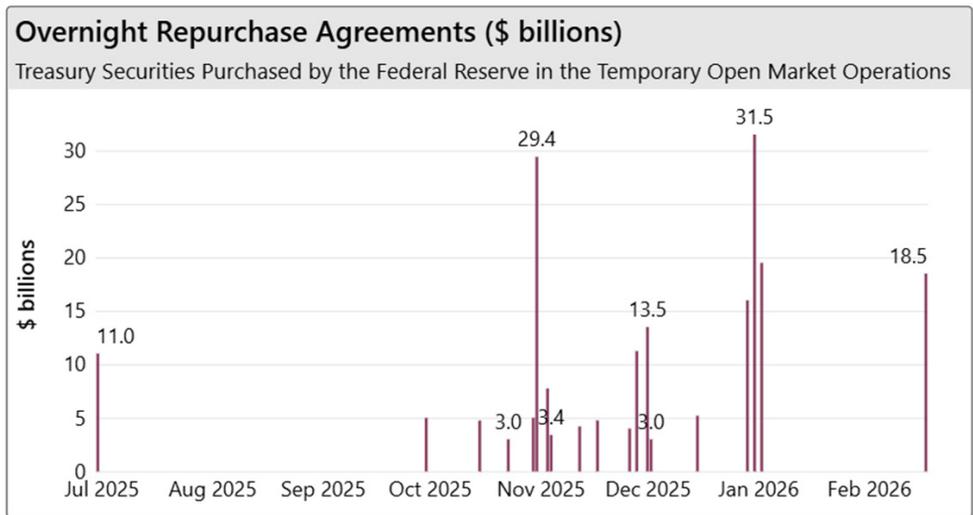




## GENERAL MARKET OVERVIEW

**Q4 real gross domestic product (GDP)** grew at a 1.4% annualized rate, below consensus estimates and down from 4.4% in Q3. Consumer spending and investments rose, but the government shutdown subtracted an estimated 1% while exports fell and imports decreased. This is preliminary data that is often revised with economic signals distorted by short-term fluctuations. “Core” GDP, focused on consumer spending and business fixed investment, rose 2.4% in Q4. The real question is whether this is a structural slowdown or measured noise. If structural, the Fed will be forced to cut rates, and if noise, then the Fed can stay patient. Prior to the GDP print, market sentiment weakened following the news that Blue Owl Capital paused investor withdrawals from a private credit fund, which serves as a stark reminder of the challenges inherent in illiquid loan markets. Blue Owl’s liquidity crunch and subsequent gating of redemptions give investors and policy makers plenty to think about. This was Blue Owl’s inaugural private retail-oriented debt fund. Credit unions thoroughly understand the liquidity constraints of loan markets. We are all too familiar with the illiquid nature of loans, but these retail Blue Owl investors are quickly learning the fallacy of credit liquidity on demand. While Blue Owl’s stock price fell 9% on the news, it’s worth noting that the redemption suspension actually occurred back in November. Many investors misinterpreted the *Financial Times*’ headline “Blue Owl permanently halts redemptions at private credit fund aimed at retail investors” as indicating a new development, which contributed to the market reaction.

Blue Owl management, on damage control, highlighted their fund loan sales were for 99.7% of par value. However, what does that leave behind as the value of the loans that were not sold? Many, if not all, publicly traded private credit funds have traded below net asset value during periods of declining rates, and this retail-oriented fund is no different. The irony with the Blue Owl fiasco is that if this grows and investors seek liquidity from an illiquid asset class and find none, the assets most exposed to the carnage will be equities and crypto. Liquid instruments are sold when liquidity disappears elsewhere.



Yet another liquidity warning, financial institutions tapped \$18.5 billion from the Fed’s standing repo (repurchase agreement) facility, the fourth largest repo since the pandemic, to receive overnight financing instead of finding sufficient financing from other institutions. *Continued on page 2*

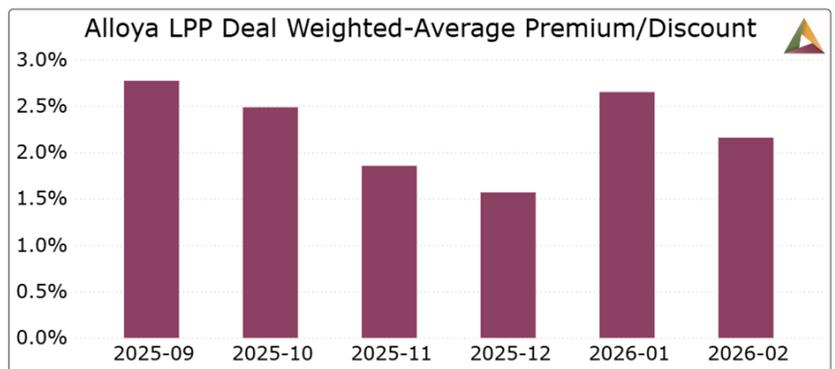
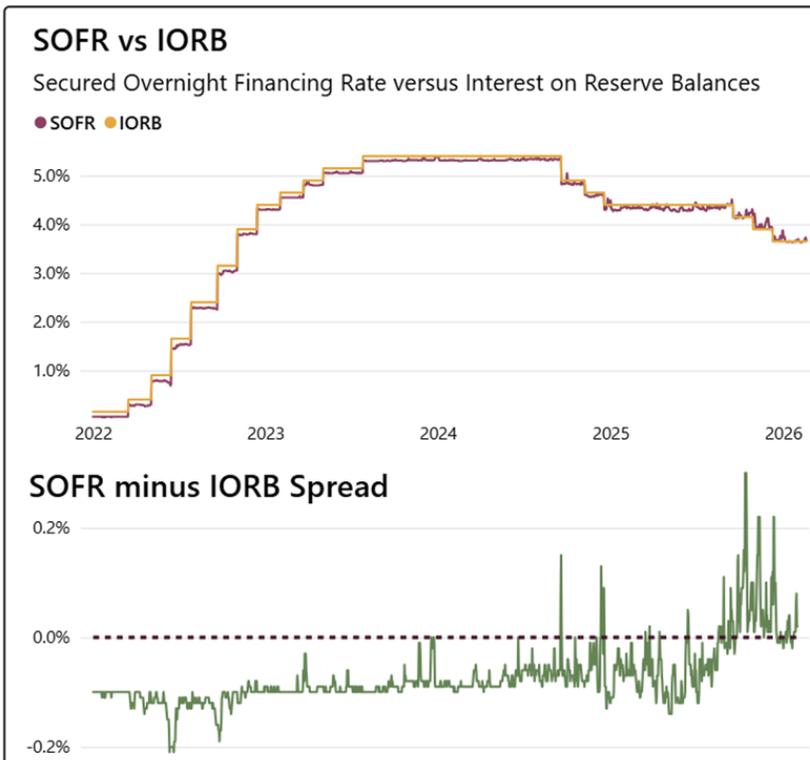
This comes on the heels of the Federal Reserve announcing a return to asset purchases. To avoid excessive headline-grabbing intervention, the Fed is jockeying for a more measured and gradual balance sheet expansion in line with nominal GDP. Specifically, the Fed called for \$40 billion in new asset purchases to start the year through April to provide a liquidity buffer through the annual tax season drawdown. Since banks and credit unions are already well-capitalized, this should be mildly stimulative for asset prices with continued downward pressure on the U.S. dollar.

Along with the Fed overnight repo facility, Fed asset purchase support is also designed to keep the fractional reserve lending system growing without running into either regulatory or self-imposed liquidity limits. You can watch this support play out in the Secured Overnight Financing Rate (SOFR) - Interest on Reserve Balances (IORB) spread.

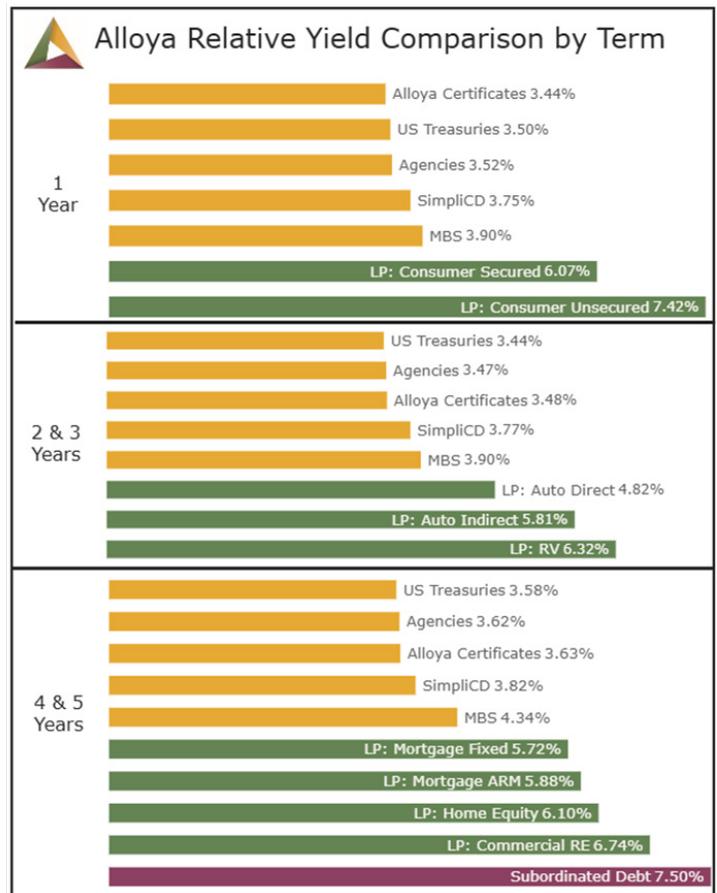
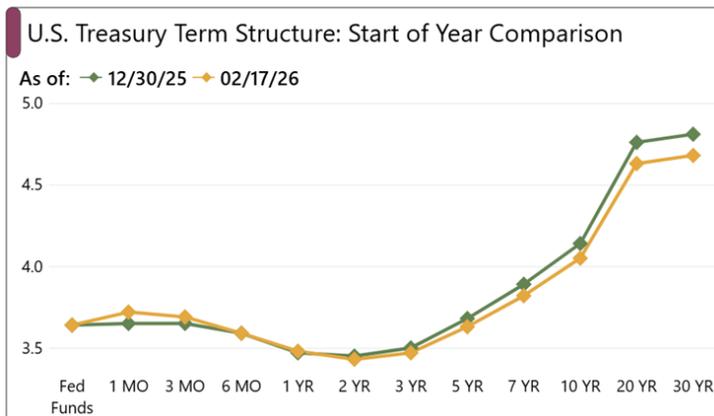
SOFR is the rate institutions borrow cash overnight secured by U.S. Treasury collateral. IORB is the interest rate the Federal Reserve pays on reserves held at the Fed. The relative attractiveness or spread between these rates contains some useful market insights. SOFR higher than IORB signals tighter liquidity conditions with cash at a higher demand in the market, or it could signal balance sheet constraints (e.g., quarter end) or other funding stress. Whereas a negative SOFR - IORB spread can signal excess liquidity where holding reserves at the Fed pays more than lending in repo. The accompanying spread chart shows the persistent balanced funding market punctuated by positive spikes of stress.

Overnight financing rates remained elevated in September through December of last year compared to what banks and credit unions receive on their reserves, which is indicative of a liquidity shortage. This dynamic was temporarily elevated by the

Fed's announcement adding new base liquidity to the system via reserve management purchases. Blue Owl stockholders got a first-class lesson in the illiquid nature of loans. The Alloya Capital Markets team facilitates loan trades daily, and we see the reality of loan liquidity firsthand as we assist members in managing their loan book exposure and balance sheets. While Blue Owl is selling loans at a discount, loans trading on the Alloya Loan Participation Platform continue to trade at a healthy premium. Although premiums and spreads vary by loan type, here is a trend of the weighted-average premium across all loan types over the past six months. And on a relative value basis, loan participation net investor yields are attractive compared with other investments typically held by credit unions. *Continued on page 3*



Although economic data from the Labor Department and the U.S. Bureau of Labor Statistics have been late due to government shutdowns, market participants are finally receiving U.S. economic news. Recent economic reports on Non-Farm Payrolls, Industrial Production, Capital Goods Orders and Housing Starts show that the U.S. economy is holding up at the start of the new year, and the economic data has been more favorable than expected. Treasury yields from the beginning of this year are lower. (See accompanying chart.) However, Treasuries continue to be in a tight trading range.



Rates are expected to remain unchanged in March with 96% certainty. Currently, the Swap Futures Market has over 50% probability that Fed officials will lower the fed funds rate by 25 basis points in each of their meetings in June and September. The Federal Open Market Committee (FOMC) Minutes of January 26-27 showed that Fed officials continue to be focused on their two primary goals, full employment and inflation no higher than 2.0% annually. Fed officials are divided, as some even suggested that the Fed may need to raise interest rates to accomplish their inflation target. On employment though, officials expressed that the downside risks of employment in the labor market have moderated. The next FOMC Meeting is scheduled for March 17-18.

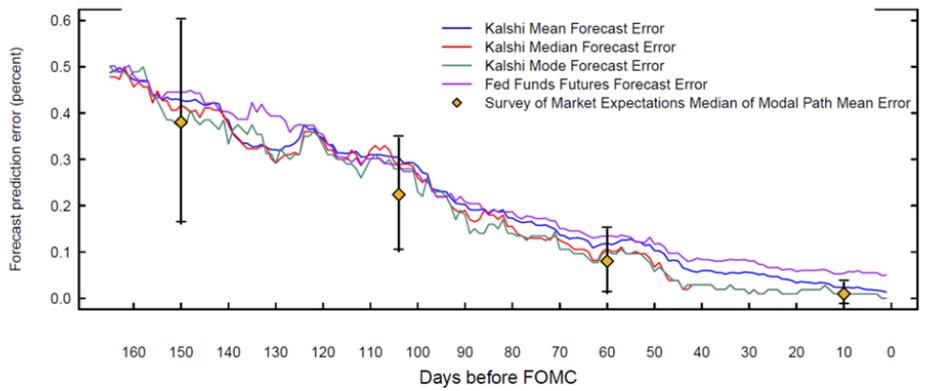
The Federal Reserve published an **incredible paper** tacitly endorsing the Kalshi prediction market. Quoting the authors, “Our results suggest that Kalshi markets provide a high frequency, continuously updated, distributionally rich benchmark that is valuable to both researchers and policymakers.” The three economists (two from the Fed and one from Johns Hopkins) spent months analyzing whether Kalshi’s prediction markets can compete with more traditional forecasting tools. Noteworthy, Kalshi outperformed the Bloomberg survey of professional economists on inflation forecasts, and the paper calls Kalshi “the most mature and comprehensive prediction market for economic forecasting.” What’s more, the study shows the Kalshi forecast error on the fed funds rate lower than fed funds futures. Time will tell if Kalshi can outperform on a surprise Fed meeting/action when the professional futures markets missed it. It is worth remembering, as the authors note, that fed funds futures do not exist to “predict” the next Federal Reserve rate decision. Rather, they exist to both speculate on the path and hedge other positions. This means the futures market positioning creates a risk premium that Kalshi can simply ignore. In theory, these two distinct forecasting tools could be used to impute a hedging risk premium. The paper is well worth reading. We will incorporate Kalshi prediction markets into future *Capital Markets Monthly* publications to keep readers abreast of this useful alternative data source. *Continued on page 4*

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**Figure 1: FOMC Federal Funds Rate Forecast Errors Comparison**

This figure compares the mean absolute errors from 160 days out to each FOMC for the effective federal funds rate since 2022. The vertical bars reflect one-half standard deviation for the forecast errors for the Survey of Market Expectations and correspond to when the surveys were completed.

Source: Federal Reserve



## AUTO ASSET-BACKED SECURITIES MARKET

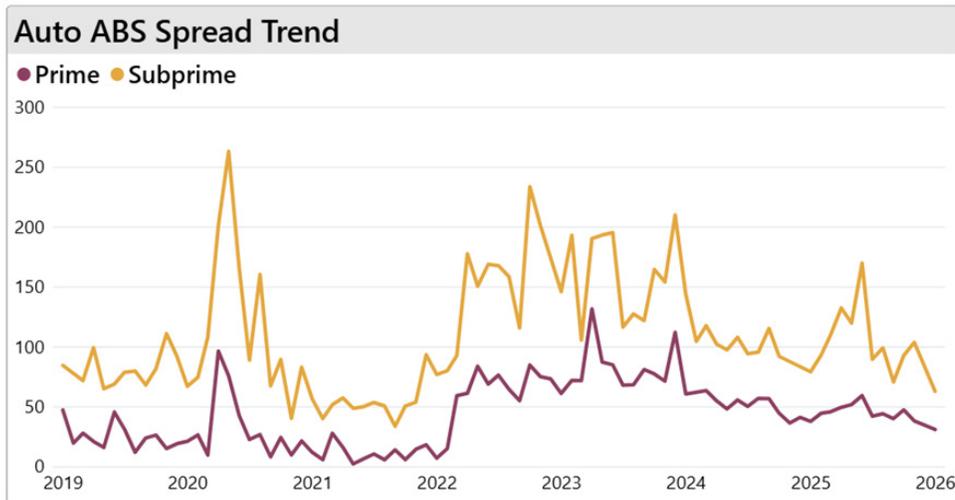
**New this year to the Capital Markets Monthly** is an Auto Asset-Backed Security (ABS) Deal Monitor. Credit unions can utilize this monitor for color into the secondary market’s risk appetite as well as to better price your auto loans. The accompanying summary table shows where auto ABS investors are buying in the current market. The ABS collateral characteristics, particularly the underlying loan APRs and corresponding credit scores, are useful to monitor and will aid your proactive, risk-adjusted loan pricing. This monthly Auto ABS Deal Monitor will allow your credit union to bridge the gap between secondary market trends and your loan-level execution to determine if your auto loan pricing is above or below the market. We removed non-prime, esoteric and other credit derivative linked notes to focus on the prime auto market that credit unions typically participate in. Keep in mind, this represents secondary market activity for some of the largest ABS issuers, reflecting market efficiency and economies of scale, and may not be representative of your local market.

Going forward, we will summarize prime auto ABS deals as well as provide a deal spread trend for both prime and subprime auto deals. *Continued on page 5*

### Prime Auto Asset-Backed Security Deal Summary and Collateral Characteristics

\*Weighted-averages

Pricing Date	Seller	Deal Size (\$ millions)	Underwriting Characteristics *			Bond Investors *	
			APR	Credit Score	Original Term	Bond Yield	Bond Spread
1/8/2026	General Motors Co	\$2,462	6.71%	779	70	3.81%	31
1/13/2026	Toyota Motor Corp	\$1,853	5.68%	771	66	3.84%	30
1/14/2026	Corporate One Federal Credit Union	\$323	8.04%	747	77	4.24%	69
1/21/2026	AutoNation Finance	\$749	10.15%	716	73	4.15%	53
1/21/2026	Bank of Nova Scotia	\$200	6.98%	767	76	4.46%	89
1/21/2026	CarMax Inc	\$1,300	8.73%	760	67	4.01%	36





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### Stablecoin: Alloya's Perspective and Plans

PRESENTED BY \_\_\_\_\_

**TODD ADAMS**  
CEO, ALLOYA

**DR. LAMONT BLACK**  
FOUNDER & CEO, WIDE OPEN VENTURES

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## FINAL THOUGHTS

**The above commentary on the Fed's Kalshi prediction market study** shows the power of distributed consensus systems, which leads to our next update on stablecoins. On February 11, the National Credit Union Association (NCUA) issued a **proposed rule to implement the GENIUS Act**, establishing a federal licensing framework for credit union subsidiaries to issue payment stablecoins.

Comments on the proposed rule are due by April 13, and the NCUA must issue implementing regulations by the July 18 Congressional deadline. The licensing framework coupled with investment limitations and capital constraints may limit a significant portion of credit unions from branching into this strategic space.

Alloya's innovation team is exploring strategic stablecoin solutions and recently held an information session discussing our perspectives and plans. Access the recording of our event **"Stablecoin: Alloya's Perspectives and Plans"** [here](#). The session featured Alloya's CEO Todd Adams and Lamont Black, blockchain expert and founder and CEO of Wide Open Ventures. During the session, they explored how Alloya is approaching stablecoin research and solutions, the evolving regulatory landscape and what stablecoins could mean for the future of the credit union industry.

The digital asset world is shifting from strategy to execution with many institutions engaging with various new technologies to build services, wallets and custody solutions. While the focus is largely on the end consumer, Alloya is in a unique position to utilize the Power of Cooperation and this new technology to provide our members with additional value as a business-to-business corporate credit union. We are a network of 1,300 members working together to explore how emerging technology can serve our members' needs.

While the GENIUS Act is in the rear-view mirror, the U.S. Digital Asset Market Clarity Act, designed to create a clear regulatory framework, has stalled and is working through political gridlock. Although passed by the House, the legislation is at an impasse in the Senate after large disagreements between stakeholders, largely related to stablecoin rules like paying interest or rewards. We will continue to keep readers informed about our innovative developments. Stay tuned for a preview during America's Credit Unions' Governmental Affairs Conference.

To explore our current capital markets solutions, visit **our website** or feel free to contact our Capital Markets Strategist, Anthony Minniti, at [anthony.minniti@alloyacorp.org](mailto:anthony.minniti@alloyacorp.org).