



## GENERAL MARKET OVERVIEW

The Federal Reserve entered a starkly different era on June 17, following the first Federal Open Market Committee (FOMC) meeting under newly appointed chair Kevin Warsh. For a marketplace accustomed to carefully managed central bank transparency, Warsh’s debut signaled a swift, hawkish transition in both the Fed’s communication style and its internal structure. While the FOMC ultimately held the federal funds rate unchanged for the fourth consecutive meeting, the communication itself acted as an immediate form of monetary tightening. Warsh took an axe to the traditionally verbose FOMC statement, releasing a strikingly

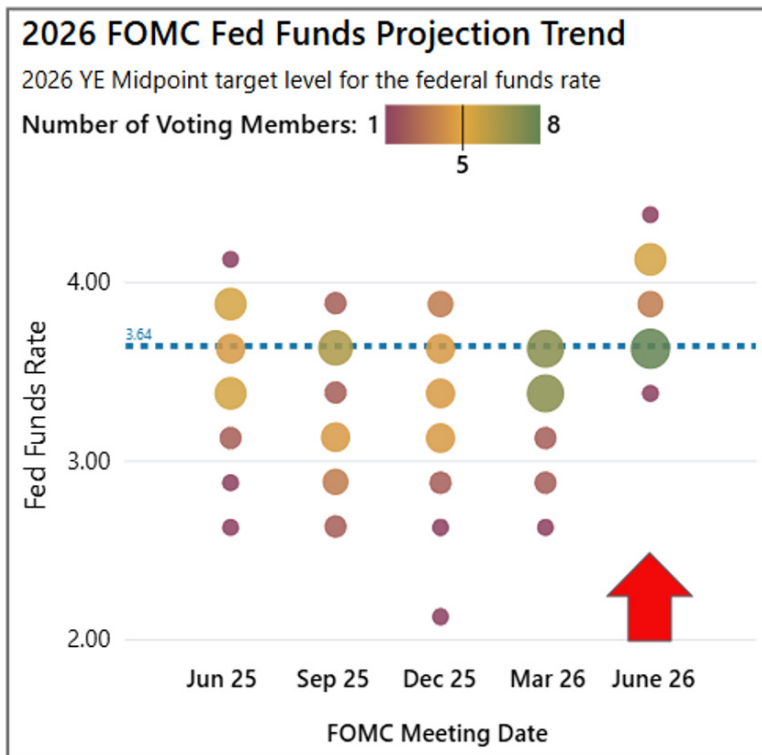
brief document that culminated in a singular, pointed directive that the committee will deliver price stability.

Markets sold off on the hawkish tilt. Broad risk markets flashed a classic hawkish reaction, with U.S. equities, gold and the two-year Treasury note selling off while the U.S. dollar rallied. The rates market immediately began pricing in a little more than one rate hike for the remainder of 2026, shifting the front end and the belly of the yield curve upward.

The Fed’s “dot plot,” representing each of the Fed officials’ estimates of future interest rate projections, took a sharp turn upward compared to prior expectations over the past year. The accompanying dot plot chart highlights the evolving year-end 2026 projections from June 2025 through June 2026. This visual helps illustrate both the divergence and drift in expected rates.

The blue line is the current fed funds rate at 3.64%. Currently, nine voting members (half) forecast rate increases before year end. Eight members see rates remaining the same, while only one voting member forecasts the need for a rate cut this year. This is a stark change in expectations from March 2026, when 12 members anticipated the need to cut rates by year end.

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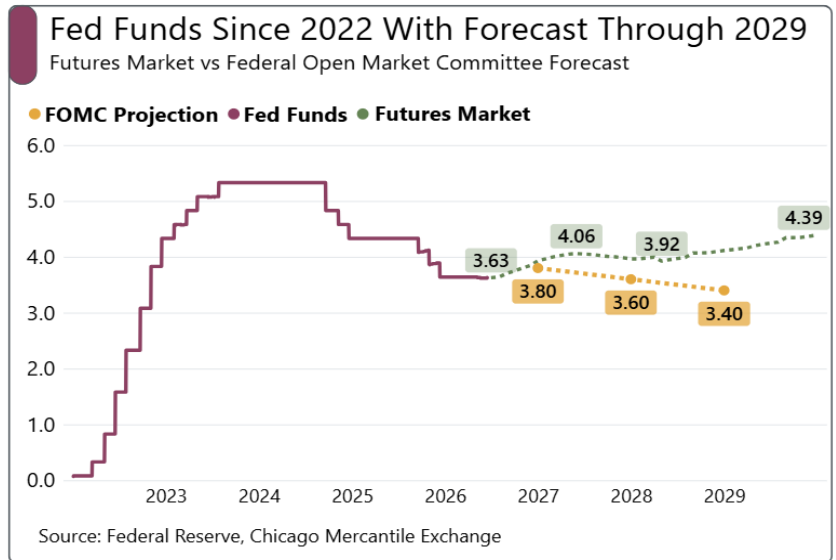


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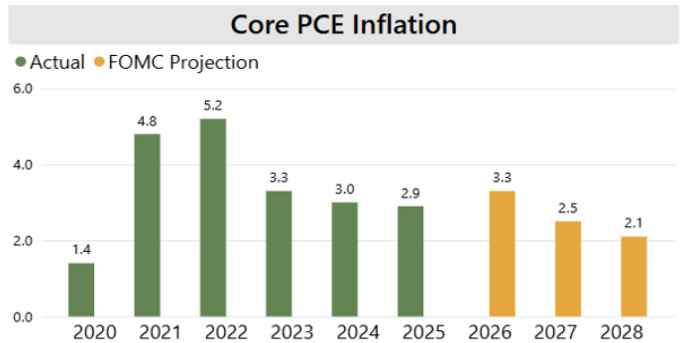
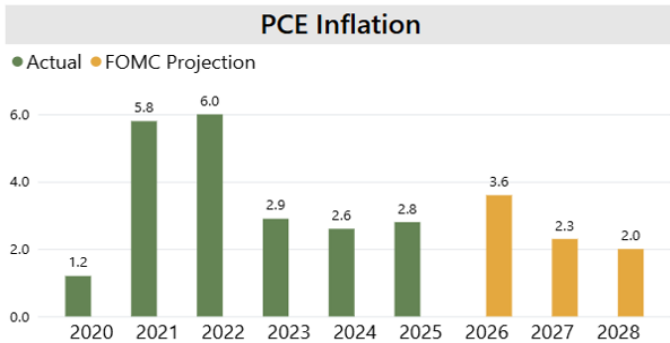
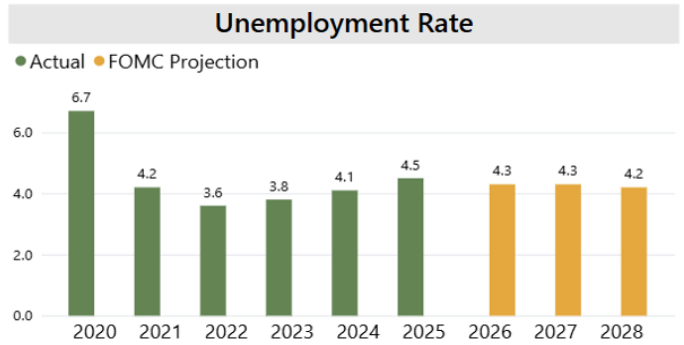
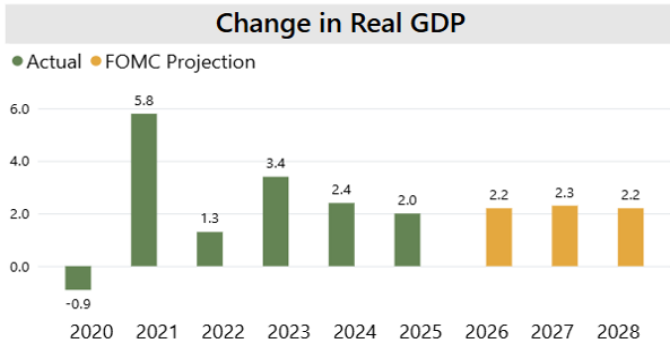
The market, as measured by fed funds futures, converges with the Fed on 2026 year-end rate expectations but anticipates higher rates above 4% into 2027 and 2028, while the Fed anticipates steadily declining rates.

The FOMC also provides additional **key economic indicator forecasts** 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 2.2% in 2026 and then maintain that level through 2028. The Fed anticipates that unemployment will decrease by year end to 4.3% and decrease further to 4.2% through 2028. Both PCE and core PCE, the Fed’s preferred inflation measures, show stubbornly high inflation expectations above 3% for the remainder of the year. The Fed anticipates PCE inflation falling back to 2.1% by year end 2028. *Continued on page 3*



### Federal Open Market Committee Summary of Economic Projections



The June 17 FOMC meeting marks a reset of how the Fed communicates, uses data, thinks about inflation and manages market expectations. Warsh shortened the statement, removed guidance, withheld his dot plot and launched task forces on communications, the balance sheet, data, productivity, jobs and inflation.

Warsh said this at the press conference: “Financial market prices are probably the most important source of information to guide central bankers. But when all the financial markets are doing is reflecting back what we’ve said, then we’re taking the most important source of information and we’re being blind to it.” Just like an Excel model throwing a circular reference error, market prices lose their information quality if overly influenced by the Fed’s reaction function. The “fourth wall” is falling in that Warsh says markets work best when responding to data rather than trying to guess how the Fed will respond to data. That said, there is a difference between not telling your next move and not telling markets how you make decisions at all. Warsh also stretched his objection to forward guidance into something broader, using it to sidestep questions about how the committee reasons toward a decision. JPMorgan’s Michael Feroli commented, “It matters to have some sense of how this committee is thinking about how it goes about conducting this business.”

The main benefit of removing forward guidance is increased responsiveness to changing market conditions, whereas public forecast hinders one’s ability to stay flexible. If Warsh and the FOMC hold their cards closer to the vest, then they will be able to change their minds more freely. However, getting rid of forward guidance does not necessarily decrease the Fed’s influence on capital markets. The quip “don’t fight the Fed” was coined 56 years ago by investment advisor and financial analyst Marty Zweig, long before the “dots.”

Beyond the immediate rate decision, the most consequential aspect of the press conference was Warsh’s announcement of several sweeping agency “task forces.” In a massive federal bureaucracy like the Fed, establishing public task forces populated by outside experts serves a distinct purpose: It builds the paper trail and political cover necessary to execute profound institutional changes. Fed watchers expect these initiatives to structurally reshape the central bank across four key vectors.

1

**Dismantling “Forward Guidance”** — Warsh has long been a vocal critic of the hyper-transparency of the Ben Bernanke era, arguing that constant public commentary from various regional Fed presidents only confuses the public. The communications task force is laying the groundwork to drastically reduce the frequency of Fed public speeches and press conferences.

2

**Shrinking the Balance Sheet** — A long-time opponent of quantitative easing, Warsh is leveraging a new balance sheet task force to fulfill a career-long ambition of shrinking the Fed’s massive asset portfolio with a strategic target of a leaner, “Treasury-only” balance sheet.

3

**Redefining Inflation Metrics** — A data task force will evaluate how the public sector measures economic health, pushing toward real-time and private-sector technological metrics over lagging indicators. Crucially, this task force is expected to explore replacing rigid, single-point inflation targets with a target band (e.g., 1.5% to 2.5%), giving the Fed more policy wiggle room.

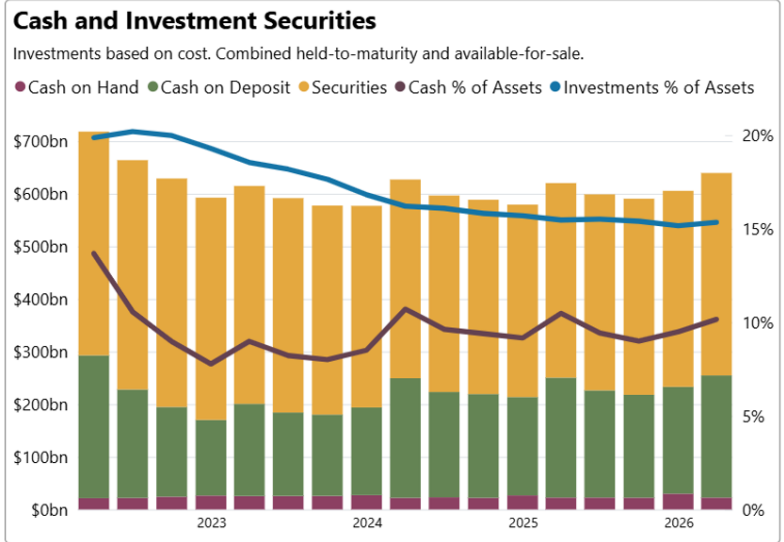
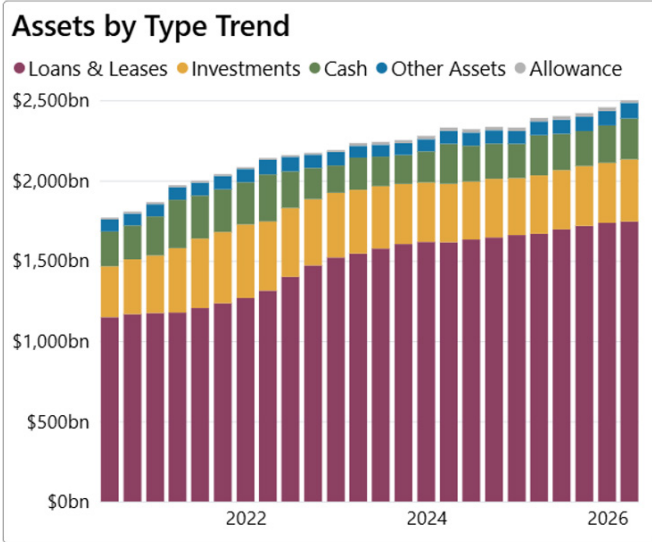
4

**The Artificial Intelligence (AI) and Productivity Mandate** — Prior to his confirmation, Warsh frequently pointed to an emerging, AI-driven productivity boom to justify potential rate flexibility. A dedicated task force will focus heavily on how artificial intelligence is altering employment dynamics and real output, attempting to map out a structural framework for a highly disruptive technological transition.

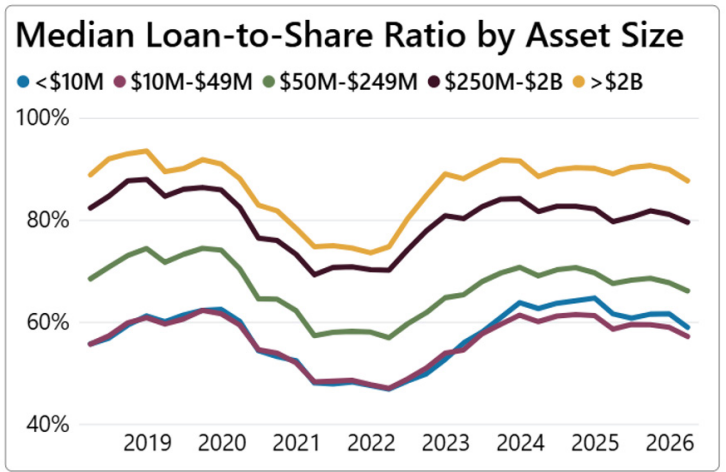
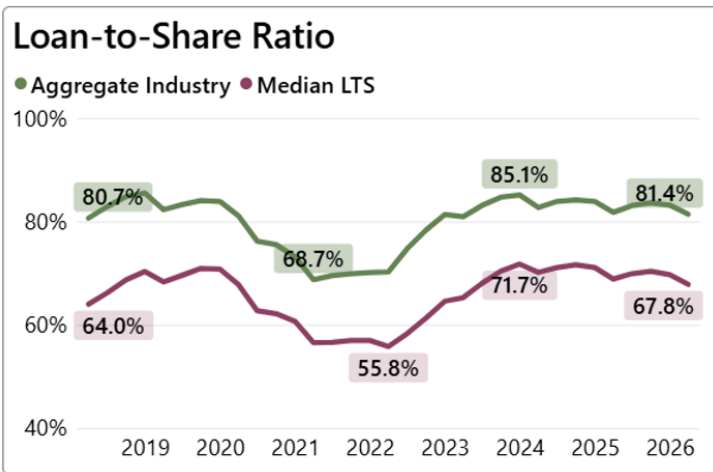
By scaling back forward guidance and driving institutional reform via task forces, Warsh is systematically positioning himself to wield a more consolidated, independent and unpredictable policy lever.



Q1 2026 call reports show strong overall financial performance with a significant milestone of industry assets pushing past \$2.5 trillion. Industry liquidity improved, with cash holdings increasing to \$255 billion, back over 10% of current assets.



Loan growth slowed with outstanding loan balances increasing 49 basis points in Q1 2026, the slowest loan growth rate since Q1 2024. Slower loan growth led to a decrease in loan-to-share ratios across all peer groups as well as a decrease in wholesale funding reliance. Wholesale funding decreased below \$100 billion, the lowest since mid-2022. *Continued on page 5*



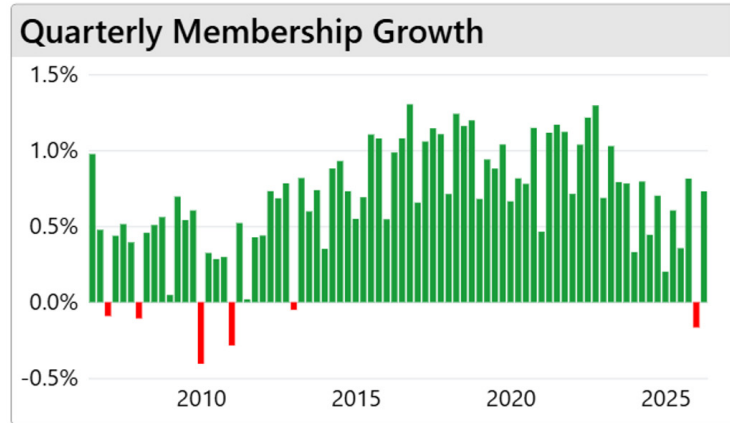
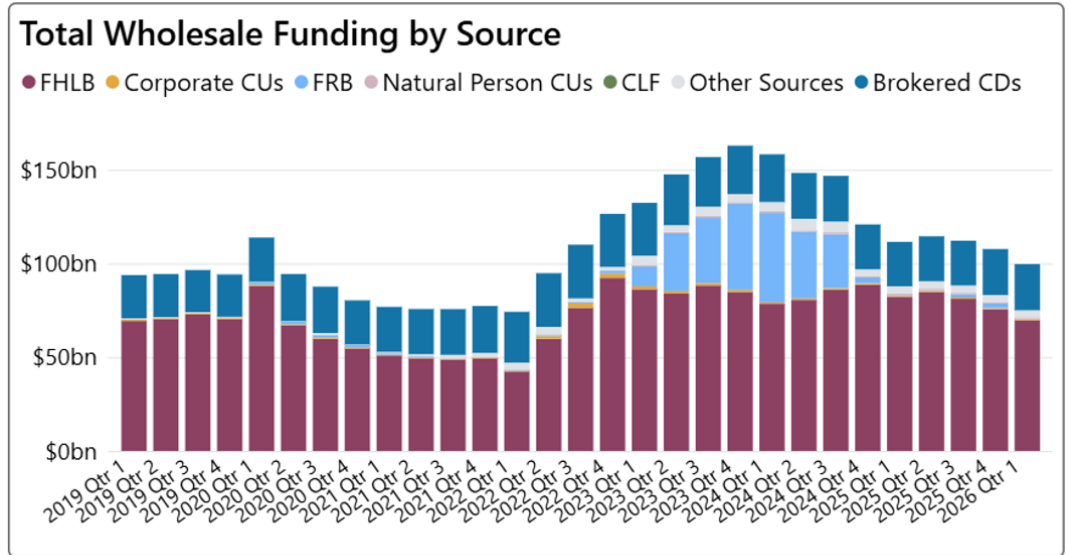
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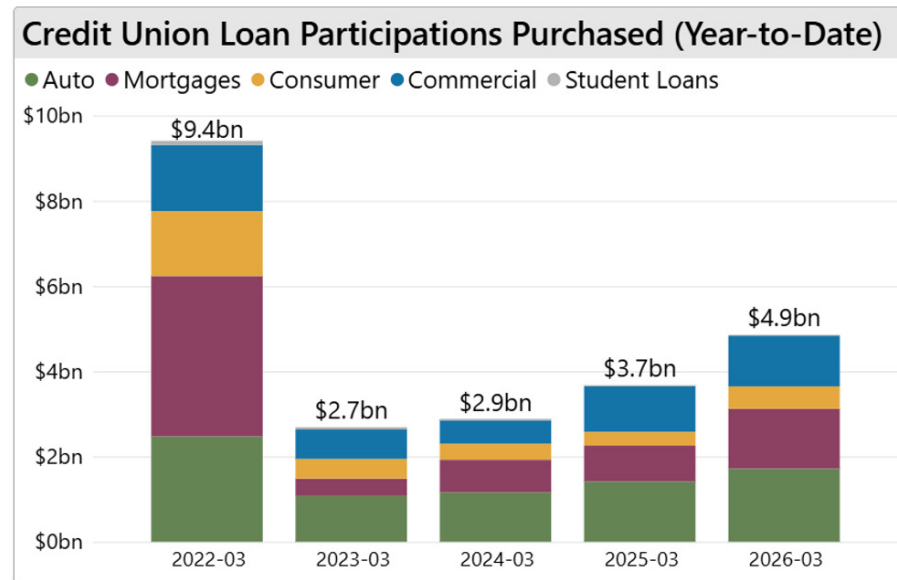
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Another win for the industry is that quarterly membership growth is back in positive territory after a Q4 2025 decline. The -17 basis point decline in Q4 2025 was the lowest since Q4 2010. Low or stagnant membership growth rates raise concerns regarding 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.



Credit unions are turning towards loan participations to combat both low loan and member growth. The volume of new loan participations purchased was nearly \$5 billion in Q1 2026, up 32% compared with Q1 2025. Mortgage and consumer participation activity both rose meaningfully. The outstanding balances of loan participations purchased rose for the ninth consecutive quarter, approaching \$70 billion. Loan participations are currently being used by 46% of credit unions to better manage their balance sheet and risk profiles. National Credit Union

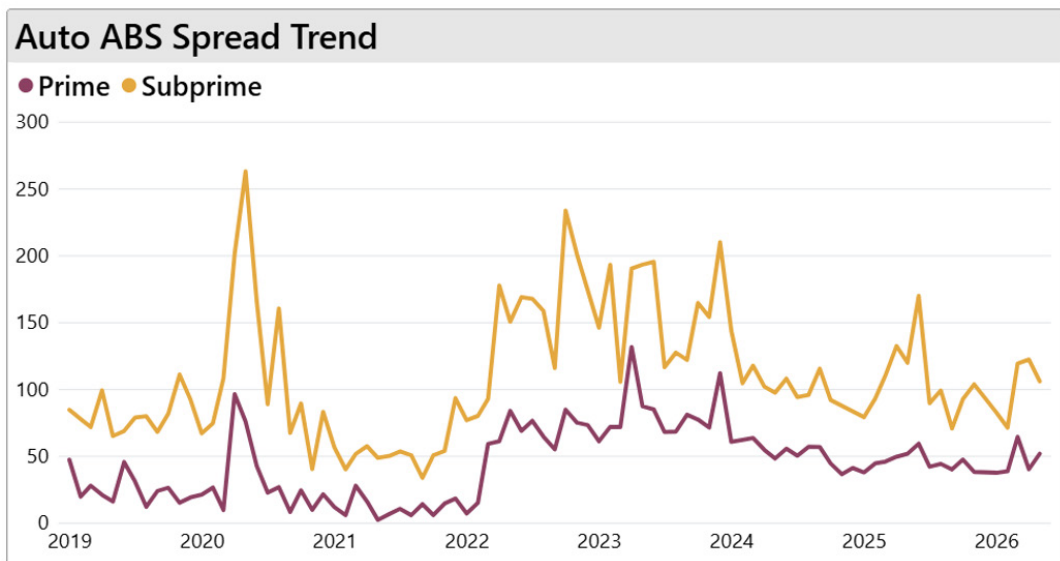


Administration (NCUA) examiners look for current and prospective sources of liquidity regarding a credit union's liquidity risk management framework, and nearly half of credit unions utilize loan participations to meet their liquidity management needs.



Credit unions can utilize the **Auto Asset-Backed Security (ABS) Deal Monitor**, featured in each issue of *Capital Markets Monthly*, for insight into the secondary market’s risk appetite as well as to better price auto loans. The monitor summarizes prime auto ABS deals and provides a deal spread trend for both prime and subprime auto deals. 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 feature 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 in which credit unions typically participate. Keep in mind that 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.

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
5/20/2026	Nissan Motor Co Ltd	\$1,268	4.44%	787	69	4.36%	39
5/19/2026	Carvana Group LLC	\$1,117	10.54%	708	75	4.74%	72
5/19/2026	M&T Bank	\$1,006	7.84%	760	77	4.45%	49
5/12/2026	Mercedes-Benz Group AG	\$998	6.37%	780	62	4.27%	39
5/6/2026	Lithia Motors Inc	\$526	7.06%	783	72	4.27%	47
5/5/2026	Honda Motor Co Ltd	\$2,105	4.99%	768	62	4.15%	32
5/5/2026	JM Family Enterprises Inc	\$1,297	5.79%	759	69	4.22%	37



## FINAL THOUGHTS

**Capital Markets Monthly is oriented towards strategic opportunity.** Considering both the NCUA's deregulation agenda as well as their recent **Strategic Plan** from 2026 through 2030, now is the time to position balance sheets and product offerings for growth. Likewise, Alloya is positioned to aid our member credit unions with the tools and products for both growth opportunities and risk management.

The new NCUA five-year road map pivots significantly from its 2022-2026 predecessor, reflecting a stark shift in regulatory philosophy, operational structure and technological priorities. The explicit focus is squarely on safeguarding federally insured credit unions and ensuring the long-term stability of the National Credit Union Share Insurance Fund. The NCUA has established a concrete accountability scoreboard for reducing regulatory burden. The plan sets a specific target to issue at least 30 regulatory actions or policy revisions that reduce administrative or regulatory burden by December 31, 2026.

Noteworthy is the NCUA embracing digital assets. For credit unions looking toward the future, the plan features explicit performance targets to foster responsible innovation, which includes fulfilling a commitment to issue final regulations about permissible stablecoin activities for federally insured credit unions by the end of 2026.

Credit unions should prepare for a leaner, more regionalized regulatory footprint that leverages AI-assisted tools for data-driven examinations, alongside a welcome push to clear out outdated regulatory clutter.

Alloya continues to explore new avenues to support credit union success through securitization, loan participations and other capital markets strategies. Visit [www.alloyacorp.org/capital-markets-simplified](http://www.alloyacorp.org/capital-markets-simplified) or contact our Capital Markets Strategist, Anthony Minniti, at [anthony.minniti@alloyacorp.org](mailto:anthony.minniti@alloyacorp.org) to learn more.



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