INVESTMENT COUNSEL AND MANAGEMENT

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Recent Interest-Rate Declines

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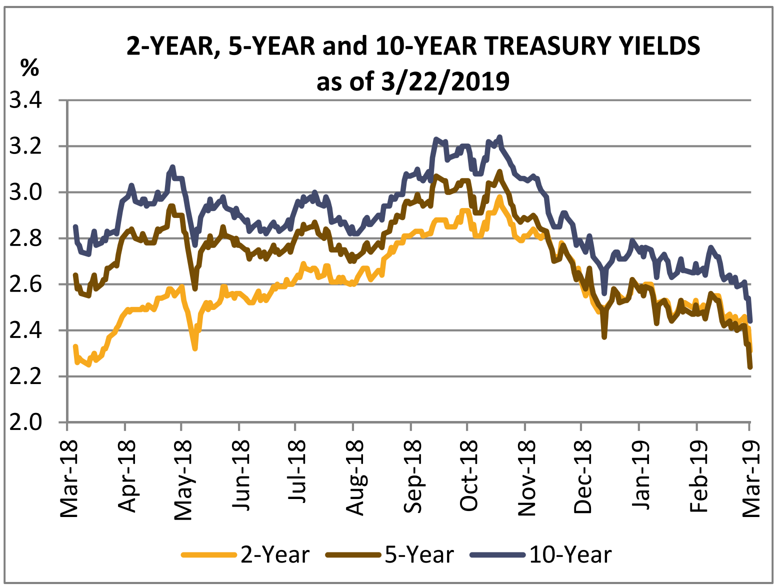
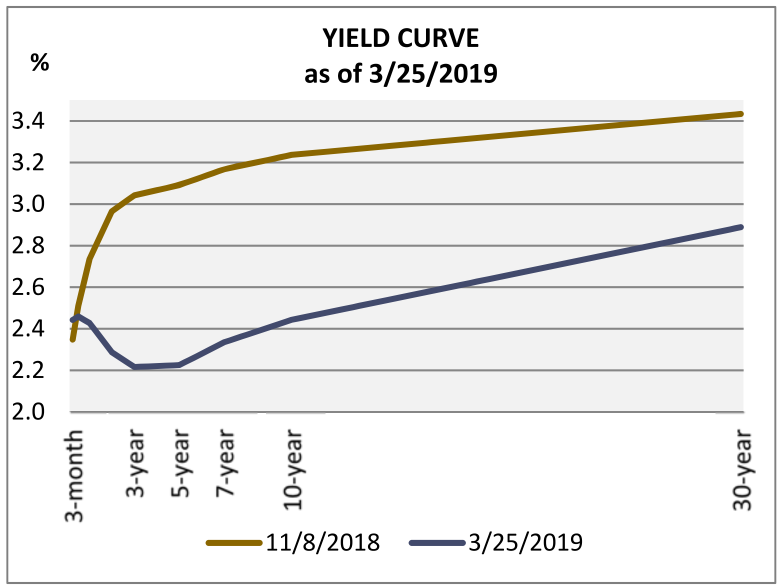
Intermediate-term U.S. interest rates have declined precipitously over the past four months. Treasuries have led a global rally amid prospects that a central bank rate-cutting cycle is coming. On Friday, the yield on ten-year notes fell below the rate on three-month bills for the first time since 2007 following reports showing economic weakness in the U.S., France and Germany.

Money markets are pricing in a 90% chance that the Federal Reserve will cut rates by 25 basis points by December, followed by another 25 basis-point reduction in September 2020. This comes after the central bank projected no hikes this year at its policy meeting last week.

Since reaching a multi-year peak in November of last year, five-year Treasury yields have declined 86 basis points, while two-year and ten-year yields have dropped 72 and 80 basis points, respectively. In March, alone, yields have fallen 25-30 basis points. This has led to a sharp flattening in the yield curve. See graphs, below.





In this context, it is critical to be careful with pricing on both the loan and deposit sides of the equation, and to be alert to future rate changes, in order to preserve margins going forward.

We will continue to keep you apprised of significant developments on the rate front as they occur.

Source for the information in this update is the agencies' news releases.

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