

Markets, Economy & Balance Sheet Update



October 25, 2024

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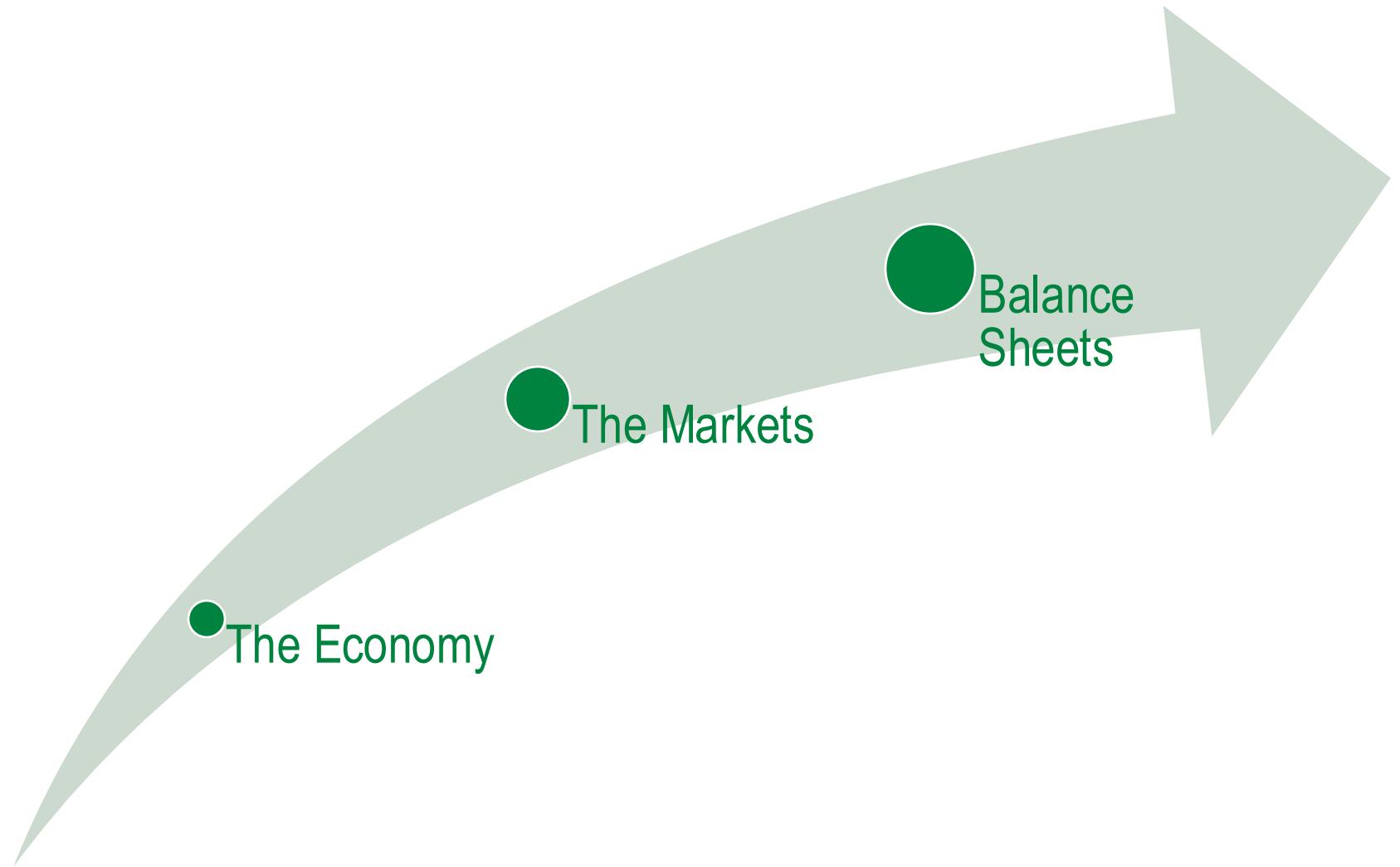
Presenter



Andrew Paolillo

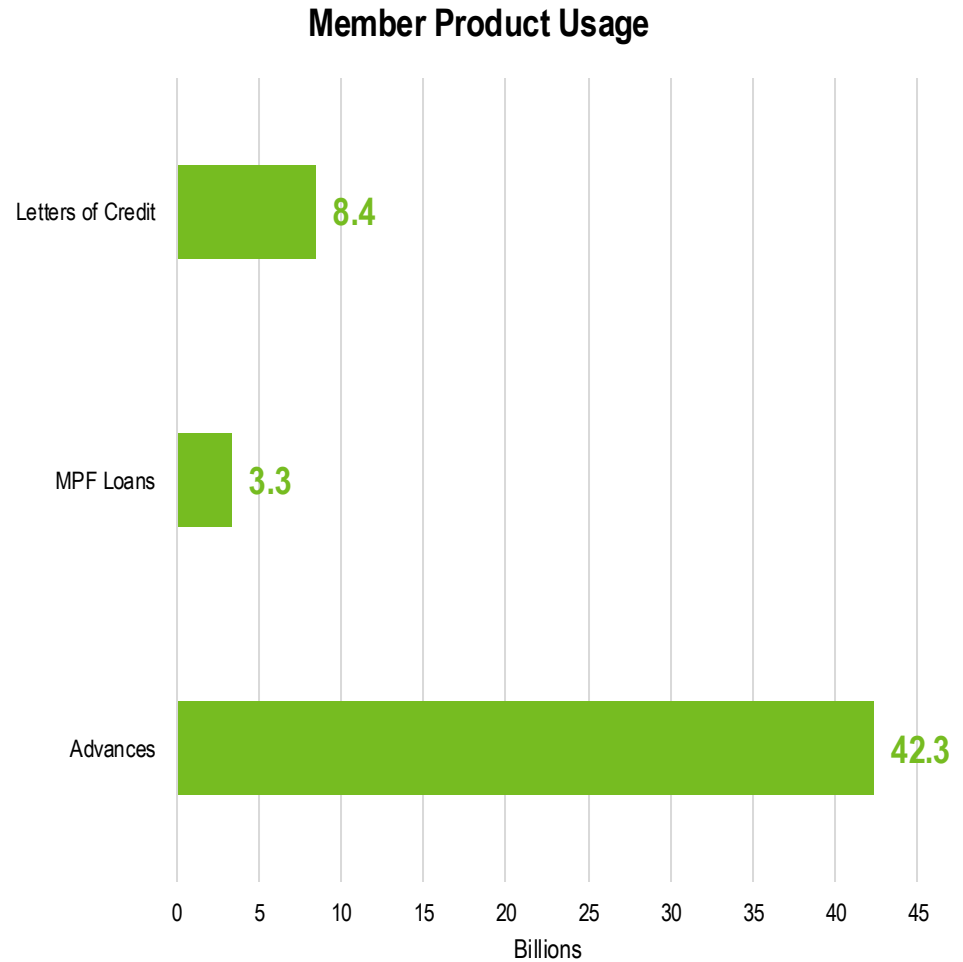
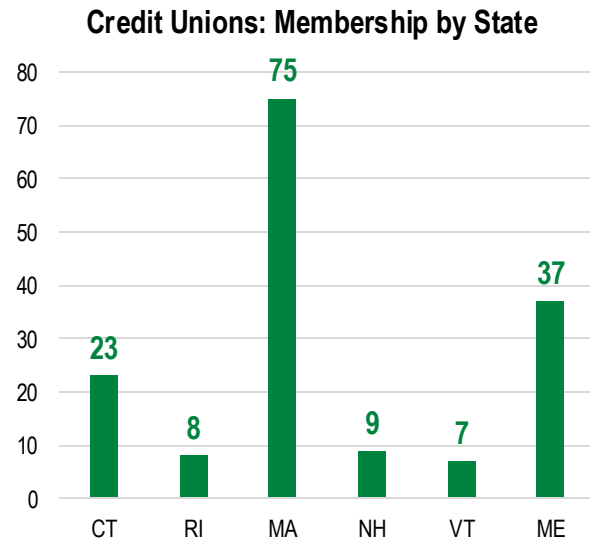
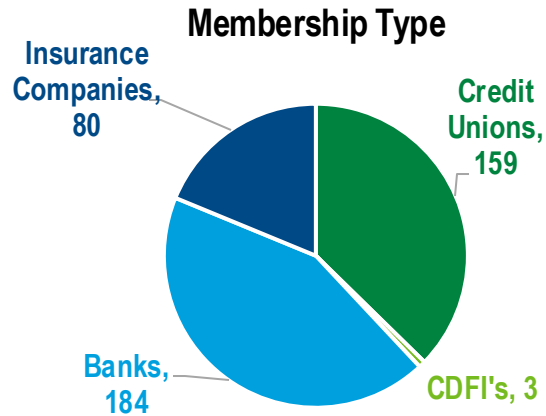
Vice President, Director of Member Strategies + Solutions

Agenda



FHLBank Boston

We provide our members with liquidity and support housing finance and community development through all economic cycles.



Data as of 6/30/24

Resources for Members



Strategies & Insights Content

- Articles
- Webinars
- Case Studies
- Economic Updates
- Partner Presentations

The Economy

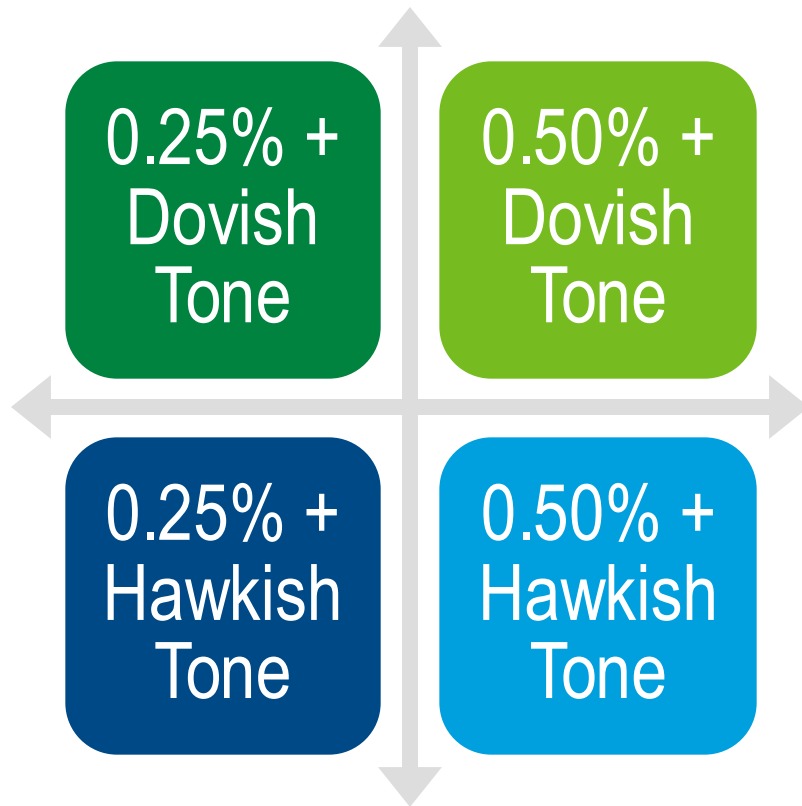


Recapping Last Month's FOMC Decision

There was genuine uncertainty going into a Fed meeting for the first time in nearly two decades.

Hawkish comments Dovish comments

- *"Economy is strong"*
- *"Labor market has cooled"*
- *"Inflation has eased substantially"*
- *Expecting 2% GDP growth over the next couple of years"*
- *"Conditions in labor market are less tight than before the pandemic"*
- *"Inflation remains above 2% goal- total projection is 2.3% this year, 2.1% next year"*
- *" We have been hyper focused on inflation...patient approach has been successful for moving inflation to 2%."*
- *"Continue making decisions meeting to meeting- no preset path"*
- *"Will adjust projections if job market or inflation change unexpectedly"*
- *"Dissent on vote for the first time since 2005"*
- *"Don't look at today's cut as the new pace"*
- ***"We don't think we're behind on rate cuts, and the 50 bps shows we're committed to not fall behind"***

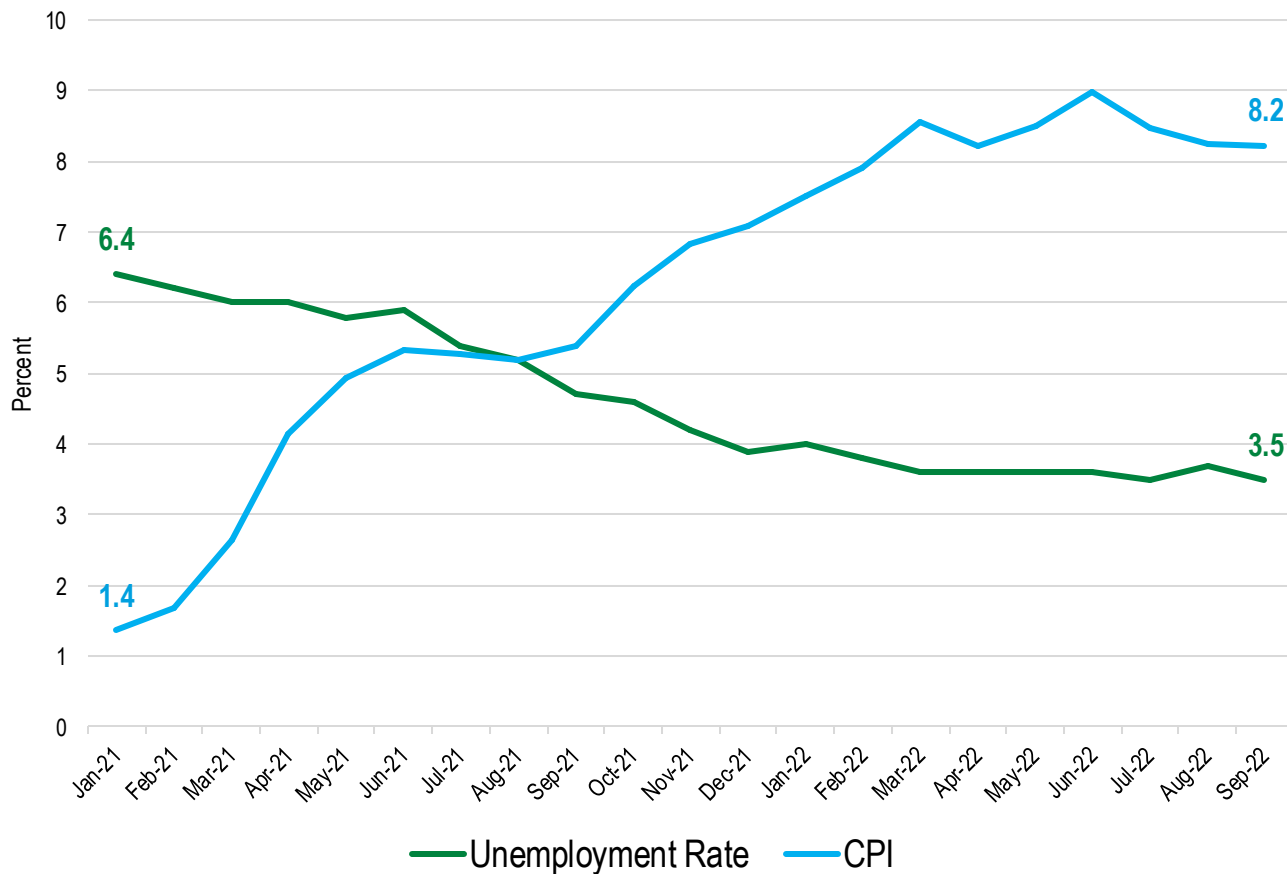


Source: Federal Reserve

Flashback to September 2022

Unemployment looks great, inflation does not. The Fed's been clear- taming inflation is job #1. Will that derail a jobs market firing on all cylinders?

Unemployment & Inflation



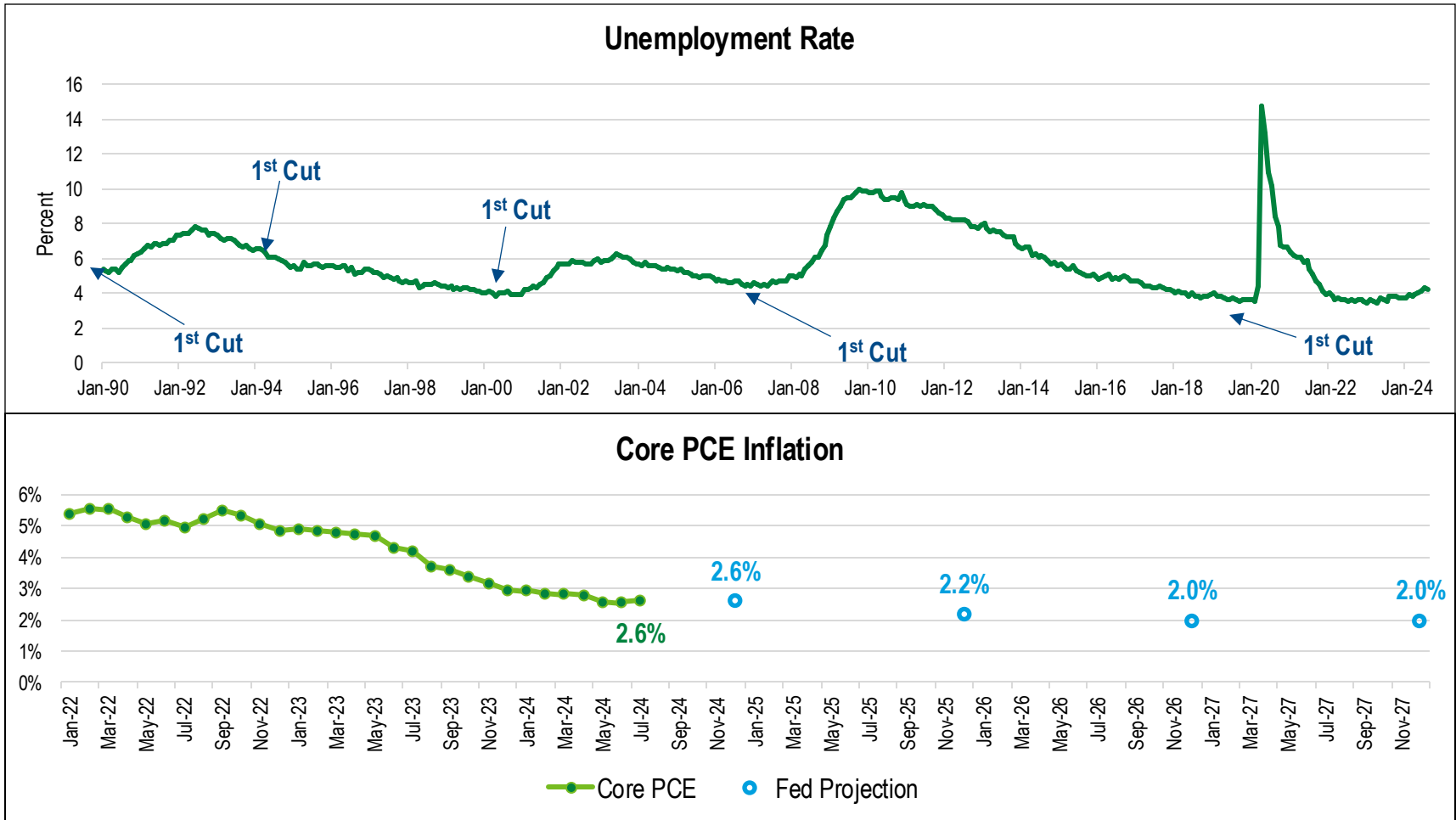
“We have got to get inflation behind us. I wish there were a painless way to do that. There isn’t.

Higher interest rates, slower growth, and a softening labor market are all painful for the public we serve, but they’re not as painful as failing to restore price stability and having to come back and do it down the road again.”

-Federal Reserve Chair Jerome Powell, 9/21/22

What Indicators are the Fed Watching?

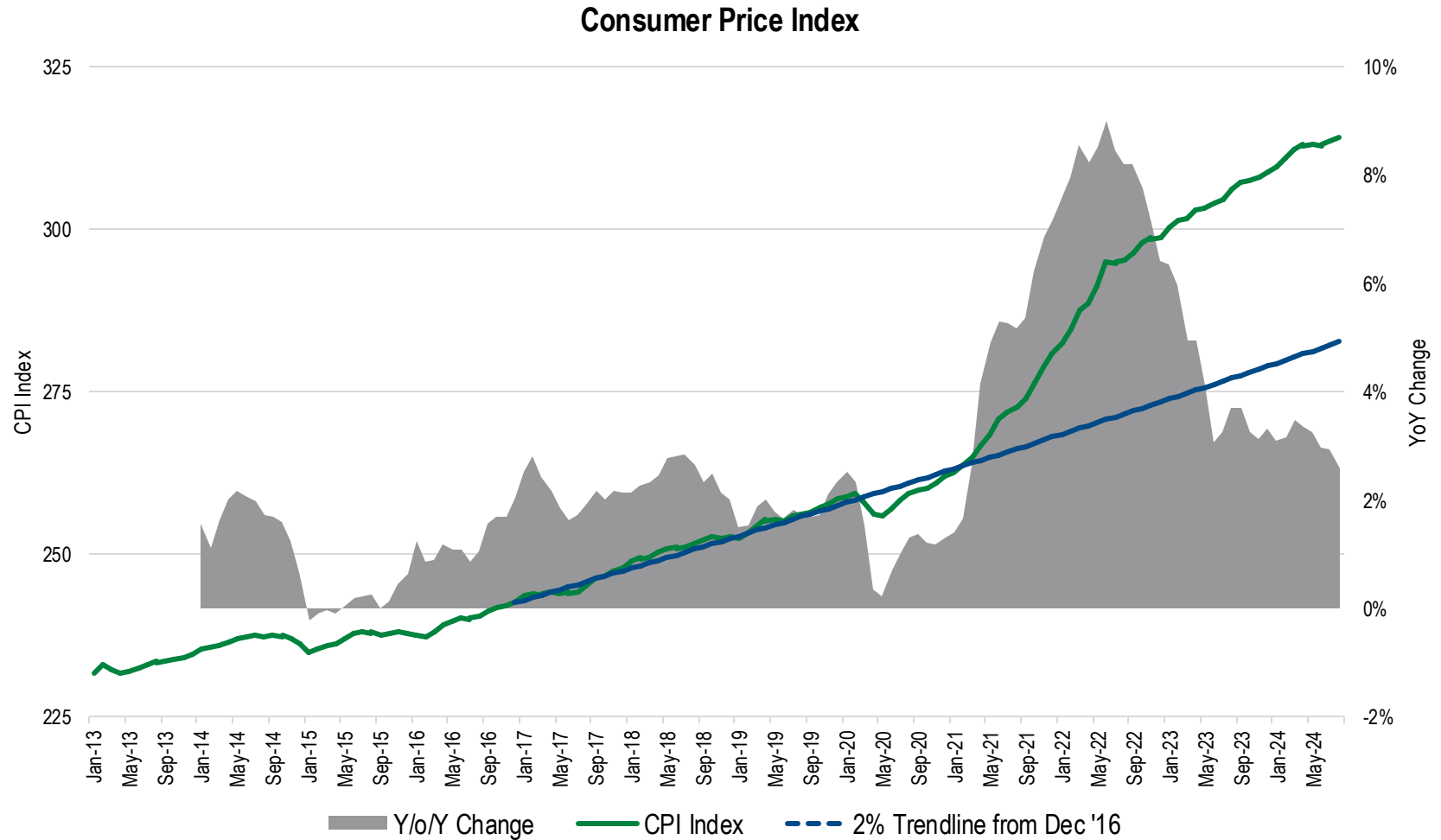
Emphasis appears to be shifting towards watching the unemployment rate as opposed to monitoring inflation trends.



Source: U.S. Bureau of Labor Statistics, FHLBank Boston

Inflation & the Compounding Effect

While the reported year-over-year change has begun to normalize, the impact of the spike higher in 2021 and 2022 is still embedded into the price of goods and services.

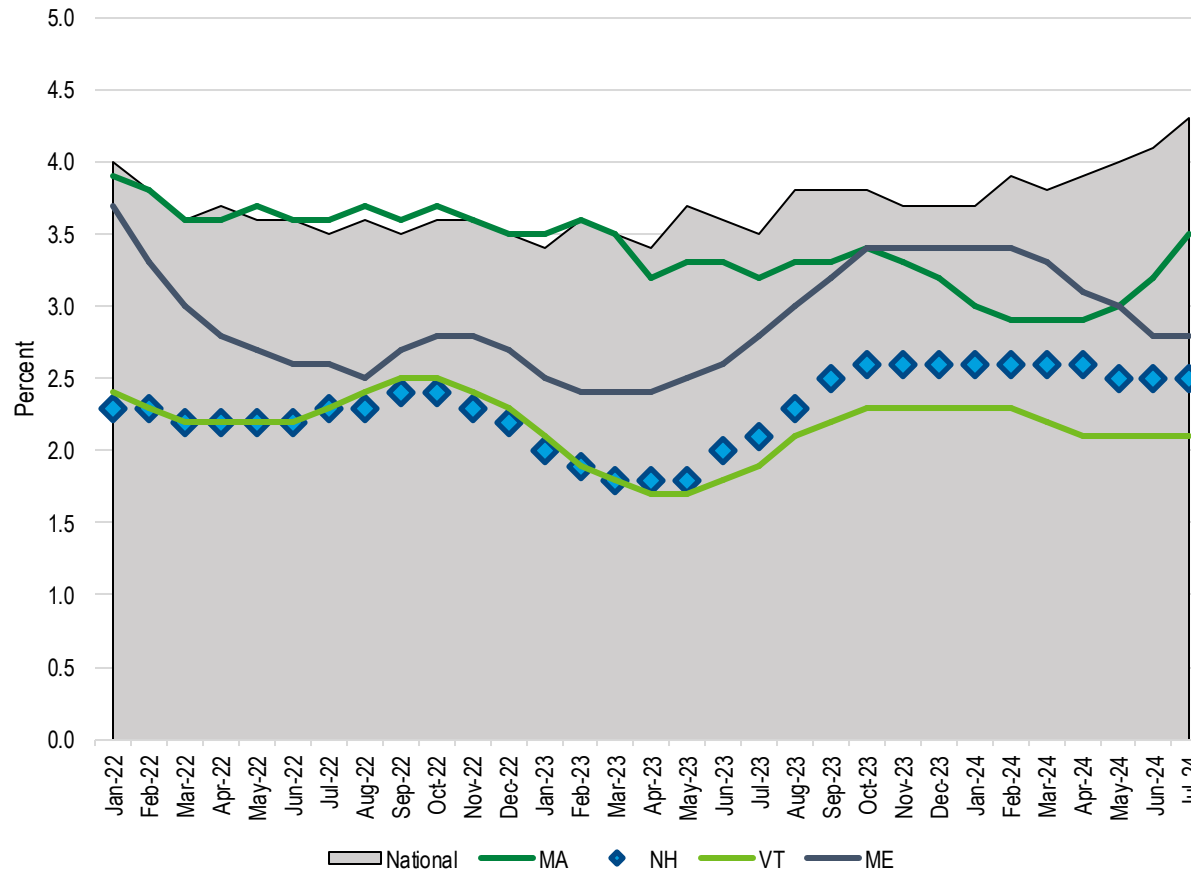


Source: Federal Reserve Bank of St. Louis, FHLBank Boston

Regional Labor Market

New England, as is typically the case, is outperforming in terms of the broader national unemployment picture.

Unemployment Rate: National & New England States



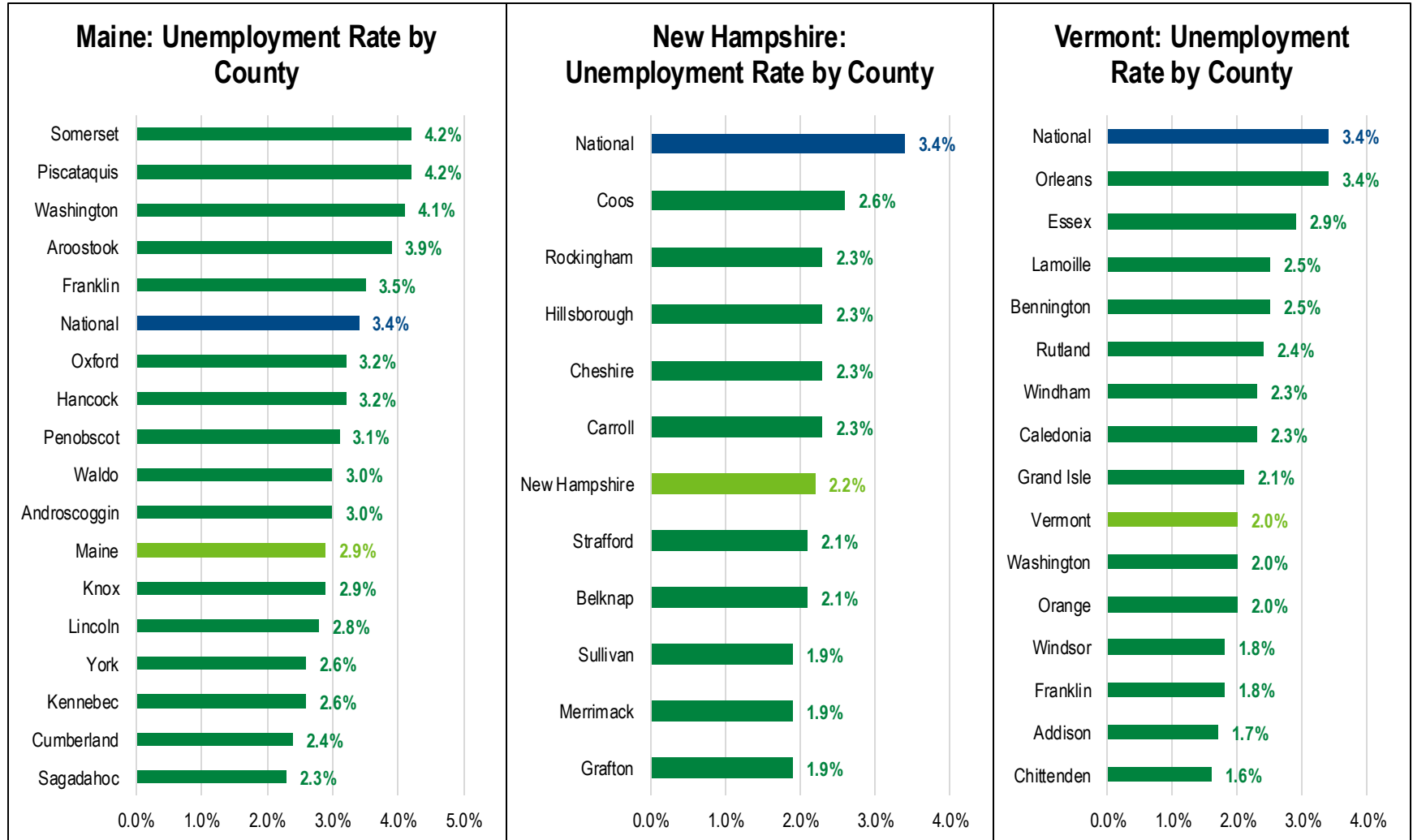
Change in U/E rate from the low & when the low occurred

National	+0.9%	April 2023
MA	+0.6%	April 2024
CT	+0.3%	May 2023
RI	+1.9%	June 2023
VT	+0.4%	May 2023
NH	+0.7%	May 2023
ME	+0.4%	April 2023

Source: Federal Reserve Bank of St. Louis, FHLBank Boston

Local Labor Market

Northern New England continues to perform exceptionally well, with some of the lowest unemployment rates in the country.

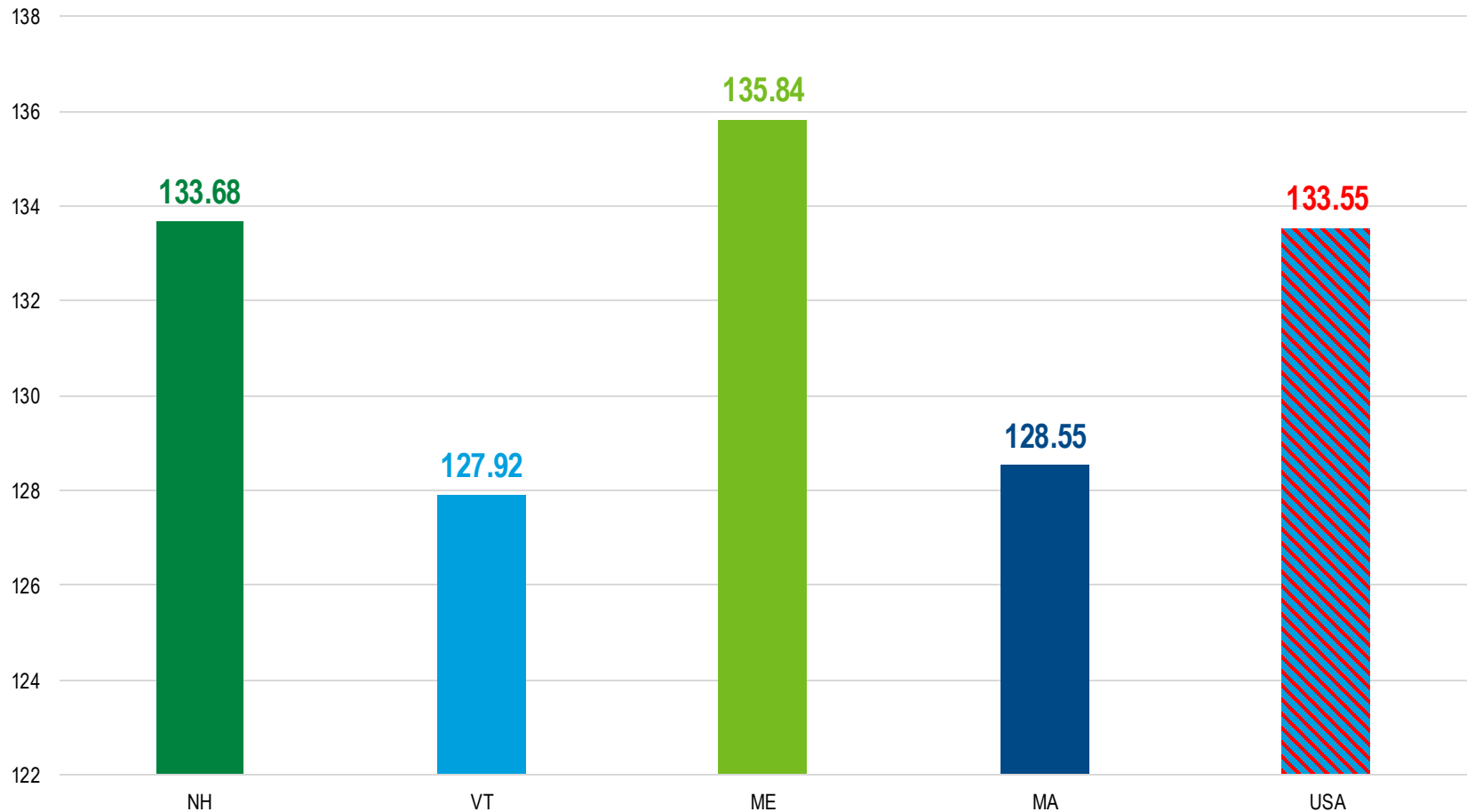


Source: U.S. Bureau of Labor Statistics, FHLBank Boston

Regional GDP

New England, as is typically the case, is lagging in periods of significant GDP expansion.

State & National GDP (Indexed to 100 at 1/1/20)

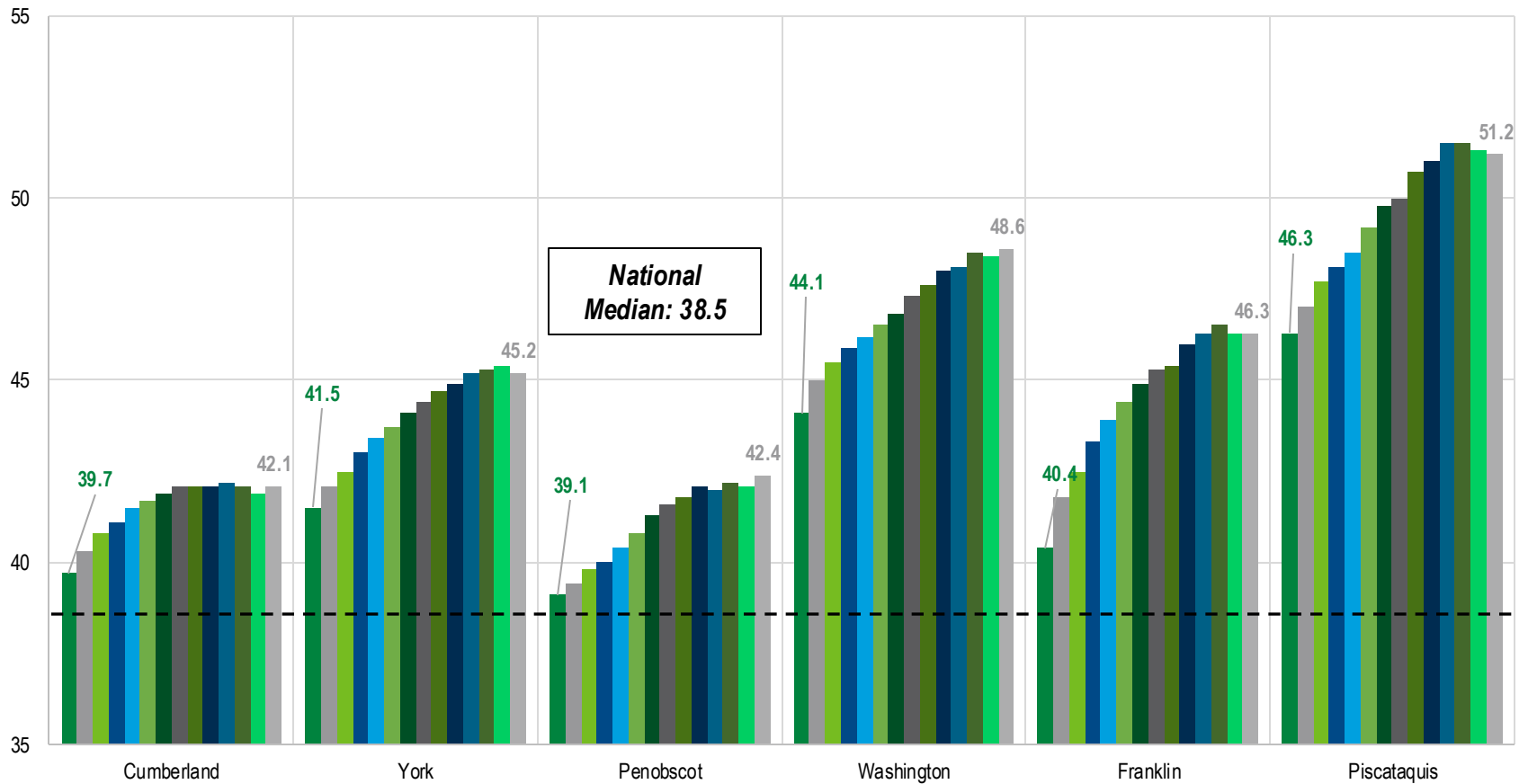


Source: Federal Reserve Bank of St. Louis, FHLBank Boston

Demographics

The median age can vary widely from county to county, driven by the unique economic factors locally.

Median Age by County, 2009 to 2022

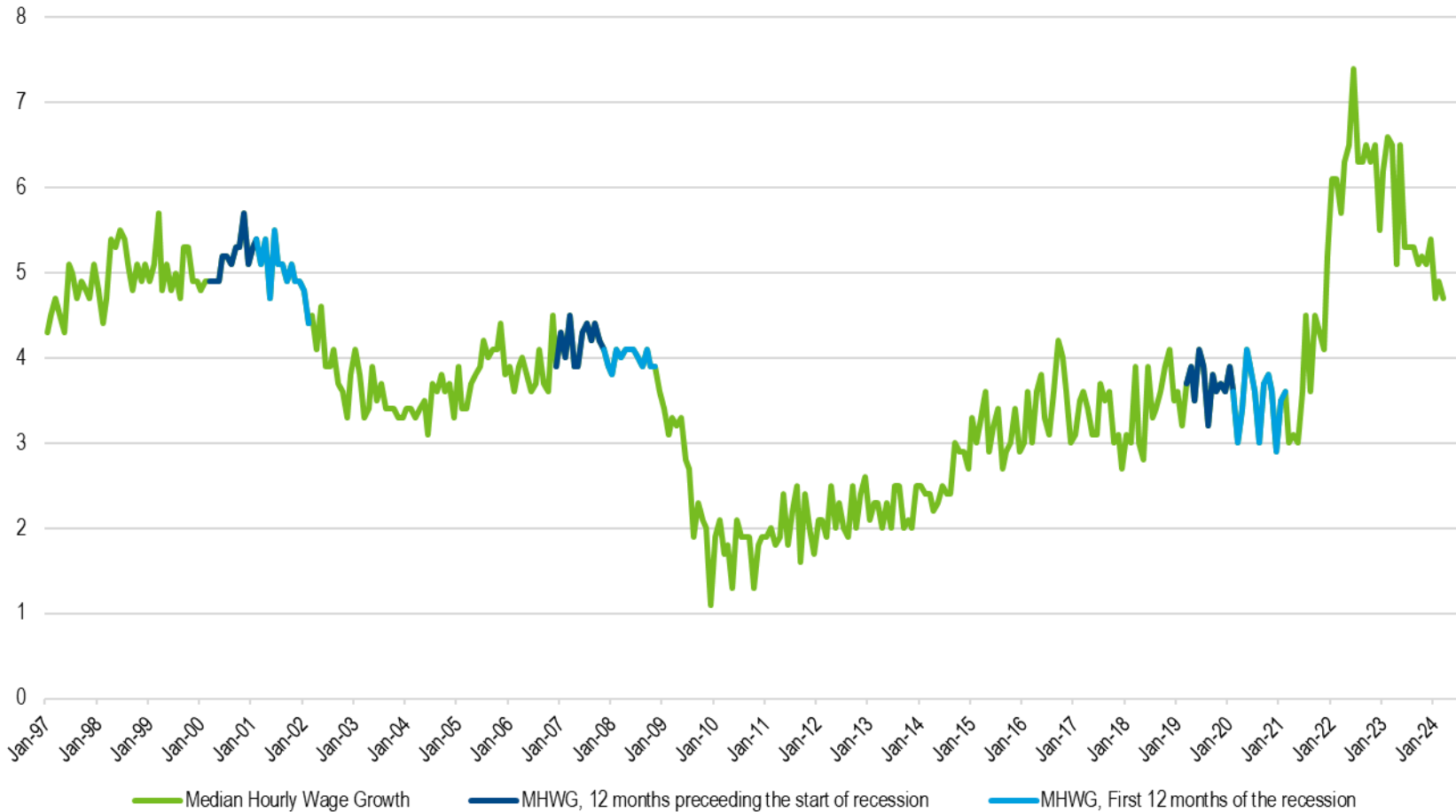


Source: U.S. Census Bureau, FHLBank Boston

Consumer Wealth Effect

An odd dynamic is at play, as wage growth is still historically strong yet is trending down.

Median Hourly Wage Growth

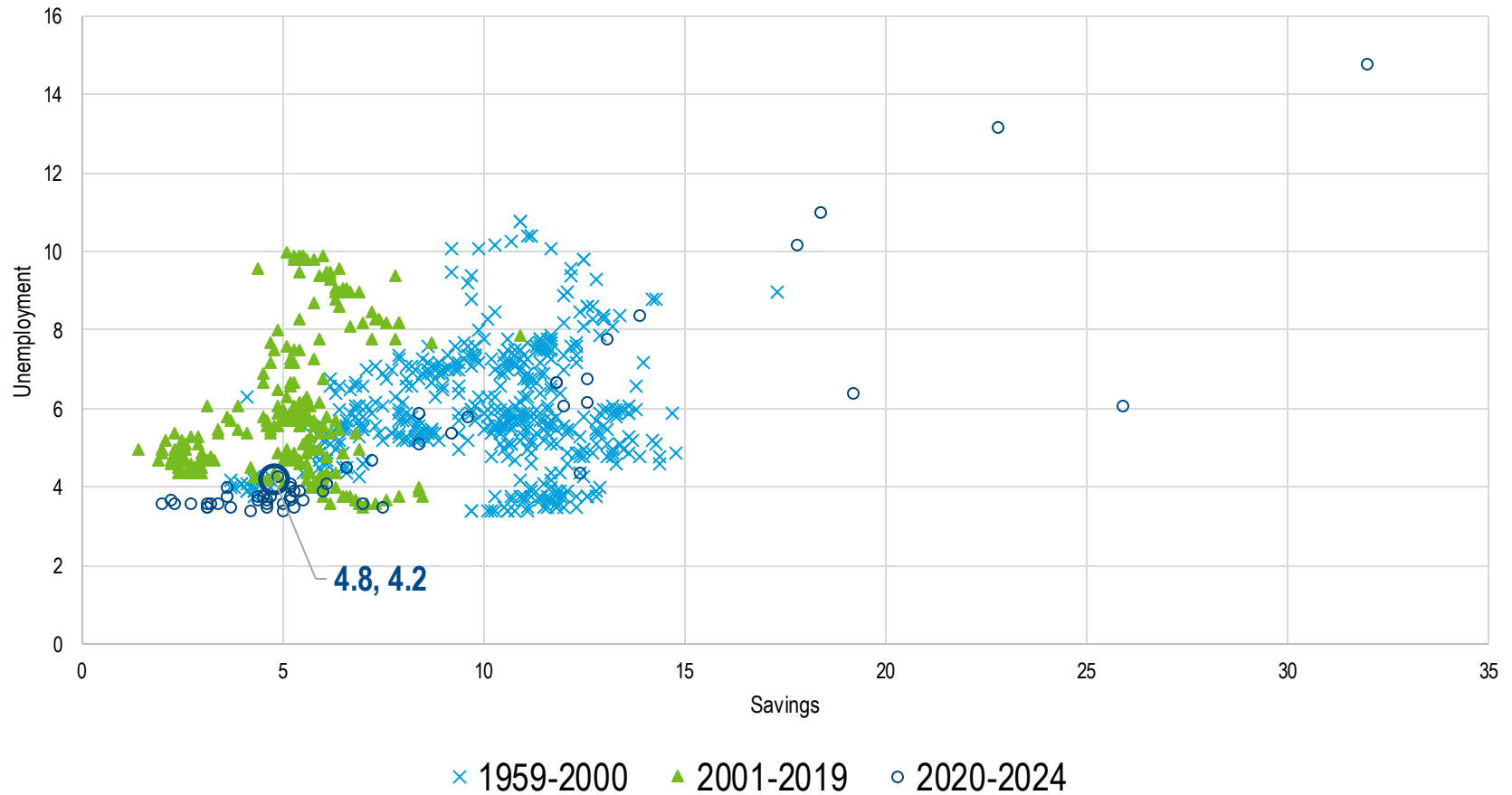


Source: Federal Reserve Bank of Atlanta, FHLBank Boston

Health of the Consumer

The jobs market has softened some but is still relatively strong overall. However, savings levels are near all-time lows.

Personal Savings & Unemployment Rates

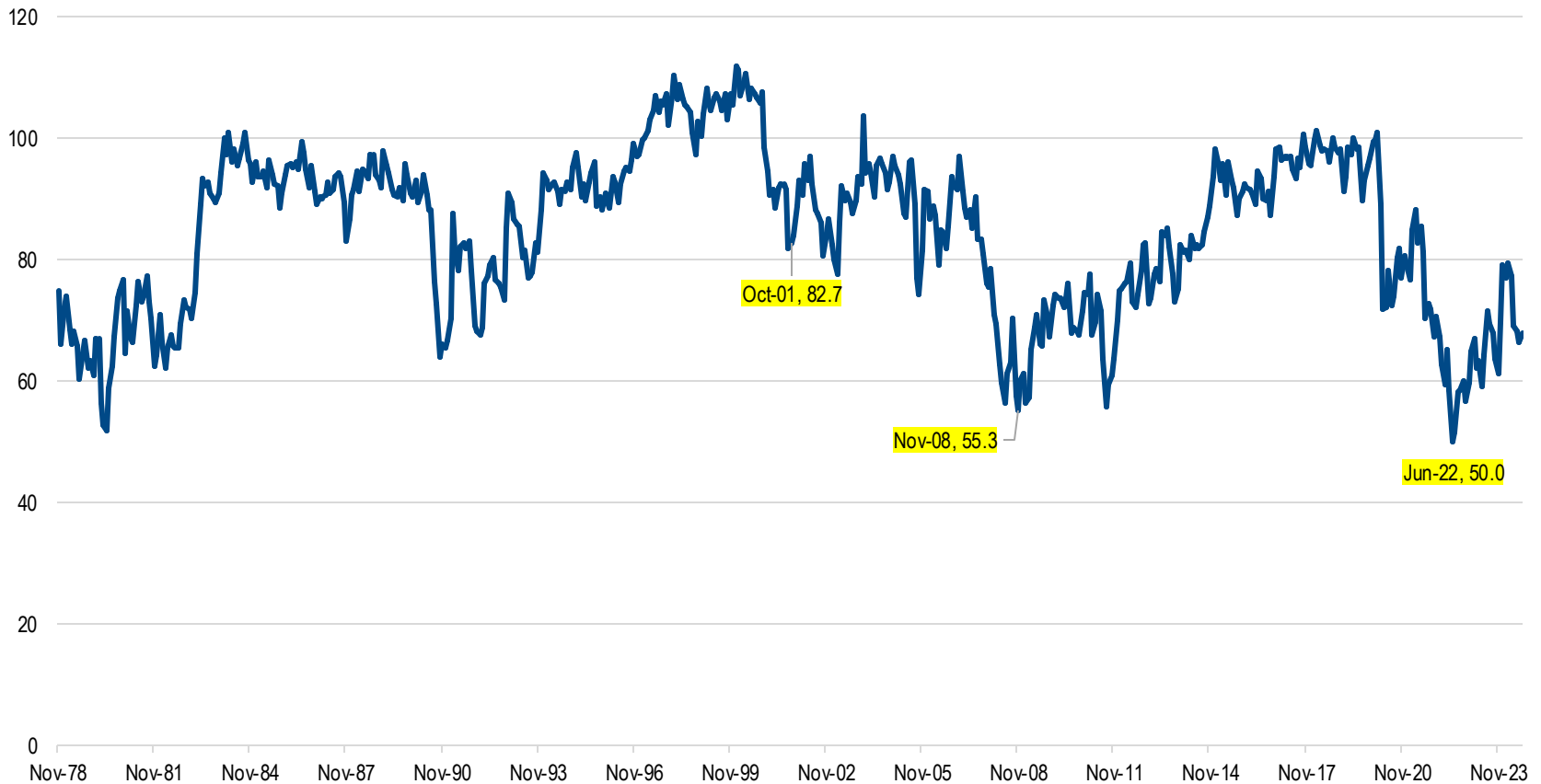


Source: Federal Reserve Bank of St. Louis, FHLBank Boston

Consumer (Lack of) Confidence

Sentiment has recovered from all-time lows in 2022, but we're still softer than previous periods of significant economic and market weakness.

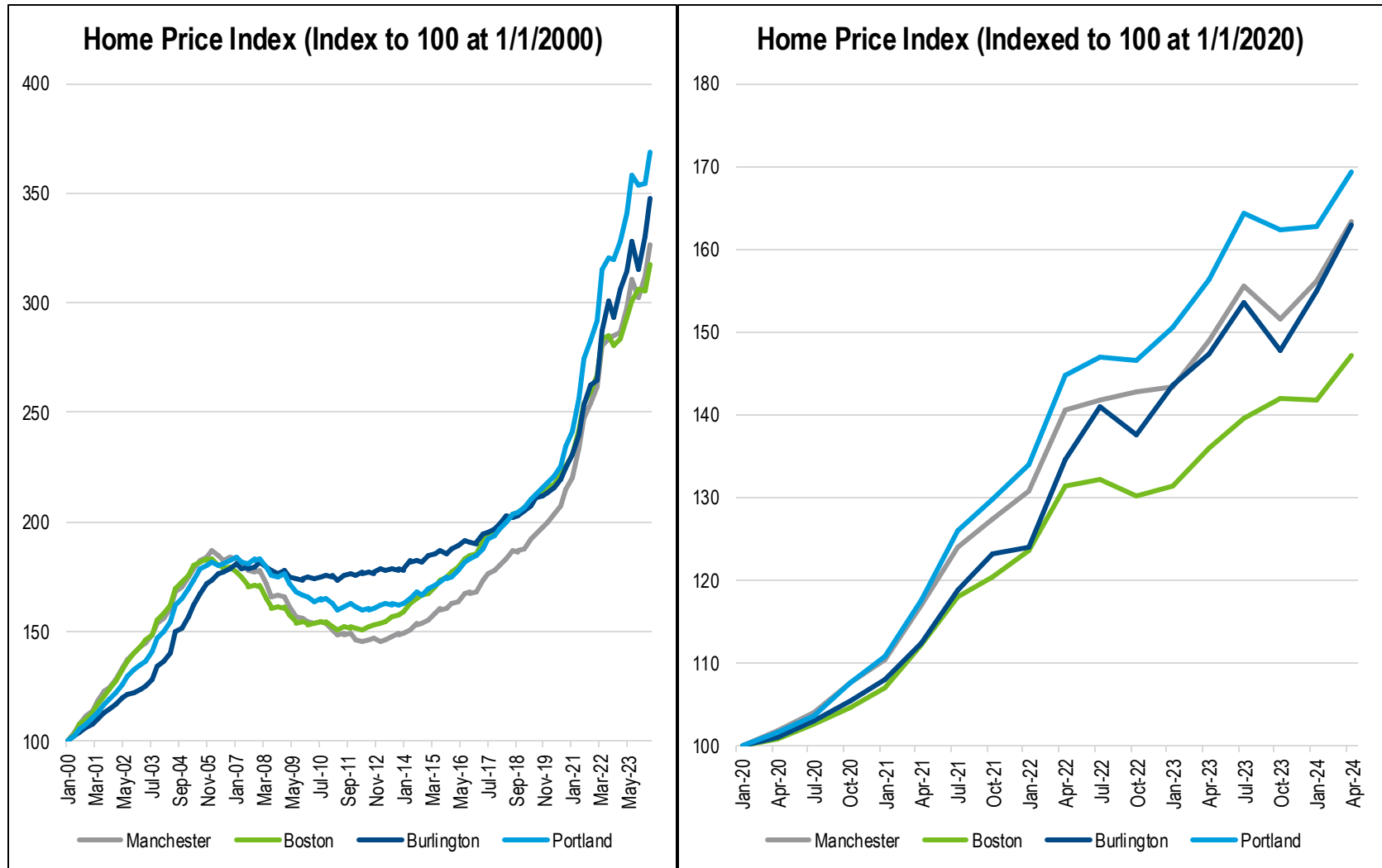
Univ. of Michigan Consumer Sentiment Index



Source: University of Michigan, FHLBank Boston

Housing Market Strength

Whether over the last 5 or 25 years, home prices in New England markets have shown considerable resiliency.



Source: Federal Reserve Bank of St. Louis, FHLBank Boston

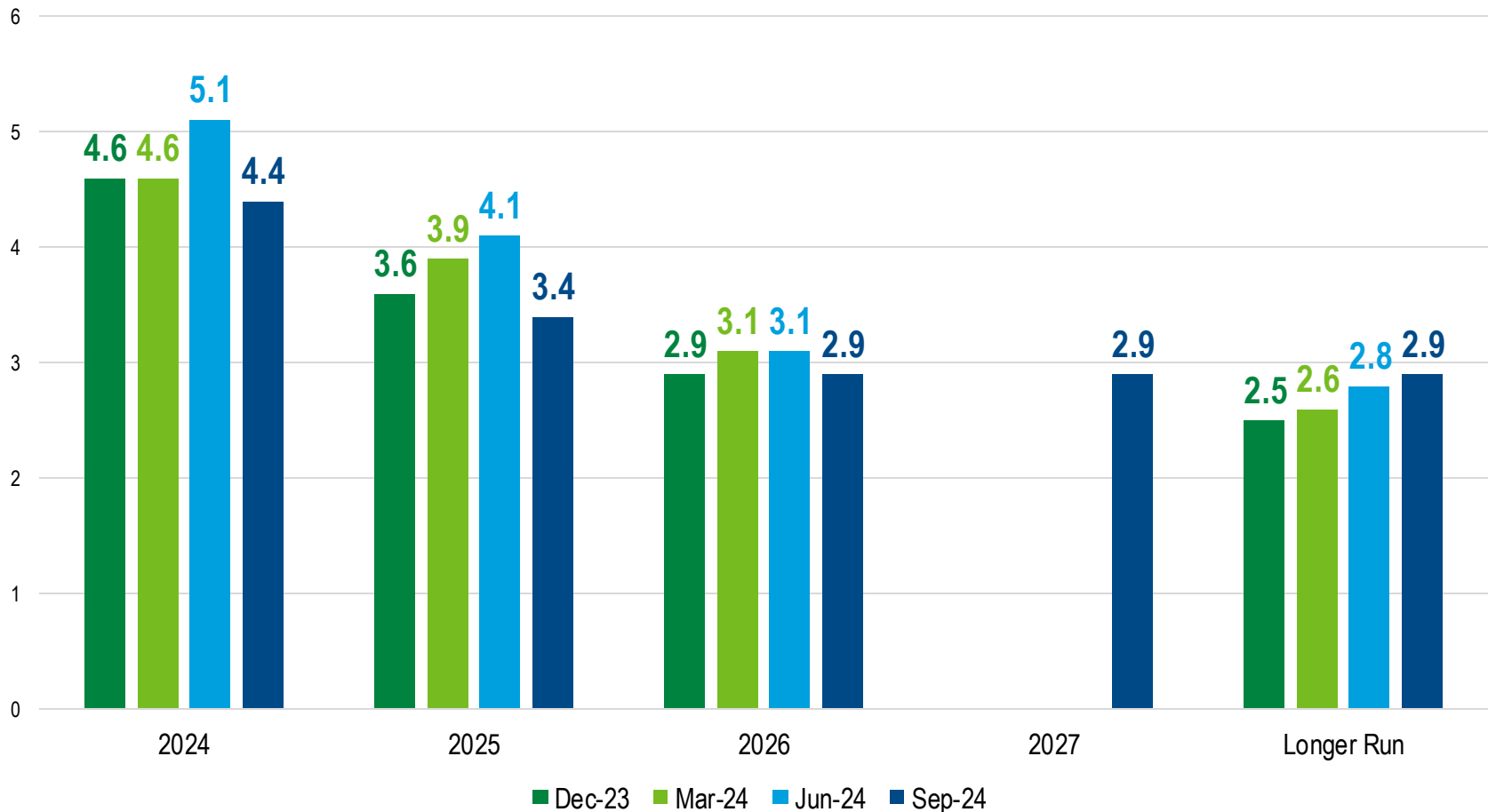
The Markets



The Dot Plot Progression

The biggest recent change was in the expectation for year-end 2025 - however, the market had already begun pricing that in. Take note of the trend in the longer-run forecast, which continues to slowly increase.

Median Federal Funds Rate Projection

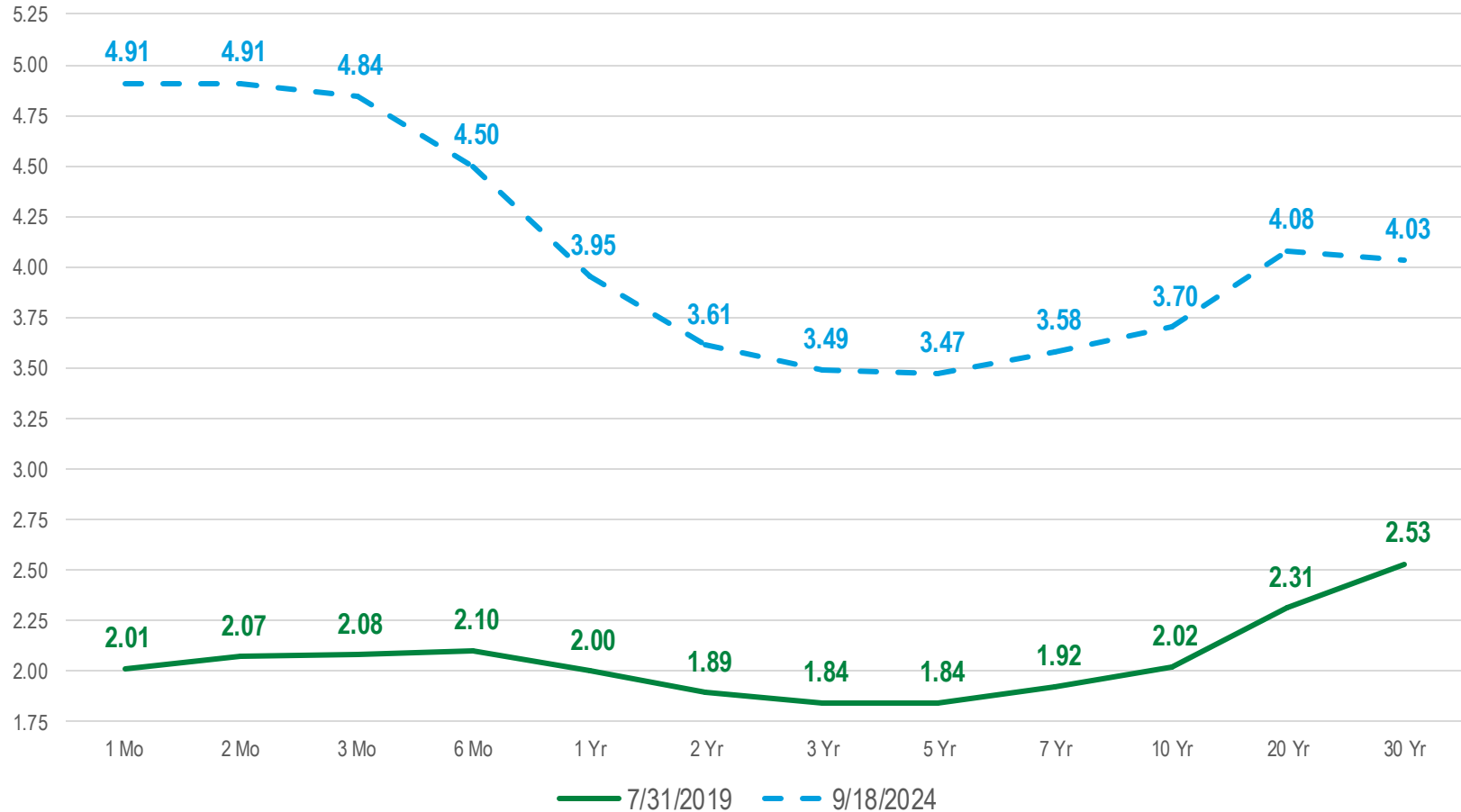


Source: Federal Reserve

2024's Yield Curve is Significantly More Inverted than 2019

Today's yield curve is inverted by more than 100 basis points, where in 2019 that spread was less than 25 basis points.

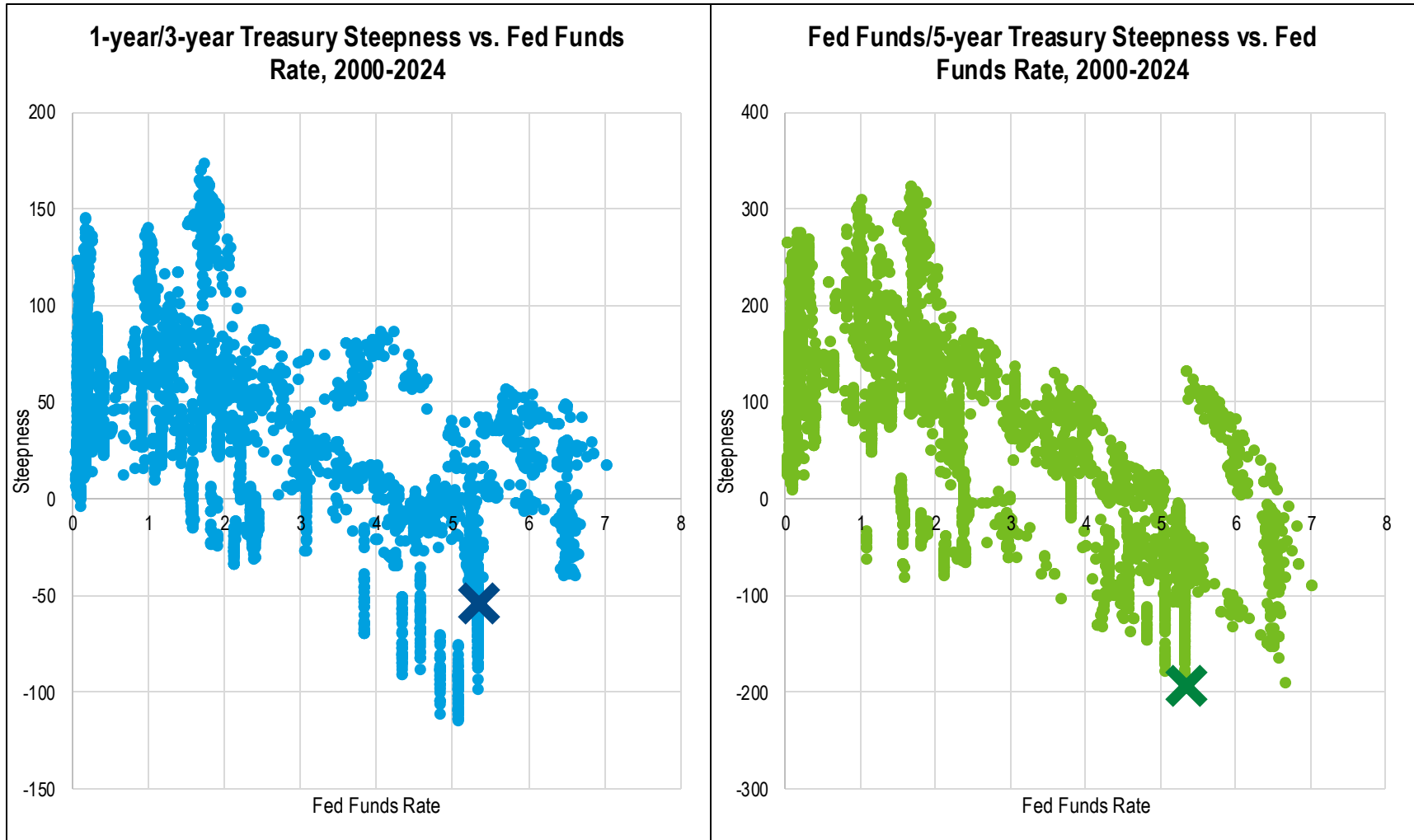
Treasury Yield Curve Following the First Rate Cut



Source: Federal Reserve Bank of St. Louis, FHLBank Boston

Has the Belly of the Curve Already Made Its Move?

As is often the case, the belly of the yield curve anticipates the future path of short-term rates.

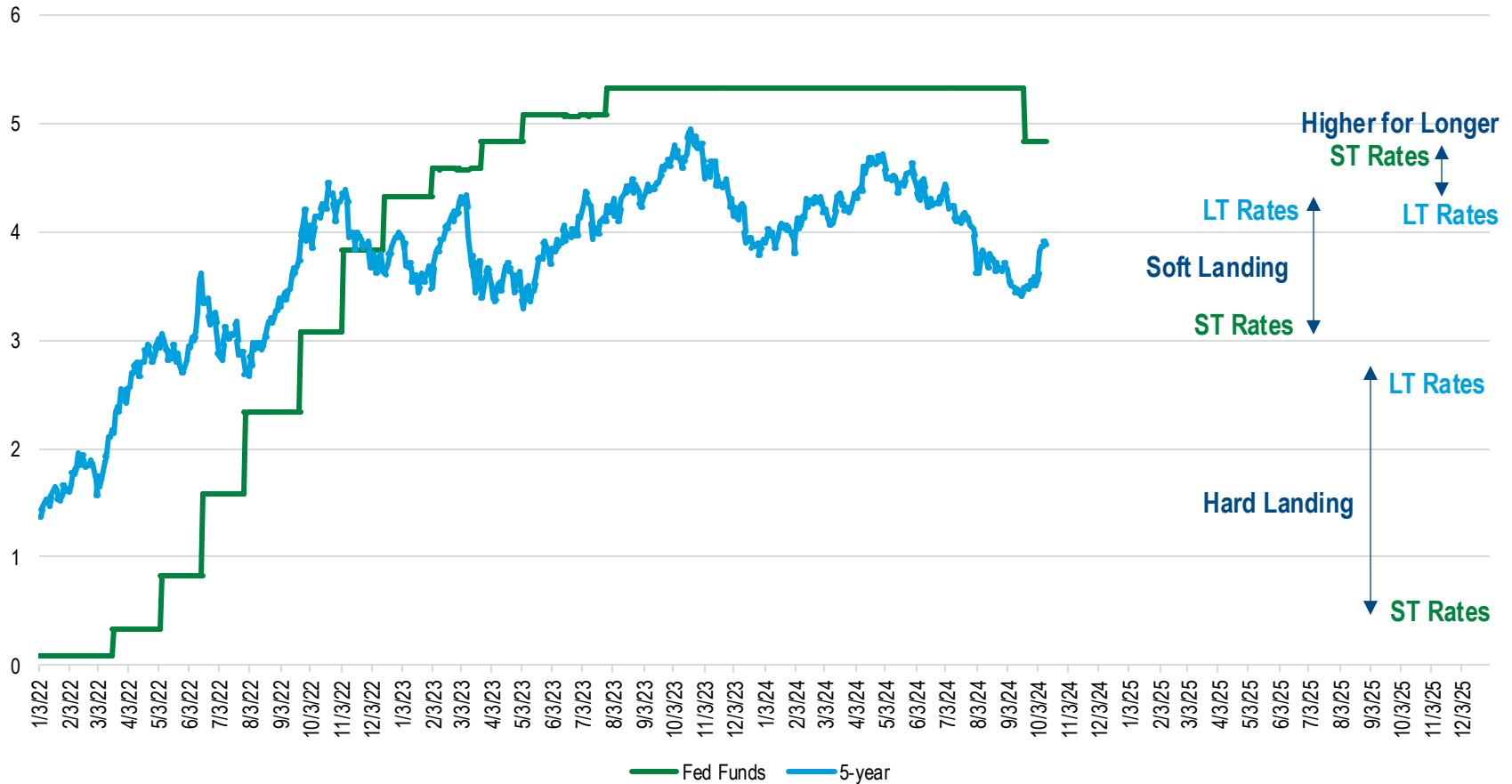


Source: U.S. Bureau of Labor Statistics, FHLBank Boston

Where Do We Go From Here?

The timing, magnitude and even direction of intermediate rates may be just as or more impactful than the oft-discussed path of short-term rates.

Effective Fed Funds Rate & 5-year Treasury Rate

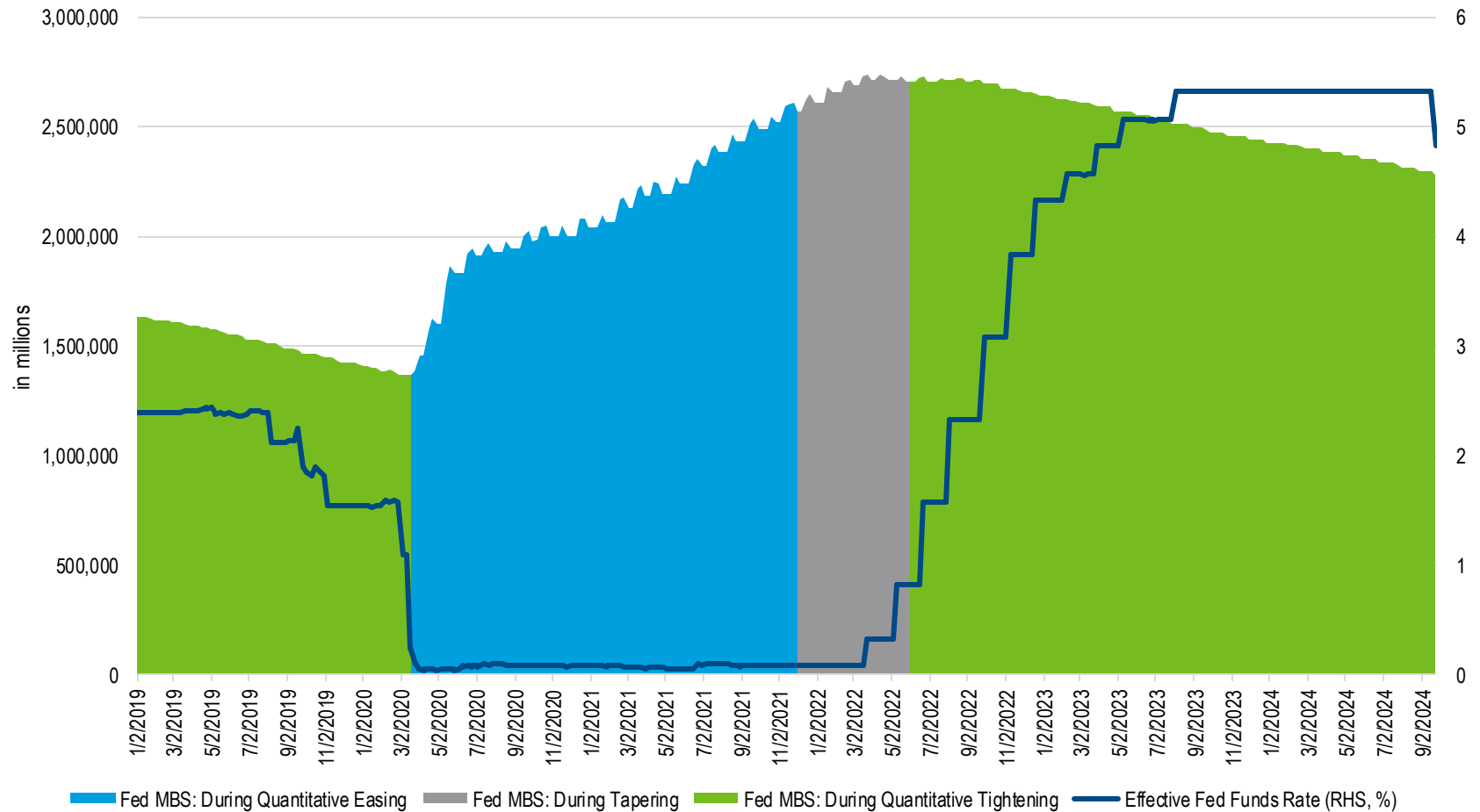


Source: Federal Reserve Bank of St. Louis, FHLBank Boston

Lingering Effects of Quantitative Easing

The retained bond portfolio in the wake of the COVID response is still above \$2 trillion and is running off very slowly.

MBS Held by the Fed & the Fed Funds Rate

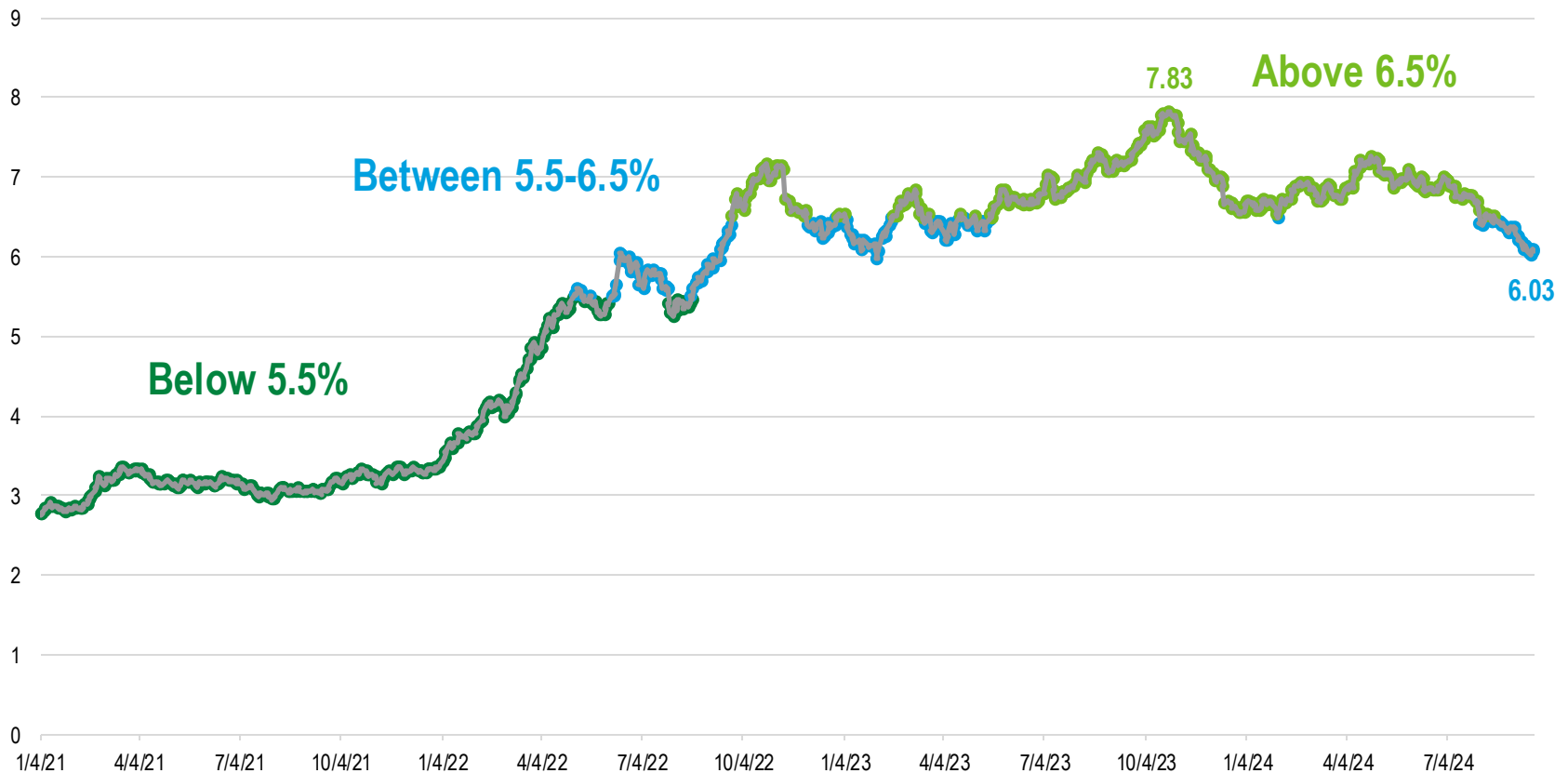


Source: Federal Reserve Bank of St. Louis, FHLBank Boston

Mortgage Rates

The rally in long-term yield has helped home affordability- at least directionally if not to a significant degree. However, the path of rates still tells us that there is a ways to go to spur housing turnover.

30-Year Mortgage Rate

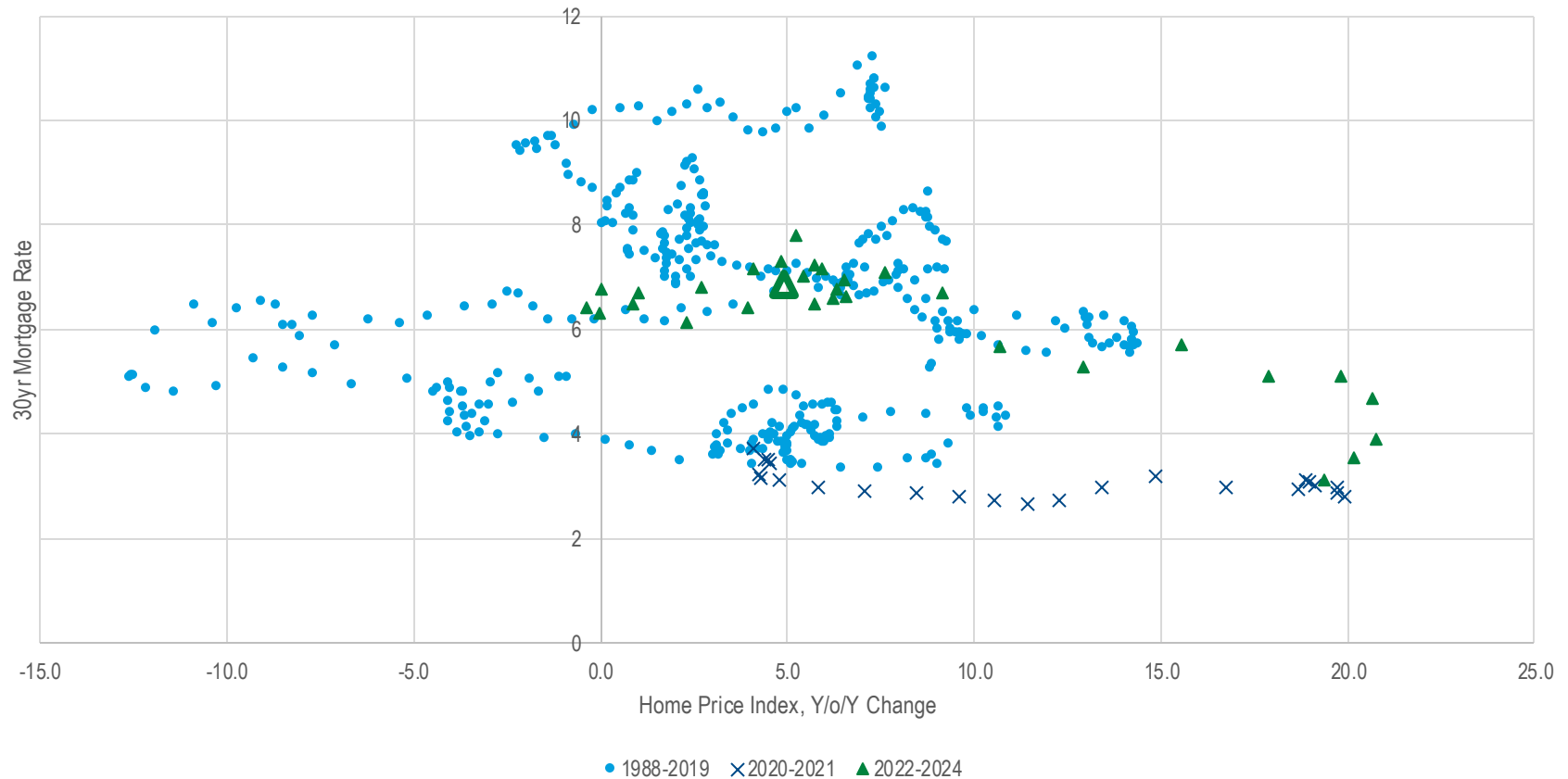


Source: Optimal Blue, Federal Reserve Bank of St. Louis, FHLBank Boston

Home Prices & Mortgage Rates

Historically, high rates don't necessarily or automatically equal tough times for price appreciation. It's more about sudden changes that impact affordability and mobility.

Home Price Index Changes & Mortgage Rates

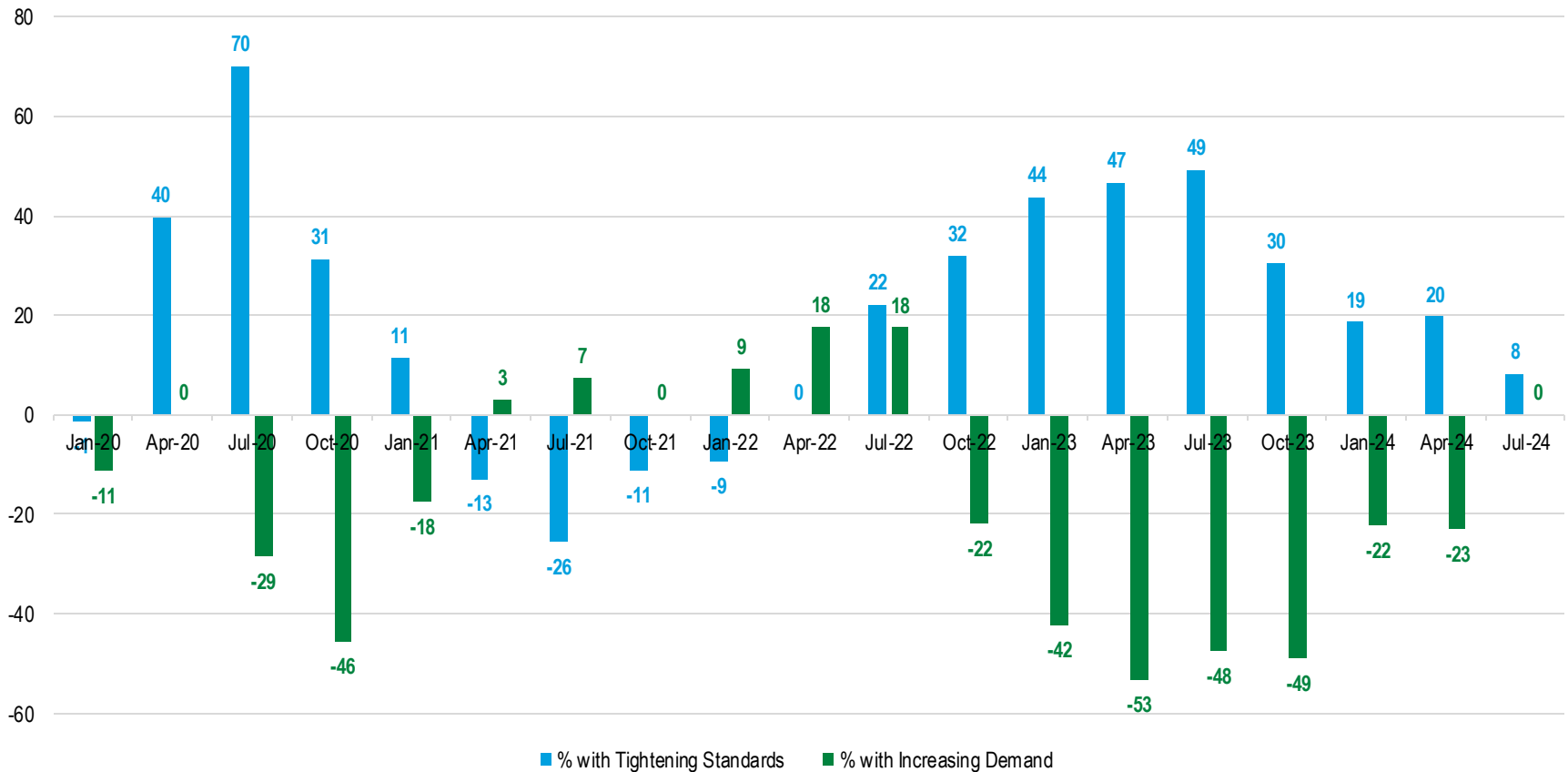


Source: Case Shiller, Freddie Mac, FHLBank Boston

The Commercial Balance Sheet

Commercial lending growth was on fire but has slowed down. With liquidity conditions stressed, depositories are pumping the brakes somewhat on growing loans and demand seems to be slowing some as well.

Lending Survey: C&I Loans to Small Firms

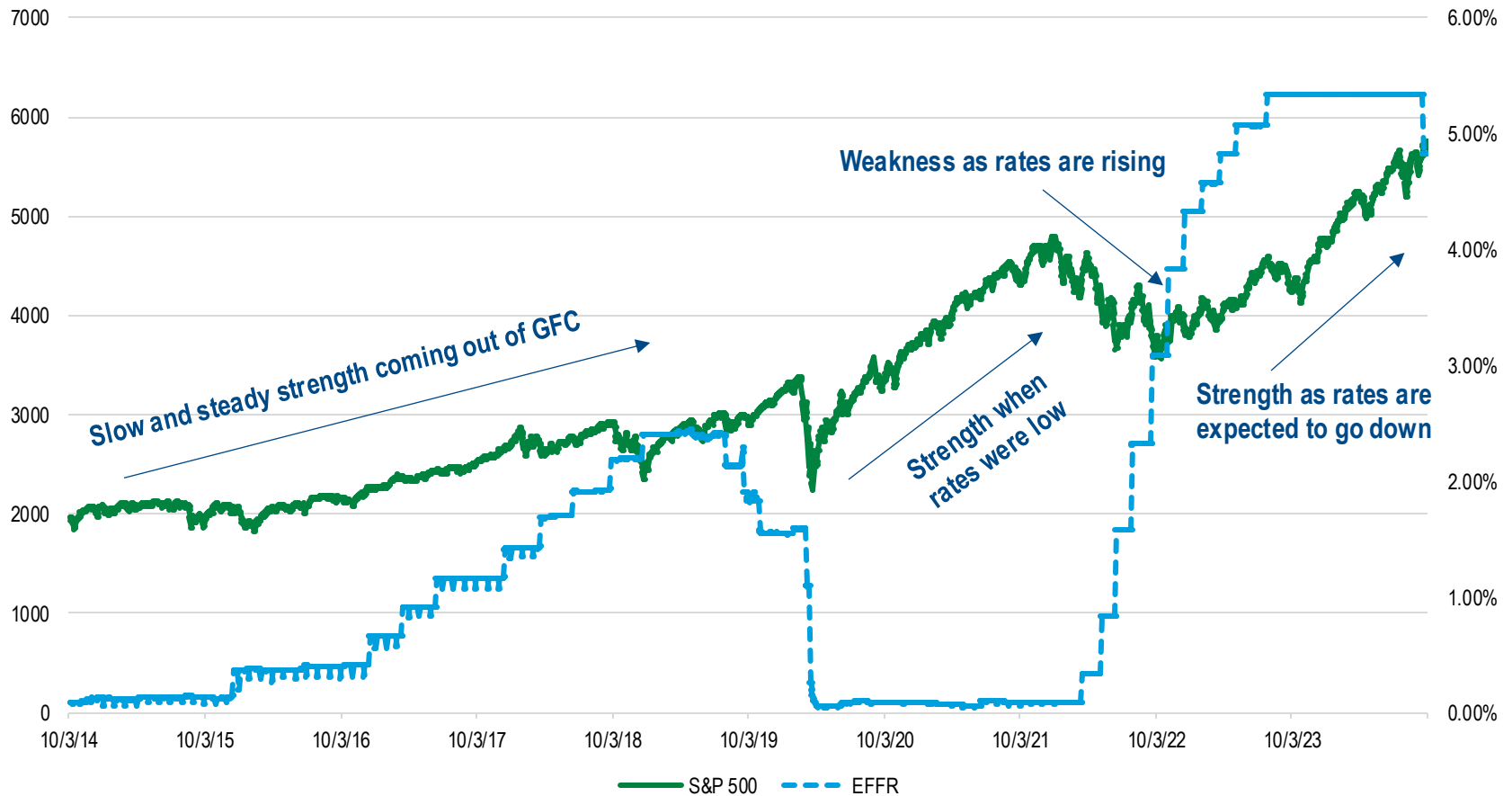


Source: Board of Governors of the Federal Reserve System, FHLBank Boston

Equity Markets

What is the relationship between the level/direction/magnitude of change in interest rates, and the stock market?

S&P 500 & the Fed Funds Rate



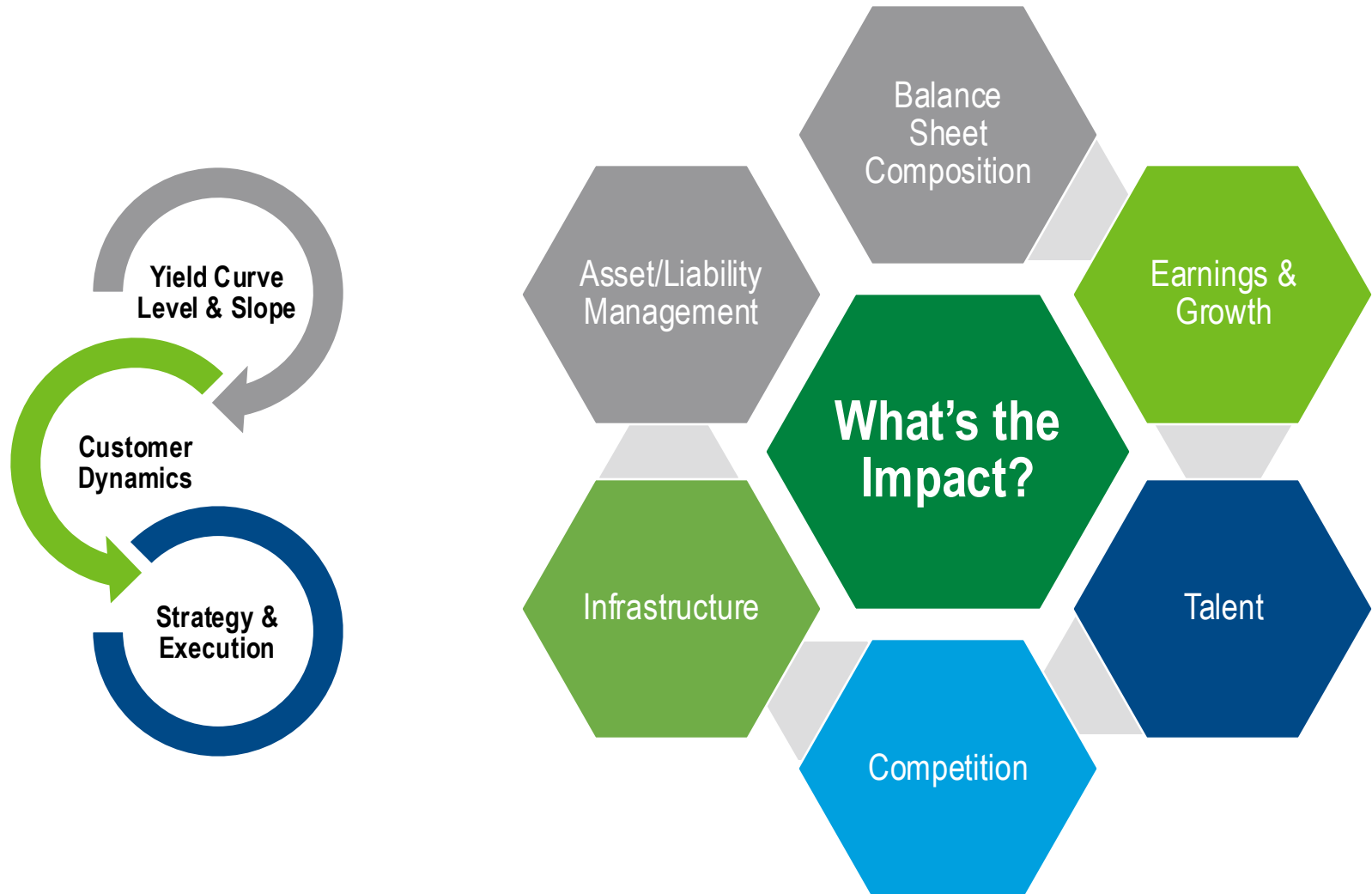
Source: Federal Reserve Bank of St. Louis, FHLBank Boston

The Balance Sheet



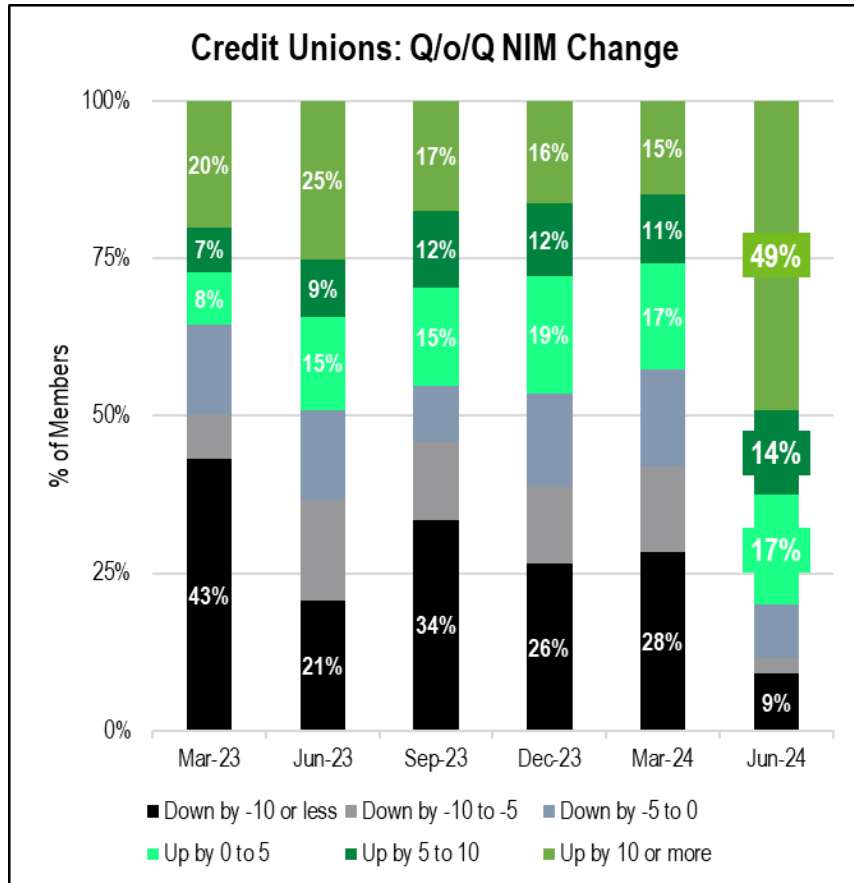
Marrying the Macro & the Micro

How do we combine the big-, medium- and small-picture components to build and sustain a successful credit union?

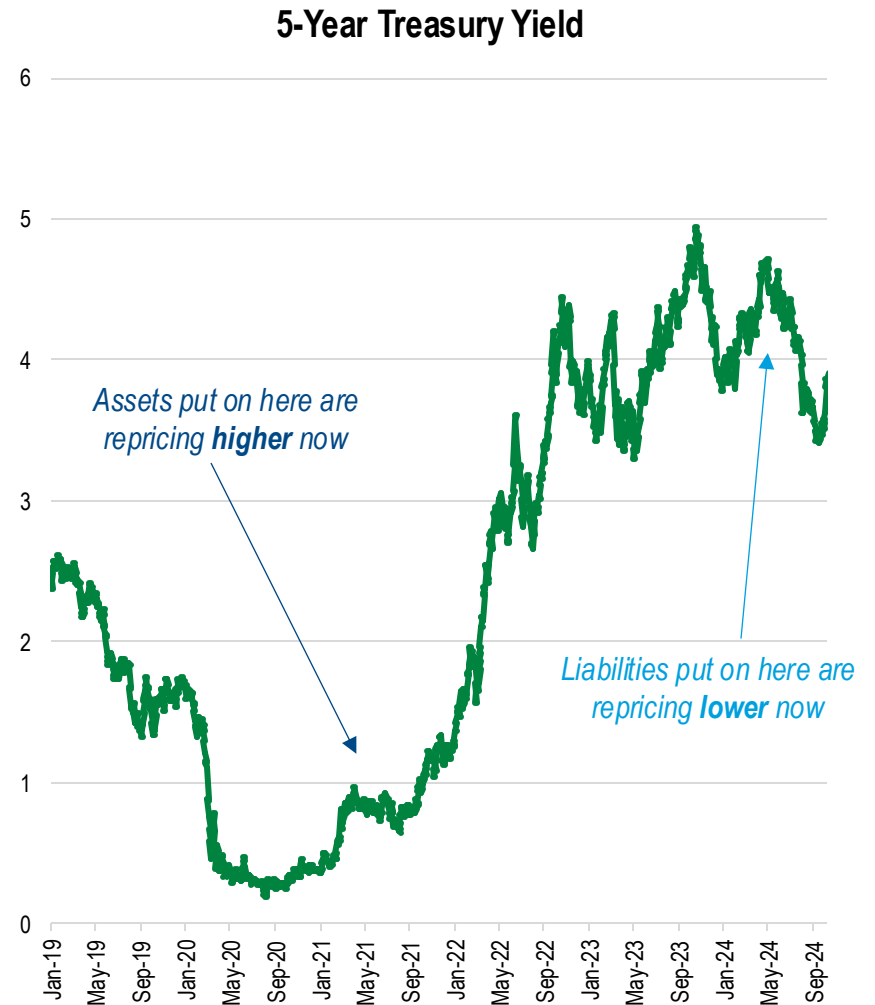


Is Net Interest Margin Improving?

It's been a challenging environment for earnings as rates have risen, but there is some potential relief on the horizon.



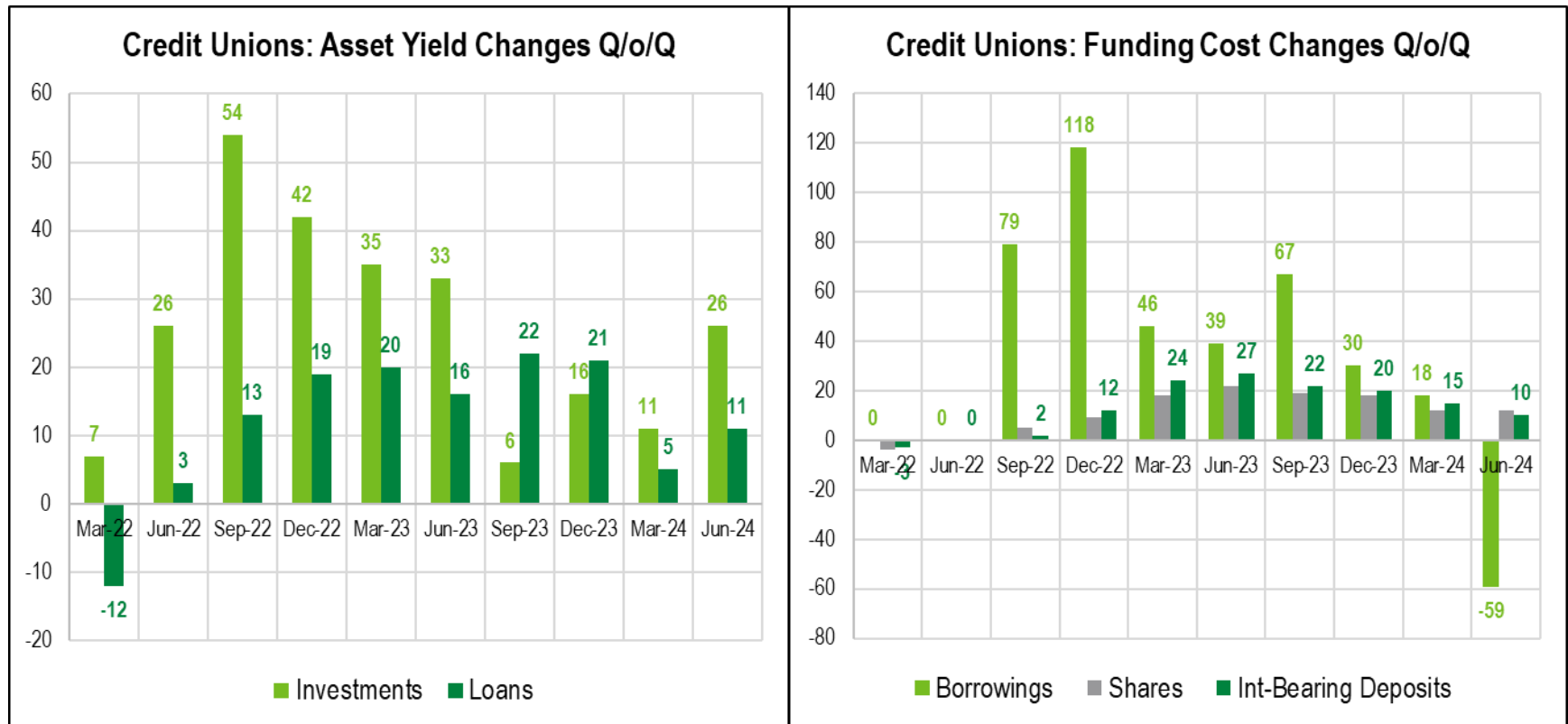
Median NIM: 3.28%



Source: S&P Global, FHLBank Boston

What is Driving the Margin Lift?

The trend of relatively rapid loan and investment yield repricing, as well as deposit cost stability, continues.



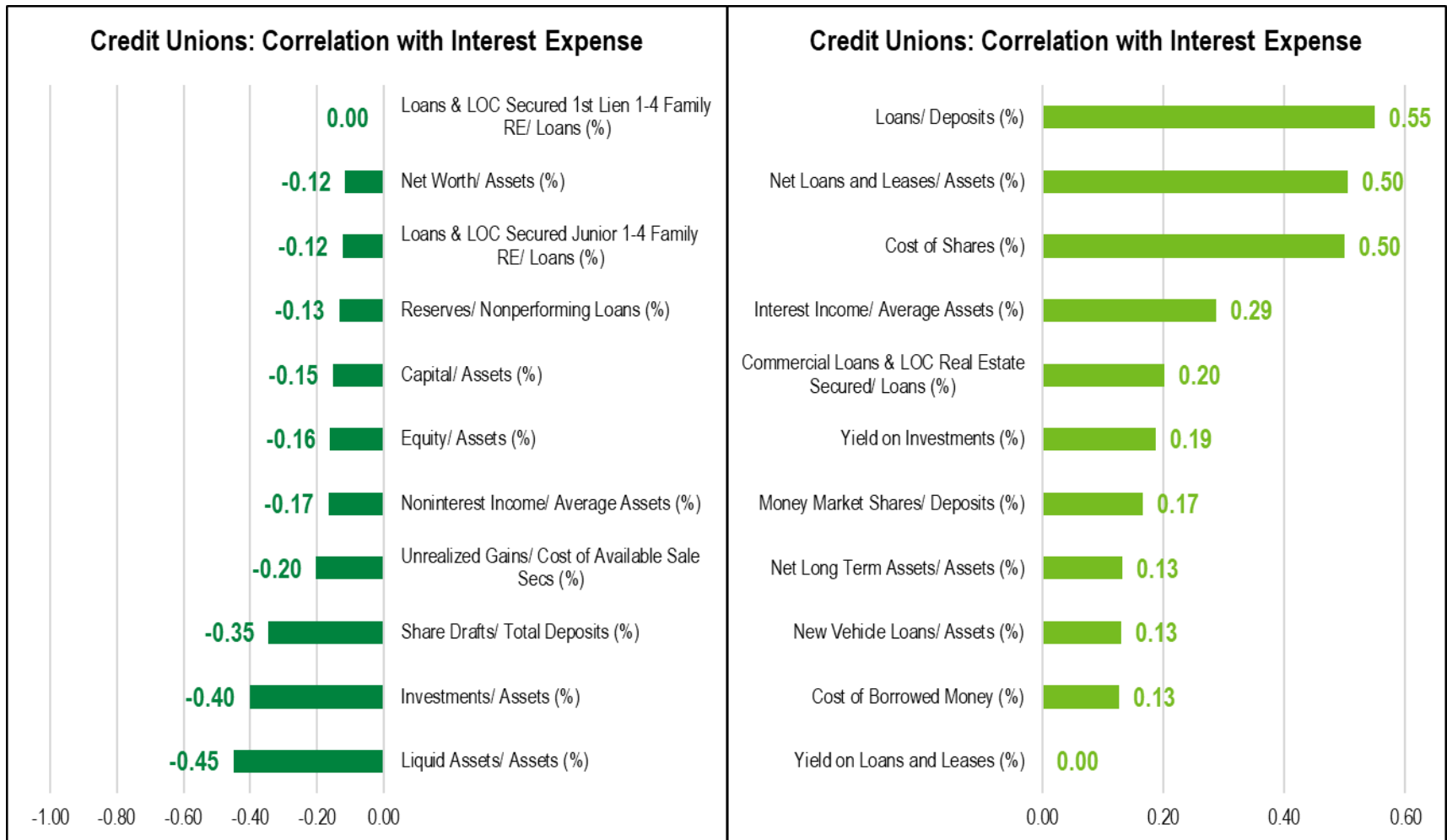
Median Yield/Cost as of 6/30/24

Investments	Loans	Borrowings	Shares	Int-Bearing Deposits
3.27%	5.23%	3.38%	1.37%	1.59%

Source: S&P Global, FHLBank Boston

What Drives Interest Expense?

Interesting relationships exist between those with higher interest expense and various balance sheet and income statement characteristics.

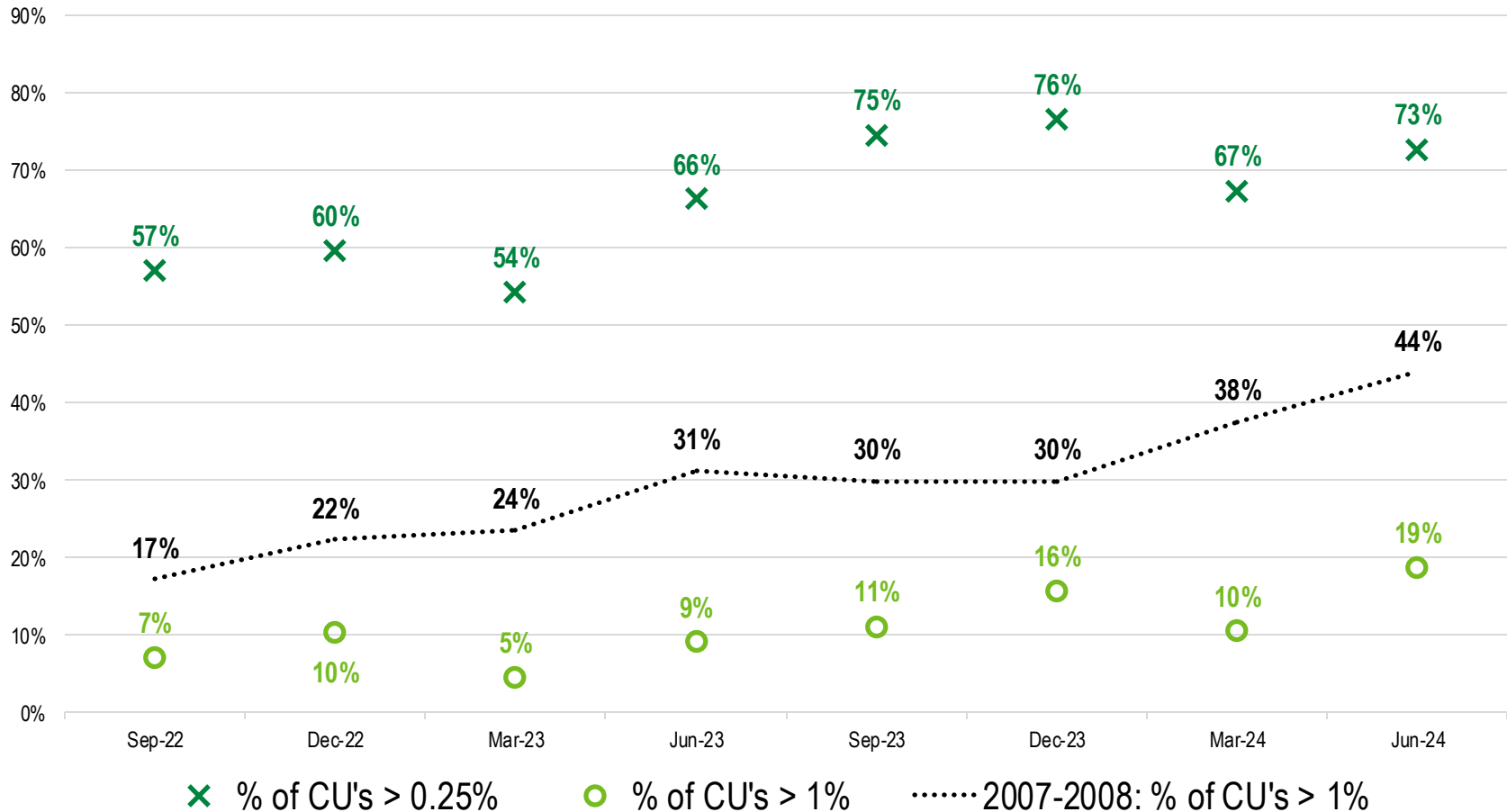


Source: S&P Global, FHLBank Boston

Any Signs of Credit Stress Yet?

There were small signs of growing delinquencies from very low levels. However, reserve coverage remains strong.

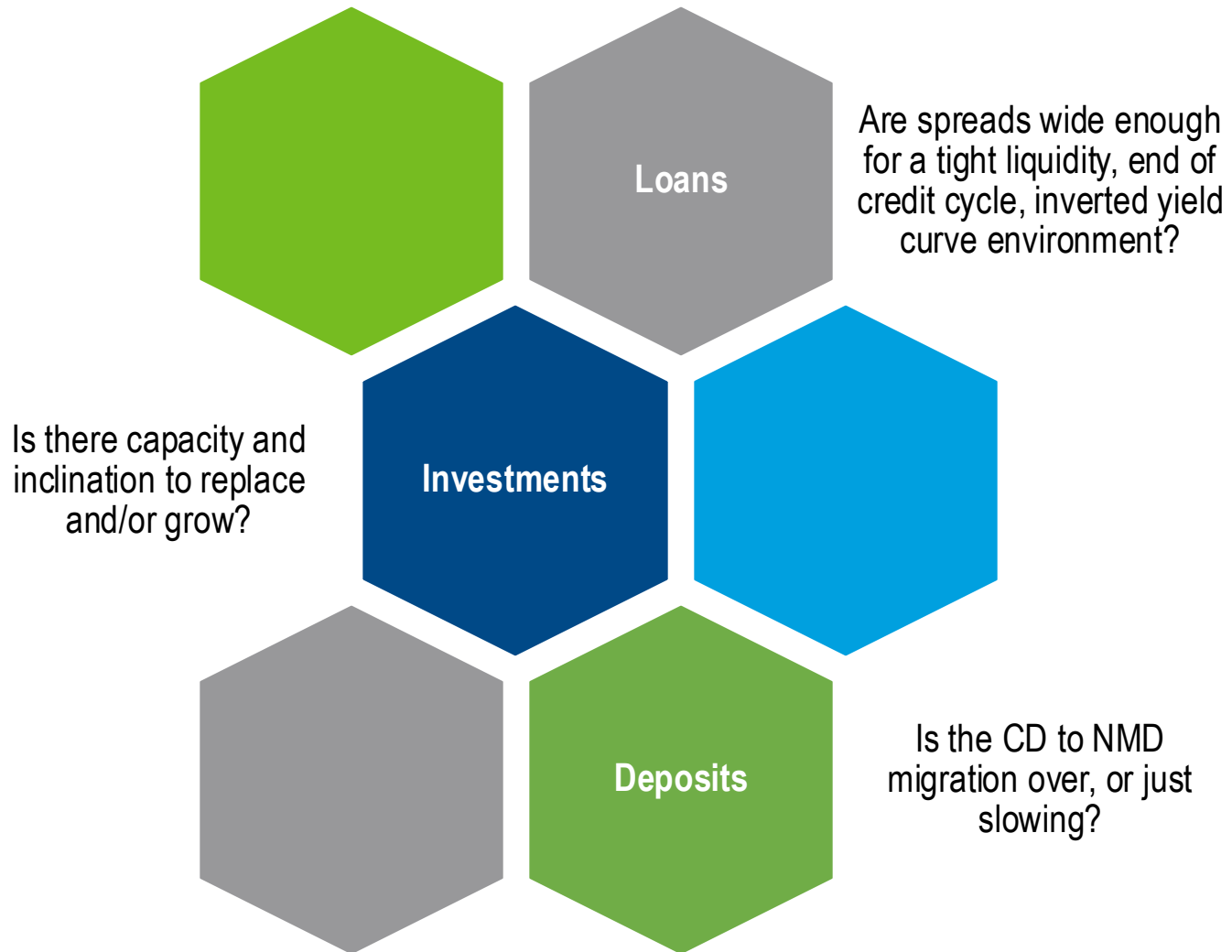
Delinquent Loans to Total Loans



Source: S&P Global, FHLBank Boston

Lending, Investment & Deposit Questions

Balancing today's interest-rate and liquidity risk profile vs. the expected future state.

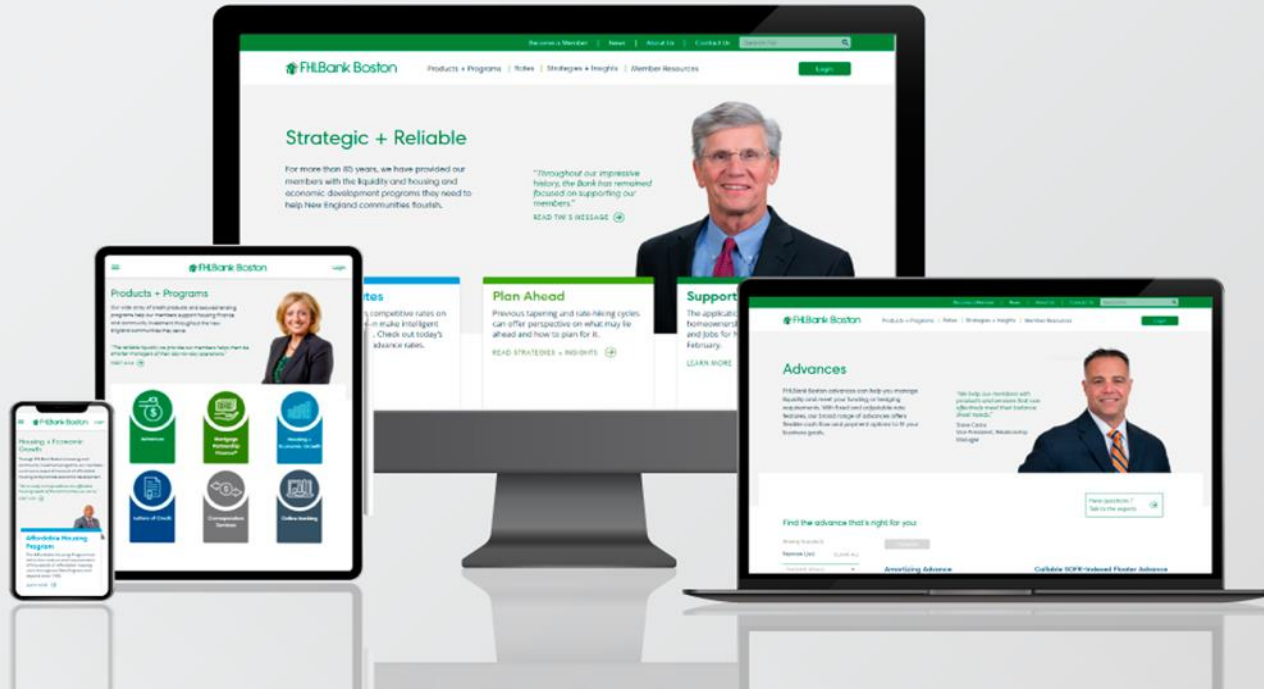


Balancing Risk & Return

What combination and magnitude of risks are you willing and able to take on?

Your text here





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Thank You



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