



Focusing on 2024

Country Club Bank
Capital Markets Group

Disclaimer

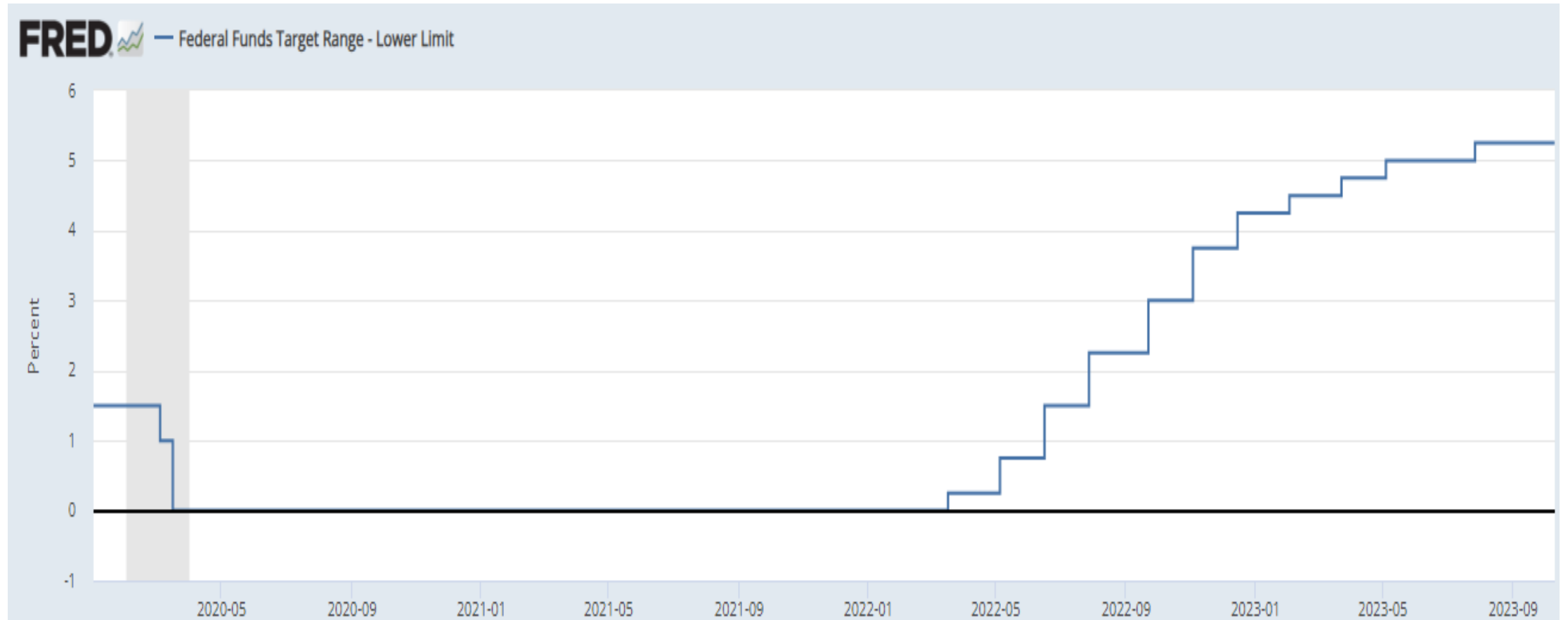
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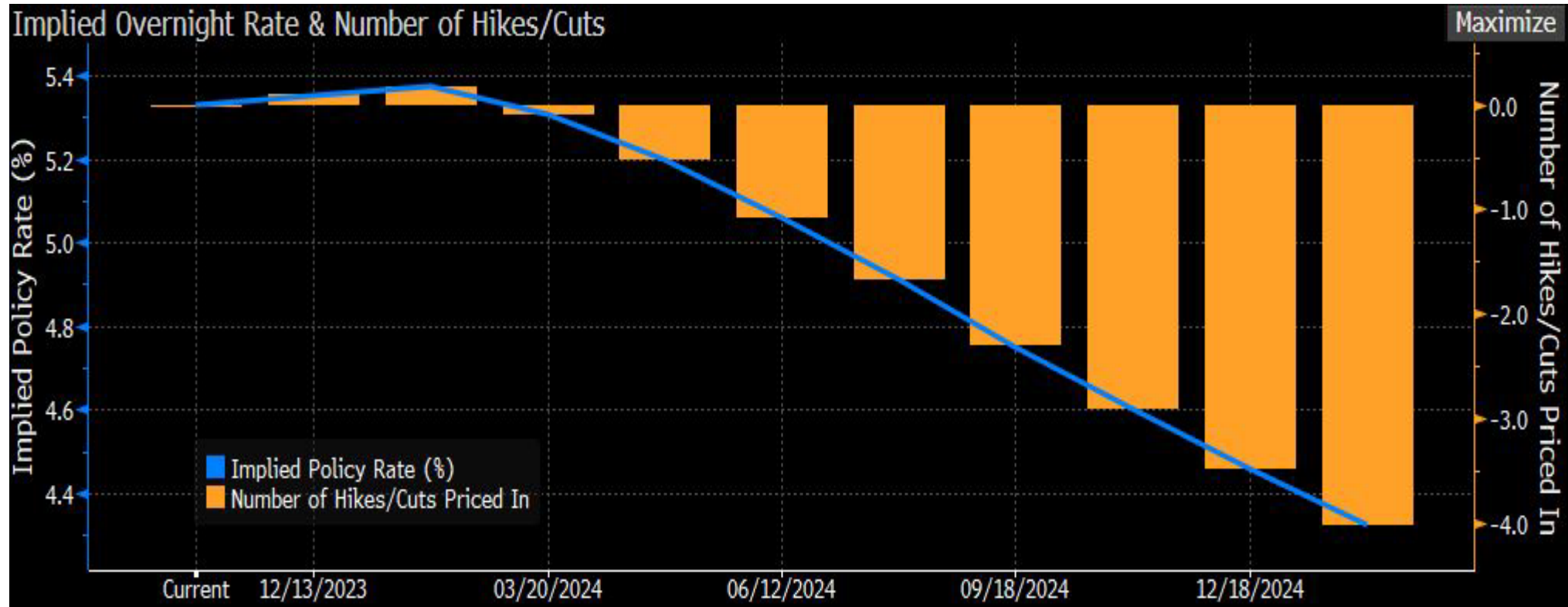
What Has the Federal Reserve Been Up To?



Source: Federal Reserve Economic Data



Have Overnight Rates Peaked?



Key Economic Indicators & Risks

- Inflation
- Unemployment
- Housing Affordability
- Consumer Debt



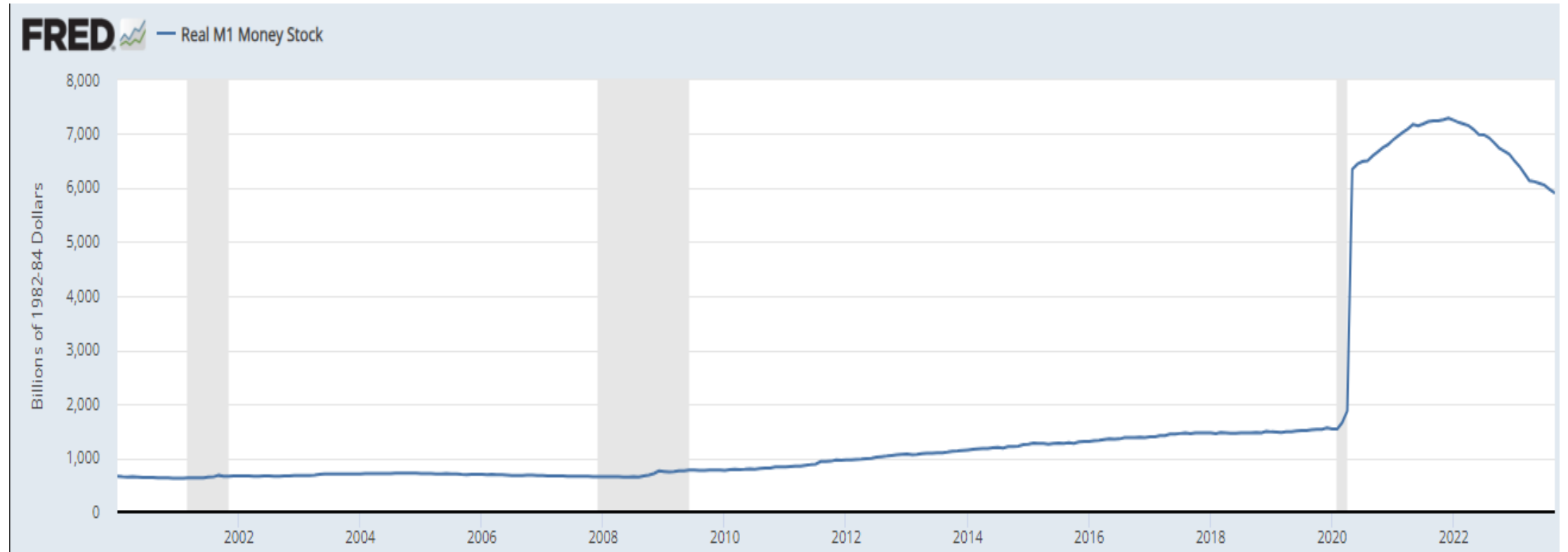
Inflation – CPI Less Food & Energy



Source: Federal Reserve Economic Data



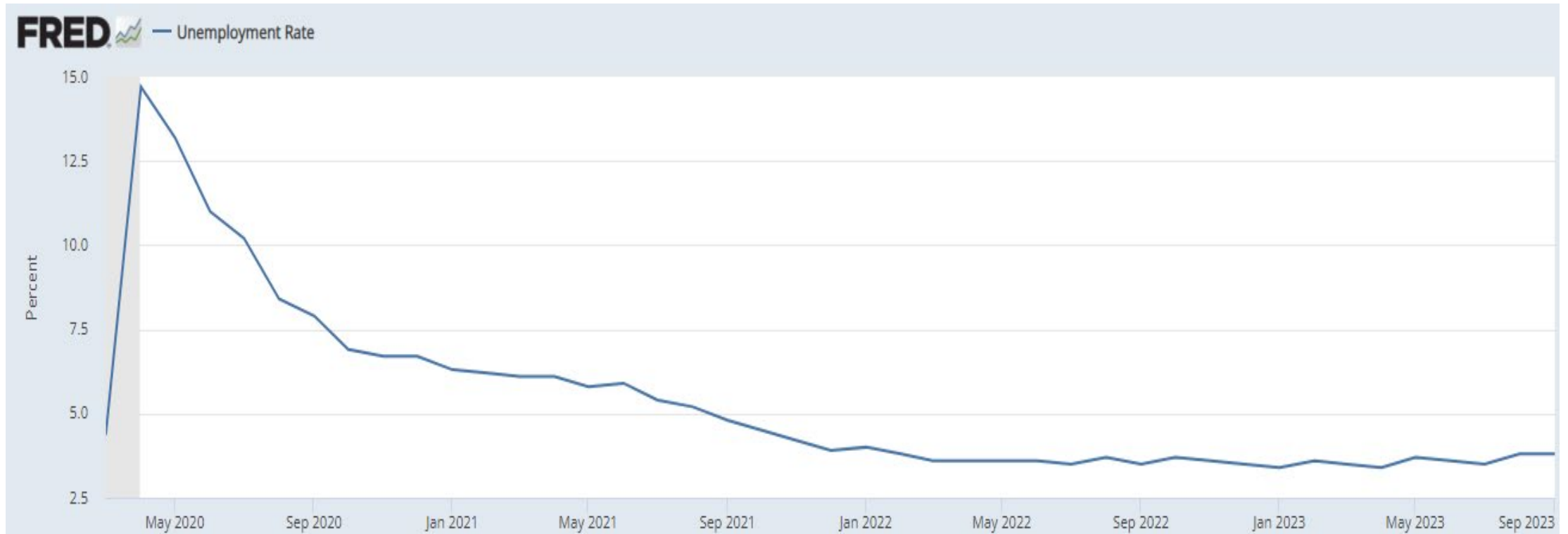
M1 Money Supply



Source: Federal Reserve Economic Data



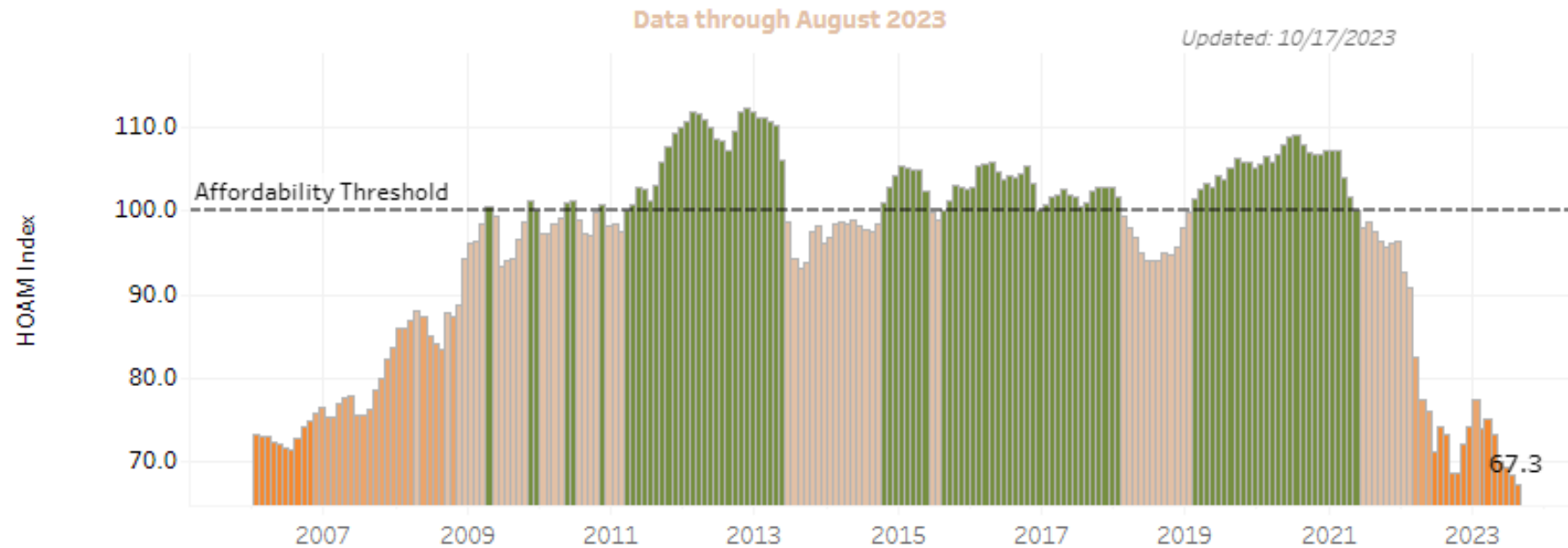
Unemployment



Source: Federal Reserve Economic Data



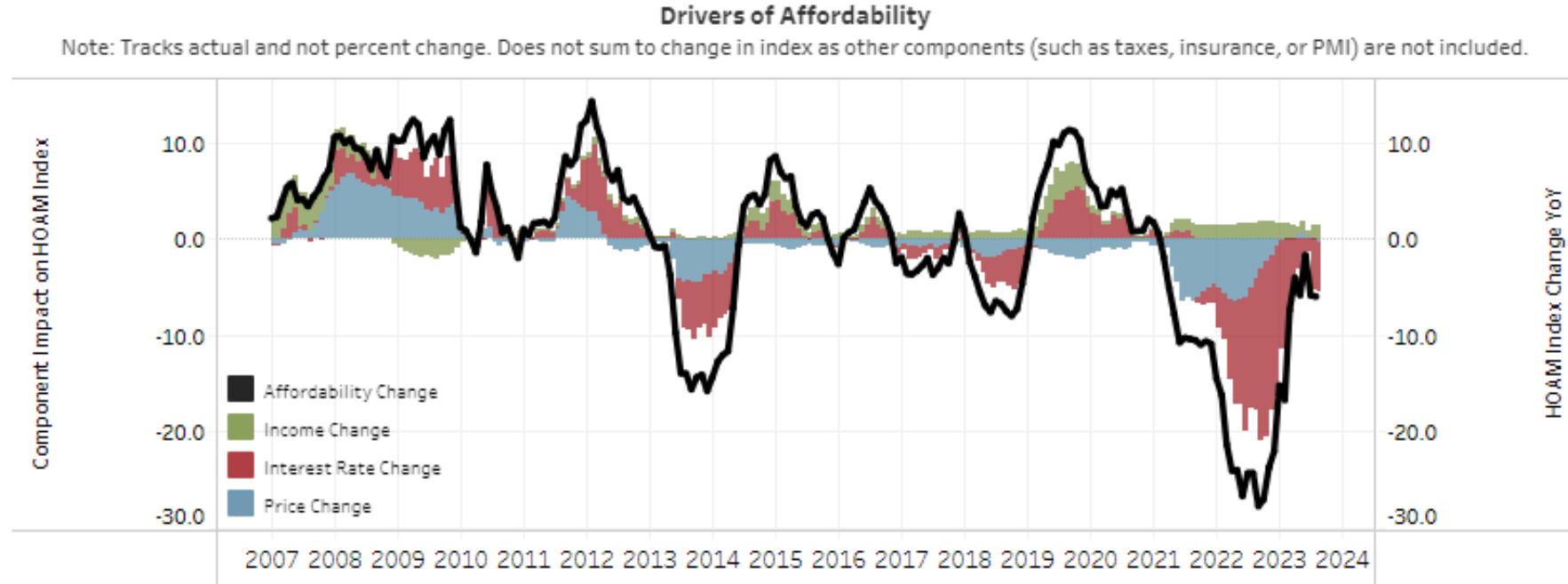
Housing Affordability



Source: Federal Reserve Economic Data



Housing Affordability



Source: Federal Reserve Economic Data



Consumer Debt



Source: Federal Reserve Economic Data

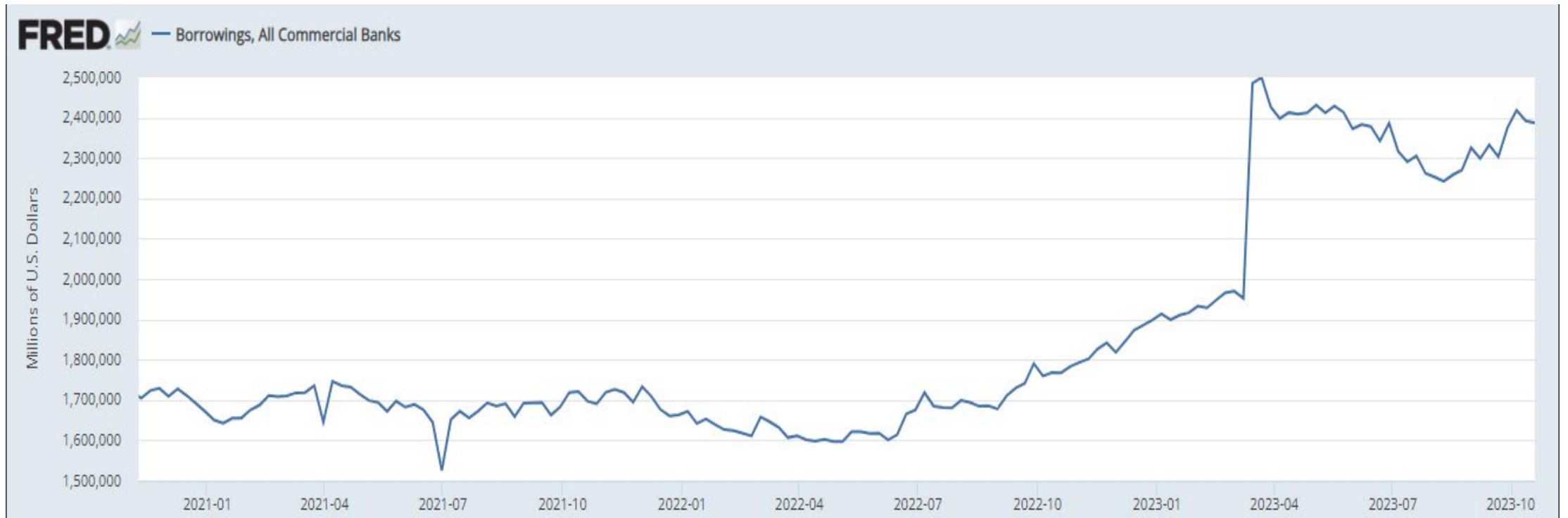


Balance Sheet Trends

- Liquidity has been tight across banking. Solutions?
 - Overnight & term borrowing
 - Brokered CD Issuance
 - Selling bonds out of the portfolio
 - Bank Term Funding Program



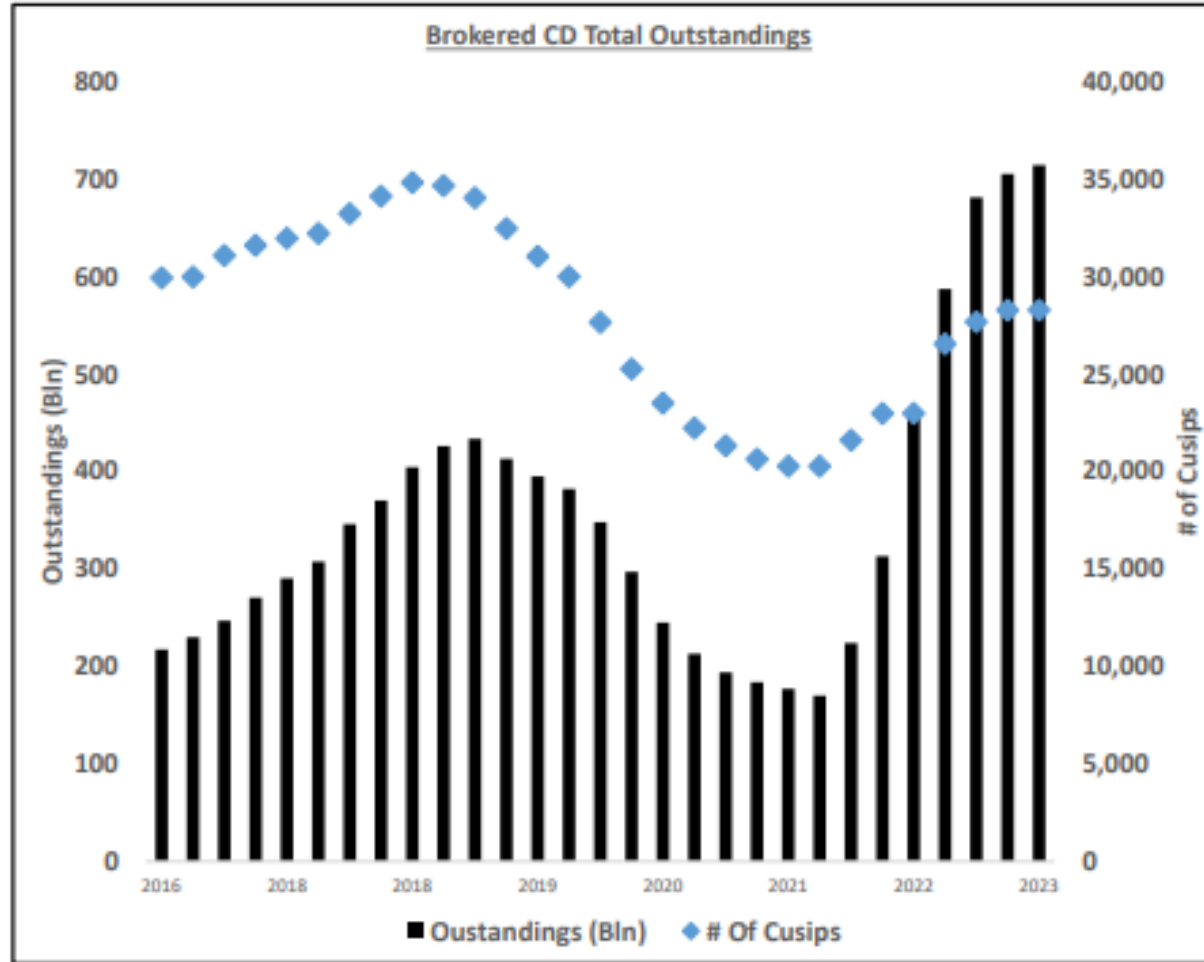
Banks Are Borrowed



Source: Federal Reserve Economic Data



Brokered CD Issuance



Source: Depository Trust Company / Financial Northeastern



Bank Term Funding Program

- Introduced March 2023
- Collateral- par value of government backed securities
- No fees
- Overnight swap rate + 10 basis points
- Fixed rate, fully pre-payable
- Refinance rate at any time



Taking a Loss?

- Selling bonds out of the portfolio can have advantages
- Compare to cost of funding, borrowings
- Timing matters



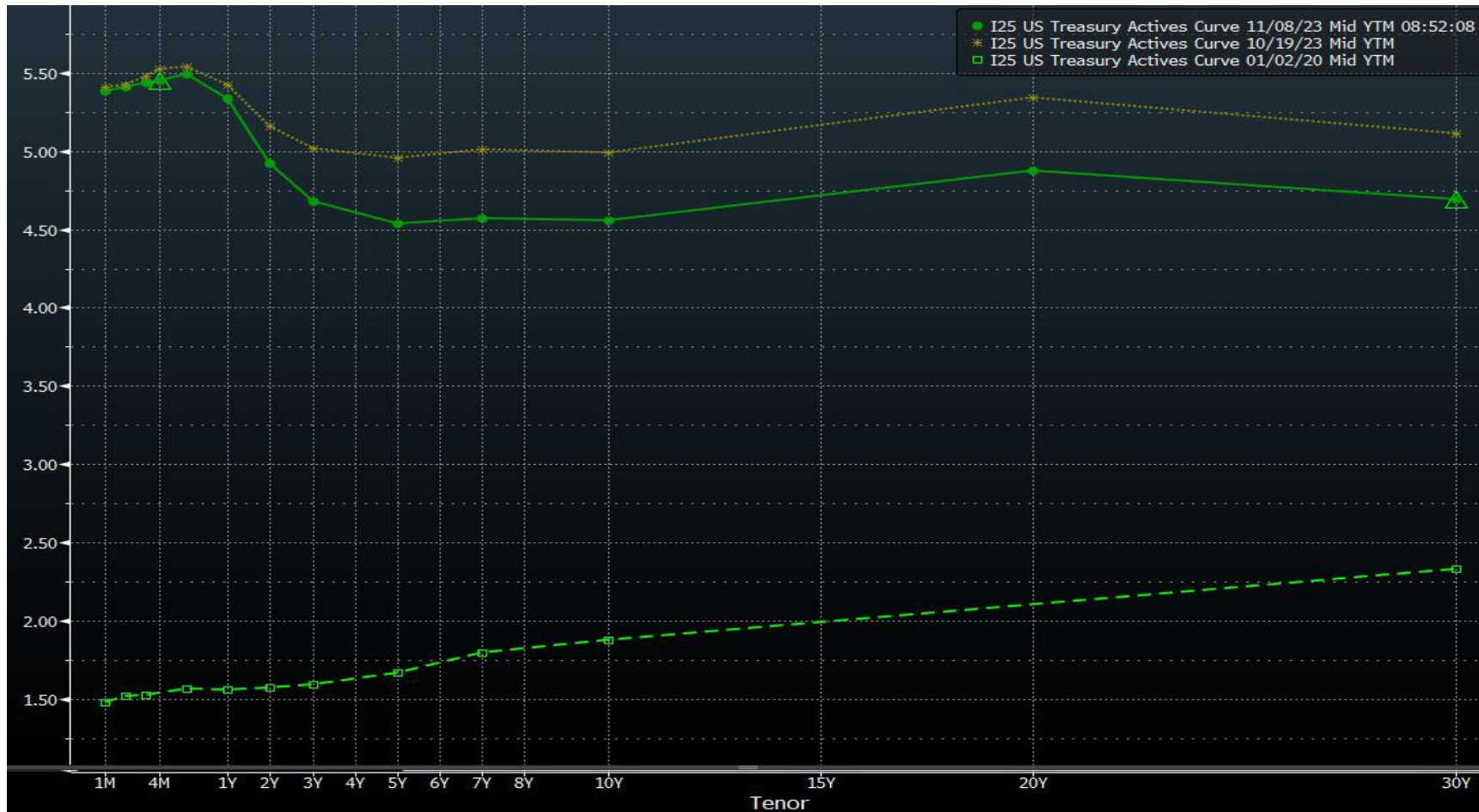
Interest Rate Environment



Source: Bloomberg LLP



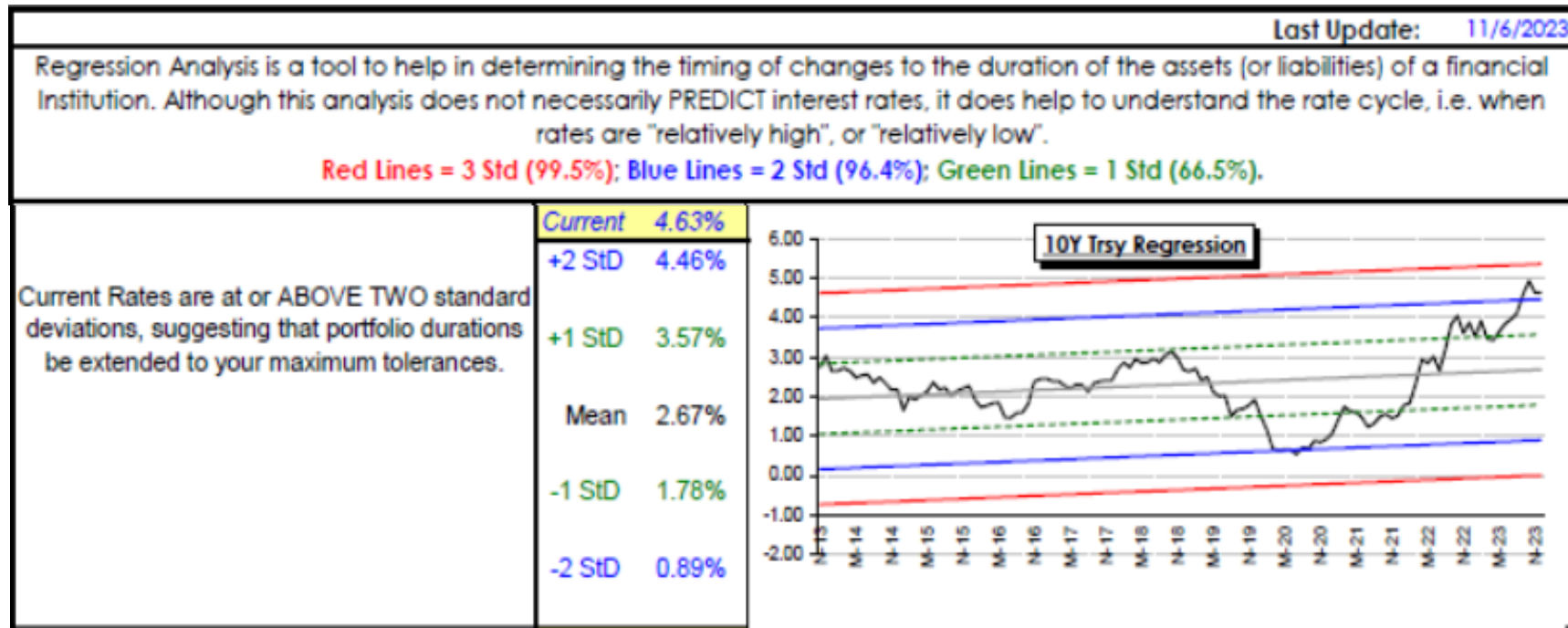
Curve Shifts



Source: Bloomberg LLP



Regression Analysis

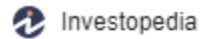


Decision Matrix

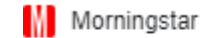
	Yield Curve	Liability Strategy	Loan Strategy	Credit Strategy	Investment Strategy	Off Bal Sheet Strategy	Leverage Strategy
+2 Std	Inverted	Shortest Specials; Shortest Adv Brokered Callables	More Fixed; Prepay Penalty Prime Index	Tighter Credit Standards Don't Reach	Max Dur Min Option	Asset: Var > Fix Liab: Fix > Var	Max Leverage (Max Invest)
+1 Std	Flattening	Shorter Specials; Shorter Adv Brokered Call	Prefer Fixed;	Begin Tighter Credit	Extend Dur Fewer Options	Hedge Int. Rate Exposure as Needed	Incr Leverage (More Invest)
-1 Std	Steepening	Longer Specials; Longer Adv Brokered Call	Prefer Floating;	Begin Easier Credit	Shorten Dur More Options Cash Flow	Hedge Int. Rate Exposure as Needed	Incr Leverage (More Loans)
-2 Std	Very Steep	Longest Specials; Longest Adv Brokered NC	More Variable; Tsy Index; No Caps	Easiest Credit Standards	Min Dur Max Option Cash Flow	Asset: Fix > Var Dep: Var > Fix	Max Leverage (Max Loans)



Fixed Income Overview



We're in the Biggest Treasury Bond Bear Market Ever, Bank of America Says



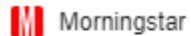
The Worst Bond Market Ever



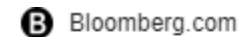
This hadn't happened on the U.S. Treasury market in 250 years. Now it's about to.

The 10-year Treasury bond is on track for a third year of losses in 2023, something that hasn't happened in 250 years of U.S. history.

Sep 1, 2023



Bond Investors Facing Worst Losses in Years



Deutsche Bank Looks Back to 1780s for Parallel to US Bond Rout



Treasuries

- Best used as a laddered liquidity vehicle
- Best price execution
- Highest rates in decades



Agency Bonds

- Fannie Mae (FNMA), Freddie Mac (FHLMC), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB)
- Prioritize yield lockout, call types that limit issuer optionality
- Deep discounts can add spread over bullets



Municipal Bonds

- Bank Qualified vs. General Market vs. Taxable
- Rising cost of funds squeezing the yield on general market bonds
- Bank Qualified and taxable can provide better value in this market for banks, depending on tax bracket



Municipal vs. Treasury Curve



Source: Bloomberg LLP



Mortgage Backed Securities

- Self-liquidating by nature
- Monthly interest and principal
- Fixed rate pools: avoid high 103+ premiums
- Adjustable rate pools (ARMs): short resets can be used to create a barbell approach

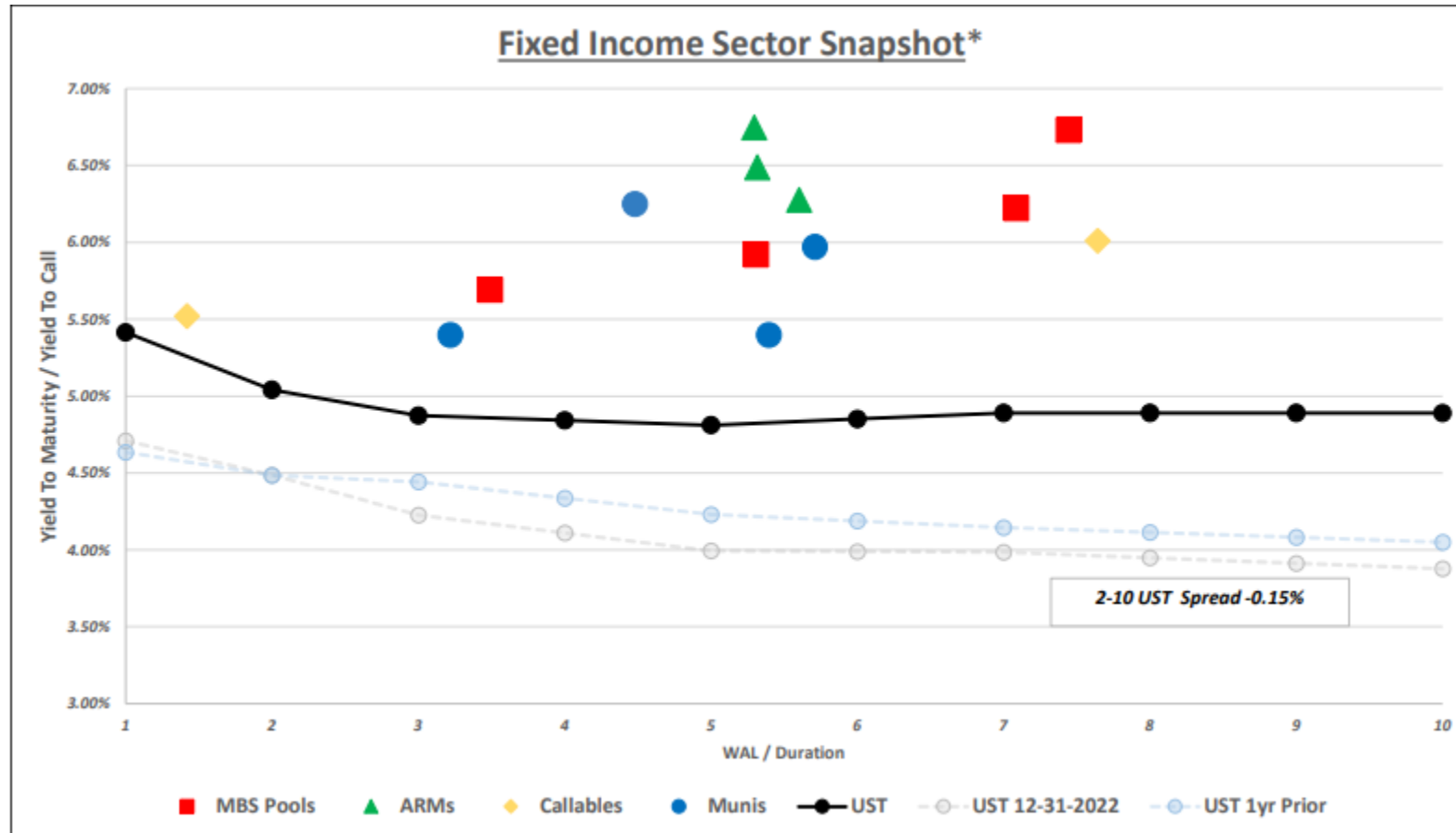


Certificates of Deposit

- Meaningful spread without additional risk
- Insured up to \$250,000 per depository institution
- Low Income Designated (LID) Credit Unions are eligible to be held by bank portfolios
- Look for non-callable



Fixed Income Snapshot

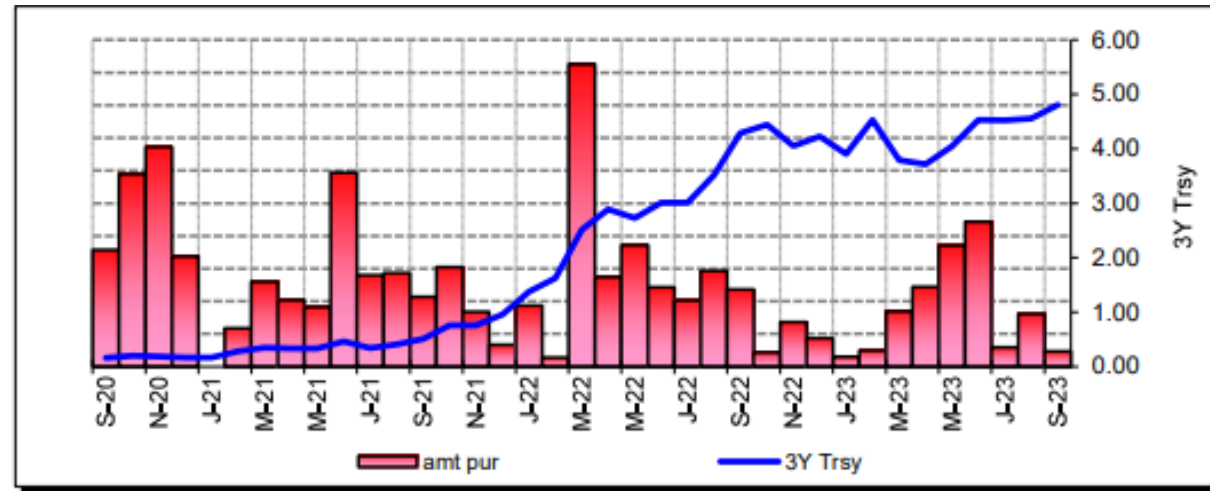


What Does the Bond Portfolio Provide?

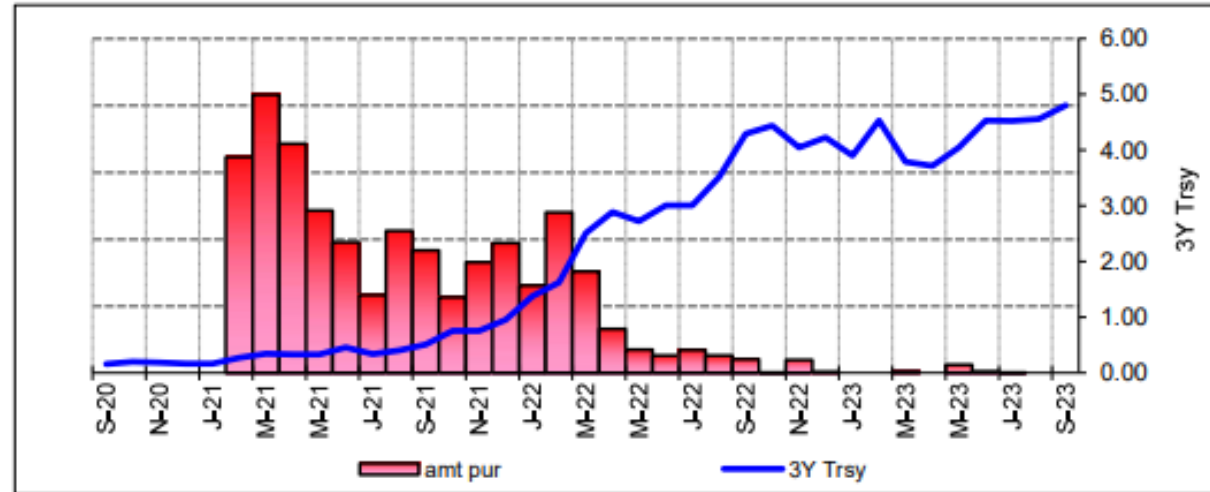
- Diversification of assets
- Reliable source of income
- Natural hedge in a down rate environment
- Protection vs. loan charge-offs



Top 10%



Bottom 10%



Questions?



Thank You

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