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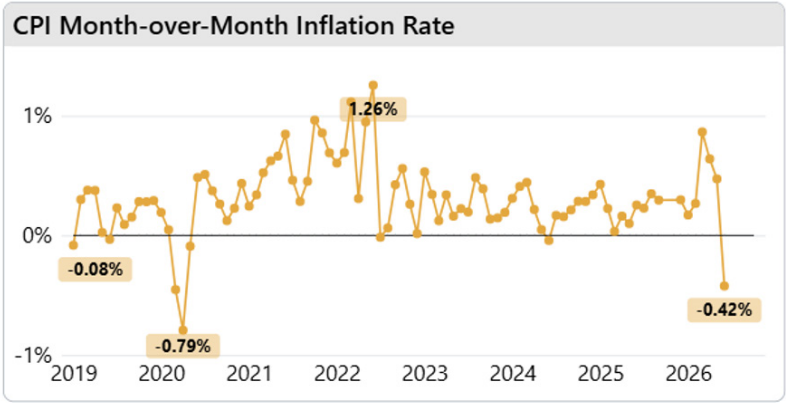
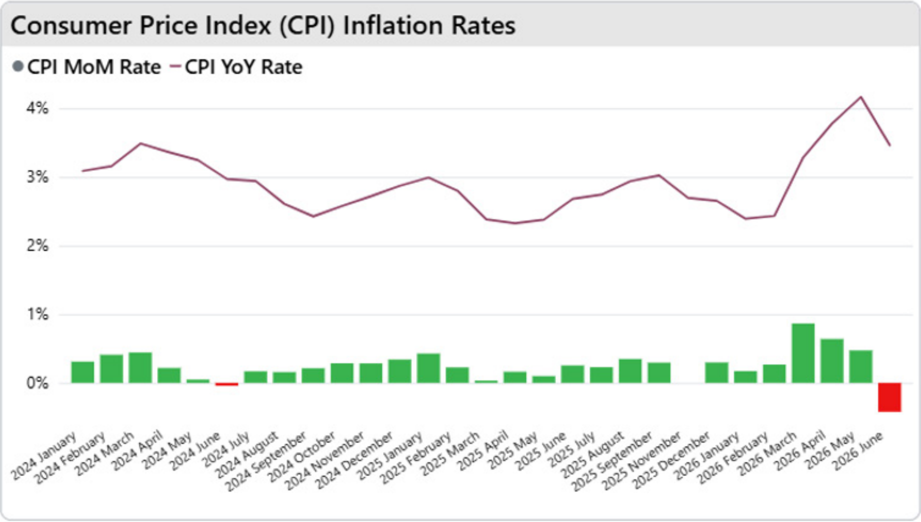
CAPITAL MARKETS monthly

VOL 39 | JULY 2026

GENERAL MARKET OVERVIEW

Markets were delighted by the June Consumer Price Index (CPI) month-over-month negative 0.42% headline and flat core prints. Against a backdrop of rising oil prices and tensions with Iran, headline inflation came in closer to a trimmed mean and the lowest monthly inflation rate since the pandemic crash in April 2020. Headline year-over-year CPI is 3.46%, while the latest trimmed mean Personal Consumption Expenditures (PCE) was 2.41%, a full 100 basis points below core PCE. Recall that Fed Chair Kevin Warsh favors trimmed mean PCE, which removes the most extreme price movements each month instead of excluding whole categories. 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. And despite this recent disinflation, the futures market-driven probability of a September 16, 2026, rate hike only dropped from 75% to 61%.



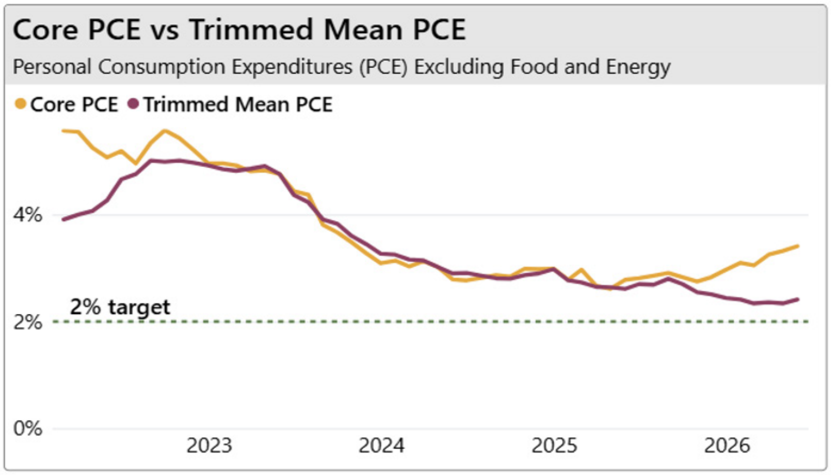


While inflation has moderated from its peak and markets continue to debate the path of future rates, regulators are increasingly turning their attention away from macroeconomic risks and toward institution-specific vulnerabilities. That shift is reflected in a changing supervisory landscape that could alter how regulators assess risk and determine ratings under the CAMELS framework, which evaluates capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk. *Continued on page 2*

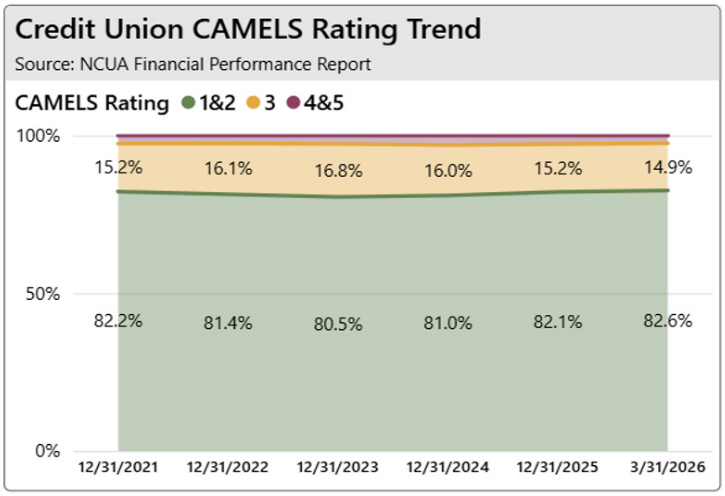
Change is the law of life. And those who look only to the past or present are certain to miss the future.

– John F. Kennedy
35th President of the U.S.

Under a broader federal push toward deregulation, the financial sector is experiencing a sea change in supervisory philosophies. The CAMELS rating system, the standard framework for evaluating financial institutions, is undergoing its first comprehensive revision in nearly 30 years.



The most significant shift in the proposed updates is the reduction of the management (M) component's influence. Historically, this rating served as an overlay or override that could dictate the composite score regardless of other financial metrics. Under the new proposal, management is weighed equally with the other five components with downgrades determined by material financial risk rather than process gaps. This represents a fundamental pivot in the relationship between regulators and credit union management, moving the examination process away from subjective oversight and toward a more structured, objective snapshot. Under the proposed new regulatory lexicon, a material financial risk is more strictly defined and confined to an institution's financial condition as it relates to earnings, capital or the National Credit Union Share Insurance Fund (NCUSIF). With a shift away from forward-looking management assessments, examiners will be under increased pressure to identify material risks through current cycle financial analysis.



Though examiner discretion is being reined in, credit unions need to stay vigilant about maintaining compliance for when the enforcement pendulum swings in the other direction. For now, proactive credit unions should leverage this era of flexibility to innovate and optimize their balance sheets via strategic avenues like loan participations and secondary capital. But remember, the ultimate guardian of safety and soundness is not the regulatory rubric of the day but the discipline of your own internal risk management framework.

Subordinated Debt

Subordinated debt is a capital-raising tool that allows eligible credit unions to strengthen their net worth and risk-based capital ratios through an unsecured borrowing that receives favorable regulatory capital treatment. Eligibility is generally limited to low-income-designated credit unions (LICUs) and certain complex credit unions that meet NCUA requirements. Credit unions use subordinated debt to support growth initiatives such as expanding lending programs, funding technology investments, opening new branches, entering new markets and pursuing mergers and acquisitions while maintaining strong capital levels.

For many credit unions, subordinated debt is more than a balance sheet strategy — it is a way to keep investing in the people, communities and member relationships that define their mission.

Key Benefits of Subordinated Debt Issuance

1. **Enhances capital ratios** by increasing net worth and risk-based capital, helping support regulatory requirements and future growth.
2. **Supports balance sheet growth** by backfilling capital consumed by rapid loan and asset growth.
3. **Funds strategic initiatives** such as branch expansion, technology upgrades and operational investments.
4. **Facilitates mergers and acquisitions** by providing additional capital to pursue growth opportunities and acquisitions.
5. **Provides financial flexibility** by allowing credit unions to execute growth plans without relying solely on retained earnings.

LAMPCO
Federal Credit Union

HAS ISSUED

$1.5 MILLION
IN SUBORDINATED DEBT

JUNE 29, 2026

ALLOYA SERVED AS
PLACEMENT AGENT

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Sale-Leaseback

A sale-leaseback allows credit unions to unlock the value of their real estate, strengthen capital and liquidity, and fund future growth — all while continuing to operate from the same locations.

Key Benefits of Sale-Leaseback

1. **Increased Liquidity** — Convert illiquid real estate assets into immediate cash proceeds without disrupting day-to-day operations.
2. **Stronger Capital & Balance Sheet** — Unlock embedded equity in owned properties, improve financial ratios and enhance capital adequacy.
3. **Operational Continuity** — Continue operating from the same headquarters or branch locations through a long-term lease with no impact on members or employees.
4. **Enhanced Earnings Potential** — Realize a gain on sale and redeploy capital into higher-yielding assets, lending activities, strategic initiatives or growth opportunities.
5. **Support Growth and M&A Activity** — Access capital that can be used to fund acquisitions, branch expansion, technology investments or other strategic priorities.
6. **Improved Asset Efficiency** — Monetize underutilized real estate equity and redeploy funds into activities that directly support members and generate returns.
7. **Greater Strategic Flexibility** — Provides the financial agility needed to invest in digital transformation, modernization efforts and future growth initiatives.

Credit Union of New Jersey

HAS COMPLETED A

$7.5 MILLION

SALE-LEASEBACK TRANSACTION

MARCH 31, 2026

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EMPLOYEES FEDERAL CREDIT UNION

HAS COMPLETED A

$1.1 MILLION

SALE-LEASEBACK TRANSACTION

MAY 29, 2026

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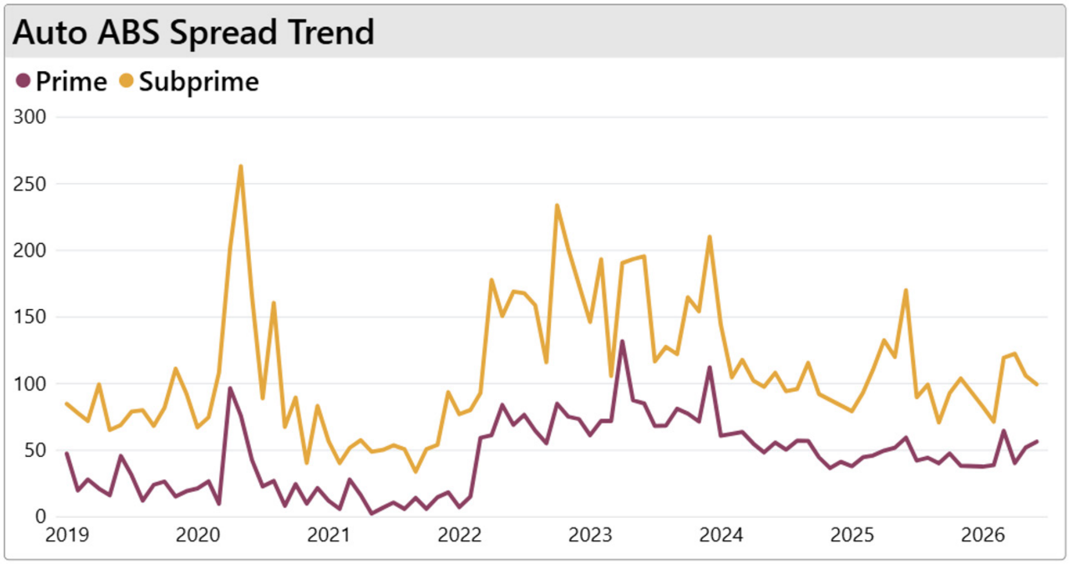
Credit unions can utilize the Auto Asset-Backed Security (ABS) Deal Monitor, featured in each issue of *Capital Markets Monthly*, for insight into the secondary market's risk appetite as well as to better price auto loans. The monitor summarizes prime auto ABS deals and provides a deal spread trend for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

			Underwriting Characteristics *			Bond Investors *	
Pricing Date	Seller	Deal Size ($ millions)	APR	Credit Score	Original Term	Bond Yield	Bond Spread
6/16/2026	Ford Motor Co	$1,547	5.07%	752	66	4.19%	31
6/11/2026	Pentagon Federal Credit Union	$354	7.49%	759	72	4.48%	46
6/9/2026	AutoNation Inc	$550	9.86%	716	74	4.56%	55
6/9/2026	Hyundai Capital America	$2,187	5.17%	774	66	4.29%	36



FINAL THOUGHTS

After a strong Q2 2026, Alloya's Loan Participation Platform recently exceeded **$4 billion in loan participation transactions**. The milestone is a testament to the value it provides credit unions and CUSOs, though whether on the platform or off, our primary commitment is to serving our members. Inventory continues to move as we enter the second half of the year. See the accompanying chart to identify the relative value and yield opportunities available for different assets and maturities.

Along with the Loan Participation Platform, Alloya's Capital Markets Group can help keep you on top of the current interest rate volatility in today's fixed income market with analytical tools, loan and investment portfolio analysis, and solutions for managing the changing financial environment. 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**.