



CAPITAL MARKETS *monthly*

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GENERAL MARKET OVERVIEW

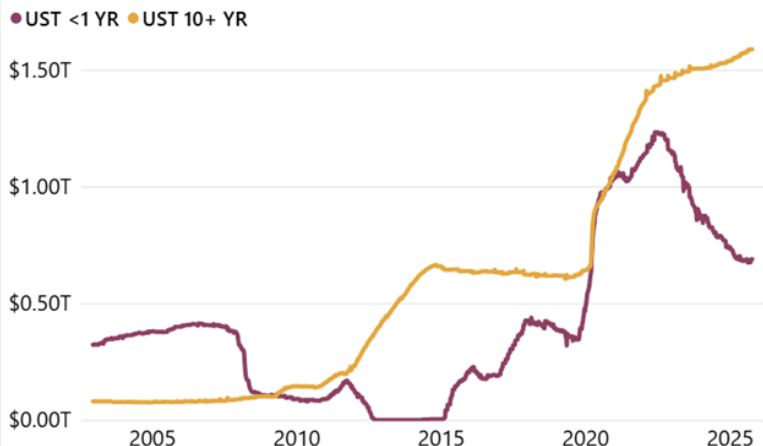
One Bloomberg headline from October 14 sent markets buzzing with speculation as to when the Federal Reserve will re-expand its balance sheet with quantitative easing (QE). Federal Reserve Chairman Jerome Powell signaled quantitative tightening (QT) may be ending soon as the Fed is nearing the end of its balance sheet reduction

efforts. QT started in 2022 with aims to unwind pandemic-era liquidity injections. So far, the Fed's balance sheet holdings dropped from a peak of \$9 trillion in April 2022 to \$6.6 trillion today. However, on closer examination, U.S. Treasuries with maturities greater than 10 years tell a different story. QT on long-term government bonds never happened post-2022. In fact, Treasury holdings greater than 10 years have instead increased to record levels from under \$80 billion in 2002 to nearly \$1.6 trillion today.

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Federal Reserve Treasury Holdings by Maturity

US Treasuries maturing less than one year versus greater than 10 years



Long-term U.S. Treasuries shape borrowing costs for mortgages, corporate bonds and government borrowings. The 10-year Treasury yield remains the cornerstone of global financial markets, setting the benchmark for borrowing costs across the economy. The 10-year yield reflects market expectations for future inflation, economic growth and investor confidence in U.S. fiscal stability over the medium term. The direction of yields also provides a key signal on market sentiment. Falling 10-year yields below 4.0% often indicate a flight to safety as investors expect weaker growth or lower inflation. Rising rates above 4.5% often reflect concerns about persistent inflation, widening fiscal deficits or excess Treasury supply.

The Fed buying and holding these Treasuries drives interest rates lower and reduces the term premium demanded by the market. The graphs below and on page one show how the Fed supported the bond market

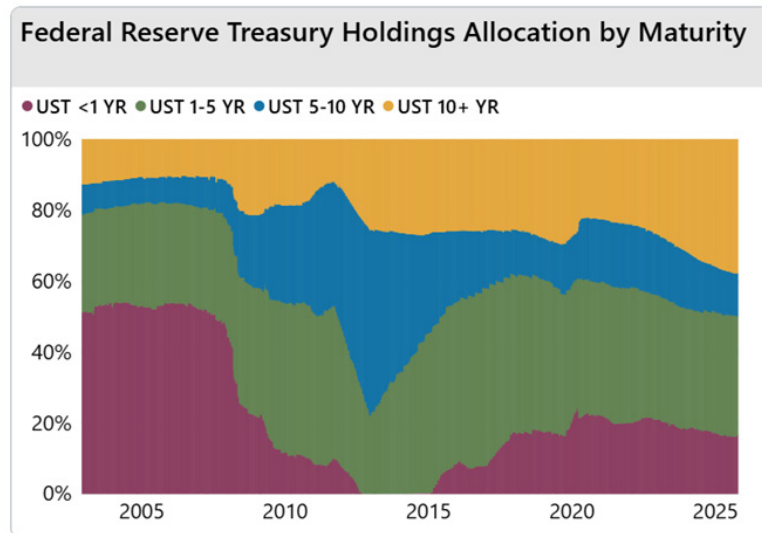
while tightening the short end of the curve. The Fed drained money out of the system but in a controlled way. The front end of the curve can be controlled through fed funds rate policy and forward guidance while the back end is handled with the Fed's Treasury-buying program. Despite the efforts, long-end yields have been stubbornly anchored.

Enter Stephen Miran, President Trump's new Fed appointment, who crystallizes a new era of monetary policy as fiscal extension. Miran emerged as a central figure in the Trump economic team that outlined an ambitious framework for restructuring global trade and the international monetary system, now referred to as the "Mar-a-Lago Accord." This framework proposes reducing U.S. debt burdens

through a combination of strategic tariffs, managed currency devaluation, debt swaps with commodity-producing nations and selective bond restructuring. Importantly, these proposals align with U.S. Treasury Secretary Scott Bessent's vision.

Miran has drawn attention to a rarely cited "third mandate" of moderate long-term interest rates in the Federal Reserve Act of 1913. This largely ignored provision opens the door for more aggressive monetary policy tools like yield curve control (YCC) and expanded QE.

The Trump administration is signaling it may use the clause as legal cover to suppress long-term interest rates to stimulate the economy. We have been here before, and historical policy tools are resurfacing. For instance, "Operation Twist" is a strategy to manipulate the shape of the yield curve without printing new money outright and expanding the Fed's balance sheet. This maturity transformation strategy was used in 1961 due to the constraints of the Bretton Woods monetary order. At the time, the Fed used an Operation Twist to address a critical dilemma where interest rate cuts would trigger capital flight and undermine the dollar's then gold peg, yet domestic growth needed lower long-term borrowing rates. Then again, in 2011 the Fed engaged in a Twist to stimulate growth while short-term rates were already at the zero lower bound. This strategy is more politically palpable than QE as it doesn't necessitate an expanding Fed balance sheet. *Continued on page 3*

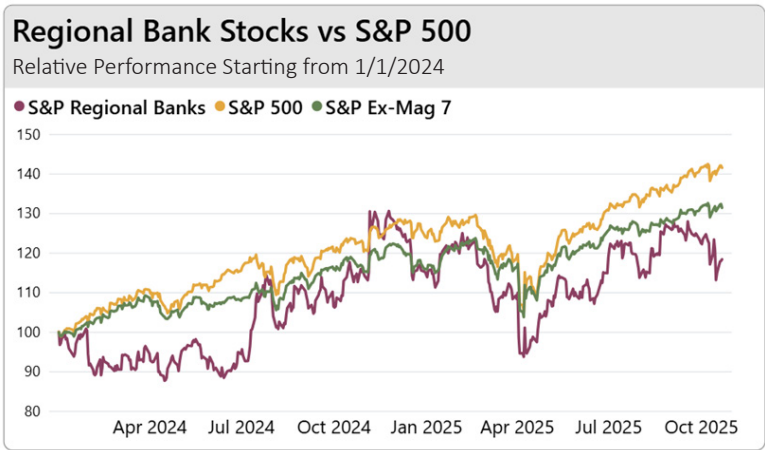


GENERAL POLICY: CONGRESSIONAL REVIEW

SEC. 2A. The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates. [12 U.S.C. 225a]

Treasury market traders continue to be confined to limited economic data coming from U.S. government agencies due to the shutdown. Last month, consumer price data was finally released for September, which showed lower than expected inflation. Federal Reserve officials are increasingly becoming more optimistic that inflation has stabilized despite the tariff situation. The White House did inform the markets that the October Consumer Price Index data will not be released as of this writing. Despite this limited amount of inflation and economic data available to the Fed, since their decisions are “data dependent,” Fed officials are expected to lower the federal funds rate by 25 basis points at their October 28-29 Federal Open Market Committee (FOMC) meeting. The Swap Futures Market is projecting another cut of 25 basis points at the last FOMC meeting of 2025 on December 9 and 10. Until the government shutdown ends and more economic data becomes available, expect the Treasury market to remain in a tight trading vacuum.

FEATURE	OPERATION TWIST	QUANTITATIVE EASING
MECHANICS	Swap short for long Treasuries	Buy long-term assets with newly created reserves
OBJECTIVE	Lower long-term yields without adding liquidity	Lower long-term yields with liquidity injection
FED BALANCE SHEET IMPACT	Unchanged	Expands
INFLATION RISK	Minimal	Higher potential inflation
POLITICAL RISK	Lower perceived political hurdles	Higher and more controversial



We are deep into earnings season and regional banks are fueling fresh fears of economic weakness. Several regional banks disclosed unexpected loan losses as well as fraud allegations. Zions Bancorporation reported a \$50 million charge-off related to alleged loan fraud, while Western Alliance Bancorp revealed a lawsuit alleging borrower fraud. These instances, along with notable auto sector bankruptcies First Brands Group and Tricolor Holdings, contributed to JP Morgan CEO Jamie Dimon’s warning of “more cockroaches” and that “everyone should be forewarned.” Regional bank equity prices took a large leg down on the news. *Continued on page 4*

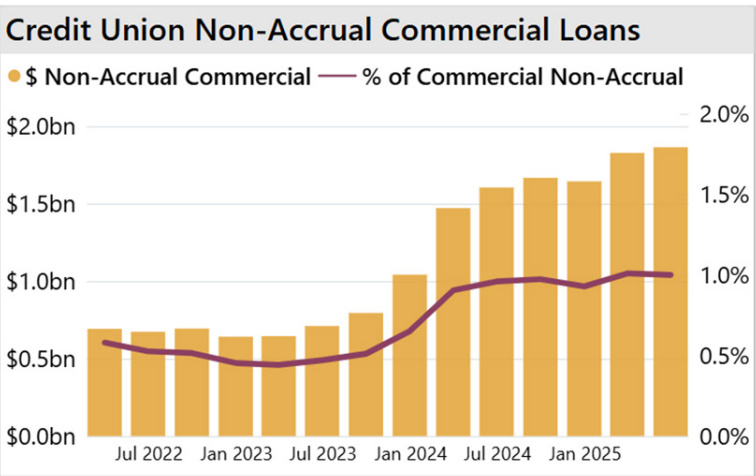
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Regional bank commercial real estate loans make up 44% of their portfolios versus just 13% for large banks, and the higher concentration has market observers on edge as office loan delinquencies have hit 10.4%, approaching 2008 crisis levels. By comparison, credit unions have minimal commercial (real estate and non-real estate) exposure at 11% of outstanding loans. What’s more, the percentage of commercial loans in non-accrual status is only 100 basis points (albeit up from 50 basis points two years ago).



CAPITAL SOLUTIONS MARKET

A sale-leaseback can offer several strategic and financial benefits for a credit union, particularly when looking to optimize capital, improve liquidity and refocus on core services.

How can your credit union benefit from a sale-leaseback transaction?

INCREASED LIQUIDITY

By converting real estate assets into cash, institutions gain immediate liquidity without disrupting operations.

STRONGER BALANCE SHEETS

The infusion of capital from a sale-leaseback can improve financial ratios, reducing reliance on costly debt and enhancing capital adequacy.

OPERATIONAL CONTINUITY

Credit unions retain control of their branch locations and administrative offices, ensuring seamless customer service and brand presence.

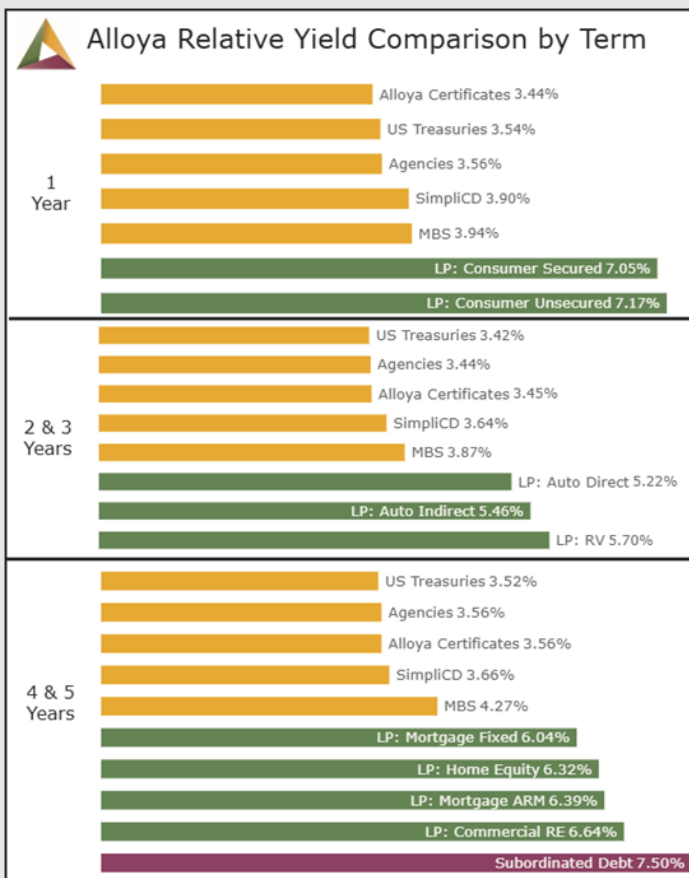
DRIVE EARNINGS

A transaction that produces a large gain relative to the purchase price enables meaningful net income improvement and raises enterprise value.

ADAPTABILITY IN A CHANGING MARKET

The credit union landscape is evolving rapidly, and sale-leasebacks provide the agility needed to invest in modernization, digital banking and growth strategies.

Continued on page 5



\$7,417,000

SALE-LEASEBACK

One Branch

SEPTEMBER 2025

FINAL THOUGHTS

The 10-year Treasury yield remains an essential price signal in global finance, synthesizing market expectations about growth, inflation and fiscal sustainability. While the Fed's actions influence short-term rates, the 10-year yield ultimately reflects the market's independent verdict on the economic trajectory.

Credit unions should monitor both the level and direction of the 10-year yield as a leading indicator for mortgage demand, loan pricing and investment strategy. Anticipate policymakers' attempts to influence this key rate. The Fed will likely deploy a modern Twist variant should recession risks materialize. See the accompanying loan participation yields that are particularly attractive ahead of potential curve flattening scenarios. Alloya remains committed to helping credit unions navigate these complex market dynamics through tailored capital markets solutions. Contact your Alloya representative to discuss strategies for optimizing your balance sheet in this evolving rate environment.

10-Year Treasury Yield Trend vs Fed Funds



Our Recipe for Innovation: How Alloya's Capital Markets Team Brews Up the Latest & Greatest Ideas

NOVEMBER 12 | 9:30 am CT

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