TRUST MUTUAL FUNDS

FOR CREDIT UNIONS BY CREDIT UNIONS

CREDIT UNION INVESTMENT TRENDS

The investment trends and information included in this review

are for all U.S. credit unions.

Data is as of June 30th, 2020

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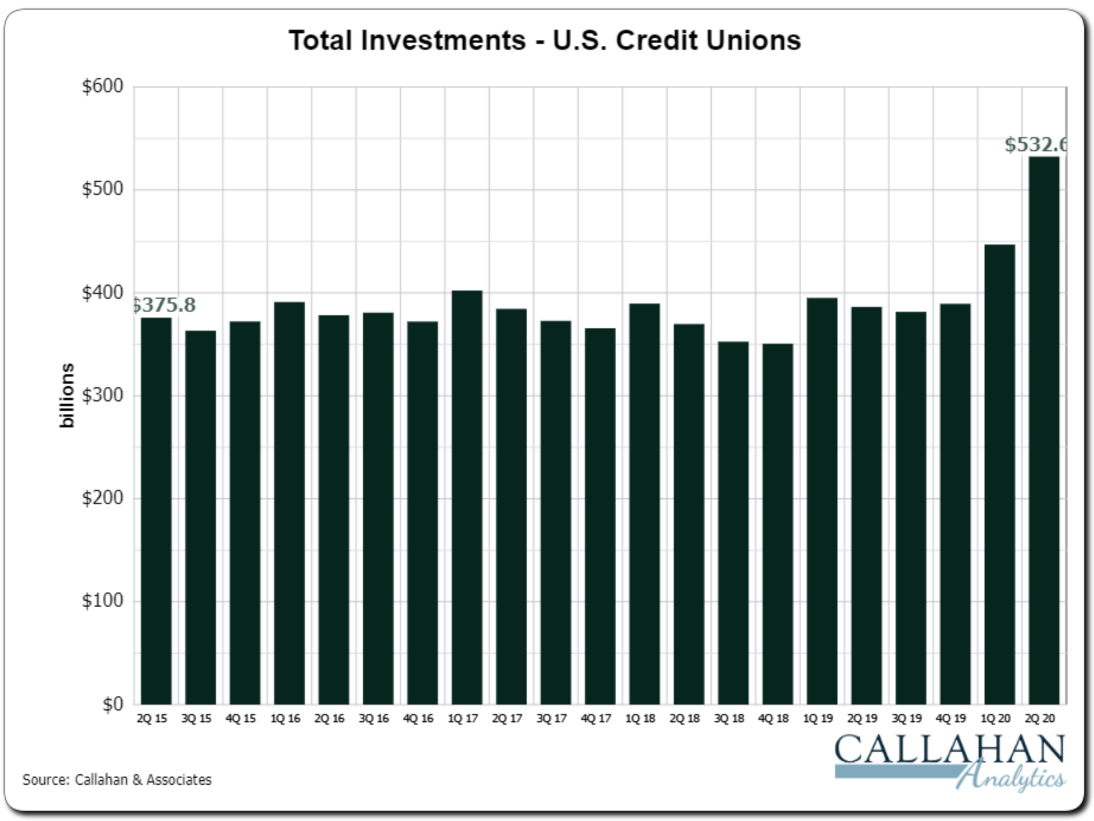
Total Credit Union Investments

Investment balances up 19.2% from 1Q2020

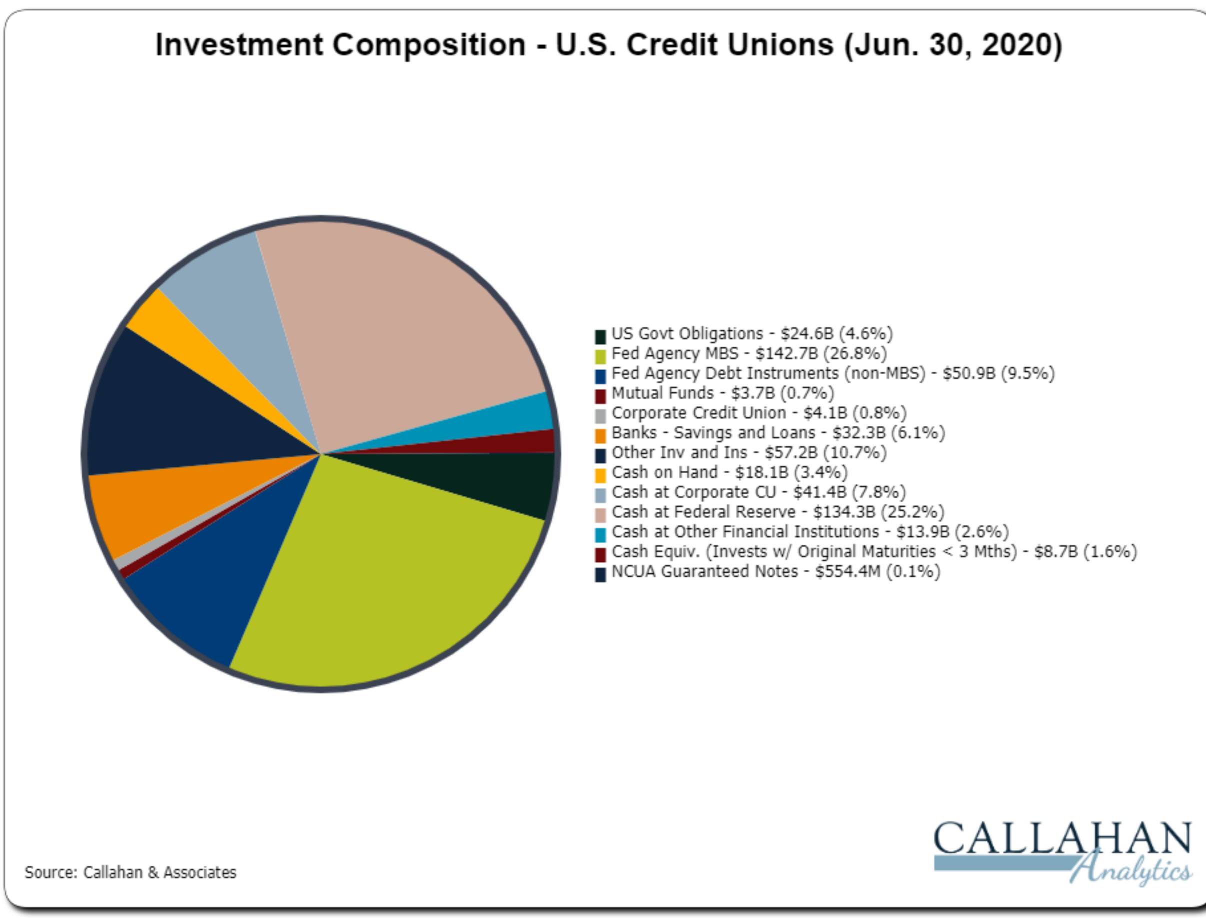
As of June 30, 2020, credit unions held $532.6 billion in investments, up 19.2% ($85.7 billion) from March, marking the largest quarterly dollar increase on record. Notably, until this year, portfolio growth from the first to second quarter has been negative since 2011, underscoring the highly unusual dynamics at play in 2020 and the sheer volume of liquidity coming into credit unions. The economic uncertainty related to COVID-19 continued to result in significant share inflows as members sought safe havens for their assets, with total deposits increasing 8.1% from March, and 16.2% from June 2019. The deposit accounts experiencing the largest growth have also shifted drastically, a reflection of consumer sentiment and the rate environment, as core deposits (checking, savings, and money market accounts) accounted for 105.0% of inflows, surpassing the 100% mark due to a contraction in certificate accounts. Balance sheets expanded accordingly, with total credit union assets increasing 6.6% quarterly, and 14.8% year-over-year. Similar to the prior quarter, lagging consumer loan growth (notably a contraction in new vehicle lending and limited used auto growth) resulted in relatively smaller loan portfolio growth, pushing investment balances higher. On an annual basis, loan portfolios expanded 6.4%, powered by the continued boom in real estate lending, as first mortgage originations rose 93.8% over the last 12 months, marking the largest funding total through mid-year on record.



Investment Composition

Credit unions opt for cash and safety amid liquidity surge and future uncertainty

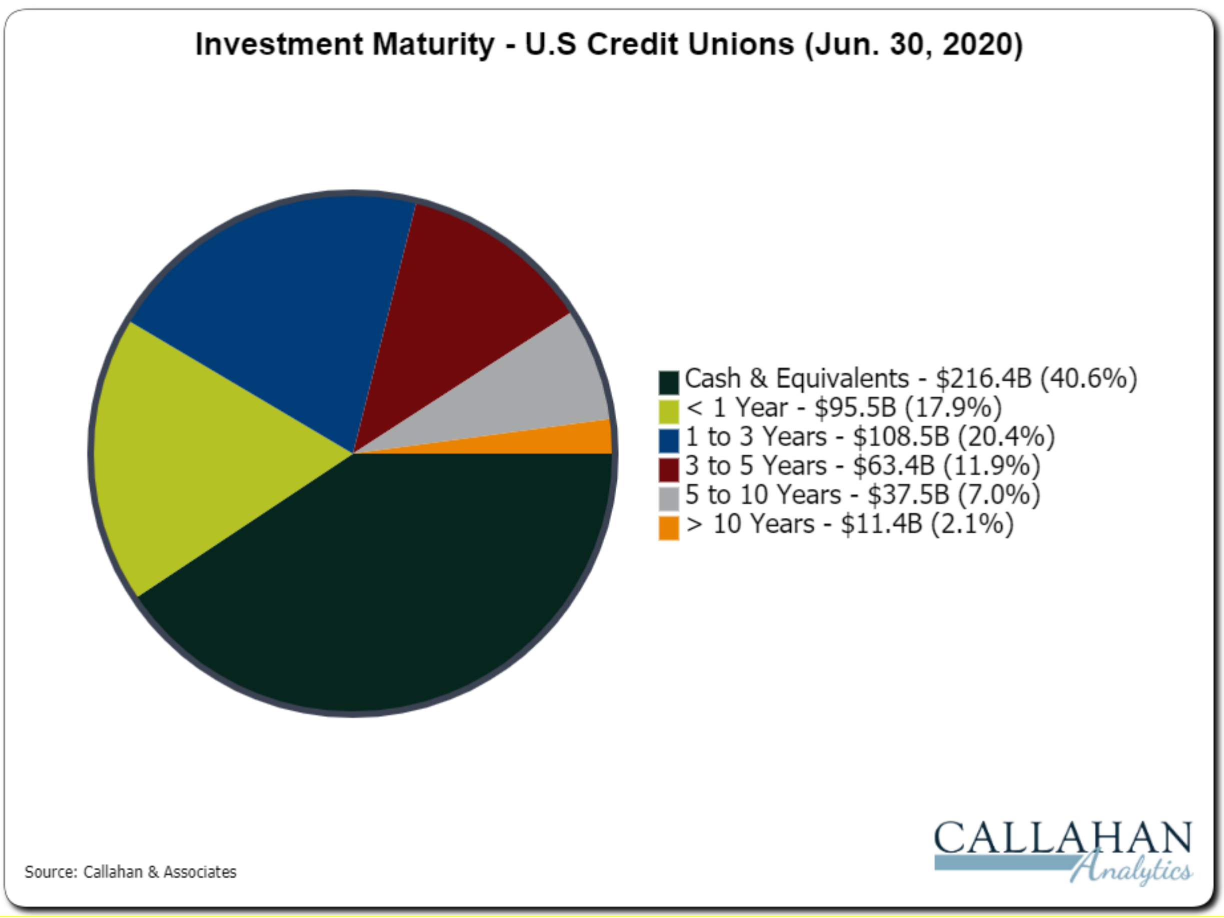
Cash and investment balances grew $85.7 billion in the second quarter to $532.6 billion as credit unions increasingly allocated funds not lent out to overnight accounts while there was also modest growth in Agency MBS positions. In total, credit unions reported $216.4 billion in cash balances at financial institutions as of June 30, of which $134.3 billion was at the Fed and $41.3 billion was at corporate credit unions. Cash at other financial institutions, primarily Federal Home Loan Banks, rose 34.8% in the quarter, accounting for $13.9 billion, or 7.4% of overnight cash balances. Surging deposit flows and continued uncertainty around the length and depth of the recession has led many credit unions to keep new funds short in cash and products with government backing. Beyond growth of cash, corporate credit union investments (24.4%) and Federal agency MBS (15.0%) recorded the second and third largest quarterly percentage increases, respectively. Mutual fund investments posted the fourth largest percentage increase in the quarter, growing 16.3%, due to new investments and rebounding portfolio valuations as market volatility eased in both the fixed income and equity markets.



Investment Maturity

Credit unions keeping inflows short – cash balances up 31.0% quarterly

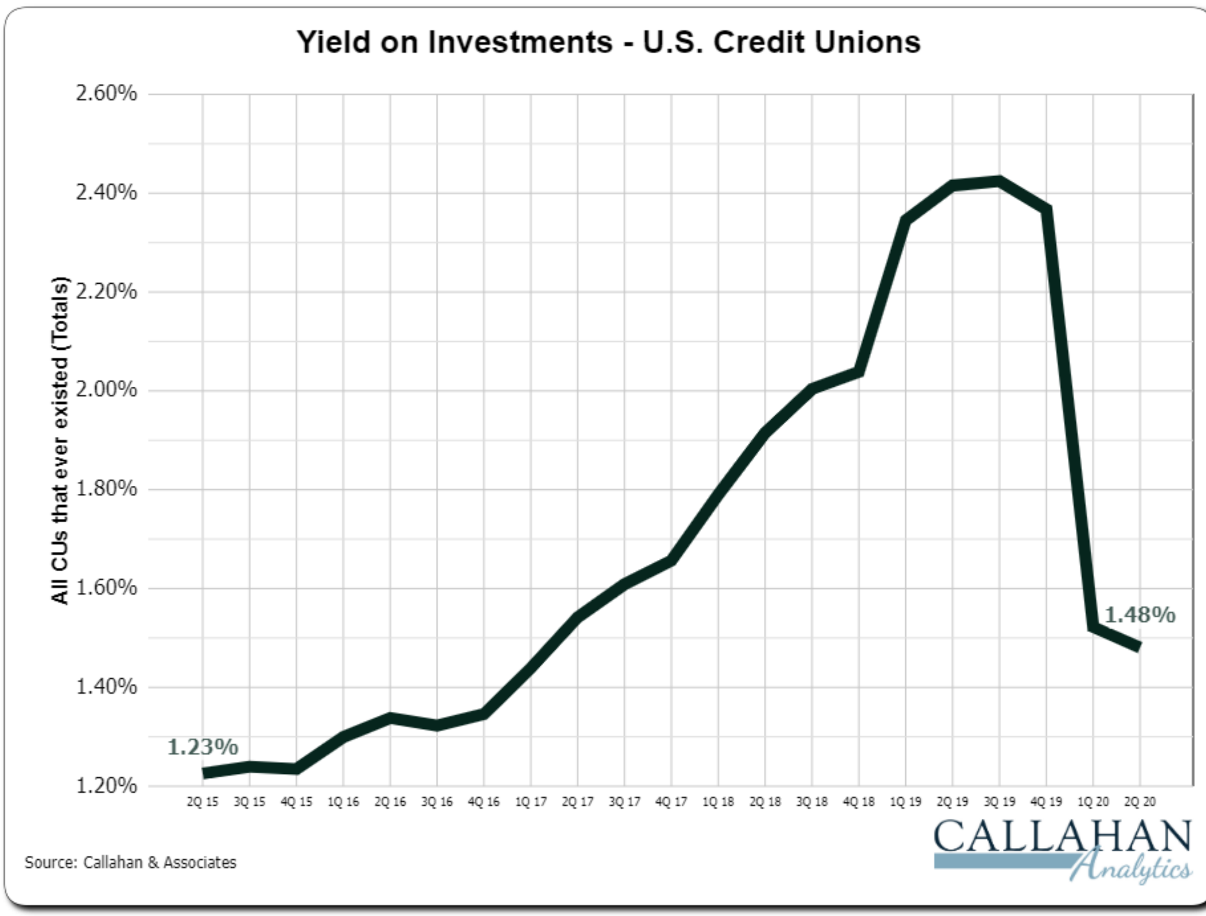
Maturities of investment portfolios at U.S. credit unions shortened in the second quarter of 2020. Due to the sheer scale of portfolio inflows, every segment expanded from the first quarter; however, consistent with the prior quarter the overwhelming majority of new funds were allocated to cash and investments maturing in less than one year (72.3%). Cash and cash equivalents posted the largest increase in the portfolio, growing 31.0% on a quarterly basis or from $165.2 billion in March 2020 to $216.4 billion in June 2020, and accounted for 59.8% of the industry's aggregate portfolio growth. As a result, this segment's share of the portfolio rose 3.7 percentage points due to the increases in Fed and corporate cash balances while the share of investments maturing in one to three years contracted 2.0 percentage points from March 2020. With a modest steepening of the yield curve across the quarter, investments maturing in 5 to 10 years and greater than 10 years posted quarterly gains as well, increasing 15.0% and 34.2%, respectively.



Yield on Investments

Yields fall 4 basis points as impact of Fed cuts is felt

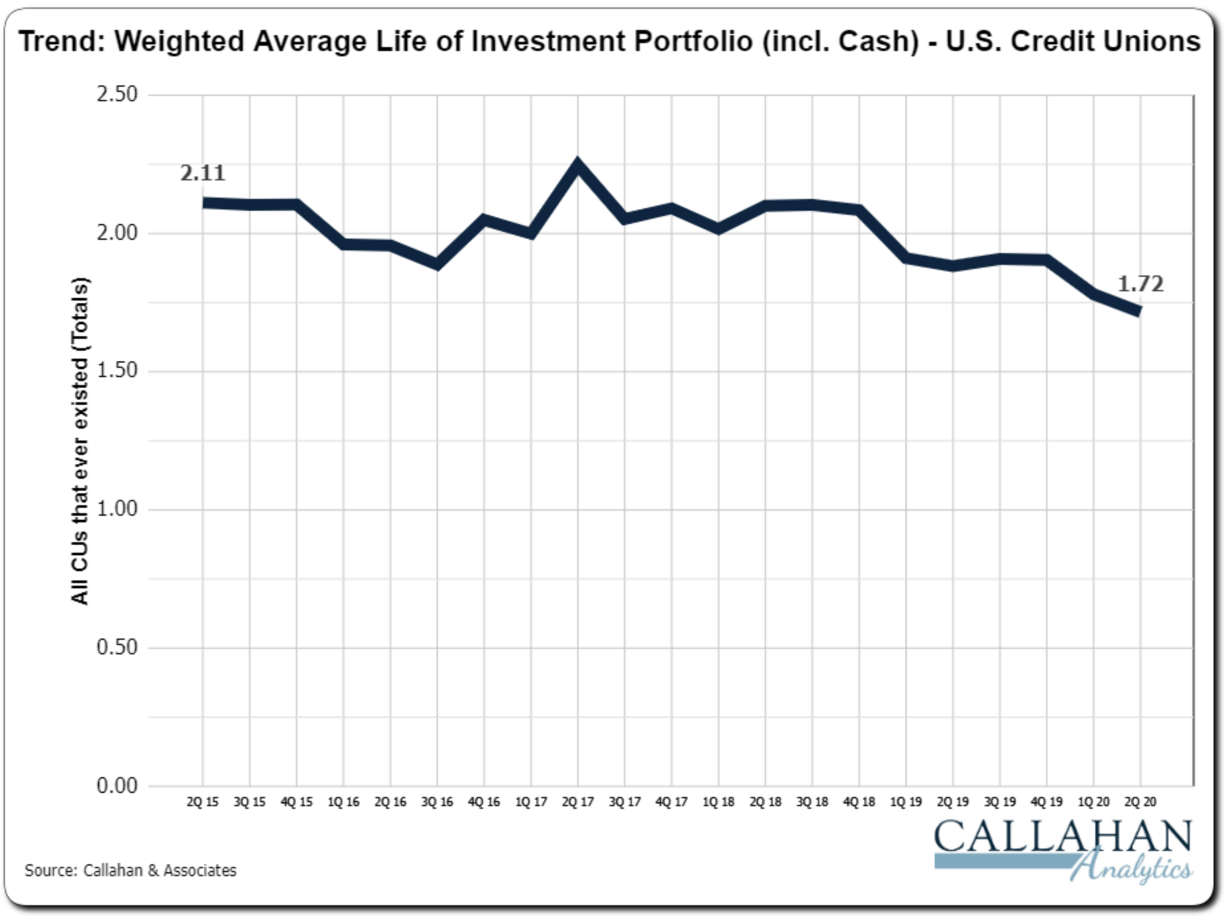
The average yield on investments fell 4 basis points from the first quarter, hitting 1.48% at the end of June, in line with March 2017 when the average yield was 1.44%. With the effective rate floor at the zero bound and interest on excess reserves (IOER) sitting at 0.10%, credit union investment earnings sagged accordingly. Despite the moderate growth in non-cash investments, the earnings gains were not enough to offset the marginal returns from the nearly 60% industry cash allocation, pushing yields lower. From a portfolio earnings perspective, investment income fell 23.8% from a year ago, compounding the growing earnings pressures credit unions are facing as loan interest income shrinks following the rate cuts, and pandemic-related declines in interchange activity and fee sources weaken non-interest income gains.



Average Life Profile

Growing cash allocations push weighted average life shorter

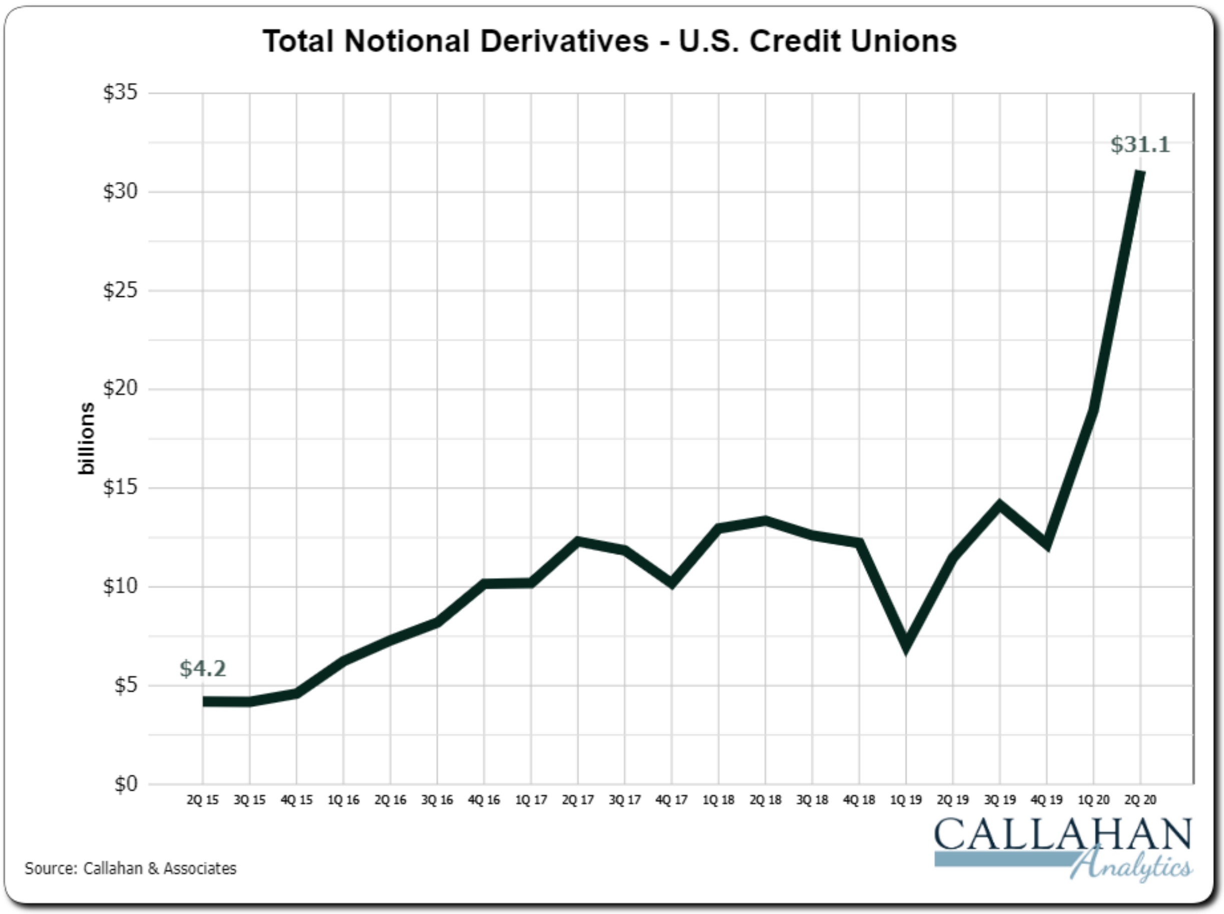
As of June 30, the weighted average life of all credit union investments was 1.72 years, down from March 2020 (1.78), due to an influx of cash and shorter maturity investments. Specifically, an increase in cash and equivalents (31.0%) offset the growth of longer maturity segments (5-10 years and greater than 10 years up 15.0% and 34.2%, respectively) to bring down the weighted average life of the industry investment portfolio. This chart is part of an ALM packet available within Callahan's Peer-to-Peer Analytics solution. It can be found under the Hot Topics section within the ALM-Interest Rate Risk Packet.



Derivatives

Derivative program participation grows, balances up 64.1% from March

Notional balances rose to $31.1 billion – a $12.1 billion dollar increase since March – and finished the quarter up 170.8% annually following substantial growth in the first six months of 2020. The 64.1% gain in in the last three months and balance of $31.1 billion marks an all-time high for the industry. Corresponding with the increase in derivative balances, the number of credit unions that report derivative usage increased by 3 institutions, from 76 in the first quarter to 79 in the second quarter of 2020.



If you would like to compare your own institution to the industry benchmark or a specific peer group, please contact us at 800-237-5678 or TCUgroup@callahan.com

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