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.

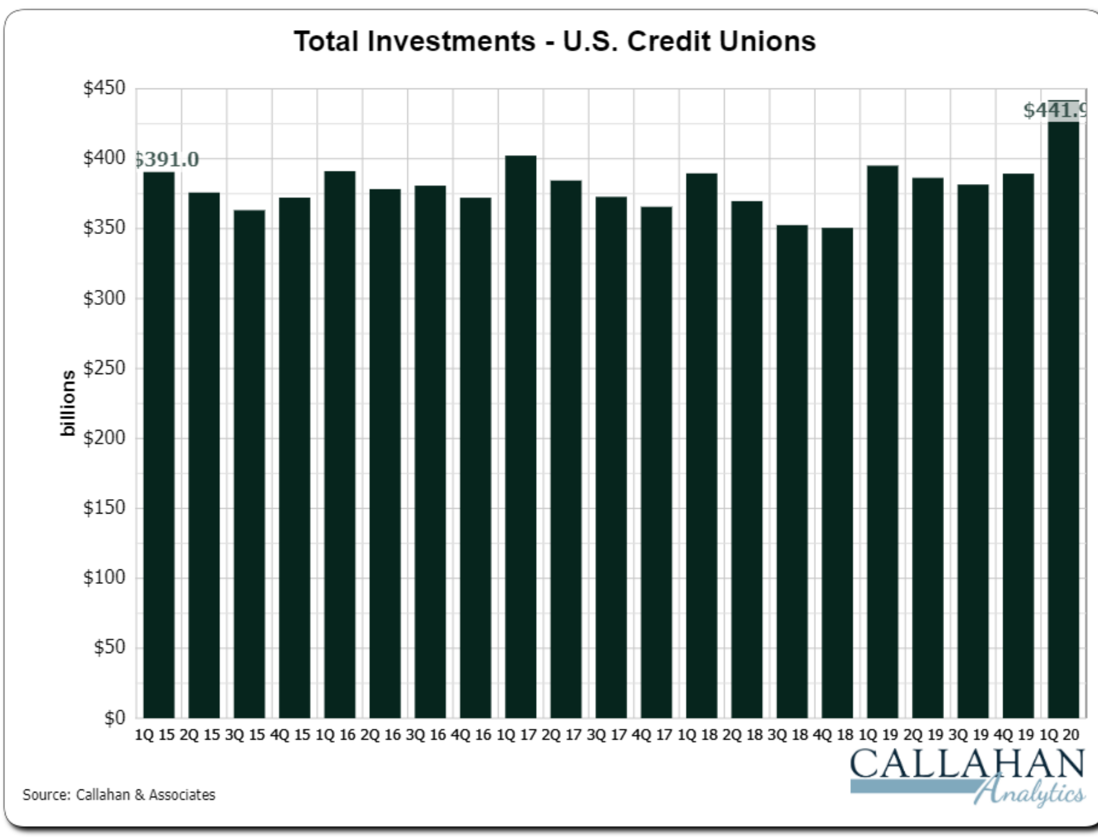
Data is as of March 31, 2020

Published May 26, 2020

Total Credit Union Investments

Investment balances post largest quarterly increase on record

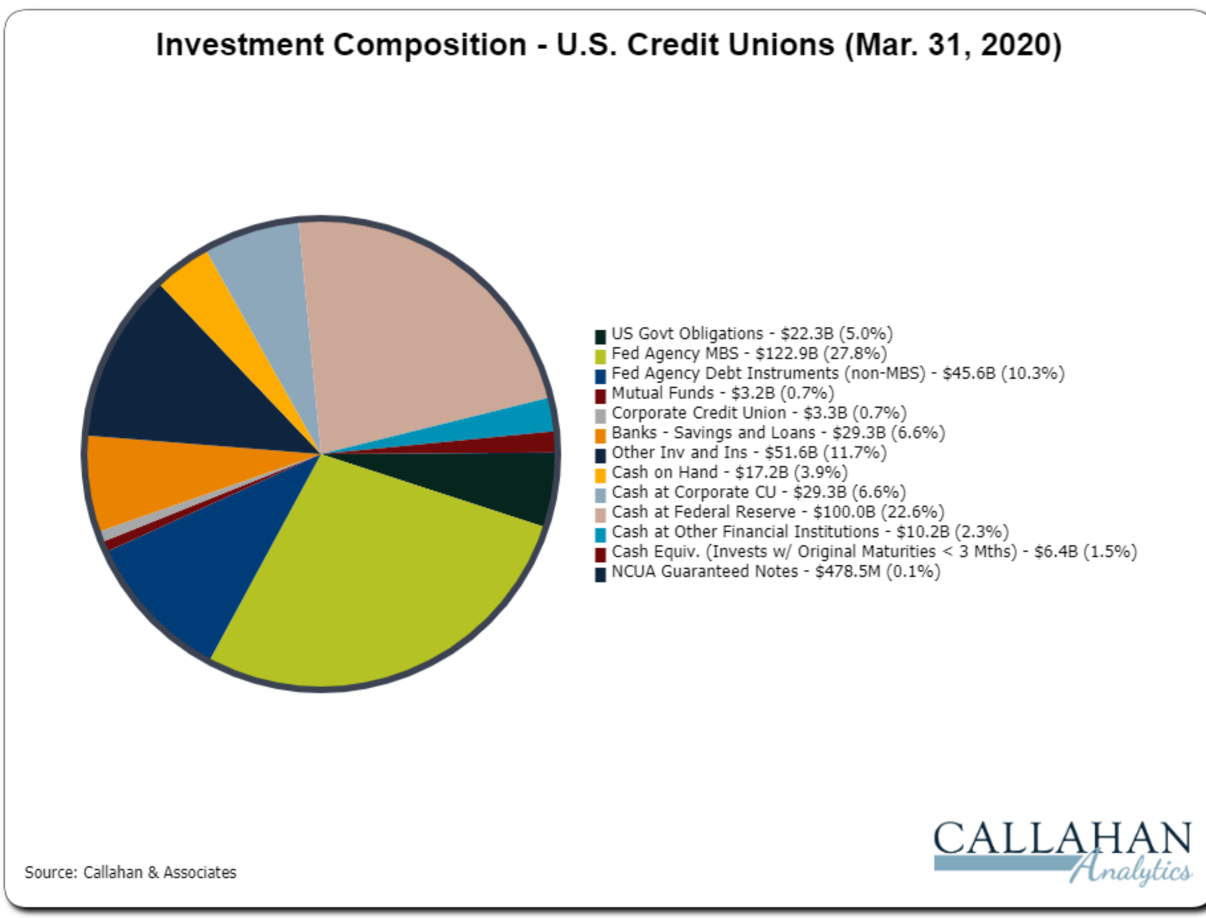
As of March 31, 2020, credit unions held $441.9 billion in investments, up 13.5% from the fourth quarter, the largest quarterly increase on record, and up 11.9% from March 2019. The rise in total investments is consistent with historical cyclicality, with first quarter balance growth largely a byproduct of strong deposit inflows where excess deposits not lent out are invested. The first three months of 2020 were similar to prior periods in that respect; however, the economic uncertainty introduced by the COVID-19 crisis resulted in an additional uptick in share inflows as members sought safe havens for their assets and members had smaller outflows following the IRS delay of the April 15 filing deadline. Accordingly, share balances increased 3.0% from year-end, and 6.7% from March 2019. In a departure from recent years, checking and savings products accounted for 80.9% of share inflows since 4Q19, whereas certificates' share was just 9.9%, down from 30.9% a year prior. Balance sheets grew at a healthy rate, with total credit union assets rising 3.3% quarterly, and 7.4% year-over-year; quarterly growth was driven by increases in shares, with funds not lent out allocated to investments, in turn pushing total assets higher. On an annual basis, loan portfolios expanded 5.1%; however, credit unions faced difficult conditions in the first quarter of 2020 as balances fell 0.5% from year-end. In the first three months of 2020, first mortgages were the only segment to report positive quarterly growth, while every other segment contracted over the period, as the impact of the global health crisis was seen most acutely in falling consumer loan balances.



Investment Composition

Credit union cash balances surge amidst economic uncertainty

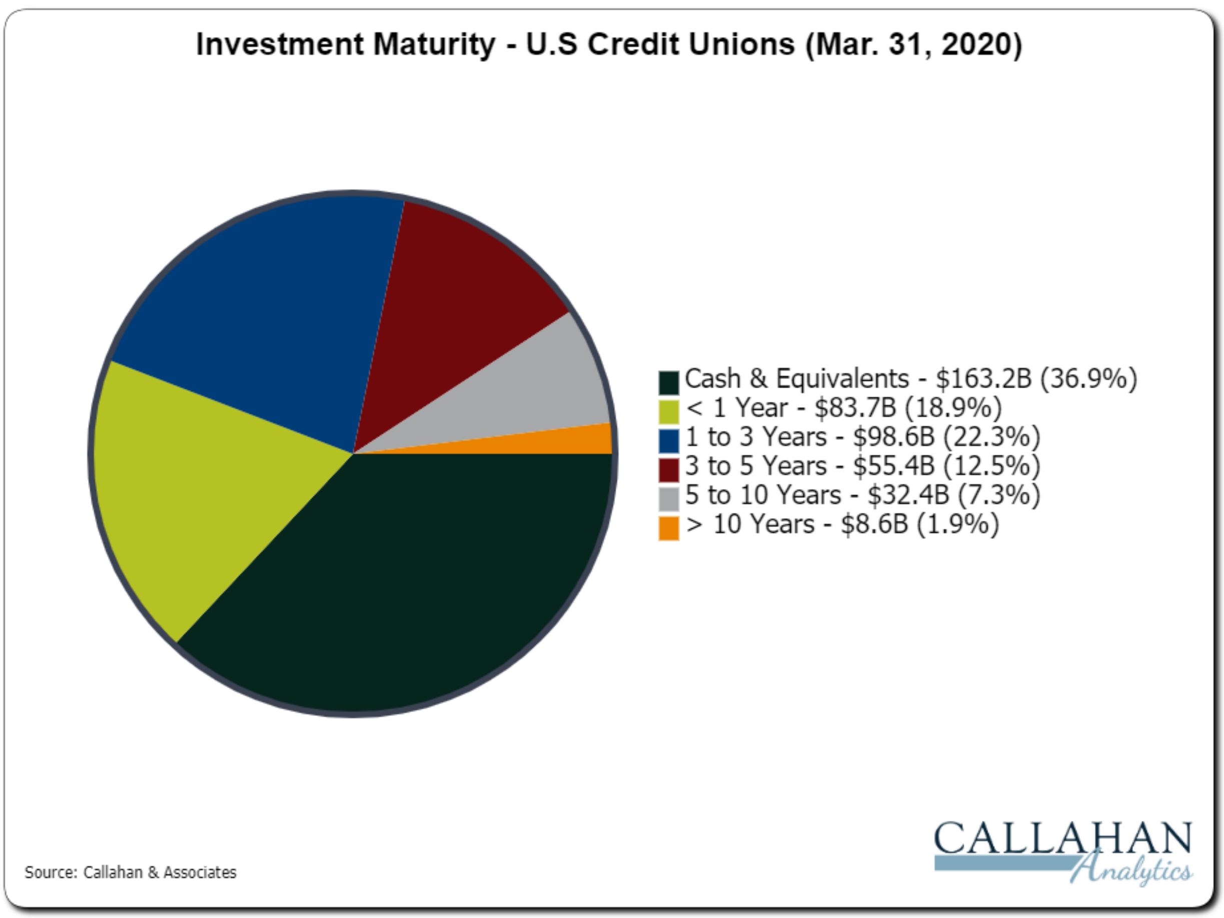
In total, cash and investment balances grew $52.5 billion in the first quarter to $441.9 billion, largely a result of an influx of investments to overnight accounts at both the Federal Reserve and corporate credit unions, and to a lesser extent federal agency MBS products. In total, credit unions reported $139.5 billion in cash balances at financial institutions, of which $100.0 billion was at the Fed and $29.3 billion was at corporate credit unions as of March 31. Cash at other financial institutions, primarily Federal Home Loan Banks, fell 5.0% in the quarter. The combination of first quarter deposit inflows coupled with slowing consumer loan demand has resulted in credit unions sitting on record levels of cash. It is likely we will see at least some of the cash allocated to longer-maturing investments in the second quarter. Beyond growth of cash, federal agency MBS (9.3%) and corporate credit union investments (7.1%) recorded the second and third largest quarterly percentage increases, respectively. Mutual fund investments, despite posting steady annual balance growth of 7.1%, contracted during the quarter, down 3.2% due to the combination of falling asset values related to March market volatility as well as related exits from positions.



Investment Maturity

Cooperatives keeps sights on short term investments

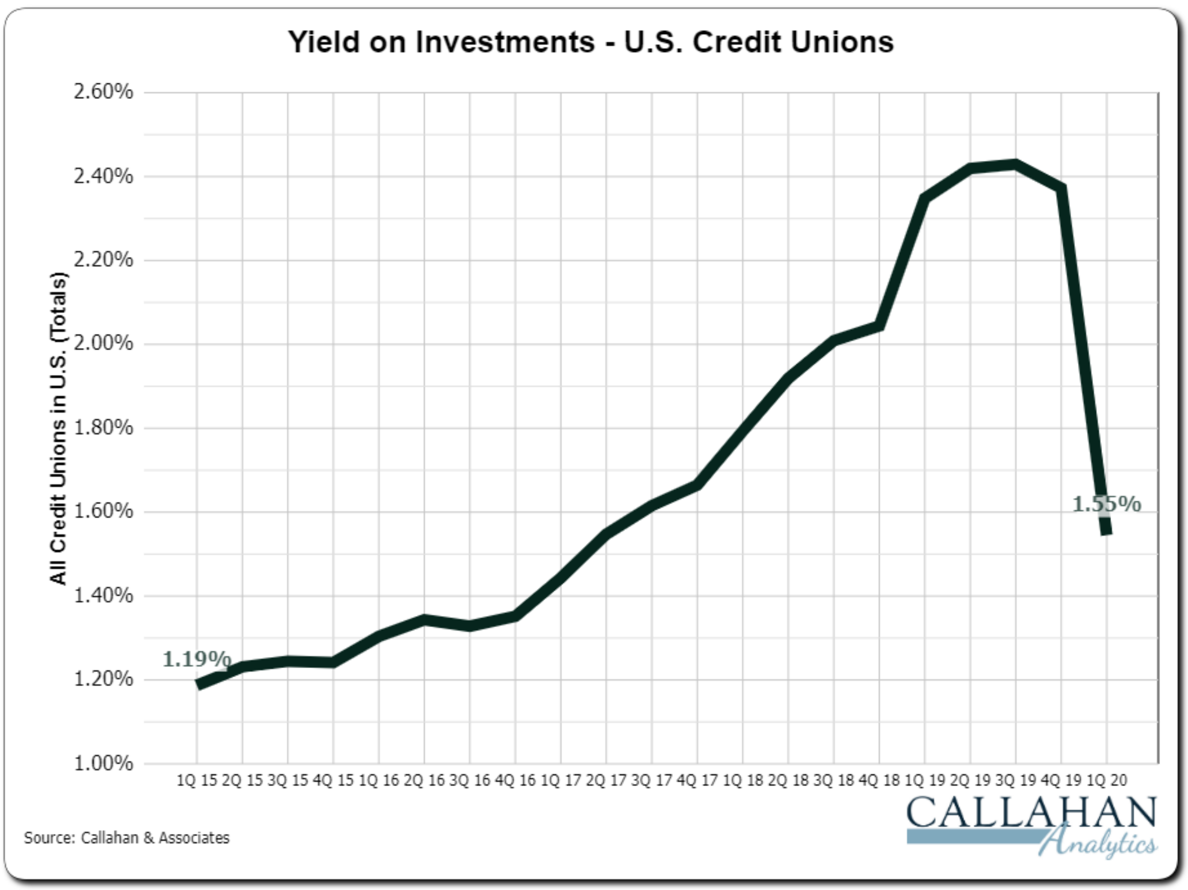
Maturities of investment portfolios at U.S. credit unions shifted in the first quarter of 2020, with balances of both short and long investments growing from the fourth quarter and a year ago, with the former accounting for the majority of balance growth. Cash and equivalents posted the largest increase in the portfolio, expanding 33.0% on a quarterly basis, growing from $122.7 billion in December 2019 to $163.2 billion in March 2020. As a result, this segment's share of the portfolio rose 5.4 percentage points, entirely due to the increases in Fed and corporate cash balances while investments in products maturing three to five years contracted 0.1% from year-end 2019. Despite a relatively flat yield curve across the quarter, investments maturing in five to 10 years and greater than 10 years posted quarterly gains as well, increasing 2.3% and 50.8%, respectively. Given the substantial growth in cash and equivalents, the percentage of the portfolio allocated to investments under three years rose 2.0 percentage points to 78.2%, its highest level since September 2010.



Yield on Investments

Fed rate cuts contribute to 82 basis point decline in investment yield

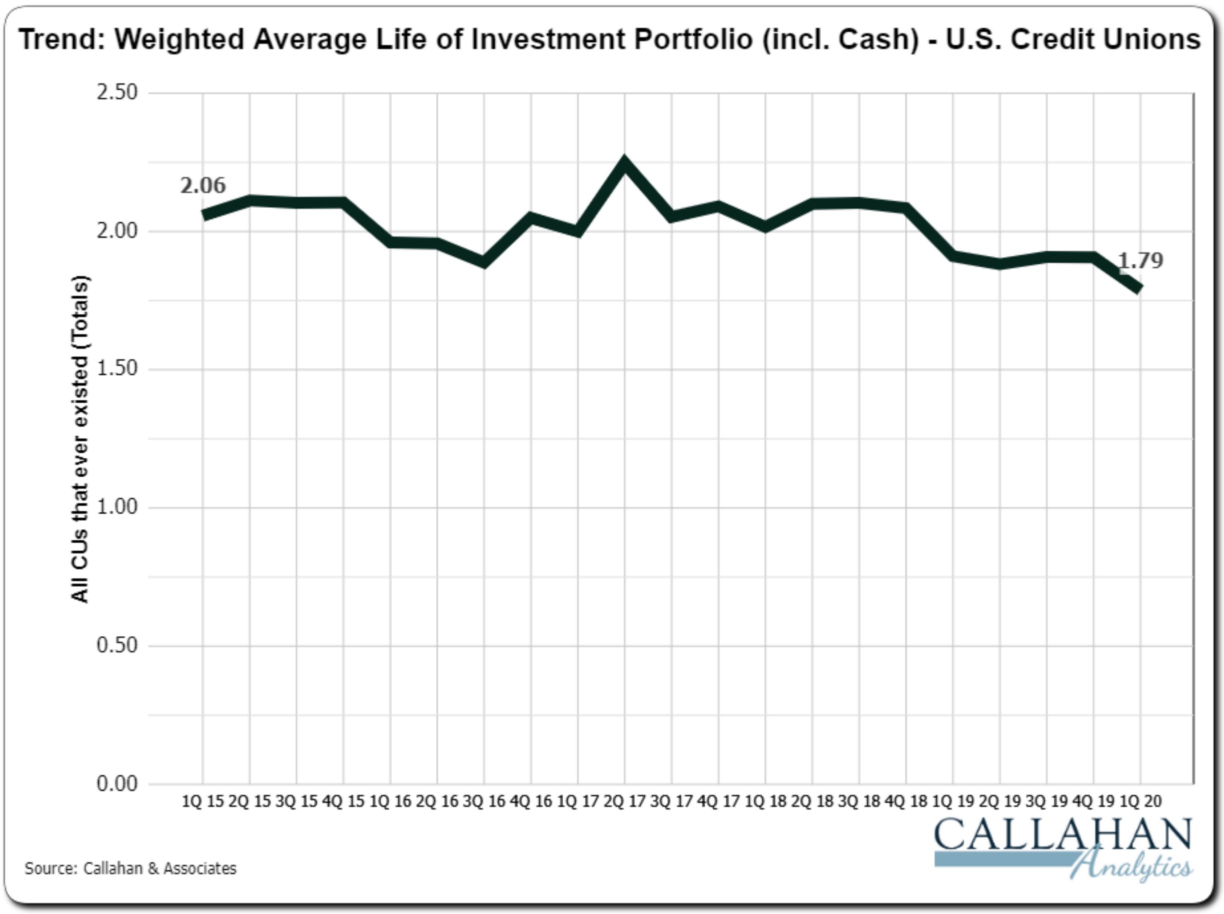
The average yield on investments fell 82 basis points from the fourth quarter, hitting 1.55% at the end of March, in line with June 2017 when the average yield was 1.54%. Credit union investment earnings bore the brunt of the Fed rate cuts in March, with the effective rate floor falling to the zero bound and interest on excess reserves (IOER) declining from 1.55% in December to 0.10% in March 2020. The Fed has signaled it will use every tool in its arsenal to achieve its mandate and support the U.S. economy as it navigates through the global health pandemic. This helped normalize volatility in the fixed income markets in March. However, the combined effect of IOER moving to its lowest level post-financial crisis, credit unions holding record levels of cash, and a dramatic drop in yields across the curve collectively depressed investment yields across the industry. In contrast to recent periods, despite the majority of investment growth coming from short-term investments and cash, credit unions are now seeing dramatic shortfalls in earnings on their portfolios, notably cash positions. For comparison, from the fourth quarter of 2019, first quarter investment income fell 24.1% to $1.5 billion, which when paired with a $52.5 billion increase in balances resulted in a significant downturn in portfolio yield.



Average Life Profile

Weighted average life shortens as cash balances grow

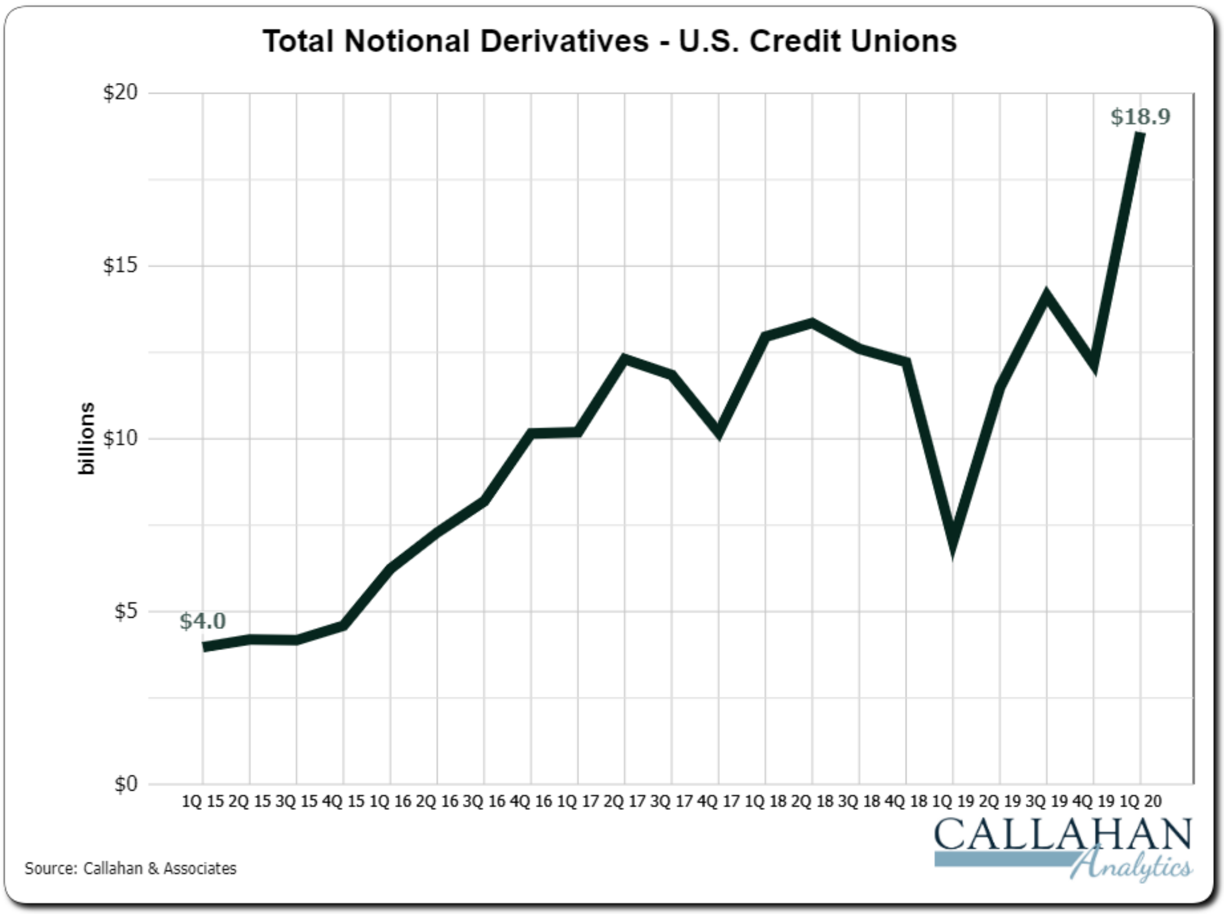
As of March 31, the weighted average life of all credit union investments was 1.79 years, down from December 2019 (1.91), due to an influx of cash and shorter maturity investments. Specifically, an increase in cash and equivalents (33.3%) offset the growth of longer maturity segments (five-10 years and greater than 10 years up 2.3% and 50.8%, 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 declines, balances up 55.1% from year-end

Notional balances rose to $18.9 billion – a $11.8 billion \increase since December – and finished the quarter up 168.3% annually following steady growth in the back half of 2019. The 55.1% gain in the first three months of the year and balance of $18.9 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 fell by 13 institutions, from 75 in the fourth quarter of 2019 to 62 in the first 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

About Trust for Credit Unions

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Trust for Credit Unions (TCU) helps credit unions succeed in serving their members by providing a professionally managed family of mutual funds — exclusive to credit unions — as well as the information and analysis they need to support investment decisions. Created by some of the leading credit unions with oversight by a board of trustees, TCU's mutual fund options allow credit unions to meet their short duration needs, are professionally managed, and are based on the cooperative values of credit unions.

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