

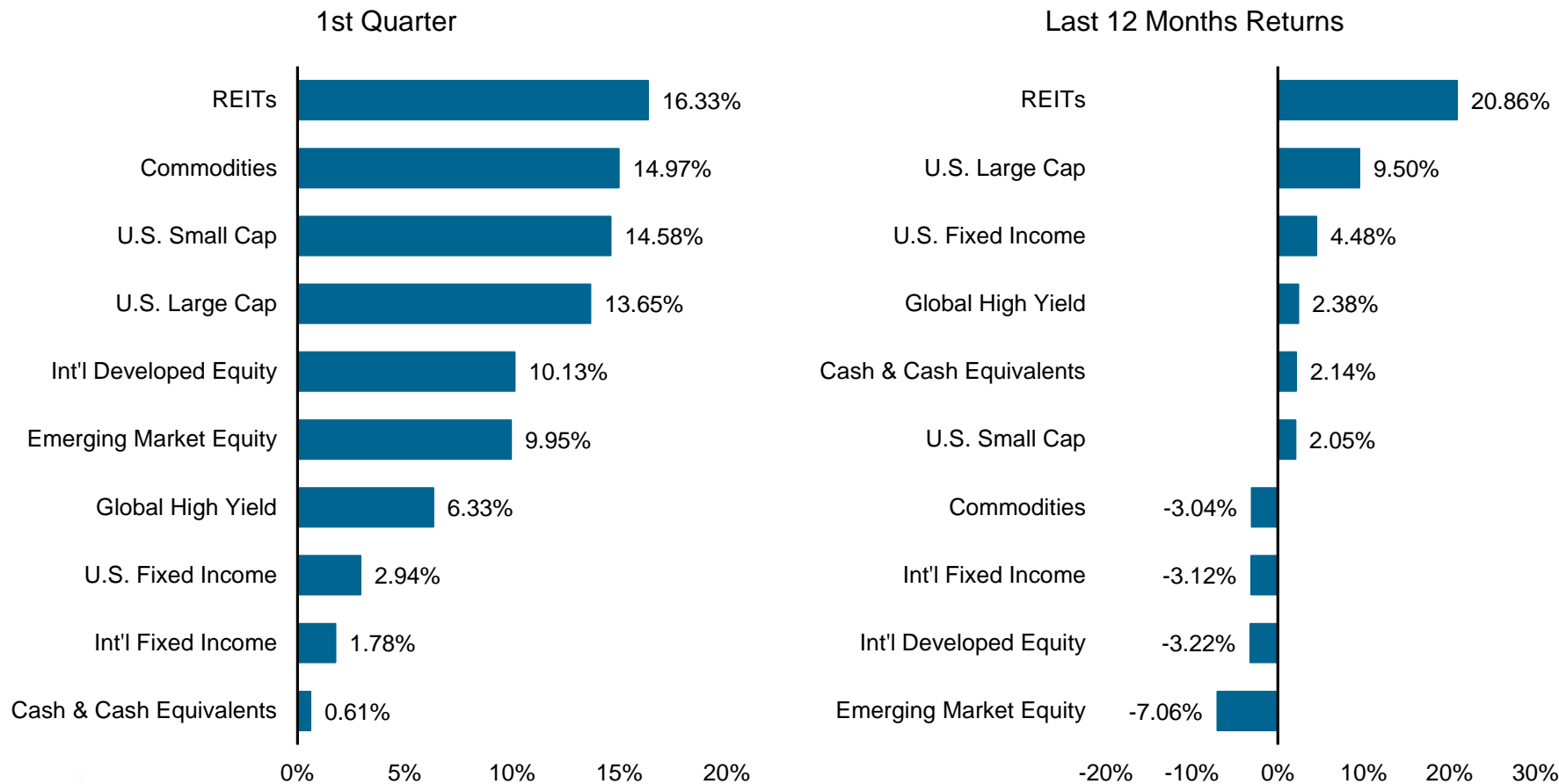
# BOK Financial Economic & Market Outlook April 10, 2019

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# Asset Class Returns

REITs were the top performing asset class in the first quarter of 2019 while cash provided the lowest returns.

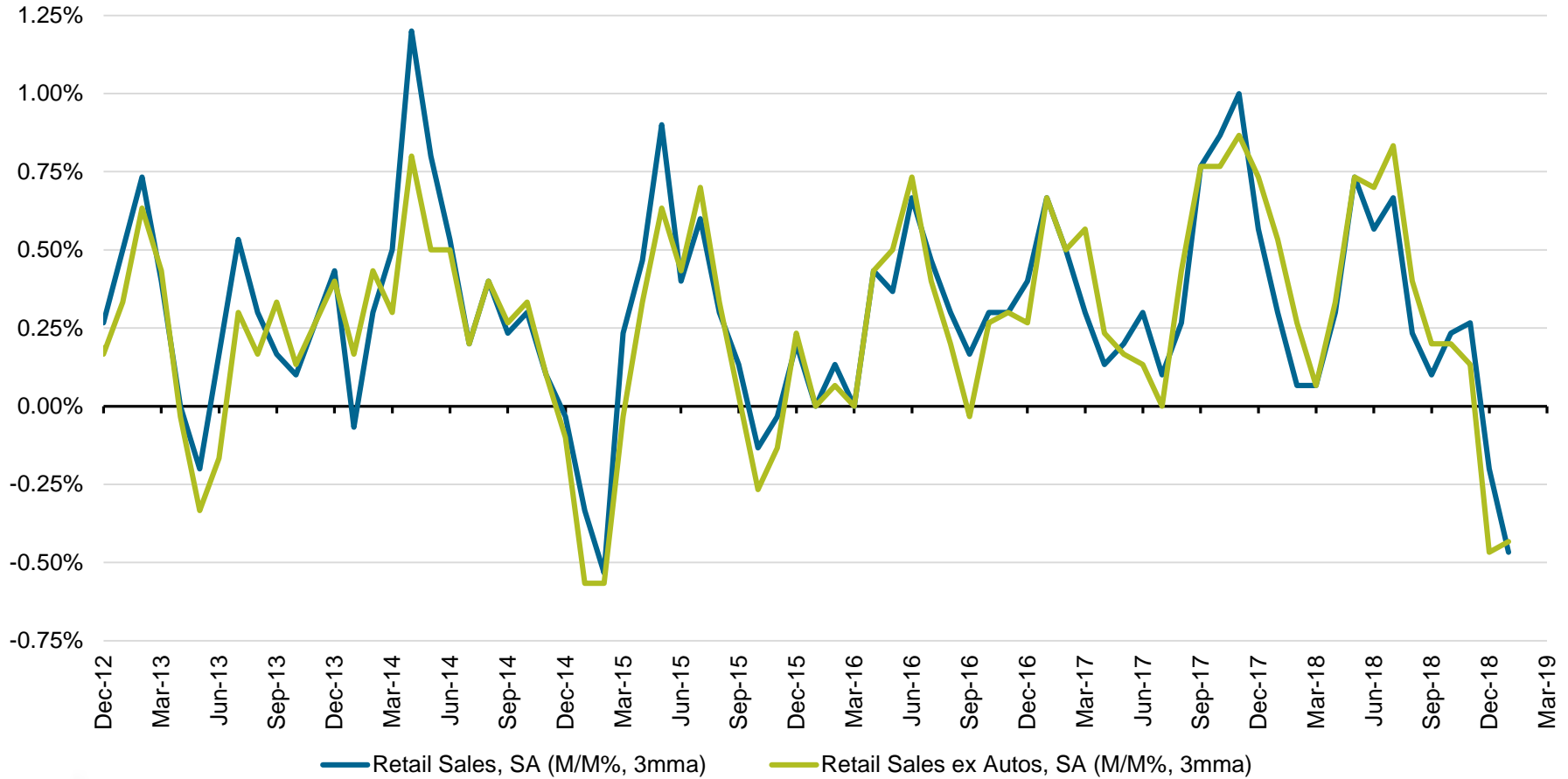


Source : S&P Dow Jones Indices, FTSE Russell, MSCI, Bloomberg Barclays, FactSet. As of 3/31/2019. <sup>1</sup>See appendix for index descriptions.



# U.S. Consumers: Retail Sales

Retail sales slowed dramatically at the beginning of 2019.



Source : U.S. Census Bureau, FactSet. As of 1/31/2019.



# U.S. Business Environment: Business Inventory/Sales

Business inventories relative to sales have been on the rise since September of 2018.

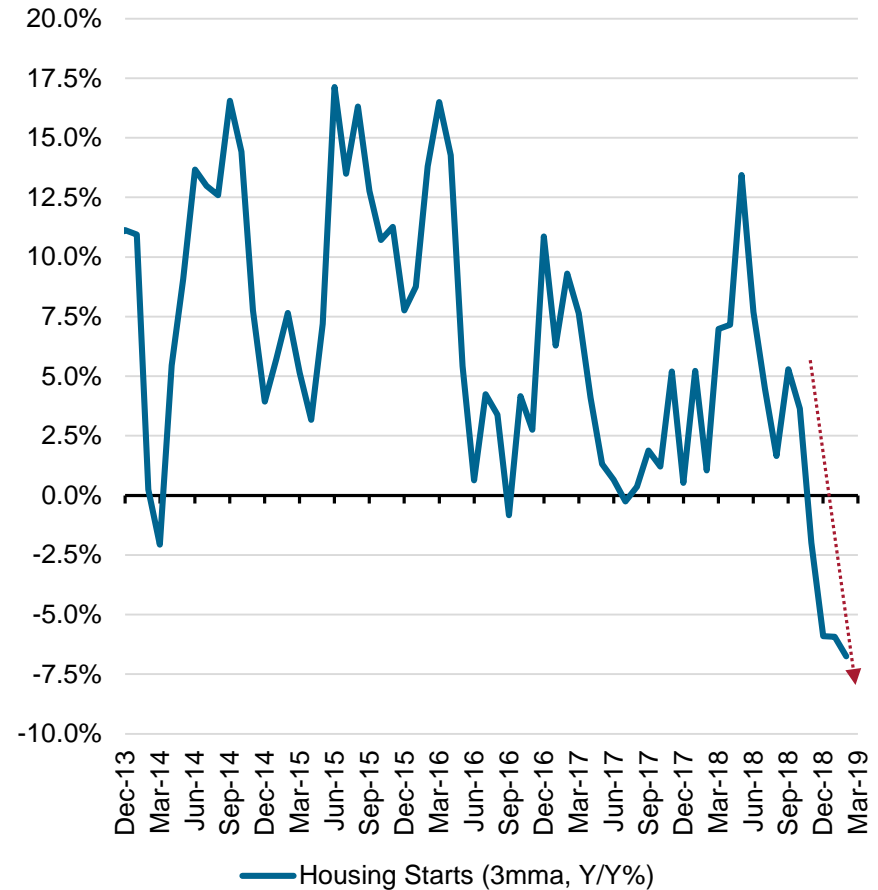
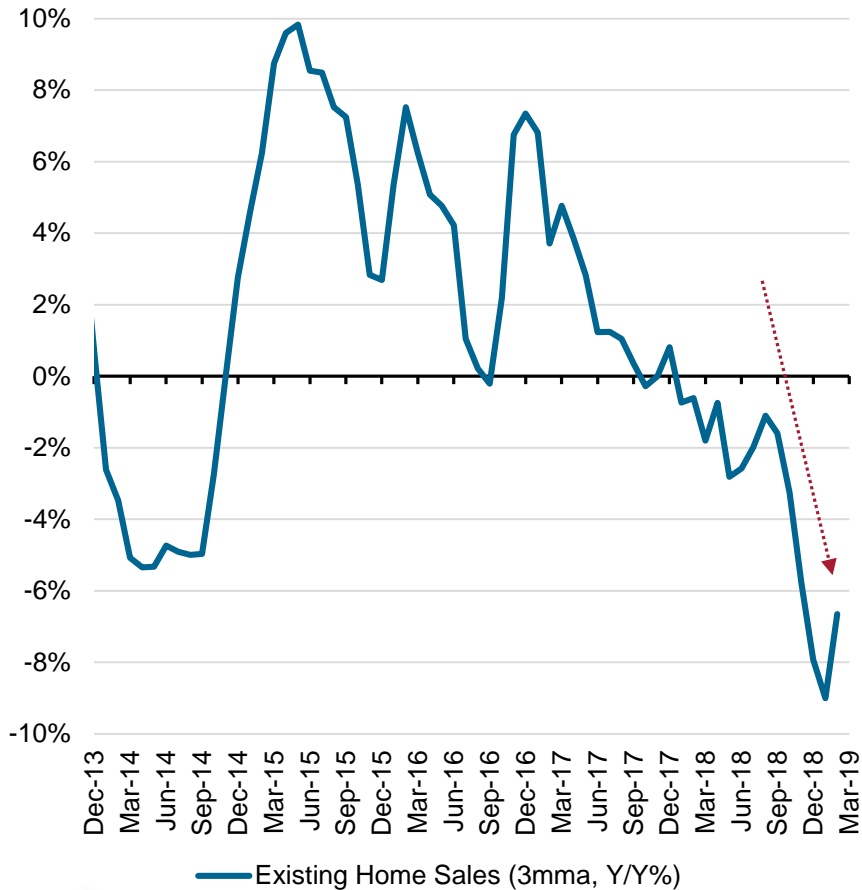


Source : US Census Bureau, FactSet. As of 12/31/2018.



# U.S. Housing Market

The housing market continued to lose traction in Q4 of 2018. On a year-over-year basis, both existing home sales and housing starts moved into negative territory early in 2019.

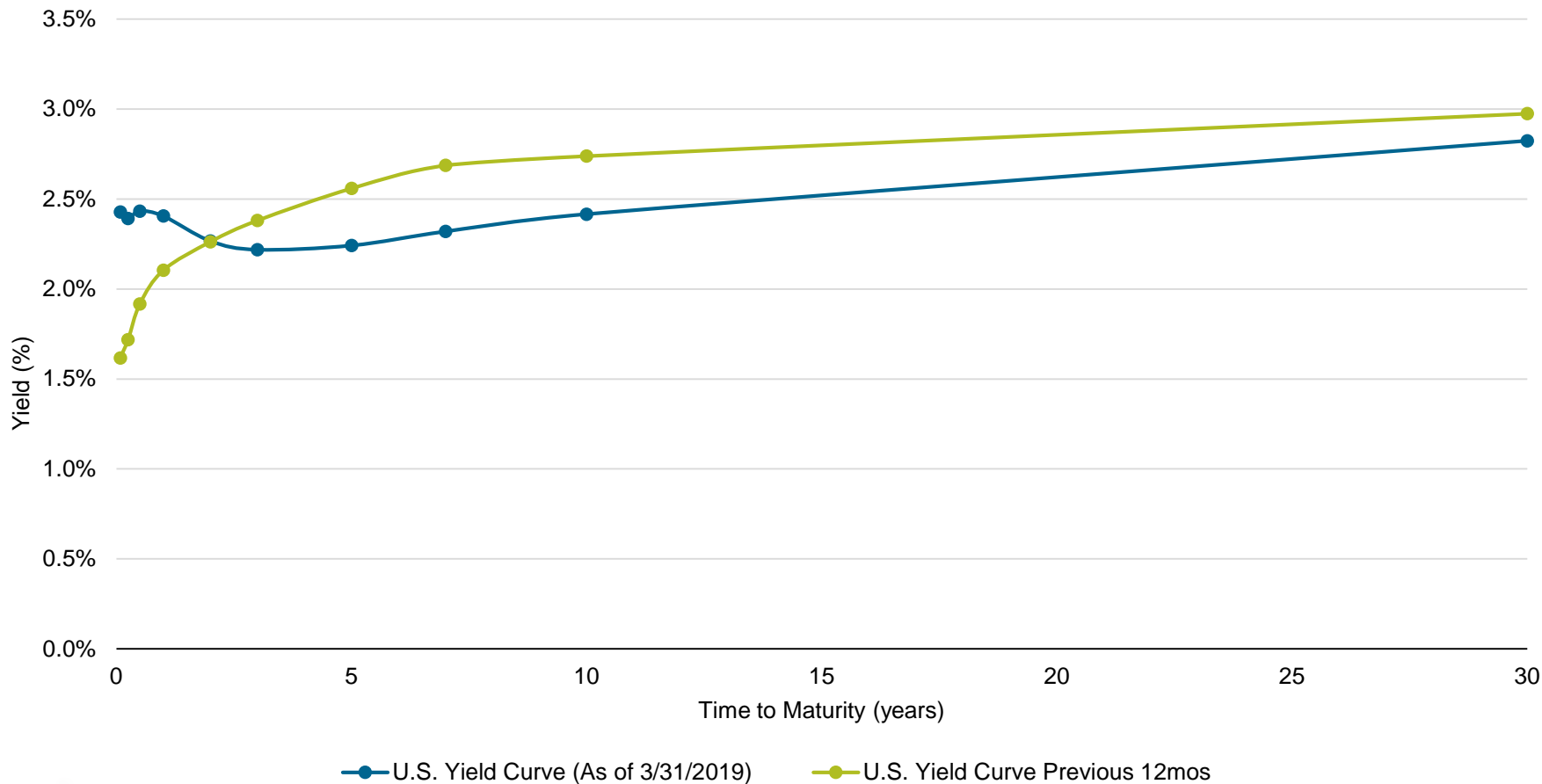


Source : National Assoc. of Realtors, U.S. Census Bureau, FactSet. As of 2/28/2019. <sup>5</sup>See appendix for data availability.



# The U.S. Treasury Yield Curve

The treasury curve experienced two more inversions in the 1<sup>st</sup> quarter of 2019. The Fed is receiving most of the blame for the broadly watched 3M/10Y and 1Y/10Y inversions. At an FOMC meeting in March, the Fed signaled that it was either done or very close to being done with further rate increases this cycle.

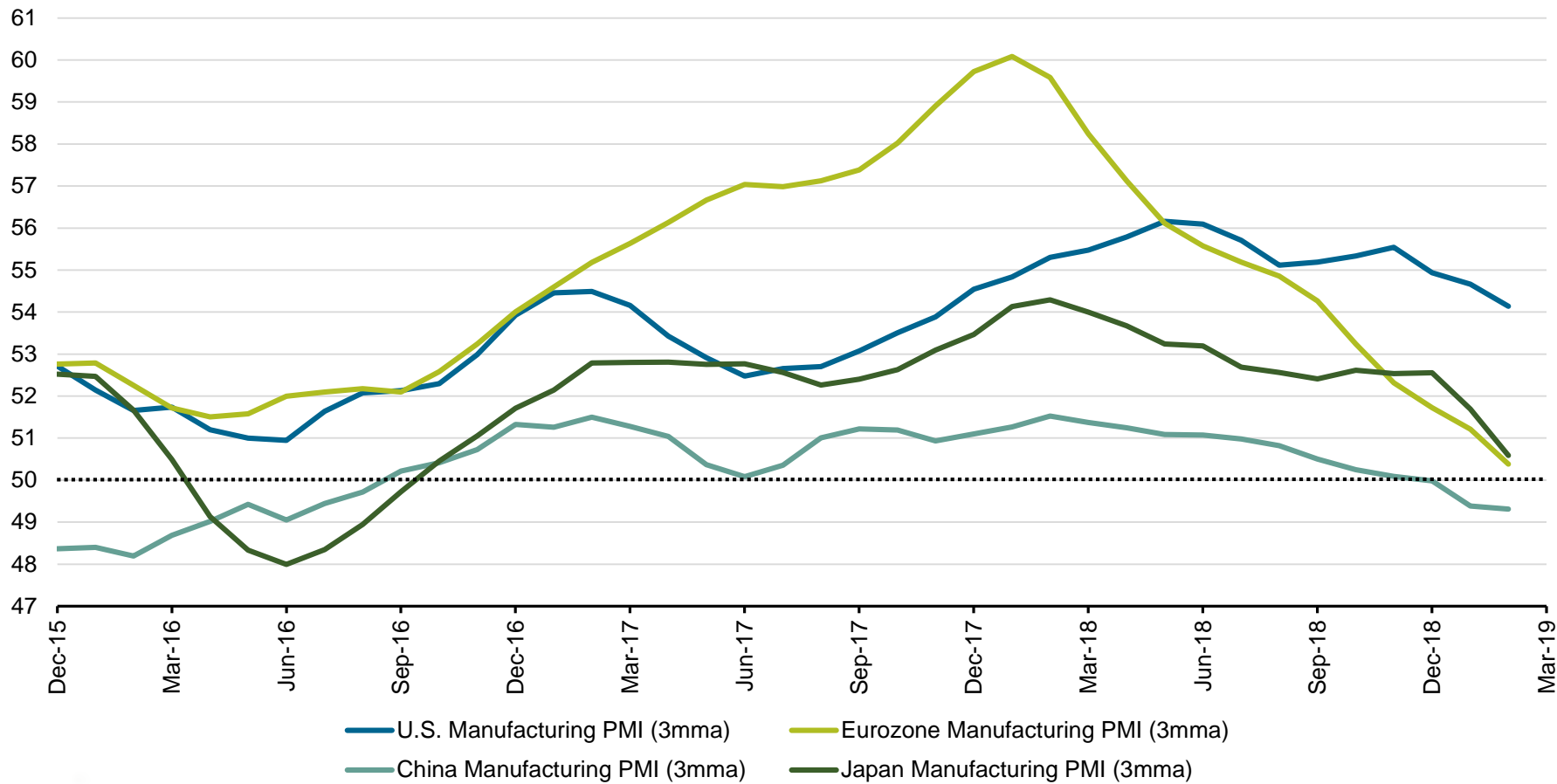


Source : Tullett Prebon Information, FactSet. As of 3/31/2019.



# Developed Nation Purchasing Manager Indexes

The Markit PMIs have become more aligned with a slow, downward trend becoming evident in the U.S., Eurozone, China, and Japan over the past few months.



Source : Markit Economics, FactSet. As of 2/28/2019.



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# **Developing Trends Impacting BOK Financial's Credit Risk Appetite**

**April 10, 2019**

## 2019 Credit Risk Status

Overall – Credit Risk is Moderate – Increasing

General economic conditions (both nationally and in our region) are stable

- ▶ Interest rate increases from the Fed are likely paused.
- ▶ Inflation pressures are modest with steady unemployment rate.

However, longer term there is increasing potential inflation due to:

- ▶ Tariffs
- ▶ Wage Pressure/Labor Costs
- ▶ Government Intervention
- ▶ Tax Policy

Questions:

- ▶ Where are we in the cycle?
- ▶ How are we preparing for the downturn?

## 2019 Credit Risk Status

### Energy

- ▶ Oil Prices have crossed into the lower \$60 range though the forward curve is in backwardation. Gas prices are holding in the upper \$2 range.
- ▶ The A&D, IPO and High-Yield Markets are generally closed limiting financial options.
- ▶ Aggressive drilling programs.

### Commercial Real Estate

- ▶ BOKF CRE is approaching concentration limits and the addition of CoBiz CRE portfolio creates an over concentrated position which will be managed down as the portfolio transitions through renewals over time.
- ▶ Higher interest rates and increasing construction costs may effect project economics.
- ▶ Amazon effect on brick and mortar retail centers.
- ▶ Maintaining underwriting discipline.

## 2019 Credit Risk Status

### Healthcare

- ▶ Potential for proposed changes in Obamacare resurfacing.
- ▶ Out of Network Provider business model has been challenging.

### C&I

- ▶ Underwriting standards of competitors are easing and competition for loan growth intensifies.
- ▶ Increasing corporate debt levels.
- ▶ Retail C&I is stable but concern over customer buying patterns (online v. in-store) continues.
- ▶ Cost pressures increasing from higher rates, wages, and tariffs particularly impacting higher leveraged loans.

## 2019 Credit Risk Status

### Specific Portfolio Metrics

- ▶ In the BOKF portfolio, criticized assets have increased, while classifieds have declined slightly, core non-performing loans have declined, primarily through charge-offs.
- ▶ CoBiz additions are modest, with purchase accounting adjustments making their impact minimal. CoBiz credit losses in excess of expectations can affect combined allowance.
- ▶ Trailing twelve-month loan growth is in excess of \$1.5 billion in the BOKF portfolio.
- ▶ CoBiz acquisition adds \$3 billion of loans and integration of lending policies is underway. While we expect the integration to be successful, there is integration risk which, at a minimum, could affect loan growth and asset quality forecasts.

# Economic and Market Outlook

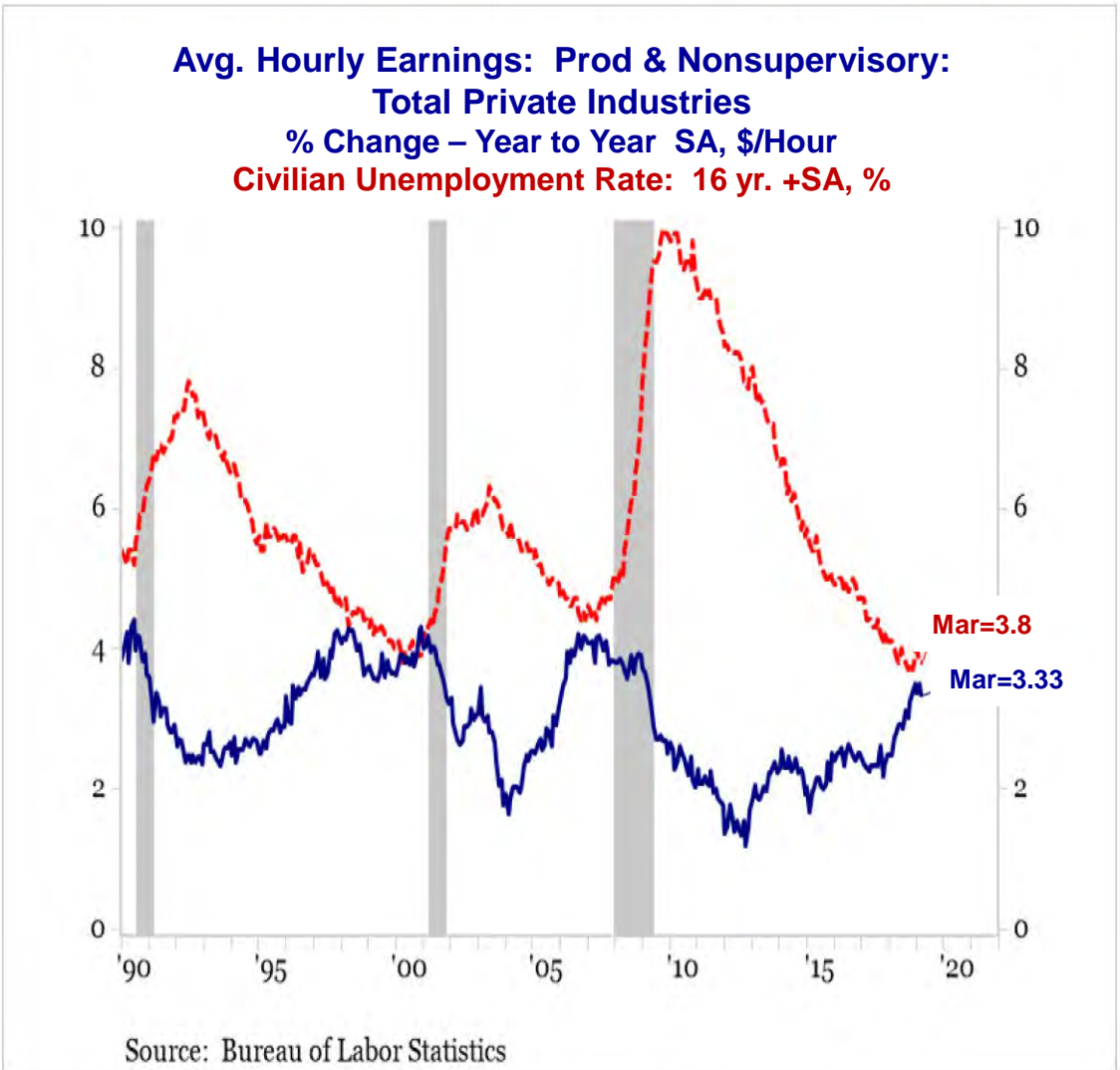
**Conference Call**

**Wednesday, April 10, 2019**

**Jim Huntzinger, Chief Investment Officer | BOK Financial Corporation**



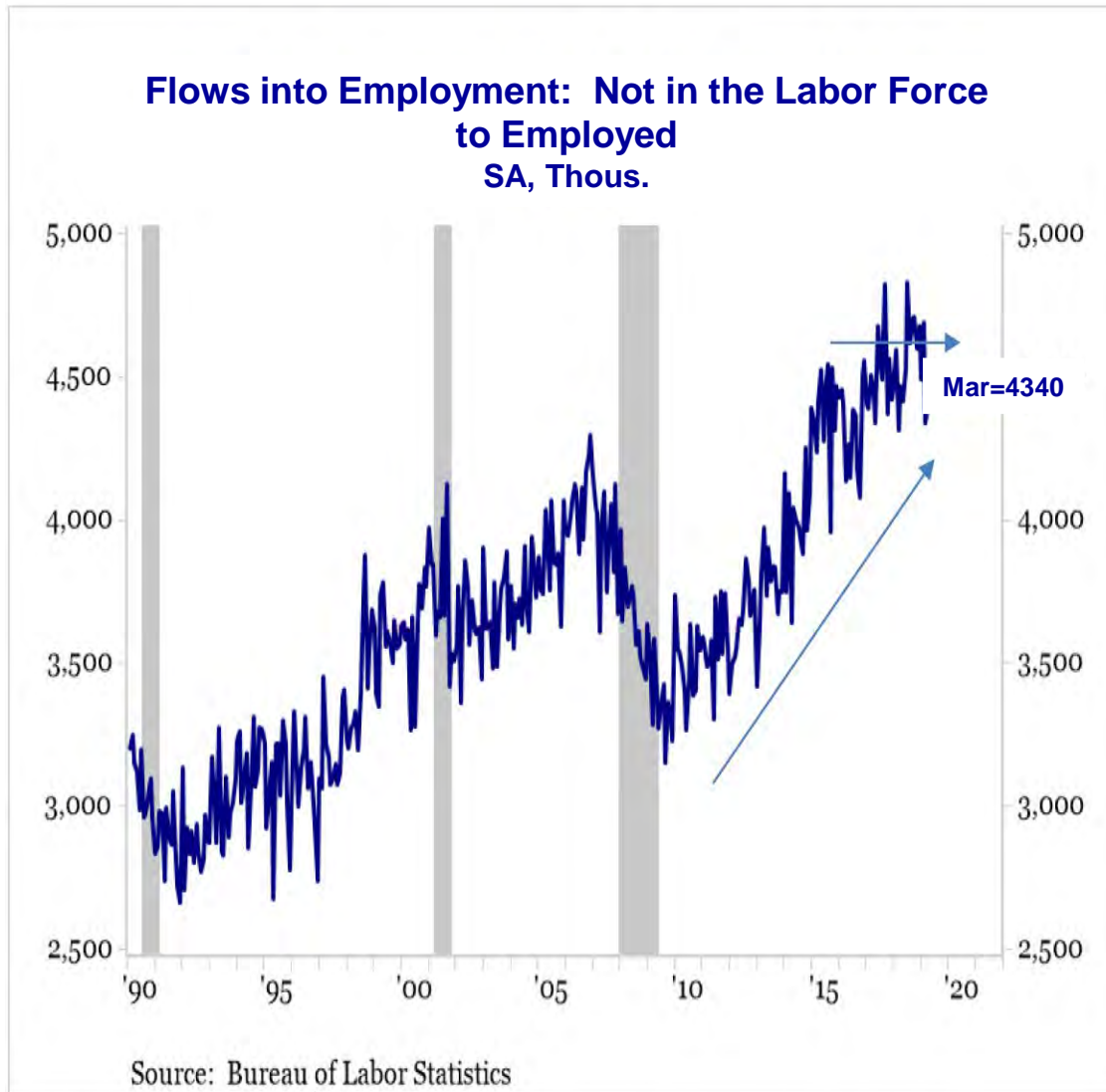
# Unemployment & Wage Growth



- Wage growth up with U.S. at full employment, but not worried yet about too hot wage growth.



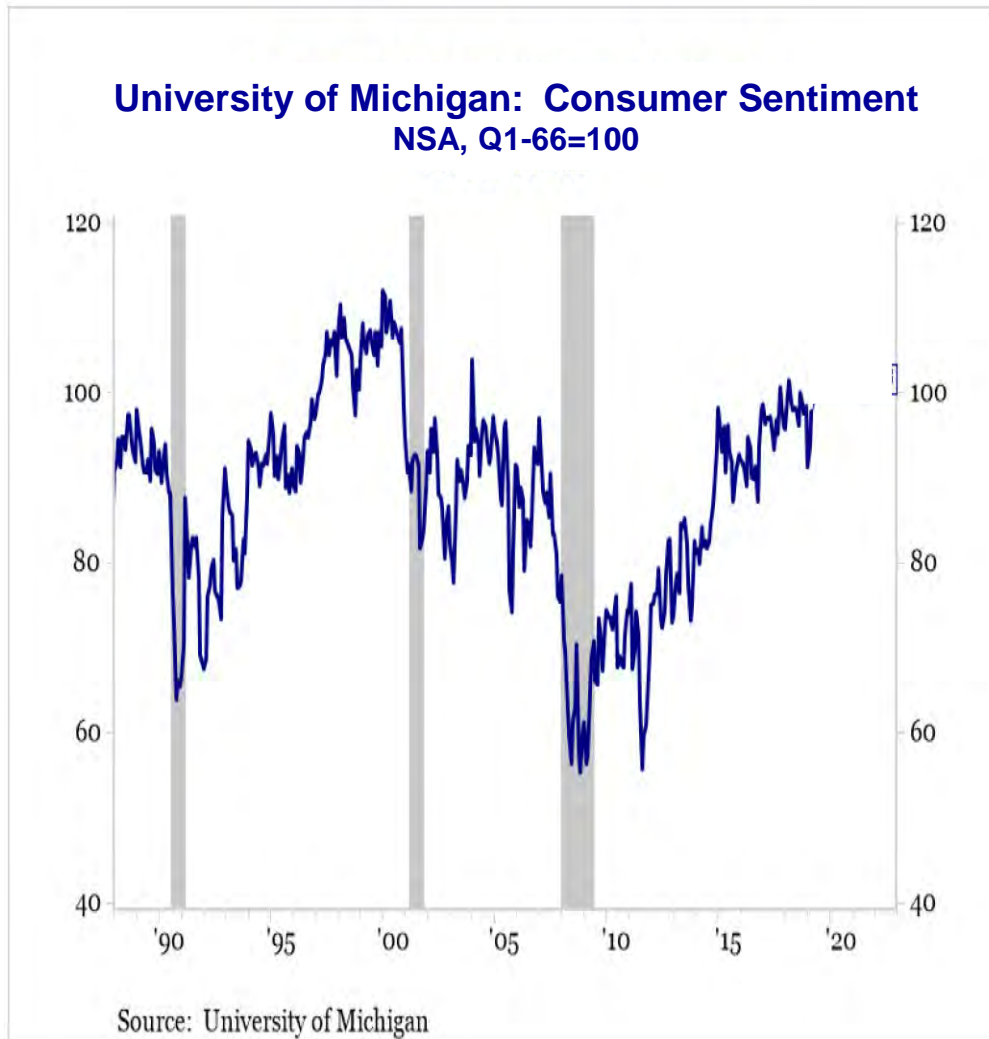
# Labor Force Growth



- The good labor market keeps pulling people in.
- Where is the slack coming from?
  - A) Seniors working much longer than at any period in history.
  - B) African American unemployment is at record lows.

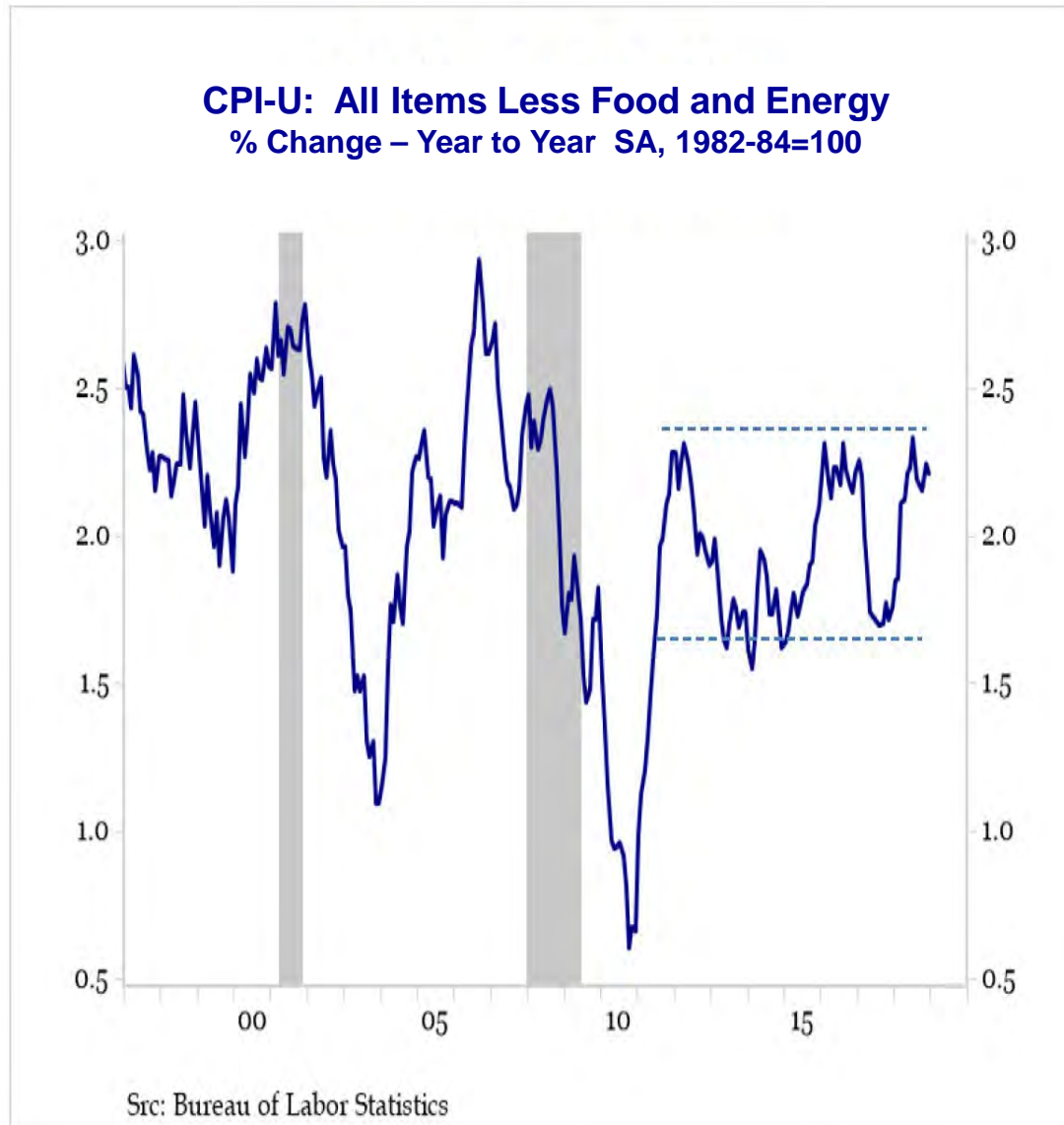


# Consumer Confidence



- Consumer confidence remaining elevated.

# Core Inflation



- Core inflation +2.1% y/y.
- Not enough inflation to hurt the economy.
- Bottom line...door is still open to a soft landing in U.S. economy.

# 30-Year Mortgage Rates



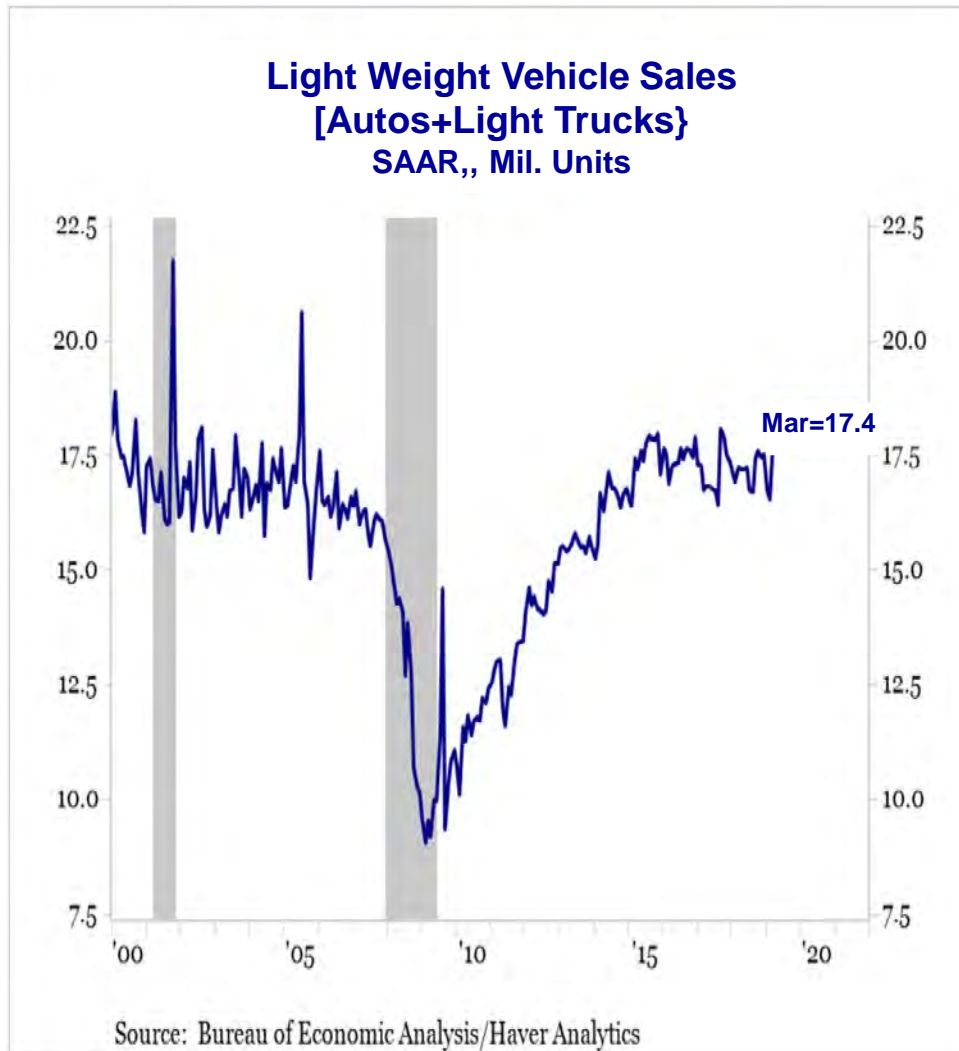
- Mortgage rates drop 1/2%.

# Mortgage Loan Applications



- Some signs of stability in U.S housing.
- Lower rates impacting home buying.

# Auto Sales



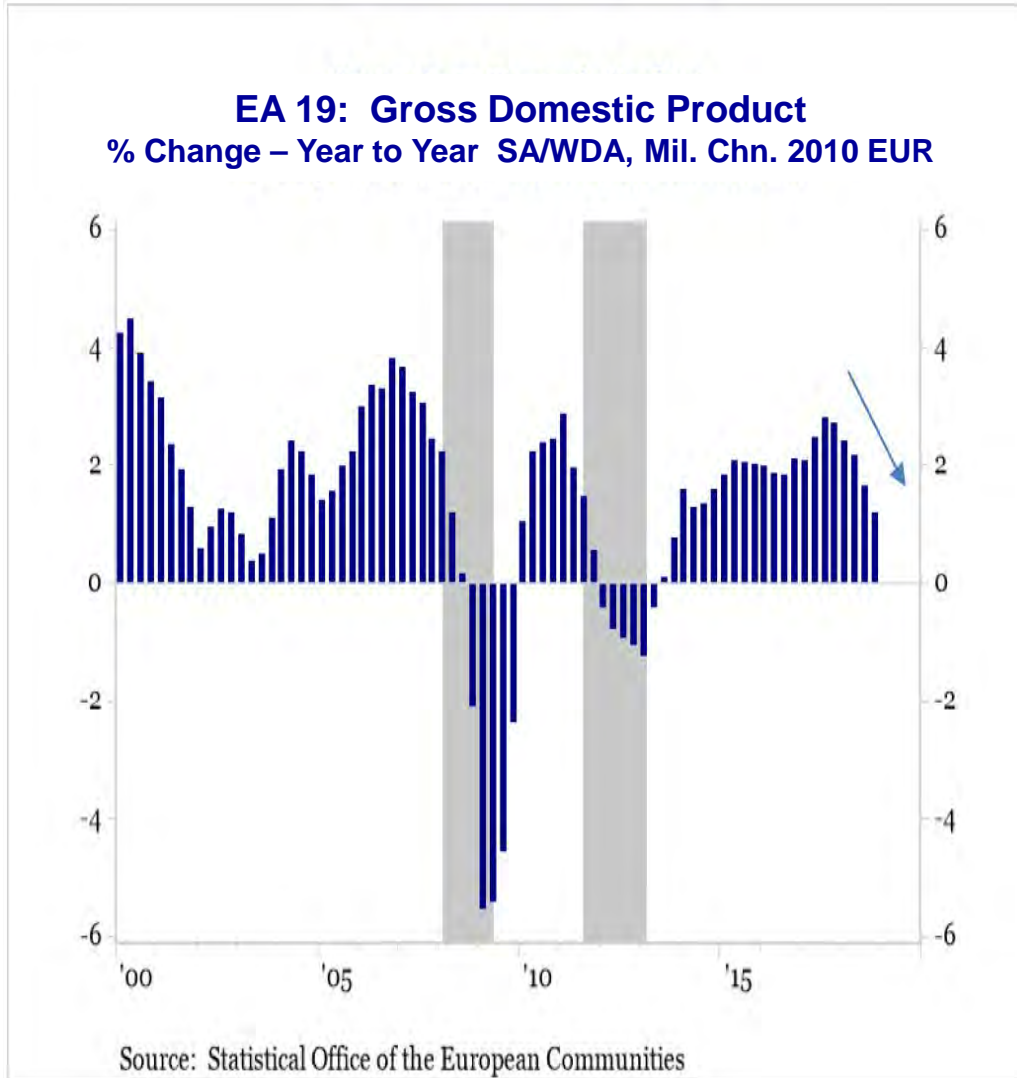
- More muddle thru data here.

# Yield Curve



- U.S. Yield curve stabilizing.

# Gross Domestic Product-Europe



- Fourth quarter GDP reconfirms Euro slowdown underway.

# Key Themes

- Synchronized global growth became...synchronized global slowdown.
- S&P earnings growth rate slows.
- Federal Reserve has moved to sideline...good news. No chance of a fed rate cut.
- Inflation could move higher later in year.
- Slower growth yes, recession no.
- Economic data is getting better – soft patch is likely over.
- See U.S. GDP growth around 2.00% for 2019...slowing but not contracting. Still pretty solid.



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