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GENERAL MARKET OVERVIEW

Fed Chair nominee Kevin Warsh appeared before a lively Senate Banking Committee on Tuesday, April 21, with markets parsing his testimony for clues on the path of interest rates and asset prices. Warsh opened by arguing that today's inflation is the result of past Federal Reserve mistakes, arguing the Fed missed its mark and repeatedly characterizing the delay in raising interest rates throughout 2021 as a "fatal policy error."

For context, Kevin Warsh served as a member of the Federal Reserve Board of Governors from 2006 to 2011 as the youngest governor in Fed history, with a tenure that enveloped the 2008 Global Financial Crisis (GFC). During the GFC, Warsh was part of the "Four Musketeers" that managed the daily drama of the meltdown, a core group of decision-makers alongside then Fed Chair Ben Bernanke, Vice Chair Donald Kohn and New York Fed President Tim Geithner. Warsh supported the early crisis response of Quantitative Easing (QE) 1 and QE2, but resigned from his post in 2011, seven years before his term expired, partially in protest over the Fed's continued aggressive stimulus without a clear exit strategy from its use of emergency measures.

During Tuesday's hearing, Warsh also called for a reduction in the Fed's balance sheet as well as advocating for a regime change in the conduct of policy rather than incremental tuning. But not so fast. What is said prior to stepping into one of the most difficult and controversial technocratic roles in finance and what happens while at the helm of the most influential central bank in world history are two separate matters.

Take the maestro former Fed Chairman Alan Greenspan as a case in point. Prior to becoming the Federal Reserve Chair in 1987, Alan Greenspan was a staunch advocate for the gold standard. In that era, Greenspan viewed gold not just as a commodity, but as a fundamental protector of property rights and a check against government overspending.

> ***In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands as a proud obstacle to this insidious process. It stands as a protector of property rights.*** — Alan Greenspan, circa 1966

Eventually, Greenspan believed that rules-based, or commodity-anchored, systems were too rigid for complex, evolving economies. Despite his pre-Fed critiques, during his tenure as Federal Reserve Chair (1987-2006), Greenspan defended the practical necessity of the fiat monetary order.

> ***Historical regularities have often been disrupted by unanticipated change... In an ever-changing world, some element of discretion appears to be an unavoidable aspect of policymaking.*** — Alan Greenspan, 1997

Continued on page 2

Or consider the current Treasury Secretary Scott Bessent's perspectives before versus after his appointment. Prior to taking office, Bessent was a vocal critic of his predecessor Janet Yellen's debt management strategy. His primary criticism centered on her decision to fund the U.S. deficit using short-term Treasury bills rather than locking in long-term rates with 10-year and 30-year bonds. Bessent argued that Yellen was taking a risky gamble by shortening the average maturity of U.S. debt. He contended that by failing to issue long-dated bonds when interest rates were lower, she left the taxpayer vulnerable to the current environment of higher interest rates.

However, since being confirmed as Treasury Secretary, Bessent has faced scrutiny for continuing the very strategy he once criticized. In his first Quarterly Refunding Announcements (QRA) in early 2025 and again in August 2025, Bessent chose to keep auction sizes for long-term notes and bonds largely unchanged, continuing to rely heavily on short-term bills. His justification against shifting to long-term bonds is that he doesn't want to compete with the Federal Reserve's quantitative tightening (QT), saying, "It's easier for me to extend duration when I'm not competing with another big seller [the Fed]." It's also easier to criticize when not in the hot seat. Just wait until he experiences a de facto failed Treasury auction.

Back to Kevin Warsh and the oft-quoted truism that history rhymes. Warsh has a long history of viewing Bitcoin not as a currency for buying coffee, but as a digital gold and a "monetary policy overseer." Warsh has consistently argued that Bitcoin is a superior store of value for younger generations compared to traditional precious metals.

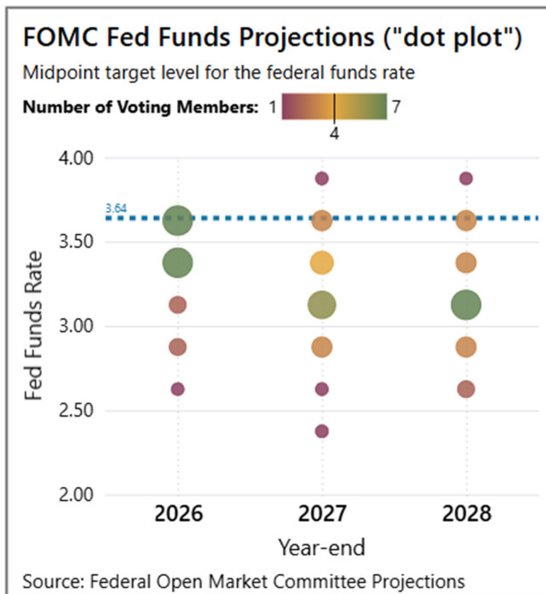
> ***If you're under 40, Bitcoin is your new gold.***
>
> **— Kevin Warsh, 2021**

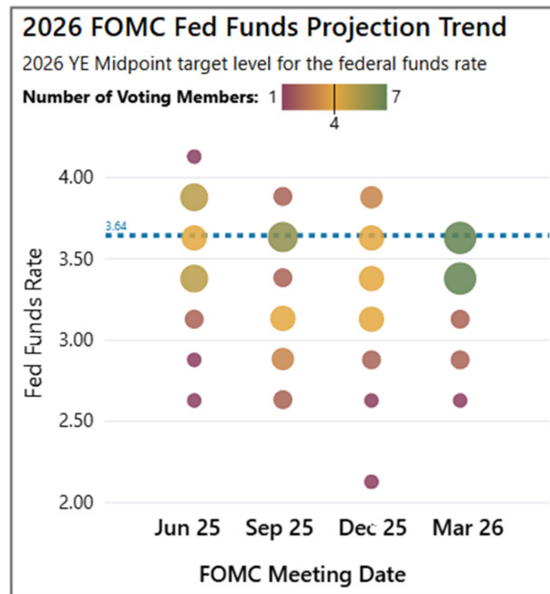
> ***Bitcoin... isn't money... Bitcoin might, however, serve as a sustainable store of value, like gold.***
>
> **— Kevin Warsh, 2018**

One of Warsh's most distinct views is that Bitcoin acts as a real-time signal of whether the Federal Reserve is doing its job correctly. In 2025, he described Bitcoin as an "inspector of monetary policy" and a "good policeman." He argued that if the price of Bitcoin is skyrocketing, it's a sign that people are losing faith in the Fed's management of the dollar. And during the hearing on April 21, he reiterated that digital assets provide "market discipline" and "tell the world things need to be fixed." Time will tell if his perspectives shift once in office. For now, while there is no legal framework for a central bank digital currency (CBDC), we can be certain that stablecoins will be part of the fabric of the U.S. financial system with far-reaching consequences. We will continue to keep readers informed with important stablecoin-related developments.

The most recent Federal Open Market Committee's (FOMC) release of official rate expectations shows that voting members are converging on few rate cuts in the years ahead. In the charts on the following page, the median "dots" represent each of the Fed officials' estimates of future interest rate projections.

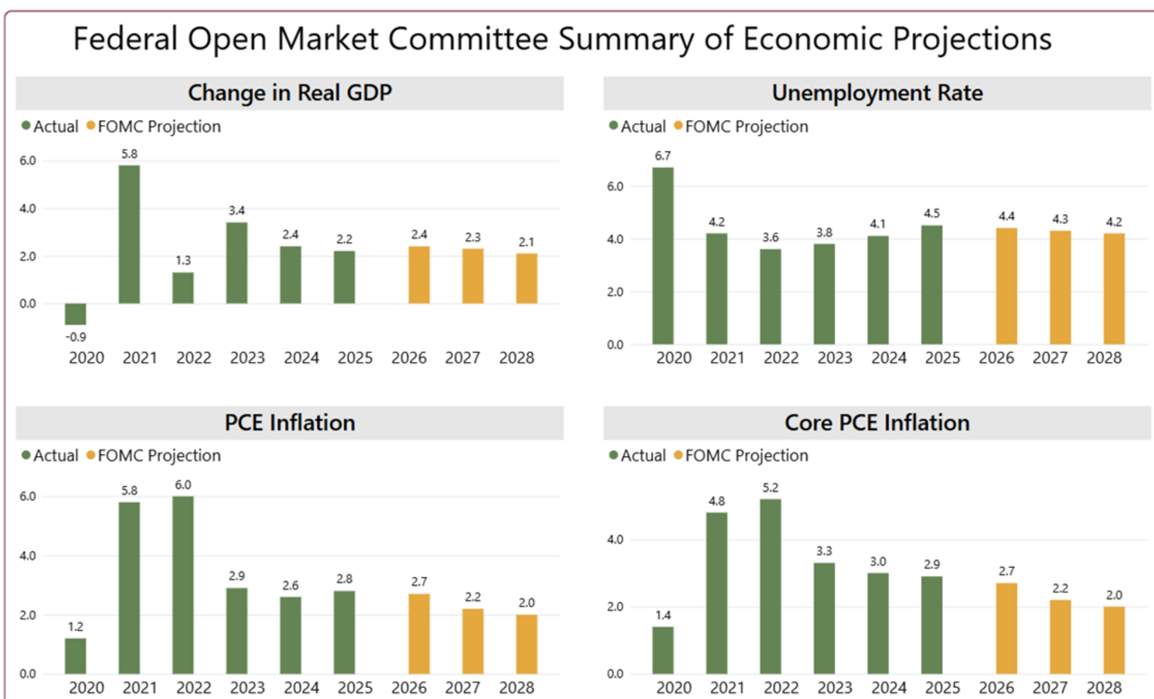
The first "dot plot" chart shows the most recent March projections through 2028. The second "dot plot" chart highlights the evolving year-end 2026 projections as of the June, September and December 2025 FOMC meetings. This second plot helps illustrate both the divergence and drift in expected rates. The blue horizontal bar in the "dot plot" is the current fed funds rate at 3.64%. Seven voting members forecast zero cuts in 2026, with another seven members anticipating only needing one cut. *Continued on page 3*





While the wide dispersion in projections continued to drift lower from the June 2025 to December 2025 FOMC meetings, most recently in March, voting members' forecasts narrowed into the 3.375%-3.625% range.

Below are the additional **key economic indicators** that the FOMC provides on a quarterly basis. These economic projections help market participants glean insight into how the Fed is thinking about the indicators that underpin their dual mandate of stable prices and maximum employment. The accompanying graphic shows the four key indicators and projections for real gross domestic product (GDP), unemployment, Personal Consumption Expenditures (PCE) inflation and Core PCE. For each indicator, we provide the actual figures from 2020 to 2025 and the Fed's projections through 2028. The Fed expects the change in real GDP to increase to 2.3% in 2026 before leveling off at 2%. Job growth has slowed but remains positive, with the unemployment rate fluctuating around 4.3%-4.5%. The data currently indicates labor stability rather than deterioration. The Fed anticipates unemployment to continue to increase, rising to 4.5% and staying above 4% through 2028. Both PCE and Core PCE, the Fed's preferred inflation measures, follow similar trajectories through 2028. Stubborn inflation above the 2% target has led to continued talks about moving to a higher inflation target. The Fed does not anticipate PCE inflation falling back to 2% until 2028.



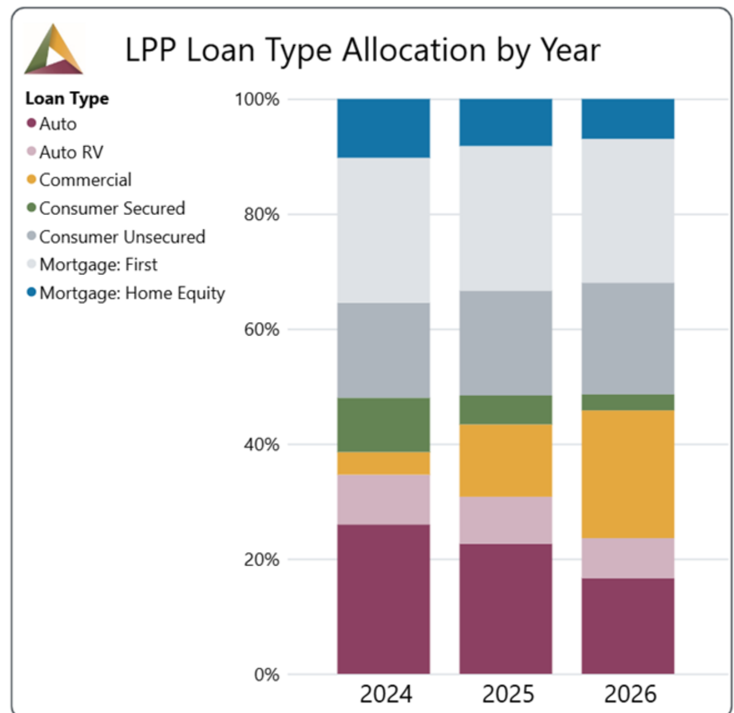
Balance sheet management is the lead priority in the **National Credit Union Association's (NCUA) 2026 Supervisory Priorities**. Recall that this year's priority letter establishes and reaffirms the NCUA's "no regulation-by-enforcement" and pro-innovation stance. Exams are slated to be more risk focused and tailored compared with prior exam cycles. What's more, the NCUA has embarked on a **deregulation sprint** that will have a wide-ranging impact across credit union business lines and strategic initiatives. The most significant opportunity is the shift in the burden of proof. Under the new framework, the NCUA no longer prescribes specific limits; instead, it requires credit unions to demonstrate that their chosen limits are justified. Institutions with strong risk modeling and governance will gain a clear competitive advantage over peers relying on legacy reporting.

For loan participations, the largest opportunity comes from removing limits on credit unions' ability to purchase or participate in indirect auto loans serviced by third parties.

PROPOSED CHANGE	IMPACT
Eliminate 701.21(h) and 741.203(c), which currently cap purchasing indirect auto loans serviced by a third party to 50% of net worth.	This reduces regulatory burden and gives boards greater flexibility to set participation levels based on size, transaction complexity and risk tolerance. The removal allows credit unions to scale their loan participations in indirect lending programs based on their own liquidity and risk appetite.

Year-to-date loan participation activity on our Loan Participation Platform is the strongest since 2022. Notably, we are seeing more heightened diversification of loan types than at any other time in our platform's history. For loan participations, the largest opportunity comes from removing limits on credit unions' ability to purchase or participate in indirect auto loans serviced by third parties.

Loan participations are currently being used by 45% of credit unions to better manage their balance sheet and risk profiles. The removal of this outdated regulatory 50% of net worth cap will increase credit unions' ability to utilize loan participations to meet their liquidity management needs.



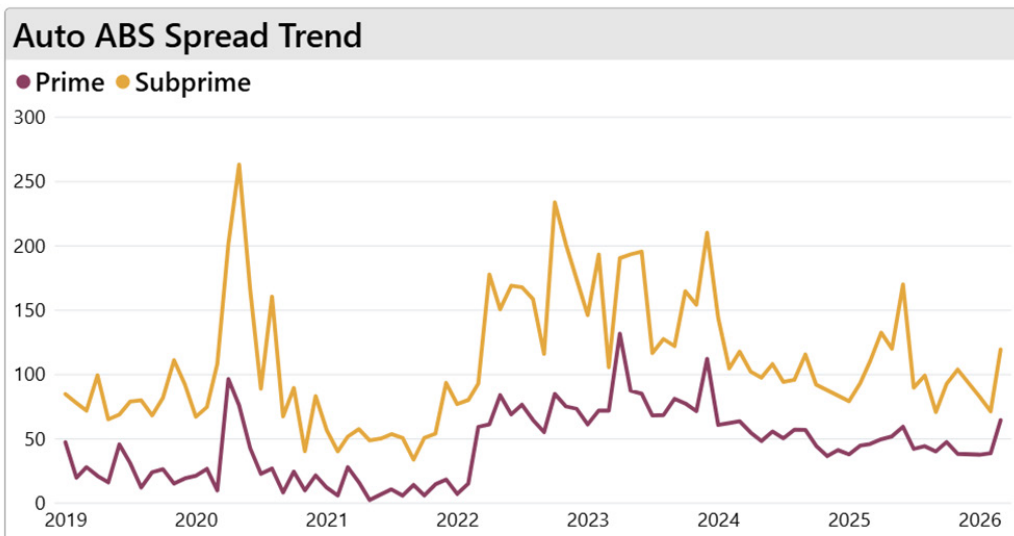
New this year to Capital Markets Monthly is an Auto Asset-Backed Security (ABS) Deal Monitor. Credit unions can utilize this ABS monitor for color into the secondary market's risk appetite as well as to better price your auto loans. The accompanying summary table shows where auto ABS investors are buying in the current market. The ABS collateral characteristics, particularly the underlying loan annual percentage rates (APR) and corresponding credit scores, are useful to monitor and will aid your proactive, risk-adjusted loan pricing. This monthly 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.

Prime Auto Asset-Backed Security Deal Summary and Collateral Characteristics

*Weighted-averages

			Underwriting Characteristics *			Bond Investors *	
Pricing Date	Seller	Deal Size ($ millions)	APR	Credit Score	Original Term	Bond Yield	Bond Spread
3/3/2026	Ally Financial Inc	$798	9.10%	734	70	3.97%	44
3/10/2026	Carvana Group LLC	$1,072	10.67%	713	74	4.35%	73
3/17/2026	Ford Motor Co	$1,393	4.84%	754	66	4.15%	38



FINAL THOUGHTS

Where are we headed?

Market analysts expect the U.S. economy to remain resilient through the end of Q2. Growth is expected to moderate but avoid a recession. Economic forecasts have estimated U.S. GDP growth for Q2 between 2.0%-2.3%. Consumer spending is moderate but stable while the probability of a recession is roughly 33%. Despite uncertainty, attention remains on the Iran War, rising energy costs and the risk of further inflation. The Federal Reserve is expected to hold policy rates steady through mid year, with limited scope for cuts later in 2026. Headline inflation has risen due to energy shocks, while core inflation, which excludes food and energy, has moderated. Most analysts expect inflation to remain above the Fed's 2.0% target, which will limit interest rate policy easing. The Fed is expected to keep the federal funds rate around 3.50%-3.75% through Q2. Currently, the swap futures market has a very low probability of 10% for any decline in federal funds for all of 2026.

On a month-to-month comparison, there hasn't been much change in the slope or yields of the curve. Credit unions should continue to be diligent in a laddered investment approach, diversify in relative value asset classes, keep an eye on member liquidity and be cautious on overall duration extension.

To explore our current Capital Markets solutions, visit **www.alloyacorp.org/capital-markets-simplified** or feel free to contact our Capital Markets Strategist at **anthony.minniti@alloyacorp.org**.

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Brewing Capital: Subordinated Debt Explained

MAY 27 | 9:30 am CT

Pour Overs & Portfolio Risk: How Credit Unions Can Use Data to Execute Smarter in Capital Markets

JUNE 23 | 9:30 am CT