

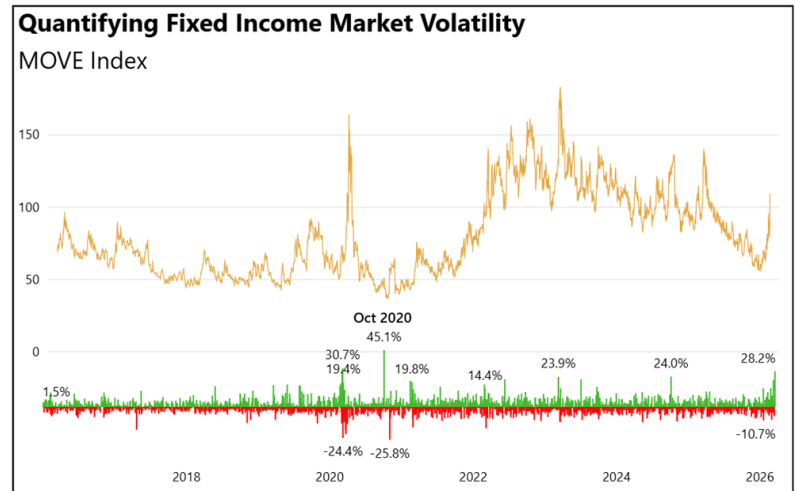


GENERAL MARKET OVERVIEW

Markets are repricing risk, with outcomes ranging from an inflationary shock to full on recession, from the geopolitical gambit playing out in the Persian Gulf and Strait of Hormuz. Markets are digesting the fourth supply shock in six years: the pandemic, the 2022 Russia/Ukraine conflict, tariffs and now the current Iranian conflict, harkening back to the closure of the Suez Canal from 1967-1975. All four recent shocks have gone in the same direction, making it difficult for central bankers to ignore the cumulative impact or characterize them as transitory. These persistent shocks complicate the path for potential rate cuts as the labor market shows signs of weakening.

The Merrill Lynch Option Volatility Estimate (MOVE) Index, a measure of volatility in the U.S. Treasury market, exploded higher by 28% on Friday, March 20, the largest one-day spike since October 2020.

This huge daily spike reflects uncertainty from oil shocks, rising yields and Fed policy doubts. The indicator is a strong signal that markets are not only repricing risk but also Fed rate policy expectations. One month ago, two additional rate cuts were priced in for 2026, and now the possibility of a rate hike is on the table. Markets are attempting to decipher which market force will dominate between the oil supply shock hurting growth or the rising inflation. If the oil shock plays out similar to 2022, the Fed

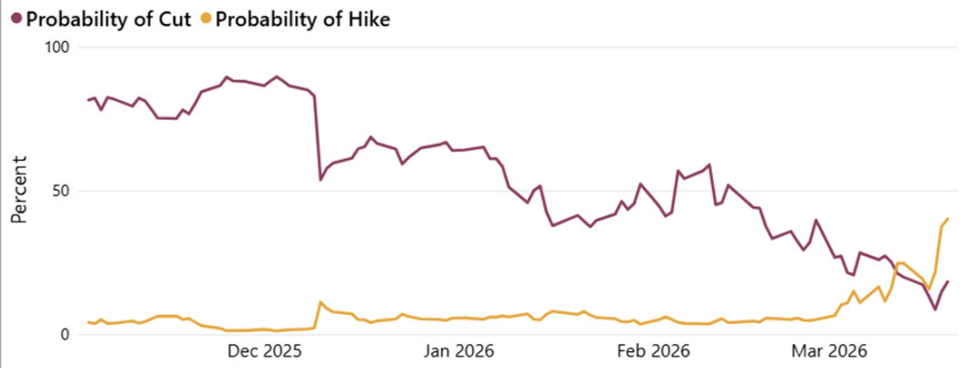


might need to pause cuts, if not reverse and hike rates. Estimating the probability distributions implied by the prices of options from the Chicago Mercantile Exchange that reference the three-month compounded average Secured Overnight Financing Rate (SOFR), the probability of a hike by the June Fed meeting flipped from “cut” to “hike.”

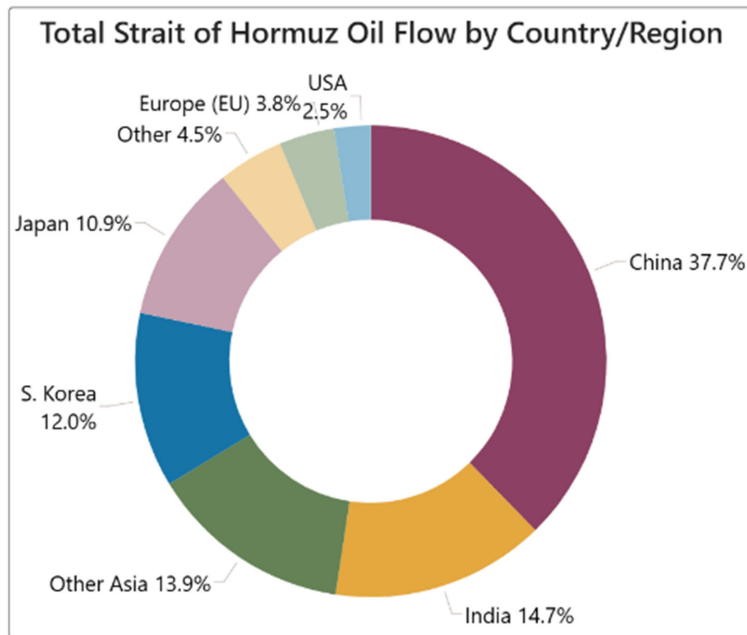
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Probability of a Rate Hike or Cut by June 17, 2026

From the midpoint of the current target range: 350-375 basis points



The escalating conflict involving Iran has significant economic ramifications for the global oil market, primarily centered on the Strait of Hormuz, a narrow chokepoint with approximately 20% of crude oil and petroleum products transiting the waterway. With one eye looking for an off ramp, market professionals everywhere are looking to mitigate risk exposure by gaming out second and third order effects. The reliance on this route is heavily skewed toward Asian markets, which receive roughly 85% to 90% of the oil passing through the strait.

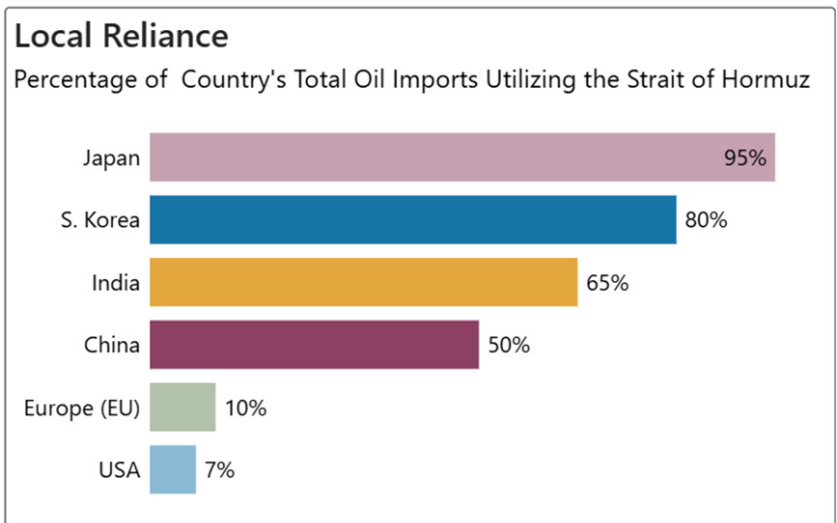


Japan and South Korea are the most vulnerable, with Japan sourcing nearly 95% of its crude needs from the Persian Gulf. China’s reliance as a percentage of total energy imports is lower at 50%, but China is the largest volume importer, receiving over 5.4 million barrels per day through the Strait. U.S. reliance has plummeted over the last decade due to our energy independence strategy and domestic shale production. Unlike the 1970s, the U.S. has been a net total energy exporter since 2019.

While current oil prices have seen significant spikes, peaking near \$120 per barrel, they remain below historical highs when adjusted for inflation. The primary threat to global supply is not merely the destruction of tankers but the withdrawal of maritime insurance in conflict zones, which effectively halts shipping. Although the U.S. has signaled a commitment to providing naval escorts,

a critical insight into modern shipping is that physical military destruction is not required to stop the flow of oil. Modern shipping requires insurance, and once a region is declared a “war zone,” insurers often refuse coverage.

Herein lies a subtle but important and overlooked potential positive outcome for the United States regarding the Strait of Hormuz quagmire. Historically, there was only one company on the globe big enough to insure these oil tankers: Lloyd’s of London. Lloyd’s of London originated in the 17th century as a coffee shop where maritime traders gathered to discuss safe shipping routes to avoid pirates and poor weather. Over time, these traders began underwriting the risks of these routes, providing guarantees to pay the lost value of a ship if a route was not successfully completed in exchange for a fee. The industry grew into the modern day and has been almost exclusively served by Lloyd’s of London, attributing a staggering estimated 2% of U.K. gross domestic product. With the recent Iranian conflict, insurance premiums spiked fivefold, essentially shutting the private shipping market down. *Continued on page 3*

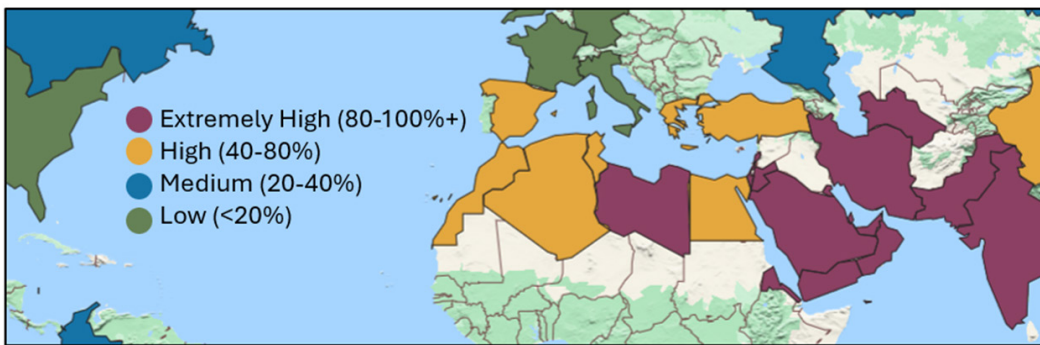


To stabilize the market, the U.S. government intervened via the U.S. International Development Finance Corporation to provide insurance for maritime trade. This shift from traditional Lloyd’s of London coverage to U.S.-backed insurance could be an opportunity to onshore an industry that has long been dominated by European syndicates. As the conflict subsides, this shift could lead to a significant opening for American insurance companies and brokers to establish themselves as the primary underwriters and guarantors for global maritime trade, effectively building an entirely new domestic industry.

Escalating tension and second order effects are spilling from military to civilian assets. Shutting down trade impacts more than oil. Many of the countries in this region utilize more water than they produce. The World Resources Institute tracks water stress as a key metric, defined as total water withdrawals divided by renewable supply. Countries with a water stress metric over 100% are overdrawing and unsustainable without external sources. Countries greater than 80% are extremely high stressed, while countries less than 40% are thought of as generally sustainable. Most Gulf states are in a structural deficit well over 100%. For example, Kuwait has 300-800% estimated withdrawal versus supply while the United Arab Emirates and Qatar are at 200-500%. These nations must either import water, mine fossil aquifers or use energy-intensive desalination techniques to meet

their water needs. Among larger countries, Iran is on par with India, Mexico and South Africa, who are not always over 100% but remain critically vulnerable. The U.S. generally has abundant water resources. Regional disparities do exist, but they are manageable.

World Resources Institute’s Water Stress Index

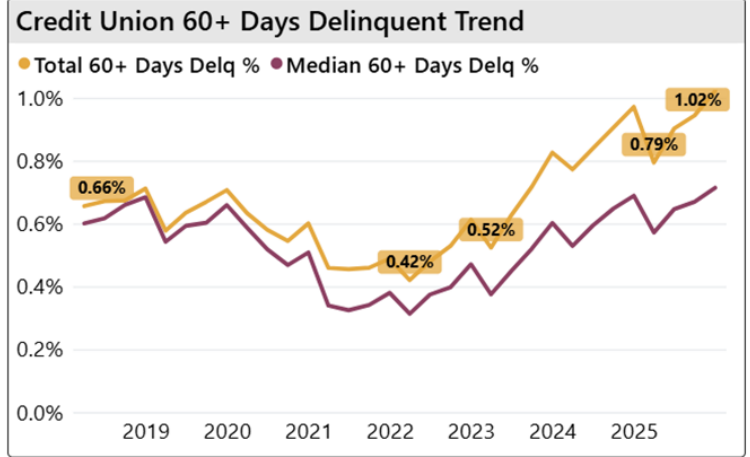
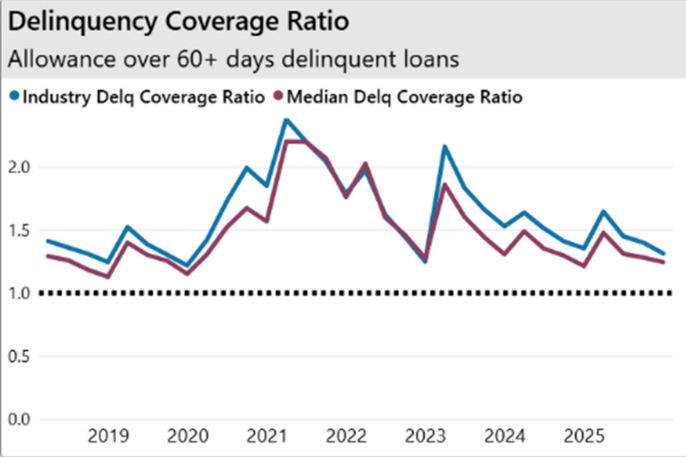


CALL REPORT UPDATE

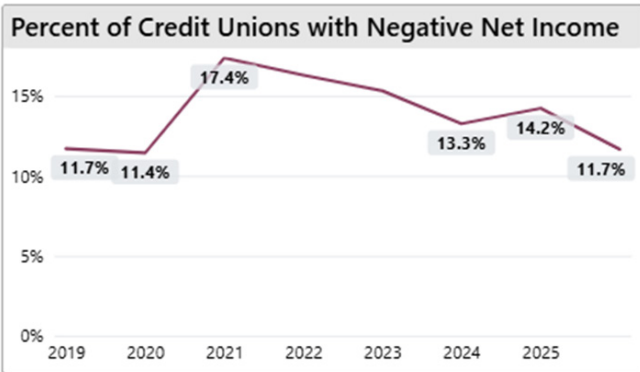
Fourth quarter call reports show strong overall industry financial performance mixed with signs of credit deterioration. The **National Credit Union Association’s (NCUA’s) 2026 Supervisory Priorities** lead with balance sheet management and heightened asset quality scrutiny.

The credit union industry’s outstanding loan balances expanded 1.1% in Q4 2025 to \$1.74 trillion. The aggregate 60+ days delinquency rate increased to just over 1%, the highest rate in a decade. The median credit union delinquency rate increased to 0.71%. Loan loss allowances remain adequate to cover this delinquency rate. The allowance set aside for loan losses increased to \$23.3 billion, or 1.34% of outstanding loans, while the median credit union allowance increased to 88 basis points. Another way to assess allowance adequacy is to look at the delinquency coverage ratio (DCR) or the loan allowance over 60+ days delinquent loans. A ratio of one means the credit union has a dollar of loan allowance for every dollar 60+ days delinquent. The total industry delinquency coverage ratio decreased to 1.31 as of Q4 2025, while the median credit union DCR decreased to 1.24.

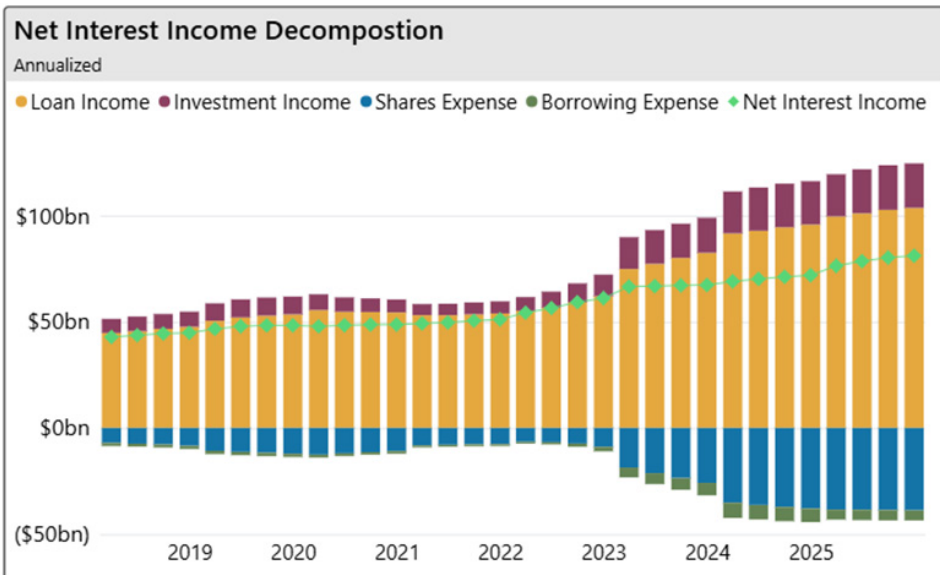
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The industry remains well-capitalized and profitable. Aggregate net interest income rose to a record high of \$81.1 billion, while the percentage of unprofitable credit unions decreased to 11.7% as of Q4 2025.



However, year-over-year membership growth fell to 1.6%, the lowest growth rate since Q1 2012. More significant, in Q4, quarterly membership growth declined for the first time since 2012. The negative 17 basis point quarterly growth rate was the lowest since Q4 2010. Low or stagnant membership growth rates raise concerns regarding the long-term relevance and capabilities of attracting new, younger members in a hyper-competitive digital banking environment. Credit unions compete for wallet share not just with banks but with other non-depository institutions



in an era marked by technological innovation and disruption. (See the Final Thought below regarding Alloya's progress on the digital innovation front.) *Continued on page 5*

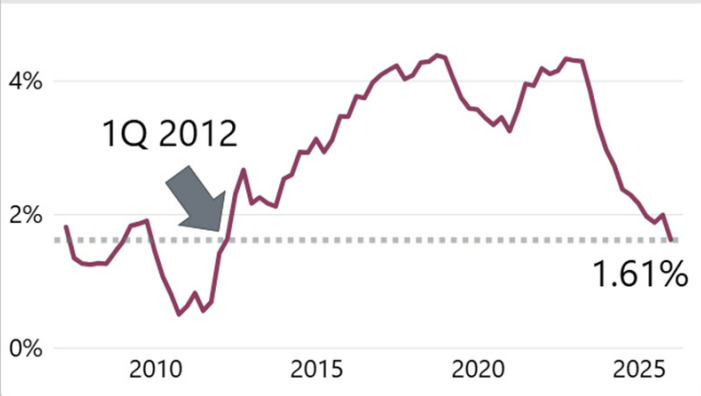
Coffee AND CAPITAL MARKETS

French Roast & Fixed Income: Navigating Volatility & Finding the Best Blend

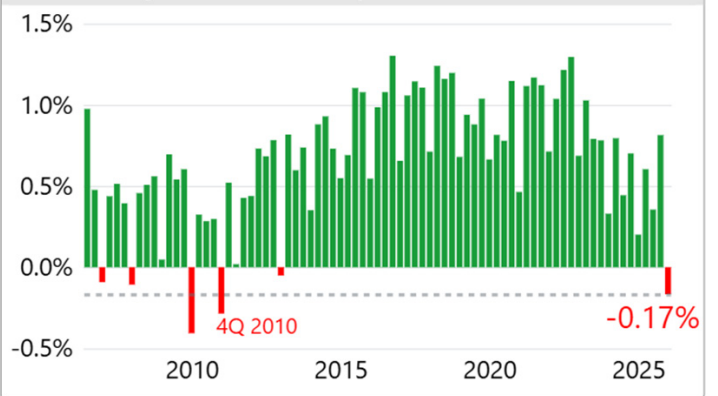
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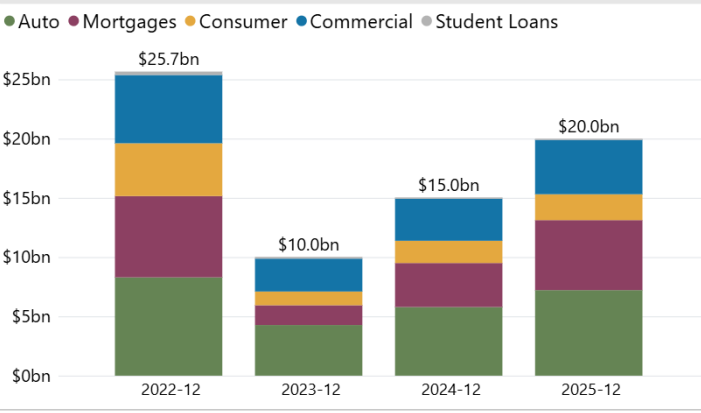
Year-over-Year Membership Growth



Quarterly Membership Growth



Credit Union Loan Participations Purchased (Year-to-Date)



One strategy for combating sluggish loan growth from stagnant membership is via loan participations. New loan participation deal volume exceeded loan maturing runoff for the eighth consecutive quarter, with loan participations outstanding approaching \$68 billion as of Q4 2025. Credit unions purchased \$20 billion in loan participations year-to-date through Q4 2025, compared to \$15 billion in 2024 and \$10 billion in 2023. The loan type composition of loan participation volume remains consistent with prior years, with additional participation activity in mortgage and commercial loans offset by decreasing consumer activity. Loan participations are currently

being used by 45% of credit unions to better manage their balance sheet and risk profiles. NCUA examiners look for current and prospective sources of liquidity regarding a credit union’s liquidity risk management framework, and nearly half of credit unions utilize loan participations to meet their liquidity management needs.

AUTO ASSET-BACKED SECURITIES MARKET

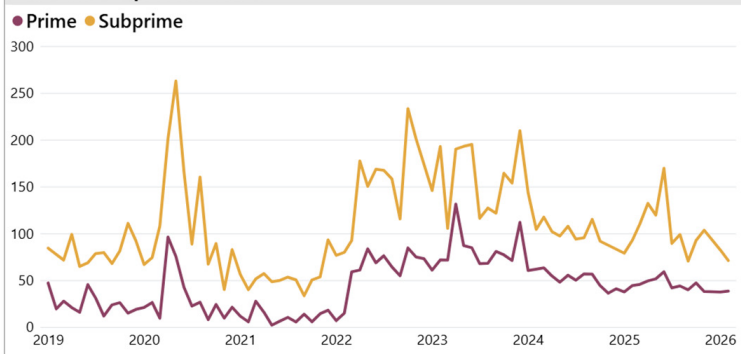
New this year to Capital Markets Monthly is an Auto Asset-Backed Security (ABS) Deal Monitor. Credit unions can utilize this ABS Monitor for insight into the secondary market’s risk appetite as well as to better price your auto loans. The summary table on the next page shows where auto ABS investors 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 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. *Continued on page 6*

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 |
| 2/3/2026 | Ford Motor Co | \$1,582 | 4.91% | 754 | 66 | 4.37% | 54 |
| 2/5/2026 | Hankey Group | \$635 | 10.59% | 747 | 58 | 3.96% | 45 |
| 2/9/2026 | JM Family Enterprises Inc | \$1,237 | 5.87% | 758 | 68 | 3.83% | 31 |
| 2/10/2026 | Honda Motor Co Ltd | \$2,421 | 5.00% | 770 | 62 | 3.80% | 29 |
| 2/10/2026 | Hyundai Capital America | \$2,200 | 5.39% | 774 | 67 | 3.83% | 32 |
| 2/10/2026 | Lithia Motors Inc | \$532 | 7.72% | 776 | 73 | 3.91% | 41 |
| 2/18/2026 | First Community Credit Union | \$316 | 6.75% | 781 | 80 | 4.12% | 60 |
| 2/19/2026 | Stellantis NV | \$1,500 | 5.75% | 771 | 74 | 4.17% | 45 |

Auto ABS Spread Trend



CU broadcast

NEW INTERVIEW

FROM GAC 2026

Alloya Announces CUUSD Stablecoin to Empower Credit Unions with Modern Payment Solutions

TIM BRUCULERE *SVP, Membership*

WATCH NOW

FINAL THOUGHTS

Recall the above commentary on slowing membership growth rates, sub-2% year-over-year with Q4 2025 membership growth turning negative for the first time since 2012. The reason for the stagnant growth varies by credit union size and region, but one thing we all face is intensifying competition with members increasingly willing to move funds for better rates or superior digital experiences.

Recently, in an interview at the 2026 Governmental Affairs Conference (GAC), Alloya announced the launch of CUUSD, a U.S. dollar-backed, credit-union-owned stablecoin, marking a major milestone in the organization’s 15-year history as a trusted partner and industry innovator. Click the image above to listen.

CUUSD will provide credit unions with a trusted, regulated on-ramp to faster payments and digital asset technology. Unlike many stablecoin initiatives, CUUSD is issued by a federally regulated corporate credit union and backed by Alloya’s transparent balance sheet and decades of payment processing experience. CUUSD builds on Alloya’s history of developing industry-first solutions internally, including a proprietary core system, an in-house Loan Participation Platform, the first corporate mobile app and the first multi-issuer securitization of credit union auto loans. With a focus on solving complex liquidity, payments and infrastructure challenges for credit unions, the launch of CUUSD represents the latest milestone with technological innovation. Ownership of CUUSD remains within the credit union system, ensuring governance and economic benefits stay aligned with cooperative principles. While stablecoin legislation has been drafted, regulatory frameworks are still evolving. Alloya remains committed to staying agile and adapting CUUSD as the regulatory landscape becomes clearer.

Those interested in learning more about our Capital Markets solutions can visit **our website** or contact our Capital Markets Strategist, Anthony Minniti, at anthony.minniti@alloyacorp.org.