The ADVISOR

Focus on Community Banking Issues

First Quarter 2020

ECONOMIC ENVIRONMENT

GDP growth returning to a more sustainable level

GDP grew 2.5% in 2018, nearly equivalent to its 2.4% average pace through Q3 of 2019. Growth slowed to roughly 2.1% in the third quarter, decelerating from earlier in the year, and we believe that the 2.0% pace is likely to continue into 2020. Looking back, we expected the U.S. growth spurt in early 2018 to subside as the shorter-term benefits of tax reform faded and we were confident growth was likely to return to a sustainable trend of 2% in 2019, supported by a very healthy consumer. This appears to be exactly where we stand today, and where we project the economy to remain during 2020.

Healthy consumer is key to U.S. economic resilience

Growth was driven by a strong consumer in 2019, with continued weak business spending diluting the net result. The consumer continues to benefit from a very strong labor market, driving consumer confidence and cash flow. The downtrend in business spending was impacted by an uncertain global trading environment centered on very volatile U.S./China trade negotiations. Uncertainty around the U.K.'s potential exit from the European Union (Brexit) added to the pessimism in global trade and global growth prospects.

Headwinds to growth lifting

The recent phase one trade agreement between the U.S. and China

Features

* ***Economic Environment:*** Growth likely to pick up as business spending gets a boost from new trade deals.
* ***Fixed Income Strategy:*** Fed on hold. Gradual steepening in the curve with 10-year Treasury rising toward 2.25%.
* ***Equity Strategy:*** From demographic shifts to technological advances, investors should prepare for opportunities in the decade ahead.
* ***ALM Strategy:*** IRR still requires attention in 2020, even with the Fed likely on hold for the year.

EPG RATE FORECAST

January 2020

MARKET RATE	Actual (%) 12/31/2019	Projected (%) 12/31/2020	Yr1 Δ	Projected (%) 12/31/2021	Yr2 Δ
FedFunds	1.75	1.75	0.00	1.75	0.00
Prime	4.75	4.75	0.00	4.75	0.00
3mthTsy	1.54	1.70	0.16	1.70	0.00
6mthTsy	1.58	1.75	0.17	1.75	0.00
1yrTsy	1.57	1.85	0.28	1.85	0.00
2yrTsy	1.57	1.95	0.38	1.95	0.00
3yrTsy	1.61	2.00	0.39	2.00	0.00
5yrTsy	1.69	2.05	0.36	2.05	0.00
10yrTsy	1.92	2.25	0.33	2.25	0.00
30yrTsy	2.39	2.50	0.11	2.50	0.00

RATE OUTLOOK DESCRIPTION:

This represents EPG's current view of interest rates.
Depending on the actual timing of the ALM meeting, the forecast may be altered and/or updated.
For the most accurate current rate forecast, please call EPG, Inc. at (781) 235-2666.

EPG INCORPORATED

ECONOMIC ENVIRONMENT

should improve the investment environment for many businesses, including exporters. The signing of a new North American Free Trade Agreement (USMCA) is good news for business spending and trade as well. Thus, we are likely to see business sentiment turn higher and an increase in business spending emerge this year, supporting an already solid consumer sector. Finally, the landslide conservative election victory in the U.K. should bring greater clarity to Brexit. Fear of a global recession has subsided, and we believe that it remains highly unlikely. This has caused a modest uptick in global interest rates, which we expect to continue. In conclusion, we expect sustained 2% or slightly higher U.S. GDP growth to continue in the year ahead with the Fed on hold.

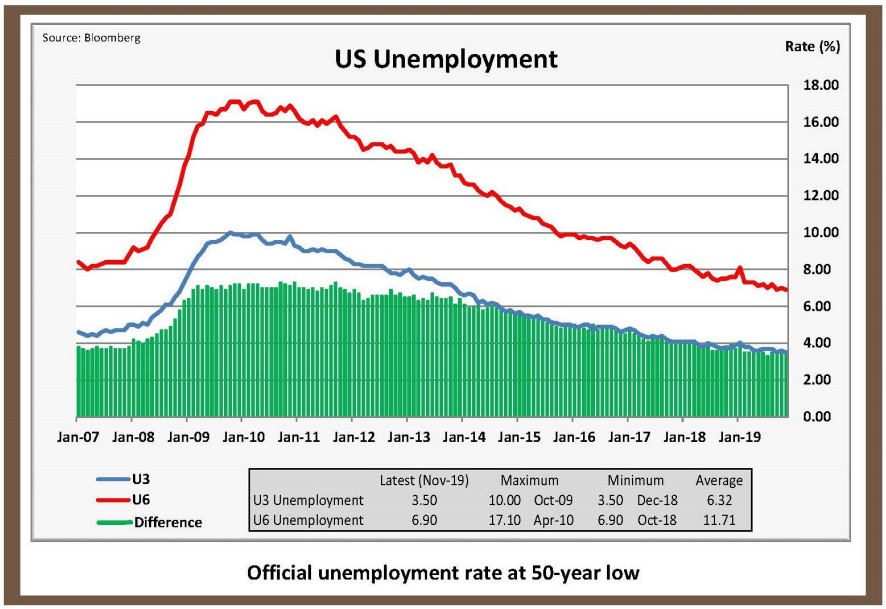
Consumer behavior moderates any possible downturn

Solid consumer spending is supported by rising wages and plentiful jobs, with recent job reports confirming this trend. Additionally, the consumer savings rate has gradually risen to approximately 8% from 3% just prior to the financial recession. We regard this as a positive development, as it demonstrates a more disciplined consumer. Dollars put away in savings today do not add to current consumption…but could be available to support future consumption, potentially moderating any downturn.

The Great Moderation

In fact, a Goldman Sachs analysis of the current potential risks to growth show that they are mostly muted. The report found that the pillars of the "Great Moderation" that began in the 1980's, including low levels of volatility marked by sustainable growth and muted inflation, interrupted only by the financial crisis more than a decade ago, are still standing. This has led their economists to state that the U.S. economy is structurally less recession-prone today. We agree.

Although Goldman's economists do not completely dismiss the risk of a recession, they do conclude that some of the major headwinds have dissipated. For example, the U.S. has become largely energy independent while the financial system has become less levered since the financial crisis, due to a sharp deceleration in private sector debt when compared to income. Furthermore, more stringent regulations in the banking system have driven much higher capitalization levels and healthier underwriting standards.



Official unemployment rate at 50-year low

ECONOMIC ENVIRONMENT

Inflation

Inflation has remained well contained, sitting just below the Fed's objective of 2%. In early 2019, the Fed was concerned that the unemployment rate was dangerously low, and when combined with a global trade war, risked substantially higher inflation. That did not happen. The Fed has now changed its approach to managing the funds rate, reversing three of their four 25 basis point tightening moves from 2018.

Fed changes its strategy of pre-emptive inflation fighting

It appears that Fed officials misjudged the tightness in labor market conditions as they raised rates during 2018, and now realize that the unemployment rate is a less reliable measure of labor market slack. As workers on the sidelines (but officially counted as unemployed) are drawn back into the labor force, the pool of available workers increases, acting as a cap on wage growth. While wage pressures have picked up, they remain generally moderate. That could change, but until it does, there is likely to be limited upward pressure on inflation.

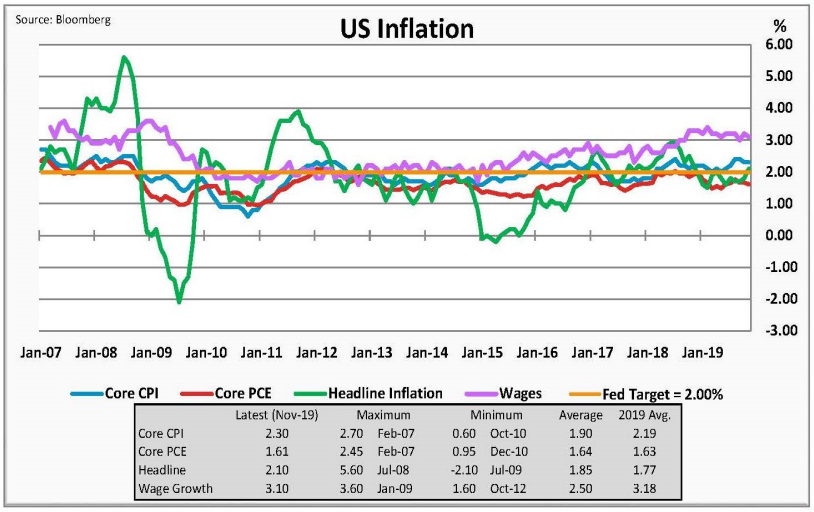
For years the Fed has long believed that if they waited for higher inflation to actually appear, it would be too late to prevent it from rising further. The Fed now is acknowledging that policy of preemptive tightening ahead of inflation is no longer appropriate, and have signaled they are willing to see inflation rise above their target and remain there for a while before they consider any additional tightening.

Global rates continue to anchor U.S. rates

Low global rates have anchored U.S. rates over the past few years and will continue to do so. However, the experiment with lower rates is changing, and we expect central banks to look to manipulate their yield curves to create a more positive slope, just as the Fed appears to be doing today.

Sweden was the first central bank to adopt negative short-term rates. At year end, however, they raised rates to zero, as many central banks now worry that the cost of negative rates may outweigh the benefits.

We expect global rates to continue to edge higher in 2020 with curves steepening, supporting the expected steepening in the U.S. yield curve with medium and long-term interest rates moving modesty higher. We are targeting 2% on the five-year Treasury and 2.25% on the ten-year Treasury, bringing market rates up about 40bp from current levels. ◆



	Latest (Nov-19)	Maximum		Minimum		Average	2019 Avg.
Core CPI	2.30	2.70	Feb-07	0.60	Oct-10	1.90	2.19
Core PCE	1.61	2.45	Feb-07	0.95	Dec-10	1.64	1.63
Headline	2.10	5.60	Jul-08	-2.10	Jul-09	1.85	1.77
Wage Growth	3.10	3.60	Jan-09	1.60	Oct-12	2.50	3.18

Wage growth remains above 3%

FIXED INCOME STRATEGY

FIXED INCOME STRATEGY

Steepening of the curve to continue as long end adjusts higher

The current levels of 1.80% for the ten-year Treasury and 1.60% for the five-year are improving entry points for intermediate and select longer-term bonds, especially when compared to early September of 2019 when the 10-year yield sank to 1.45%.

The yield curve steepened as the Fed cut the funds rate 25bp to a range of 1.50%-1.75% in October, the third cut this year. Since then, yields in the middle and longer ends of the curve have moved higher as the view of U.S. economic growth has improved. The two to ten-year spread had reached as high as 30bp in December after having inverted briefly in August. The recent pullback in 10-year yields from close to 2% is due to tensions in the Middle East, which should abate in the months ahead.

Secular trends to limit rise in rates

Historically low inflation, demographic trends, relatively low growth, and low interest rates abroad have supported low rates in the U.S. We expect these trends to act more as a cap on rates in the period ahead as opposed to an anchor. Although inflation has steadied slightly below the Fed's objective of 2.00%, we expect the Fed to let "inflation run" and not act preemptively if their 2% target is achieved. We expect the Fed to hold rates steady in 2020.

Headwinds to growth lifting

With the U.S. and China reaching a phase one trade deal and a new NAFTA agreement in place, we expect headwinds to global growth to lift in 2020, allowing yield curves to steepen and market rates to rise globally. We expect the ten-year Treasury to broadly trade back to 2.00% - 2.25% in the months ahead as confidence in a more stable global growth environment increases.

Fixed Income strategy: then & now

In order to evaluate 2019 bond market strategy and examine its effectiveness, it may be helpful to go back a few years to review our outlook and strategy. Let's investigate 2016, when rates began to accelerate upward late in the year following the presidential election.

Our defensive posture was rewarded

Leading up to the election, our view was that the economy would eventually improve and the Fed would begin to normalize rates, and as a result, we should minimize IRR. We looked for opportunities to add to holdings on bond market weakness, but we remained cautious during 2017 as rates continued to fluctuate. Once the tax reform package was passed in late 2017, rates accelerated further.

Extending duration during market weakness

As rates rose to our targeted levels in 2018, we became more active, recommending a shift toward securities that possessed the potential for gains if rates stabilized before an eventual downturn. This was at a time that many in the market recommended preparing for higher rates on the assumption the Fed would continue to tighten. Our view was that the boost to economic growth from tax reform early in 2018 would fade, allowing powerful secular trends to slow the economy to a more sustainable level near 2%.

Capturing key drivers of Fed policy

By calling for peak economic activity and inflation during 2018, we accurately forecasted the peak in the funds rate at 2.5%. We encouraged clients to grow their

investment portfolios by adding par and discounted securities and extend duration during that period. This positioned us well for 2019; as rates declined the par and discount securities out-performed, with unrealized gains and modest prepayments. This allowed us to realize bond gains as appropriate.

This also provided the opportunity to purchase slightly higher coupon securities whose performance had lagged during the bond market rally. As 2019 progressed, investors focused on the risk of recession in 2020, driving rates lower still. We saw the economy stabilizing and called for the Fed to cease cutting rates, suggesting they would pause through the election cycle of 2020. This appears to have happened as we enter 2020.

Value in the bond market

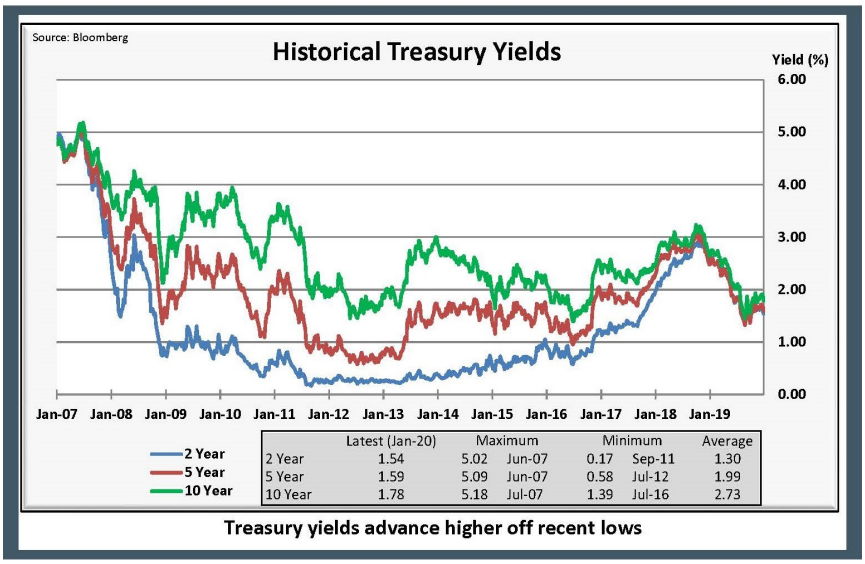
Looking ahead, we see a gradual steepening in the curve, with yields at the long end moving higher, toward our 2.25% target for the ten-year Treasury. The (admittedly modest) China trade deal, combined with the new NAFTA, should lead to increased business spending and firmer GDP growth. This should benefit the middle of the curve, with the five year moving toward 2%, and as a result, push the 15-year MBS closer to 2.75% and 20yr MBS/ABS potentially closer to a peak of 3%. These should be much better levels to become more assertive when allocating investment dollars.

Sectors

As we begin 2020, many fixed income sectors offer little excess value to the yield curve. For example, bullet Agency bonds pick up almost nothing to Treasury notes and yield 1.6%-1.7% out to five years, while callable Agency bonds yield 2.7% out to 15 years with little structure and are generally unattractive. Five year and shorter callable bonds yield around 2% or less with little structure. Corporate bonds are at record narrow spreads and remain 100% risk weighted, and tax exempt municipal bonds currently offer inadequate returns at a bank marginal tax rate of 21%.

The 10-year MBS yields only 2.1% to a 4-year average life with little

extension risk, while 15-year MBS at 2.25% are not materially accretive to earnings and may extend to 6-7 years. The 20-year sector SBA ABS yield around 2.30%, making them very unattractive for their low level of yield relative to their IRR. The 20-year MBS sector at 2.50% is slightly more attractive, adding roughly 20bp of additional return and are reasonable value at 80 basis points to the curve. We continue to find the best value in 30-yr Jumbo 3.50% coupon MBS with average lives of 5-6 years with yields in the 2.85%-3% range and about 125 basis points over the five-year part of the curve. We believe they are relative value, but supply is diminishing rapidly. ◆



Treasury yields advance higher off recent lows

EQUITY STRATEGY

EQUITY STRATEGY

The Bull market marches forward

Despite the fear of another leg down when stocks plunged in the fourth quarter of 2018, equity markets rallied into year-end 2019 to mark one of the best stock market years of the current bull market. As we look at 2020, we see a market that will generate lower returns as we retreat towards more normal historical averages. We believe the long-term trend is still upward as many positives remain for the current bull market, including demographic shifts and the advancement of technology. The bull market that began in March 2009 is now the longest on record and remains supported by low interest rates, consistent and sustainable GDP growth, and valuations that are not overly stretched.

Misplaced optimism

Headline news of overly optimistic investors is misplaced. Mutual fund flows do not support the thesis that investors are flocking into U.S. stocks. According to Bloomberg, since the end of 2012, cumulative outflows from U.S. funds have been $342 billion, with $859 billion added to ETFs but $1.2 trillion withdrawn from actively managed vehicles. Bond funds have added $1.2 trillion over the same period. The average for 2019 shows weekly equity outflows of $2.9 billion compared with bond fund net flows of $8.3 billion. A classic melt-up for stocks should show some indication that investors are piling into equities for fear of missing out, but this has not been the case and flows into equity mutual funds suggest investors are in no rush to increase exposure.

Review of the last decade

As 2019 marks the end of the decade, a review of the last 10 years may provide clues to what the future might hold. Since the financial meltdown, capital-light companies (i.e. tech) have performed better for shareholders. Tech's influence on the market has increased dramatically on revenue and margin strength. Technology has become much more ingrained in our lives and continues to expand in our everyday lifestyles.

After troughing in 2008, P/Es have increased from 8.8x to an estimated 18.6x for 2020. While elevated by historical standards, multiples are well below 1999's 25.5x peak. We don't believe market multiples reflect the benefits of the current low rate environment, lower volatility and earnings growth. Many companies in the S&P 500 offer yields higher than the current 10-year Treasury, with dividends well covered by free cash flow.

The price of oil reached $130 per barrel in 2011, then bottomed around $30 in 2016. Today, the price of oil sits around $60 per barrel. Hydraulic fracking, still a relatively new technique, allows energy companies to extract much more oil and gas than ever before. After years as the world's largest net energy importer, the U.S. is now a net energy exporter. The benefit for the U.S. economy is that we are now less exposed to potential Middle East supply shocks.

Over the past 10 years, the yield on the 10-year Treasury has fallen from 3.9% to 1.9%, troughing at 1.4% in July 2016. What was once perceived as unimaginable, a whopping $17 trillion of government debt carried a negative yield not too long ago. Today, the ten-year Treasury yield sits around 1.9% and these levels should support higher equity valuations.

Investing in the new decade

Rather than trying to anticipate an end to the current bull market, investors should prepare for opportunities as we begin a new

decade. From demographic shifts to technological advances, the next decade will definitely be a transformational period.

Advances in technology and medicine are leading to an increased life expectancy for baby boomers, while Millennials are now the largest cohort in the U.S. labor force. Robots and automation are expected to open up remarkable possibilities, but risk the potential of eliminating millions of jobs. These two major demographic segments (baby boomers and Millennials) have significant economic influences and each will bring its own set of challenges while also presenting opportunities.

Baby Boomers

On average, 10,000 baby boomers hit retirement age (65) every day, and this trend is expected to continue through the year 2030. With longer life expectancies, baby boomers are not just living longer, they are remaining active and working longer. As we move further down the time horizon, we foresee a surge in demand for health care services, and how those services will be delivered is constantly evolving. Health care workers, in-home elder care, assisted living and nursing facilities will continue to be in high demand. Many companies are looking at ways to deliver healthcare through technology. For example, Google, who recently acquired Fitbit, is increasing its focus on healthcare. Google believes that its AI prowess can create a powerful new paradigm for the detection, diagnosis, and treatment of disease. Google's CEO, Sundar Pichai, stated: "So tomorrow, if AI can shape healthcare, it has to work through the regulations of healthcare … In fact, I see that as one of the biggest areas is where the benefits will play out for the next 10 – 20 years." The company appears to be going after the healthcare space from every possible angle.

S&P 500 Index records all-time high in 2019

Another trend that merits monitoring is the housing market. Baby boomers have been selling their large suburban homes and many are moving back into more urban areas, drawn to restaurant options, art, theater and other cultural attractions. An article by the Wall Street Journal last year detailed the number of large homes built by baby boomers that are on the market but can't find buyers. Baby boomers spent millions on these spacious homes, planning to live out their golden years but are now discovering that these large, high-maintenance houses no longer fit their lifestyles as they grow older. The problem is expected to worsen in this decade, as more baby boomers across the country advance into their 70s and 80s, the age group at which people typically exit homeownership. Baby boomers currently own 32 million homes and account for

two out of five homeowners in the country.

Millennials

In 2010, the population aged 45-49, the youngest baby boomers, represented the largest demographic group. In 2020, Census Bureau projections showed that Millennials, ages between 25-29 will dominate and retain their dominance in 2030 and 2040. As such, the U.S. should see household and family formation reach new all-time highs for this decade. Compared to previous generations, Millennials tend to be more tech savvy and the most formally educated generation in history. Unfortunately, that higher level of education is coupled with an increased student loan debt burden. Despite the debt load, they currently generate $200 plus billion in annual discretionary spending power, which is expected to increase. Millennials were witness to the Great Recession, which hit just as large numbers of them were graduating from college and looking for jobs. As such, their lifestyle and consumption habits have been shaped by the experience from the Great Recession. At the same time, burdened by their high debt levels and the lack of wage growth, Millennials have been delaying major life events such as getting married, buying a home, and having kids. Millennials generally value experiences over possessions, which can benefit sectors such as leisure. They have a tendency to make more online purchases than previous generations, causing stress in the traditional shopping centers. But omni channels should benefit from increased online shopping.

Demographic trends and technology join forces

Since the financial crisis, much of the focus has been placed on the aging population, not just in the U.S. but globally. Demographic forces can have a powerful impact on economic growth, as we have seen over the past decade. Investors are now paying more attention to Millennials, as this cohort moves into its prime spending years. Combine the demographic forces with the advancement in technology and one can see how the next 10 years will be one of the most transformative periods. For example, 5G technology, the next generation of mobile internet connectivity, is expected to offer unlimited potential to vastly improve our lives. This cutting-edge network technology will provide faster speeds and more reliable connections on smartphones and other mobile devices than ever before. 5G will enable billions of new connections with speed and security. Potentially, it can connect everything to everything, acting as a critical enabler for the Massive Internet of Things.

Support for the secular bull market

Demographic change can influence a number of industries, businesses and the underlying growth rate of the economy. These demographic shifts can inhibit or drive growth. Equity markets have shown themselves to be a discounting mechanism of major demographic shifts along with other macro drivers, resulting in powerful secular market trends. While this recovery has been characterized as one of the slowest in history, the current decade may be defined as the most transformative years. ◆

ALM STRATEGY

ALM STRATEGY

Last year at this time we wrote how 2019 would be a transition year, which turned out to be true. Fed policy shifted from tightening to easing within two quarters. Following nine 25 basis point tightening moves through December 2018, the Fed paused in the first quarter of 2019 before engaging in three 25 basis point rate cuts June through October. Treasury yields fell about 150bp on average while fear of recession heightened, then calmed, by year end. The market's view is that the Fed has now effectively recalibrated the funds rate consistent with the level of economic growth and inflation. The Treasury yield curve has steepened slightly, normalizing from the modest inversion during 2019. Trade issues seemed to abate with a new China deal expected to be signed in the New Year. These factors, along with the election in 2020, should keep the Fed on the sidelines, with expectations now for stable Fed policy and a relatively tight range of market rates in 2020. Does this imply that ALM can ignore interest rate risk (IRR) this year? If interest rates remain stable will banks be immune to IRR influences? Understanding how the components of IRR impact banks will help to answer these questions.

IRR is comprised of more than just repricing mismatches

We can dispel this notion immediately, as IRR is more than the risk of rates rising or falling. Even if rates remain stable for all of 2020, community banks may feel the effect of IRR and should manage the exposure through their ALM process. IRR consists of four primary components: Repricing, Yield Curve, Option and Basis risks. The magnitude of impact for each component varies over time and depends on a bank's balance sheet composition and/or business plan. All four influenced the community banking industry during 2019, and reviewing how should help indicate to what extent banks may be affected during 2020 even if market rates remain stable.

How did repricing risk affect banks last year?

Repricing risk is the most recognized and understood component. It is often referred to as mismatch, duration, or gap risk and gets most of the "press," particularly after years of steady growth in low rate residential FRMs. More strictly defined, repricing risk is impact arising from changes in rates due to maturity or repricing timing differences between a bank's assets and liabilities. Banks lagged non-maturity deposit (NMD) product rates during 2018. After nine rate hikes and the funds rate peaking at 2.50%, concern intensified that NMD rates and/or CD migration may increase in 2019 after laying dormant for years. Originated assets during this period were mostly fixed rate, for at least five years. Fear of NIM% compression increased, and as a result, new product specials were created to address the risk and mitigate the impact.

No recession yet but inverted curve still matters

Yield curve risk arises when short-term rates change differently than longer-term rates. It is sometimes referred to as a non-parallel shift or twist in the yield curve. More formally, it is defined as impact arising from changes in the slope or spread between two rates of different maturities of the same instrument, such as Treasuries. Banks typically expect normal shaped curves with long term rates higher than short term rates. For the last several years the yield curve slope (difference between short & long term rates) has narrowed from around 250bp to near zero at the beginning of

2019. During Q2 2019, the yield curve inverted, pushing the spread between short-term and long-term rates negative for much of the summer. NIM% pressure intensified as deposit rates remained elevated from prior Fed policy while asset rates plummeted consistent with a significant drop in longer-term Treasury yields.

An unexpected refi wave

Option risk is probably the second most familiar and understood of the IRR components. It arises when embedded options within bank products give customers the right but not obligation to change the quantity or timing of cashflows. Option risk was the 3rd wave to hit community banks, during Q3 of 2019. Still feeling the effects from NMD rate pressure and an inverted yield curve, bond and loan prepays accelerated in late summer, pushing liquidity higher while depressing asset yields. Loan refinancing was not isolated to residential loans as CRE and Commercial payoffs also spiked.

The hidden risk factor

Basis risk is probably the least understood of the four components. However, this does not imply that it is the least impactful. Basis risk results from changes in spread relationships between different rates of similar maturity. Basis risk has had both positive and negative impact over the past few years. As banks lagged NMD product rates, spreads to Treasury yields widened significantly while loan rates rose to the mid 4's in yield. This allowed the New England banking industry NIM to actually rise as the Fed raised rates. Also, spreads to comparable Treasury yields for Broker CDs and FHLB borrowings fluctuated during the year, allowing some banks to take advantage and lock in cheaper available funding. Finally, as Treasury yields plummeted Q2-Q3, loan spreads widened significantly, minimizing the potential damage to bank asset yields. Consider, 5-10 year Treasury yields dropped greater than 100 basis points in 2019; however, FRM & CRE new loan rates did not experience anywhere near that same level of decline.

Which of these four IRR components will be most impactful in 2020? It is worth noting that banks can experience one or more of the components at the same time; however, the impacts can offset or compound. This implies that a bank's IRR profile could have a positive or negative influence on performance.

Forecasting IRR in 2020

As we begin the year, repricing risk is benefitting many banks which implemented prior recommended funding strategies. Following recent Fed rate cuts, many banks are lowering premium NMD product rates. In addition, funding costs are expected to roll lower during the first half of 2020 for those who utilized recommended shorter term funding options. This momentum should alleviate potential downward asset yield pressure that may intensify from other factors (e.g. prepays). Option risk should still have a negative impact to start 2020, as mortgage rates remain below 4%. While refi risk has lessened from peak Q3-Q4 levels, this is partly due to the law of diminishing returns. Portfolios could not maintain that elevated level of payoffs in perpetuity.

Yield curve risk has lessened to start 2020. The yield curve has modest positive slope, as mid to longer term Treasury yields increased from last year's lows. From a historical perspective, however, the yield curve remains relatively flat. While not upside down or inverted anymore, banks still have minimal spread to operate as they negotiate loan rates against available funding options. Stable rates for 2020 would still imply

banks would be potentially negatively influenced by this component of IRR. Basis risk may potentially offset the benefit of the steepening yield curve. Loan spreads, which widened during the 2nd half of 2019, appear to be narrowing again. As recession fears subside, it would not be unexpected for loan spreads to narrow again. Basis risk may become more prominent due to the looming end of the Libor index. As Libor-based loans are replaced with different indexes, potential spread changes could have positive or negative impact.

How are you exposed?

IRR is often thought of only in a negative context; however, consequences from IRR can be positive as well. A bank's balance sheet composition and business plan should dictate whether and/or how one or more of the IRR components influences your earnings and liquidity. Depending on a bank's structure, the overall net impact from the four IRR components may be positive, negative, or neutral in 2020. It is important to try to understand how your bank might be affected. Most banks focus entirely on managing repricing risk. Steps are taken to limit balance sheet mismatch between assets and liabilities with less attention typically paid to the other components. Strategies do not usually emphasize diversifying rate indexes or how to limit prepays. EPG's ALM process stress tests each IRR component quarterly to help clients see which factor may be the most impactful.

How would we summarize 2020 IRR expectations? Just because market rates may experience limited volatility compared to prior years does not imply that IRR will not be a major factor. More probable is that traditional repricing risk will become less prominent compared to the last few years. Yield curve and Option risks may occupy a larger percentage of the IRR "pie" for 2020. Basis risk should continue to impact. NIM management will be more reliant on a strong ALM process to take advantage of any positive basis risk factors (e.g. funding allocation) to offset the flat yield curve and elevated prepays. ◆

The ADVISOR is a publication of EPG Incorporated

Dave Thomas
President

Larry Teitelbaum
Contributing Author/Editor

Jon Rankin
Copy Editor

Allan Dwyer
Contributing Author

Stella Pang
Contributing Author

Daniel Dube
Publication Coordinator

Jason Beshansky
Designer

60 William Street, Suite 300, Wellesley, MA 02481 • 781•235•2666 or 1•800•535•4544
Fax: 781•235•9688 • www.epgadv.com