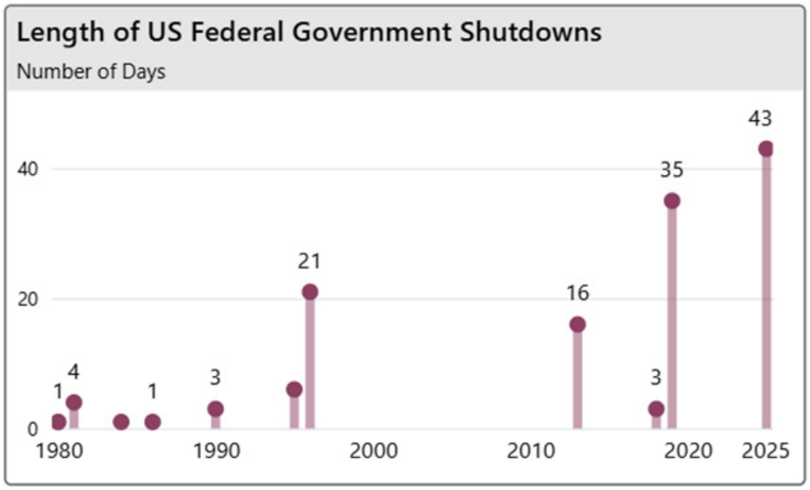
alloya

CAPITAL MARKETS *monthly*

VOL 32 | NOVEMBER 2025

GENERAL MARKET OVERVIEW

On November 12, the House passed a spending package that was quickly signed into law, ending the longest government shutdown in U.S. history at 43 days. The impact of the shutdown will slowly come into view as many of the datapoints that market participants use to assess the health of the economy have been delayed. The equity markets shrugged it off with the S&P 500 reaching all-time highs while rising 2.4% during the shutdown.

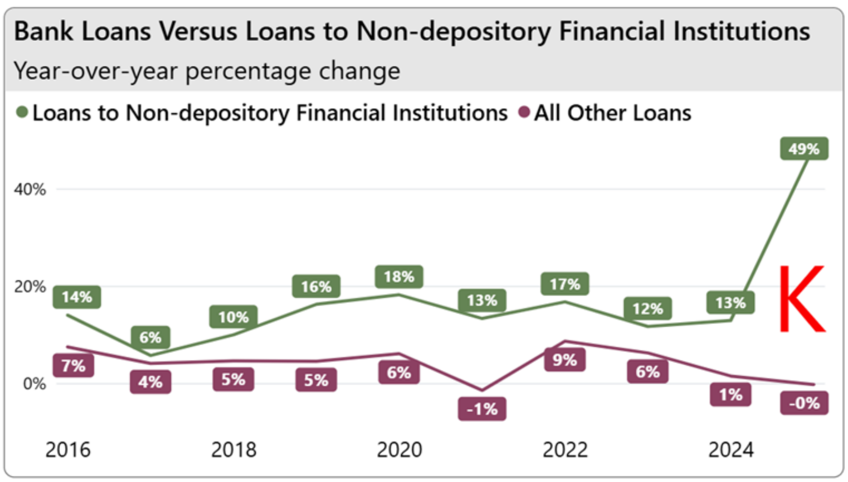


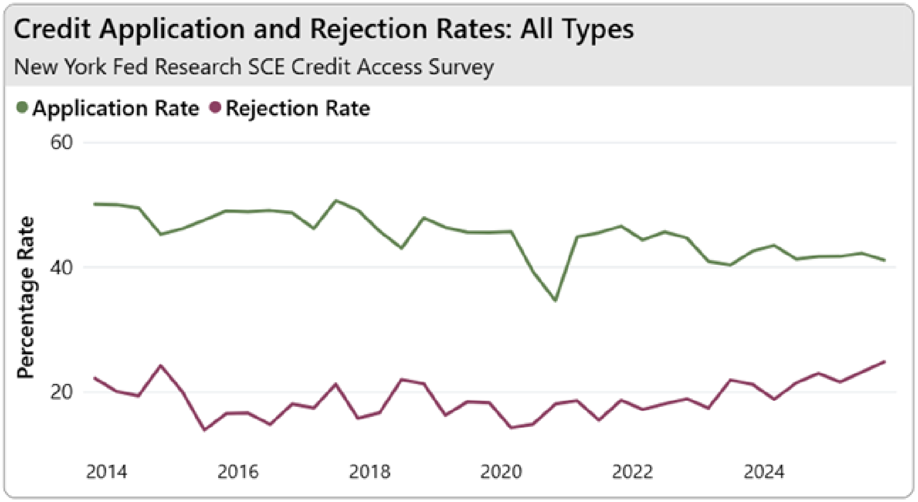
Market asset prices have been an adventure. The accompanying chart highlights various U.S.-focused, annual asset returns over the past five years sorted by 2025 total return. Gold tops the 2025 chart at 55.3% (year-to-date at the time of this writing). Notably, for the first time in 30 years, foreign central banks hold a greater share of gold reserves over U.S. Treasuries. *Continued on page 2*

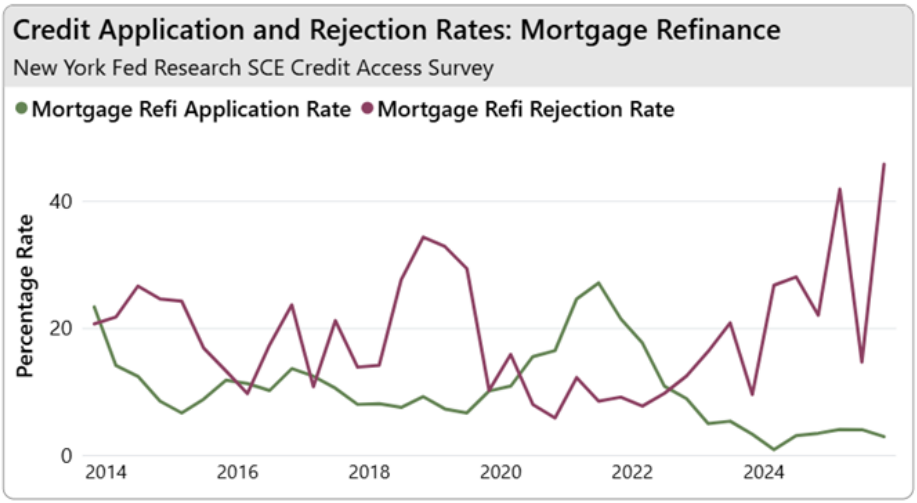
Looking at 2025 returns conceals the underlying dynamics of a two-speed or K-shaped economy. Lofty valuations in equities and housing support wealth-effect spending, but only for those who have achieved a foothold in the assets. The K-shaped economy is unsustainable as it drains both everyday consumers as well as the current administration's political capital. Many historical, economic and market-related relationships are breaking down, and this bifurcation of the U.S. economy operating at multiple speeds is not a sign of a healthy economy. The divergencies are not sustainable without periodic and significant fiscal and/or monetary policy support. An economy driven by easy financial conditions, as opposed to organic, market-driven forces, is vulnerable to a repricing of risk or credit shock. Bank lending is exacerbating the K-shaped split with sharp private credit loan growth to non-depository financial institutions, up 50% year over year, while other commercial bank loan growth has been largely flat. *Continued on page 3*

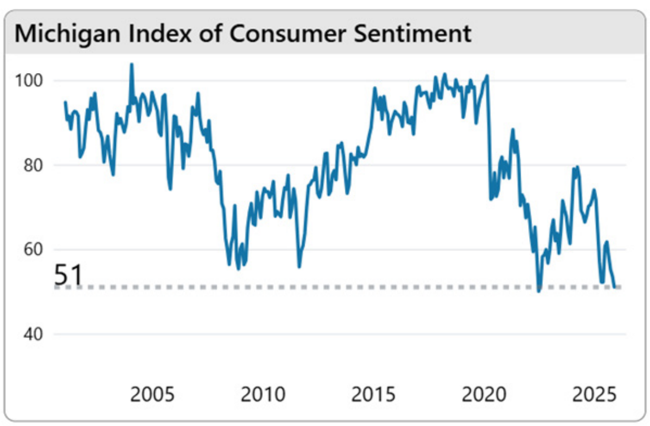
Returns of Various Asset Classes since 2020

Asset Class	2020	2021	2022	2023	2024	2025	Annualized	Cumulative
Gold	24.8%	-4.2%	-0.8%	12.7%	26.7%	55.3%	17.5%	163.0%
Nasdaq 100	48.6%	27.4%	-32.6%	54.9%	25.6%	19.5%	19.9%	196.7%
Large Cap Equities	18.4%	28.7%	-18.2%	26.2%	24.9%	15.7%	14.7%	127.3%
Small Cap Equities	20.0%	14.5%	-20.5%	16.9%	11.5%	8.3%	7.5%	54.2%
Commodities	-7.8%	41.4%	19.3%	-6.2%	2.2%	7.4%	8.2%	60.1%
Investment Grade Bonds	11.0%	-1.8%	-17.9%	9.4%	0.9%	7.1%	0.9%	5.8%
High Yield Bonds	4.5%	3.8%	-11.2%	11.5%	8.0%	7.0%	3.7%	24.1%
Treasury Inflation-Protected ("TIPS")	10.9%	5.7%	-12.2%	3.3%	1.7%	6.9%	2.4%	15.6%
Total Bond Market	7.7%	-1.9%	-13.2%	5.7%	1.4%	6.5%	0.8%	4.7%
Long Duration Treasuries	18.2%	-4.6%	-31.2%	2.8%	-8.1%	5.5%	-4.2%	-22.7%
Mid Cap Equities	13.7%	24.8%	-13.1%	16.1%	13.6%	3.8%	9.1%	68.8%
Cash	0.4%	-0.1%	1.4%	4.9%	5.2%	3.7%	2.6%	16.4%
Bitcoin	301.0%	66.0%	-64.0%	155.0%	121.0%	1.2%	54.6%	1266.7%





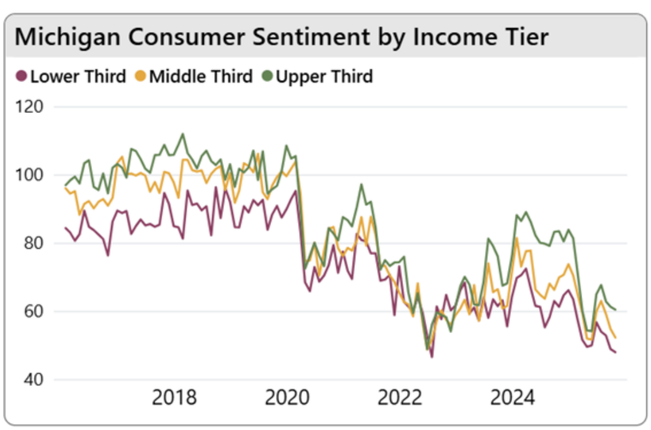


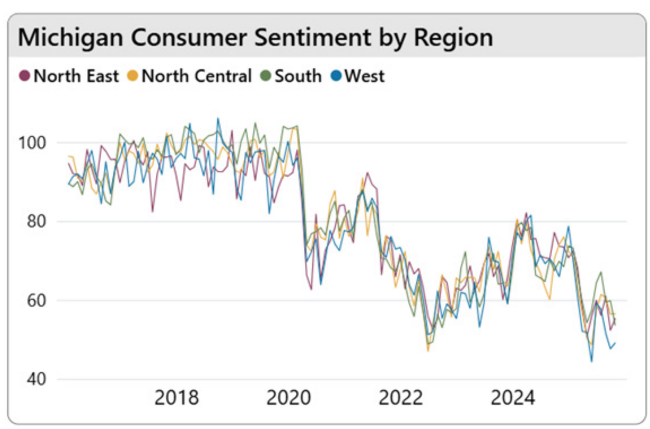


The recent **New York Fed Research Survey of Consumer Expectations (SCE) Credit Access Survey** adds color to our discussion.

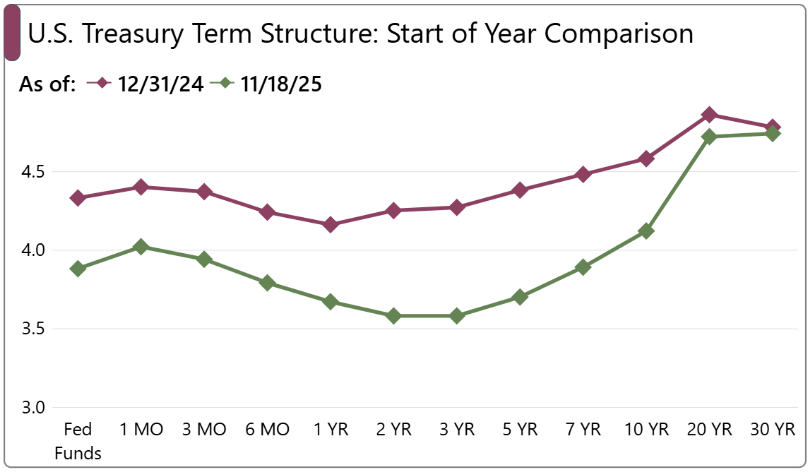
The survey found elevated rejection rates among stable application rates. Overall, rejection rates of any kind of credit increased to 24.8%, the highest rejection rate since the series started in 2013. Home loans, mortgage refinances and auto loan rejections all increased. One driving factor is the "sudden" deterioration of consumer health for expiring student debt relief and more accurate reflection of credit scores.

The University of Michigan Consumer Sentiment Index corroborates the K-shaped thesis. Consumer sentiment fell to the second-lowest level in the series history going back to 1952. The current print is only outdone by the series low during the inflation spike of June 2022. Looking under the hood at the various subcomponents, the Economic Conditions Index is the lowest in history, largely driven by a 17% drop in assessments of current personal finances. Breaking out sentiment by income tier shows a 12-point differential between the lower third versus upper third (47.9 versus 60.4). At the regional level, sentiment in the West is lowest at 49.1, whereas the highest is in North Central at 56.5. Drivers impacting confidence include the government shutdown, persistent inflation and affordability concerns, with 71% of households expecting unemployment to rise. *Continued on page 4*



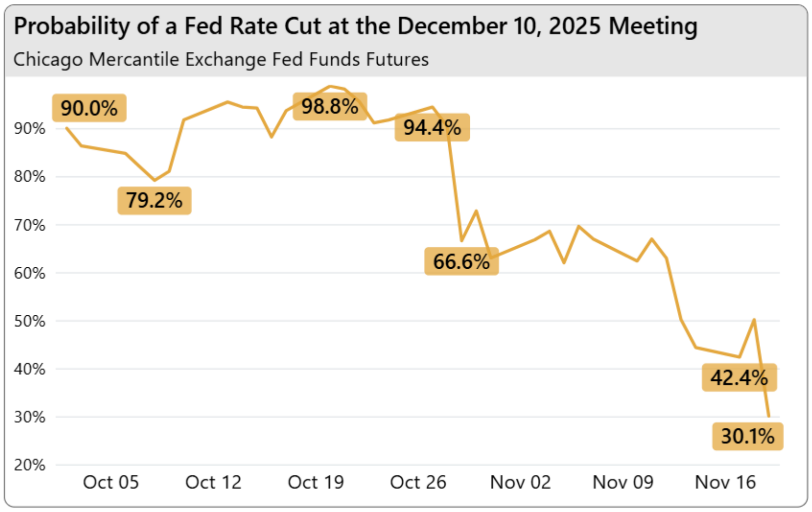


The Treasury market has continued to trade in a tight range given the occurrence of the government shutdown and the delayed economic data. However, going into the new year, a typical steeper Treasury curve with interest rates lower in the front end and higher in the longer end may continue (see accompanying graph). This occurs because long-term Treasury buyers will demand higher rates to compensate for their inflation risks. Also, the added higher deficits may create instability in future Treasury auctions. Higher long-term Treasury rates, and therefore higher mortgage rates, would put added pressure on the housing market, which is already in a sluggish state.



U.S. Treasury Term Structure: Start of Year Comparison

That said, the Federal Reserve's December rate cut is now firmly in question. The Federal Reserve recently released their October 29 Federal Open Market Committee Minutes. In it, many officials said that it may be appropriate to keep interest rates unchanged for the remainder of 2025. However, a few officials felt if the economy developed as they expected, another cut would be needed. As of right now, there is only a 30% probability the Fed will lower the federal funds rate by 25 basis points at their last meeting for this year, on December 9-10. Recall that only one month ago, the swap futures market showed a 95% probability of a cut.



Probability of a Fed Rate Cut at the December 10, 2025 Meeting

Chicago Mercantile Exchange Fed Funds Futures

Additional rate cuts will hinge on both the labor market and inflation results as well. Despite all this uncertainty, credit unions need to be vigilant.

As a reminder, credit unions need to stay focused on their liquidity needs, their credit watch on members' loans, members' funding needs and their 2026 strategic plan. When applicable and when liquidity funds are available, check out Alloya's Loan Participation Platform to diversify loan credit risk, as well as our subordinated debt offerings as an additional income source. Regarding investments, consider investing in Alloya Certificates, especially the very attractive "special" Alloya certificate offerings, the SimpliCD program and marketable securities, all of which have a laddered approach in mind.

FINAL THOUGHTS

As we head into 2026, there is still major uncertainty as to the effects the current administration's policies will have on future U.S. economic growth and inflation. The drivers to look for will be the tariff increases, weaker immigration and increased inflation. If labor growth continues to weaken, both employment and the participation rate will be lower. As inflation is projected to be well above the Fed's threshold of 2.0%, the American consumer is expected to pull back consumption because of higher prices on food, energy and goods. Many economists expect slower growth, even possibly a recession by the second quarter of 2026.

At Alloya, we have the best jobs in the world. And in the Capital Markets team, we cannot think of better work than helping our member credit unions navigate strategic decisions and assisting in bridging success between your members and the safety and soundness of your institutions. We would do it without this recognition, though we are proud and honored to have received the **2025 Kim Bannan Eternal Flame Award**.

This work requires us to be learning machines while constantly updating our worldview on our member credit unions' business models, industry niches, technology, geopolitical and macro events, and consumer and market sentiment. It is the best work for intellectually curious people. Your success is our success, built on a foundation of *sine labore nihil* — nothing without work.