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CAPITAL MARKETS *monthly*

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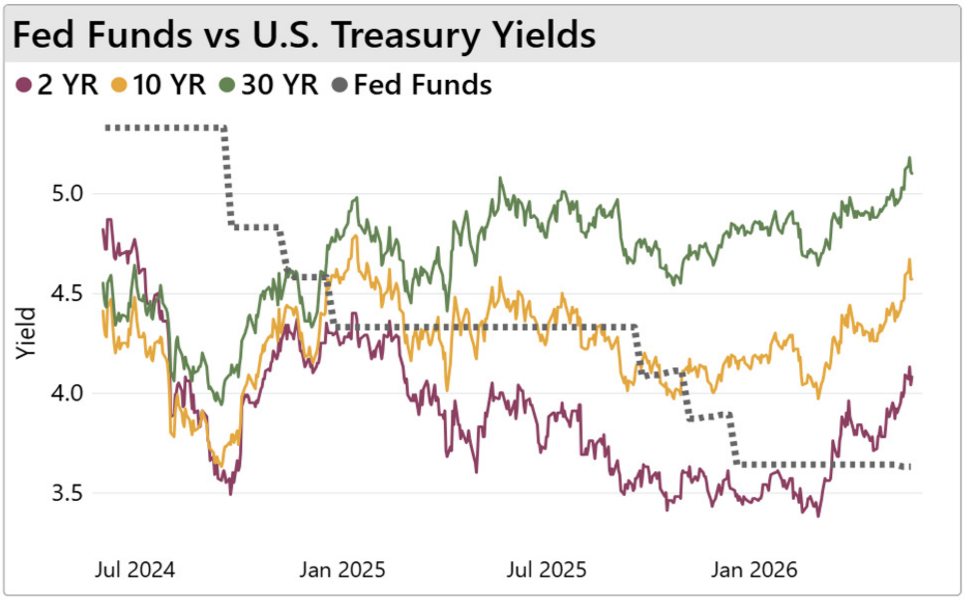
GENERAL MARKET OVERVIEW

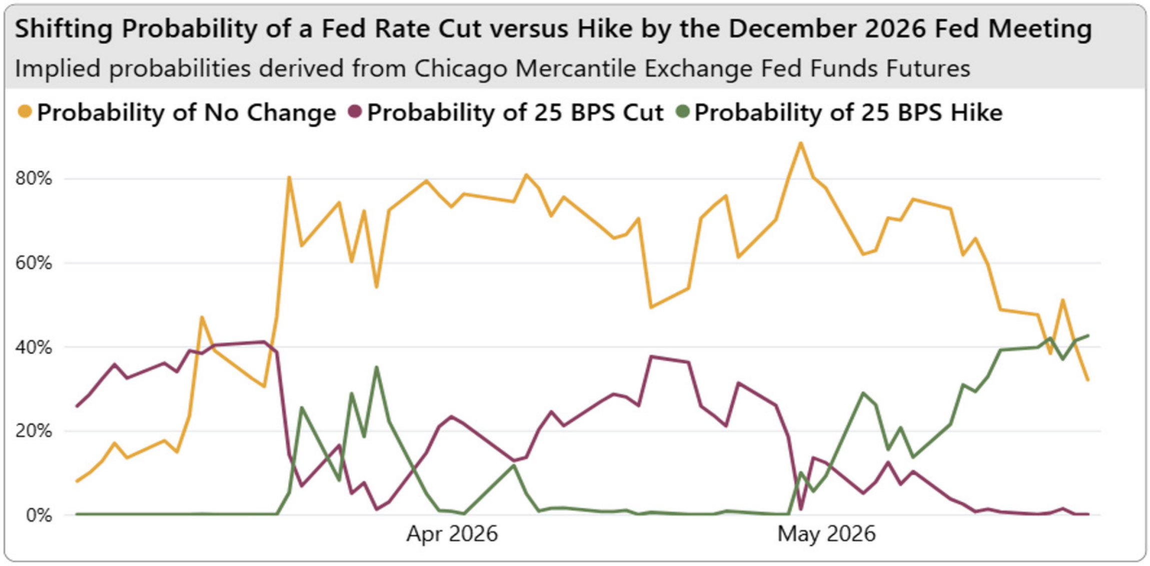
The ongoing conflict involving Iran serves as a critical catalyst for a systemic shift in the fiscal and monetary landscape. Capital markets are puzzling through "Schrödinger's Strait." Is it open? Is it closed? While on the one hand, the ambiguity creates a strategic advantage for U.S. military leadership, markets prefer certainty over obscurity. Historically, war has been the primary driver of U.S. federal debt expansion; however, the current conflict arrives at a moment of pre-existing fiscal fragility. Global markets are calling into question the "Fed put," or the Federal Reserve's ability to slash interest rates to combat economic trouble. Recent moves across the Treasury curve suggest that stubborn inflation, massive fiscal deficits and a potential energy shock are forcing interest rates higher, even as the broader economy begins to show late-cycle cracks. The 2-year U.S. Treasury, widely used as a barometer for Fed policy, recently climbed back above the critical 4-handle. This shift directly challenges months of market consensus that a series of rapid rate cuts would arrive to sustain the current economic cycle.



The long end of the curve is flashing an even more ominous warning sign. The 10-year Treasury yield, a benchmark for the global system, has risen by roughly 63 basis points since the war began. The 30-year bond pushed above 5%, the highest yield since 2007, on a rising term premium and inflation uncertainty. These moves fundamentally alter the financial landscape as they significantly increase both the consumer and government's interest expense. For the U.S. government, every 1 basis point increase adds roughly $2 billion to annual interest expense. If interest yields continue to rise, the U.S. government could resort to aggressive currency debasement to suppress rates.

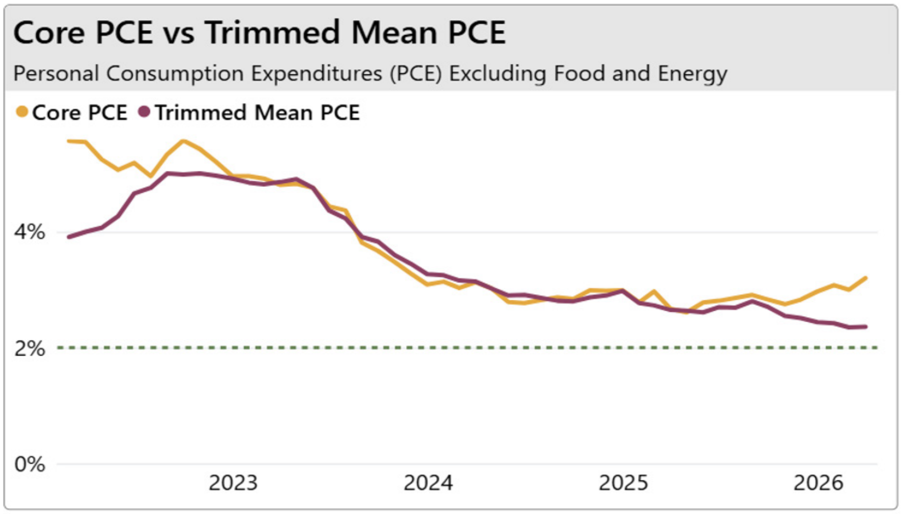
Federal Reserve Chair Kevin Warsh has officially been sworn in, stepping into the role at a critical and challenging inflection point. Warsh takes his seat during a difficult set up: sticky inflation, weakening confidence, slowing labor data, bond yields pushing higher and markets flipping from pricing in rate cuts to pricing hikes. Treasury traders are seeing risk yield premiums rise because of higher U.S. fiscal deficits and weaker worldwide demand for long duration bonds at Treasury auctions. In fact, the probability of a rate hike now sits at 42%, with 0% implied probability of a cut, using the fed funds futures market. *Continued on page 2*

However, harkening back to 1990, we do not think Warsh will hike into a supply shock. The 1990 oil supply shock and the Fed's policy response represent a classic dilemma in monetary history. When Iraq invaded Kuwait in August 1990, it triggered a sudden supply-side shock that simultaneously drove inflation up and dragged economic output down (stagflation). Fed Chair Alan Greenspan faced his first major trial by fire regarding structural supply disruptions, which later cemented a highly data-dependent, gradualist monetary framework that defined global central banking for the next decade and a half.

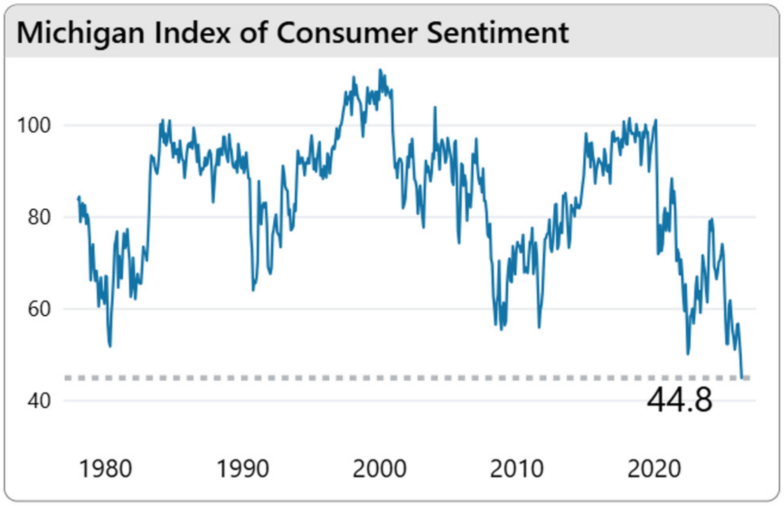


When the invasion hit in August 1990, global oil markets panicked. Crude oil prices shot up from roughly $17 per barrel in July to a peak of over $40 per barrel by October. Headline Consumer Price Index (CPI) inflation spiked, briefly pushing toward an annualized rate of over 6%. Consumer confidence plummeted at one of the fastest rates in post-World War II history. (Sound familiar?) Greenspan responded to this stagflationary trap with extreme caution and step-by-step incrementalism, a style that would become his hallmark. Rather than aggressively cut rates to protect jobs or hike to kill inflation, the Greenspan Fed opted for a slow, methodical easing cycle.

CPI is currently at its highest level in nearly three years. Meanwhile, Fed Chair Warsh has signaled that he wants to change the Fed's preferred inflation gauge. The Fed has used core Personal Consumption Expenditures (PCE) data, which excludes food and energy, as its benchmark since 2000. Warsh favors Trimmed Mean PCE, which removes the most extreme price movements each month instead of excluding whole categories. The practical difference: Trimmed Mean PCE currently reads 2.36%, well below the 3.20% reading on core PCE. Depending on which measure the Fed follows, the case for rate cuts looks very different. This is not a minor procedural change. The metric the Fed uses to gauge inflation directly determines when it judges the economy to be at target. If Warsh moves the committee toward Trimmed Mean PCE, he is mathematically moving the Fed closer to a declared victory on inflation, which creates a runway for rate cuts even as headline readings stay elevated. *Continued on page 3*



Detractors will claim Warsh is moving the goal posts and will quote Ronald Coase, Nobel Prize winner in Economics, saying, “If you torture the data long enough, it will confess to anything.” However, Warsh’s instincts here are correct. The Trimmed Mean removes outliers instead of cutting fixed baskets, which can improve signal-to-noise in volatile periods, as well as be less subject to revisions. But will consumers buy it? Consumer sentiment, as measured by the University of Michigan Consumer Sentiment Index, hit an all-time low in May at 44.8. The Index continues to demonstrate the K-shaped thesis. Consumers feel the pinch at the pump and at the grocery store while artificial intelligence capital expenditures and record high equity valuations do not translate to Main Street success.



LOAN PARTICIPATIONS

This month, we are providing readers with case study examples to help better understand use cases for utilizing loan participations to address various liquidity strategies. To protect the privacy of those mentioned, the credit union names in these case studies are fictional and included for illustrative purposes only.

Seller Case Study

High loan demand elevated Shared Success Credit Union’s loan-to-share (LTS) ratio above their internal liquidity risk limits. The credit union engaged Alloya to sell loan participations to lower its LTS ratio to be in line with its historical risk tolerance as well as its peer benchmark. After establishing relationships with Alloya’s Loan Participation Platform buyers, Shared Success CU now has an outlet to support member loan growth or absorb liquidity shocks. What’s more, Shared Success CU was able to satisfy its loan demand without damaging its member relationships.

In addition to an enhanced liquidity position, the credit union sold loans above par, generating an immediate boost to non-interest income and satisfying a key strategic initiative of the CEO. The seller also collects a 25-basis point servicing fee, further bolstering its financial condition with recurring fee revenue.

Shared Success CU killed three birds with one stone:

1. It retained the member relationship and servicing.
2. It achieved a key strategy initiative to increase non-interest income.
3. It brought its loan-to-share ratio into alignment with risk management.

Continued on page 4

Buyer Case Study

Better Together Credit Union had excess liquidity, a low loan-to-share ratio, a concentrated loan portfolio and compressed margins. Better Together CU reached out to Alloya to explore options to deploy its excess liquidity in order to diversify concentration risk with attractive risk-adjusted yield.

Better Together CU's LTS ratio recently fell below 60, well below peer and target benchmarks. Its excess liquidity was parked in low-yielding investments while its loan portfolio was overly concentrated both by loan type and geographic region. Management was concerned about vulnerabilities to a localized economic downturn or sector-specific credit stress as well as a compressed net interest margin due to an asset mix tilted towards investments. Purchasing loan participations through Alloya's platform corrected its asset mix and diversified its portfolio while boosting both net interest margin and return on assets. Importantly, Better Together CU was able to deploy excess liquidity into higher yielding, diversified loan assets without the cost and time required to build new internal lending programs.

Better Together CU improved its loan-to-share ratio, enhanced portfolio diversification and strengthened net interest margin. What's more, loan participation buyers have the ability to set their desired purchase criteria (credit score floors, loan-to-value caps, etc.) to match their internal risk appetite to achieve better risk-adjusted returns.

CAPITAL SOLUTIONS MARKET

Subordinated Debt

Low-income designated credit unions issue subordinated debt primarily to meet regulatory capital requirements and increase financial flexibility as they grow or face higher capital needs. We're seeing it used to expand lending products, fund strategic initiatives, and support mergers and acquisitions activity.

Bank acquisitions are creating a strong opportunity for credit unions, and subordinated debt is often used to help finance these transactions. Both large and small credit unions are leveraging this tool to broaden services and expand operations for members. National Credit Union Administration approvals typically take about 60 days. Once approved, issuers have up to 24 months to draw on the authorized funds for eligible uses. *Continued on page 5*

MSU FEDERAL CREDIT UNION

HAS ISSUED

$75 MILLION
IN SUBORDINATED DEBT

MAY 7, 2026

ALLOYA SERVED AS PLACEMENT AGENT

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Alloya served as placement agent for the subordinated debt transaction highlighted here, and we expect additional deals in the coming months. If you're interested in investing in an upcoming issuance, please connect with your Alloya Investment Services representative to discuss opportunities.

DEAL HIGHLIGHTS

- Largest unrated subordinated debt issuance in credit union history
- Record number of investors in a single credit union issuance (41)
- Depository Trust Company-eligible for qualified institutional buyers

Current Market

Subordinated Debt Issuance Rates

Issuance Size	IG Egan Jones	Kroll BBB-	Kroll BBB	Kroll BBB+	Unrated
50MM	7.500% +/-	7.500% +/-	7.500% +/-	7.500% +/-	**7.000%- 8.000% +/-**
50MM-100MM	7.500% +/-	7.500% +/-	7.500% +/-	7.500% +/-	
100MM+	7.000% +/-	7.000% +/-	7.000% +/-	7.000% +/-	

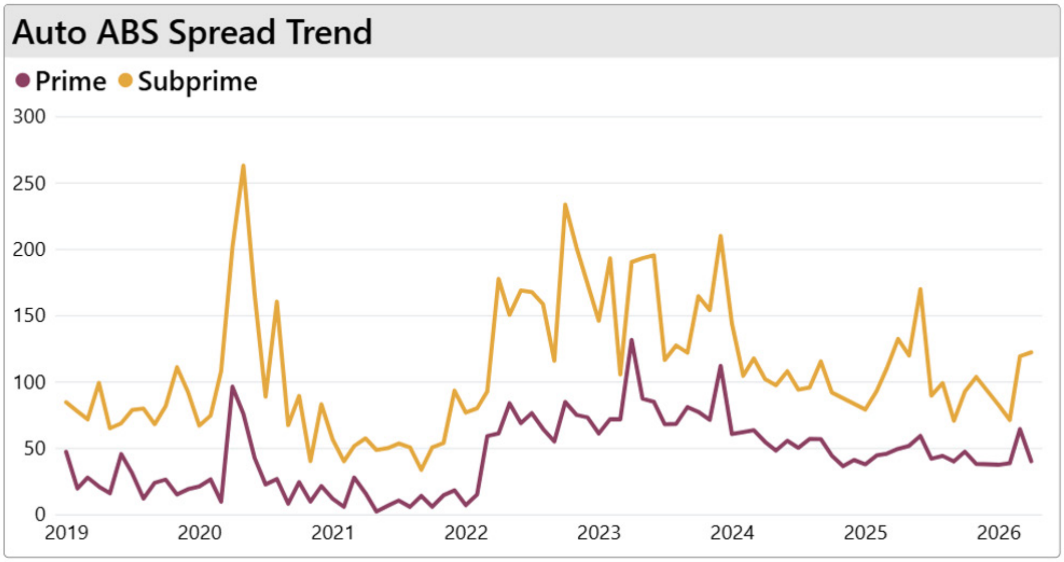
Credit unions can utilize the Auto Asset-Backed Security (ABS) Deal Monitor, featured in each issue of *Capital Markets Monthly*, for color into the secondary market's risk appetite as well as to better price auto loans. The accompanying summary table shows where auto ABS investors are buying in the current market. The ABS collateral characteristics, particularly the underlying loan annual percentage rates (APRs) and corresponding credit scores, are useful to monitor and will aid your proactive, risk-adjusted loan pricing. This monthly Auto ABS Monitor allows 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
4/21/2026	CarMax Inc	$1,175	8.65%	765	67	4.22%	43
4/16/2026	Space Coast Credit Union	$400	7.14%	756	78	4.33%	59
4/15/2026	Bank of America Corp	$1,000	6.59%	803	69	4.27%	46
4/14/2026	Toyota Motor Corp	$1,853	5.57%	770	66	4.07%	33
4/8/2026	General Motors Co	$1,270	6.81%	777	71	4.13%	36



FINAL THOUGHTS

Credit unions need to be diligent in managing their liquidity and the extension risks in their investment portfolios. Funding costs are expected to increase due to the reprice of members' certificates of deposit. As a result, net interest margins may come under pressure. Another keen focus should be the credit union's auto loan portfolio, as subprime auto loan defaults are hitting record 32-year highs.

Strategically, credit unions should keep investment portfolio duration below 3.5 years and continue implementing a laddered strategy, with an overweight allocation to Treasuries, given their strong liquidity profile. Limit long-term mortgage-backed securities (MBS)/collateralized mortgage obligations exposure, as their current MBS investment portfolio may already have considerable duration extension risk. On a monthly basis, continue to stress test for longer and higher interest rate scenarios.

Alloya's Capital Markets Group can help keep you on top of the current interest rate volatility in today's fixed income market. We have analytical tools, which include monthly investment portfolio analysis, specific MBS portfolio analytics and separate cash flow reports that will help you manage today's uncharted interest rate environment.

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