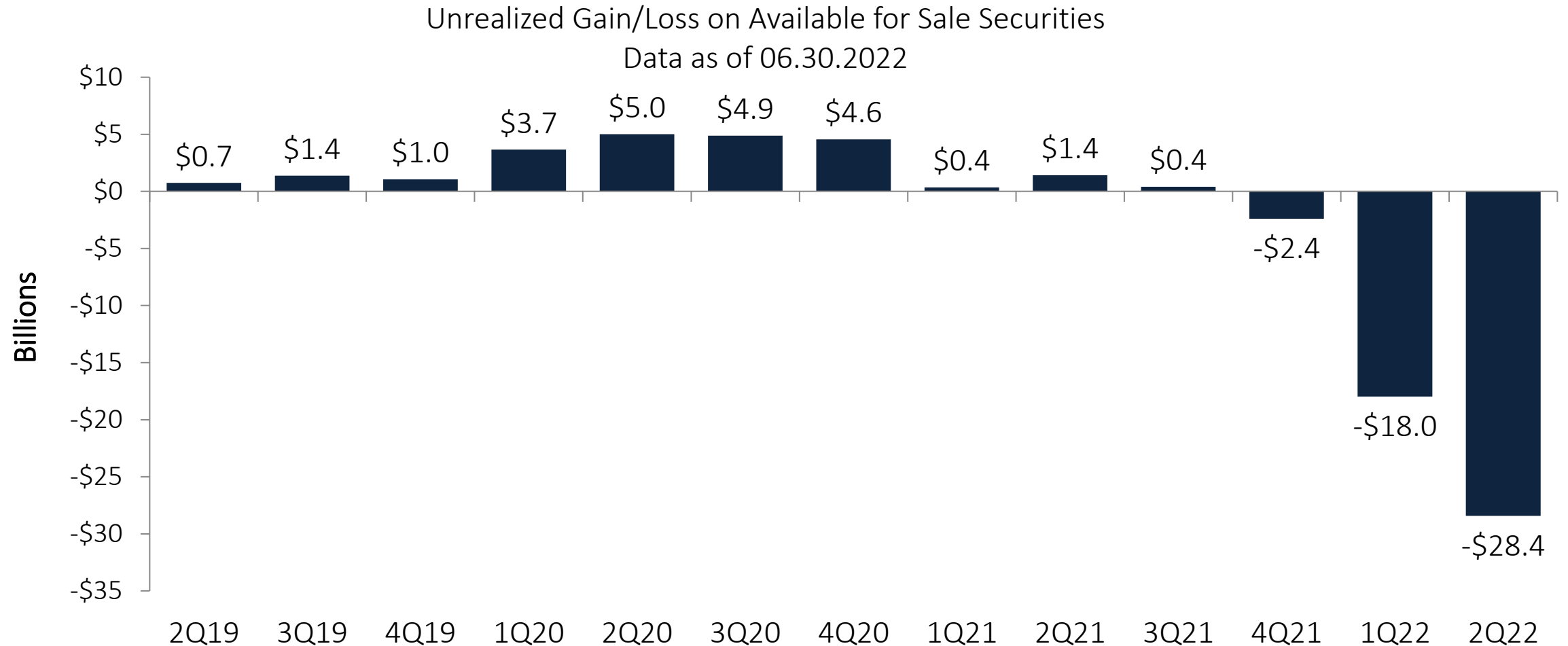




# Yield on investments moves up as cost of funds and yield on loans are slower to reprice



# A challenging bond market in 2022 is evident in the investment portfolio's unrealized losses



# TCU Portfolios Update

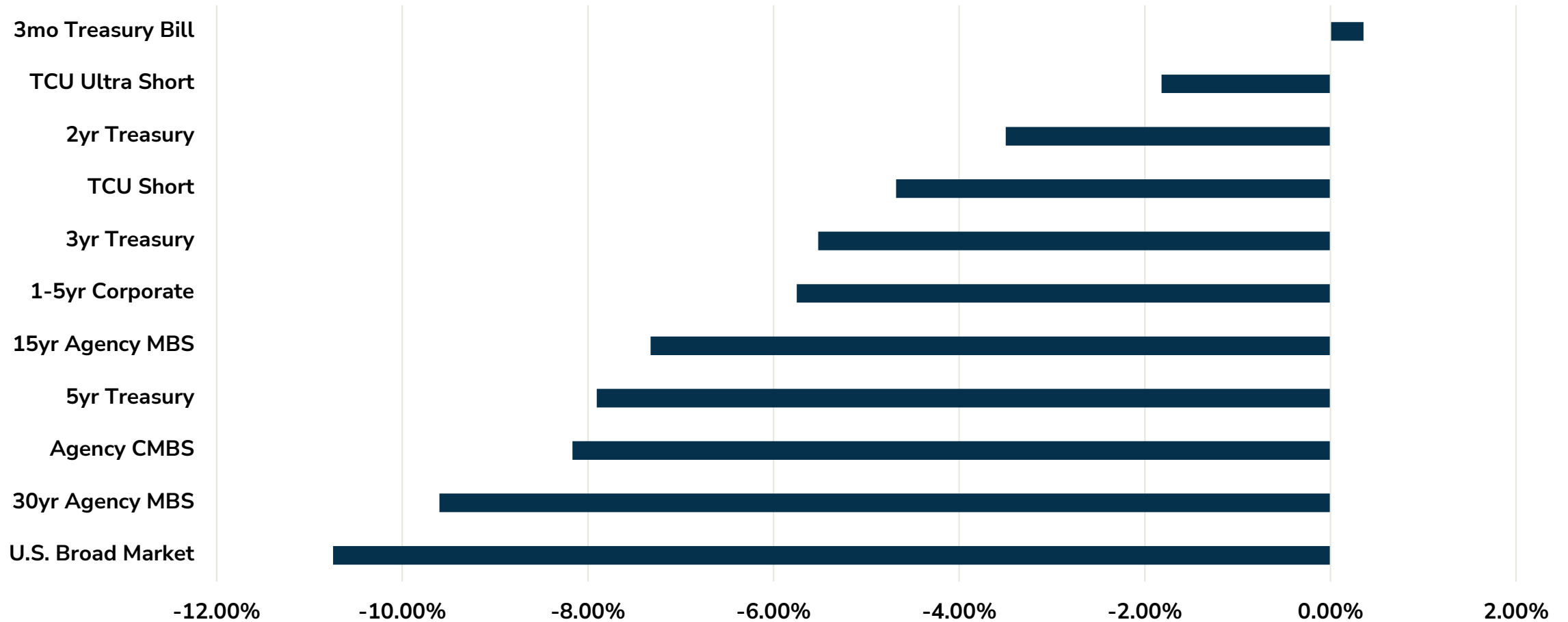
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# New Fund Launched

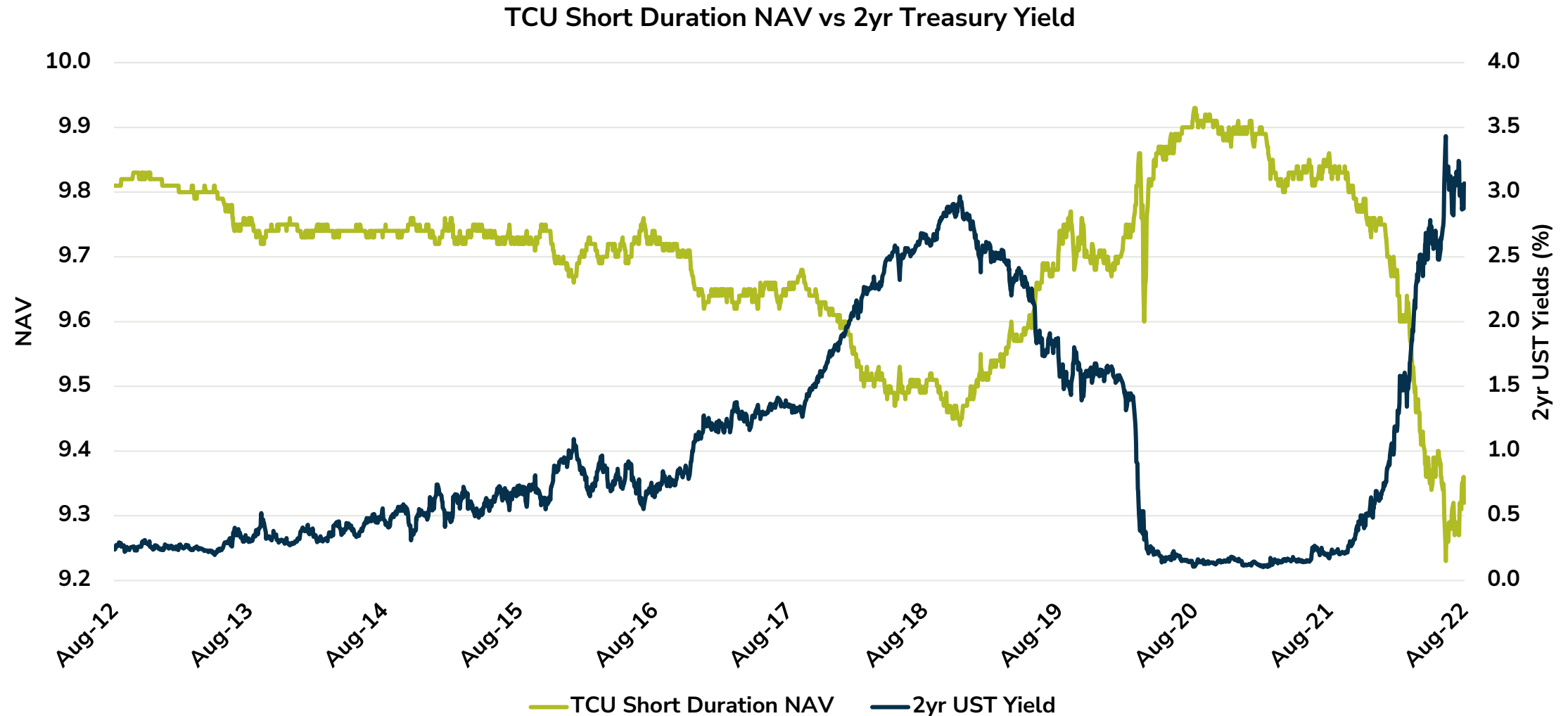
- **TCU Enhanced Income Intermediate Duration Credit Portfolio launched 9/1/2022**
  - One of two new portfolio strategies built for employee benefits pre-funding (EBPF) and charitable donation account (CDA) mandates
  - Portfolio is 100% fixed income targeting 1-10yr investment-grade corporate bonds
  - 30mm initial investment across multiple credit unions
  - As of 9/16, the portfolio's benchmark (Bloomberg Intermediate Corporate Index) had the following characteristics:
    - 4.24% effective duration
    - 4.98% yield to worst
    - +123 bps spread over Treasuries

# Historically Bad Year for Fixed Income

2022 YTD Fixed Income Returns  
As of 8/31/2022

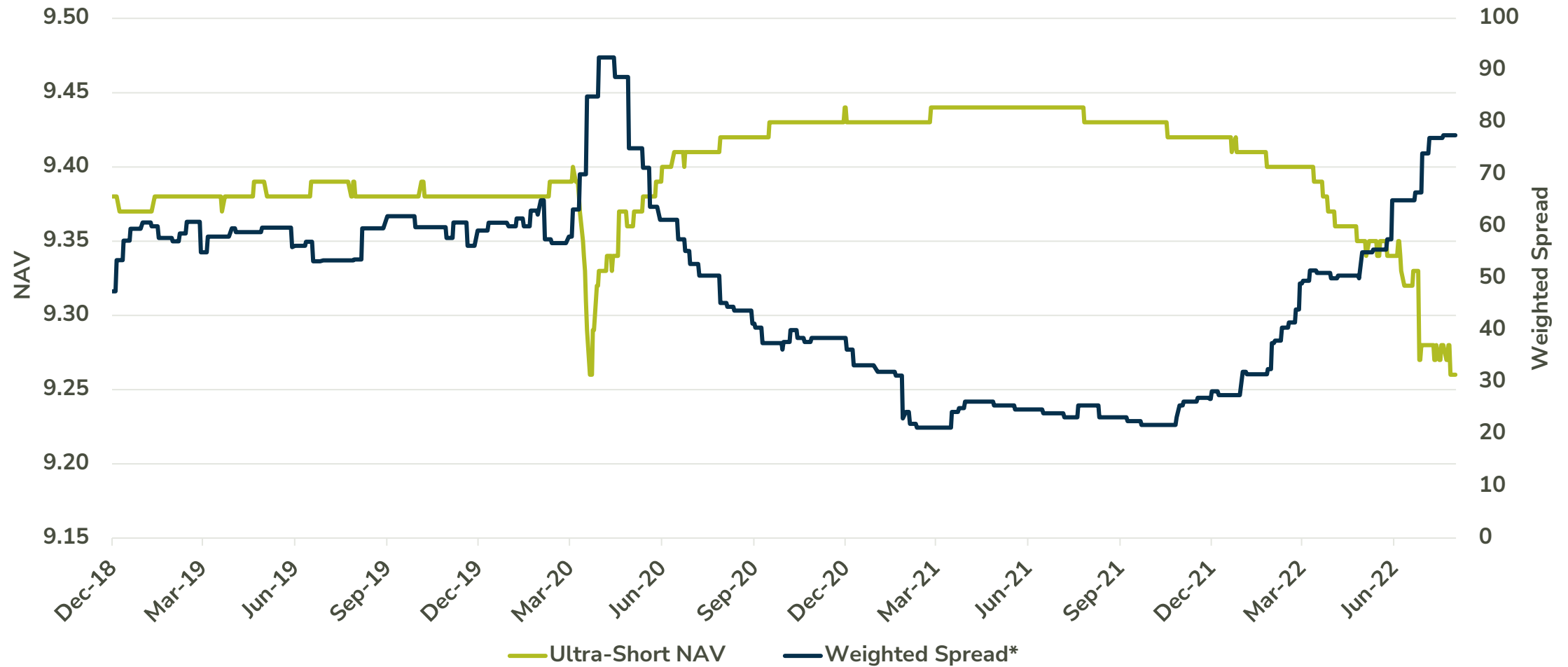


# Rates Impact on Short Duration Portfolio



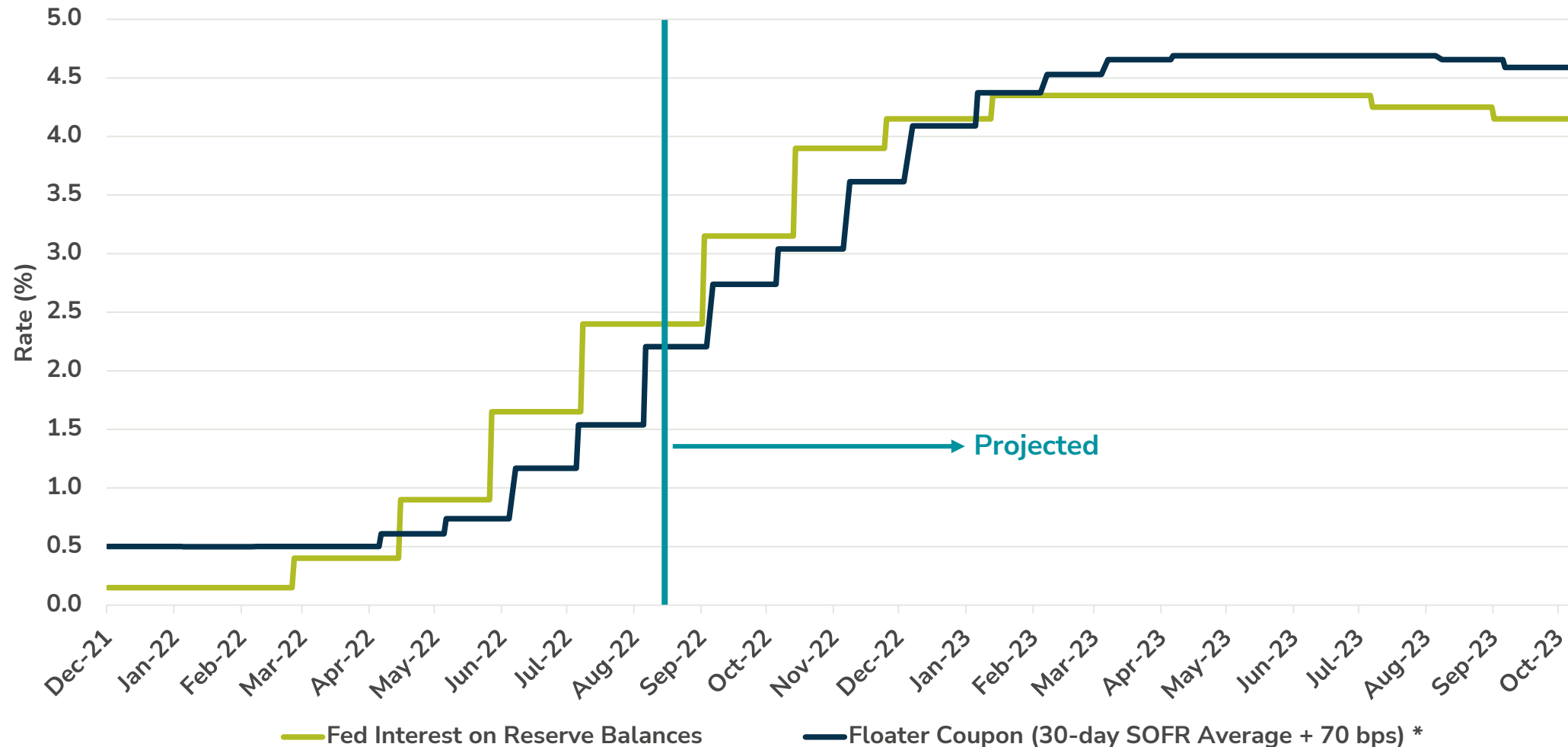
# Wide Floater Spreads Improve Forward-Looking Expected Returns

TCU Ultra-Short NAV vs. Floater Spreads



\* 75/25 mix of Freddie K and GNMA HECM floaters

# Example Reset Lag for Floating-Rate Yields



\* Net of 25 bps expense ratio



# Closing Thoughts

- **Markets looking for fresh guidance from the Fed on Wednesday**
  - Bond market now priced for 75 bps hikes in September and November, and nearly 50 bps in December (4.23% year-end effective fed funds rate)
  - Powell & Co. could provide more color on expectations for the rest of 2022 and early 2023, including current thoughts on the terminal funds rate (market priced for 4.50% in March 2023)
- **Financial asset prices continue to fall in the current market**
  - Rising rates, spread widening, and elevated rate volatility have contributed to the worst year for broad fixed income since 1980
  - July was a glimpse of what could come if market believes inflation is leveling off and economy is weakening
    - Rates fell and spreads tightened, contributing to positive performance for the month
  - As long as uncertainty is high related to inflation and the ultimate Fed path, financial markets will continue to struggle



# Questions?

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