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CAPITAL MARKETS *monthly*

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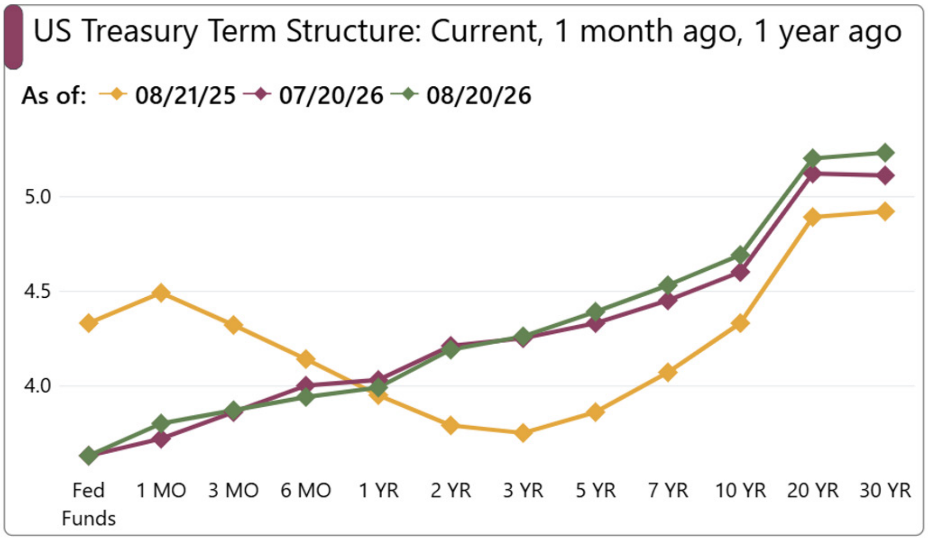
GENERAL MARKET OVERVIEW

Global markets are deeply interconnected. The month began with rising Japanese bond yields draining liquidity here at home. In the U.S., federal debt crossed $40 trillion, the 30-year bond yield hit a 19-year high, gold rose 13% and bitcoin went up 19% as the U.S. dollar weakened. Markets have settled down despite the seriousness and difficult measures needed to address the fiscal problems spooking them.



Recent economic data weakened the near-term case for further Federal Reserve tightening. And after three consecutive months of benign inflation readings and signs of slowing growth, markets now assign only a 39% probability of a September Fed hike. This is a stark reversal from expectations of multiple hikes by year-end just weeks ago. Despite declining expectations for Federal Reserve rate hikes, the key rate dynamic remains the bear steepening of the yield curve, highlighted by the 30-year Treasury yield rising above 5.3%, its highest level since 2007. Real yields are rising as investors demand greater compensation and term premium for holding long-dated bonds, given rising uncertainty and geopolitical risk. In effect, the bond market is tightening financial conditions on its own, making borrowing more expensive even without additional Fed rate hikes.

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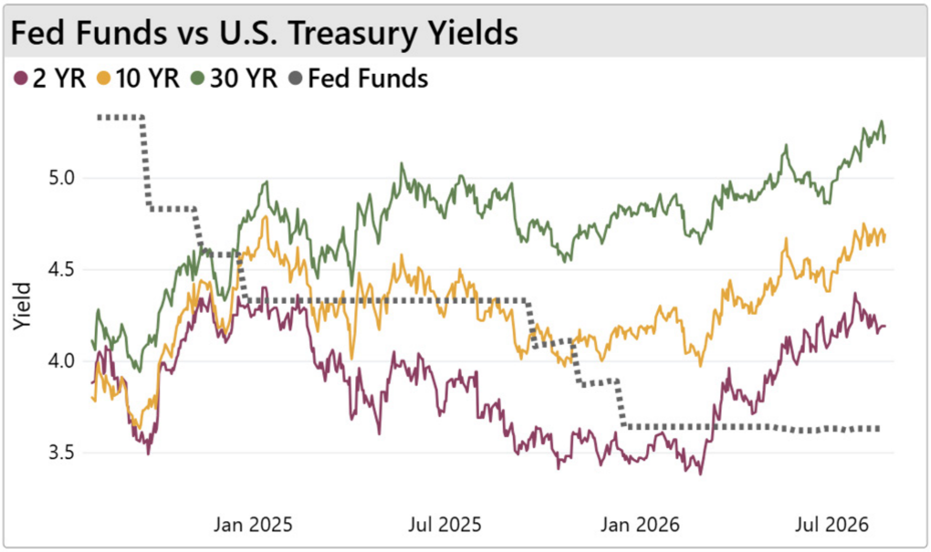
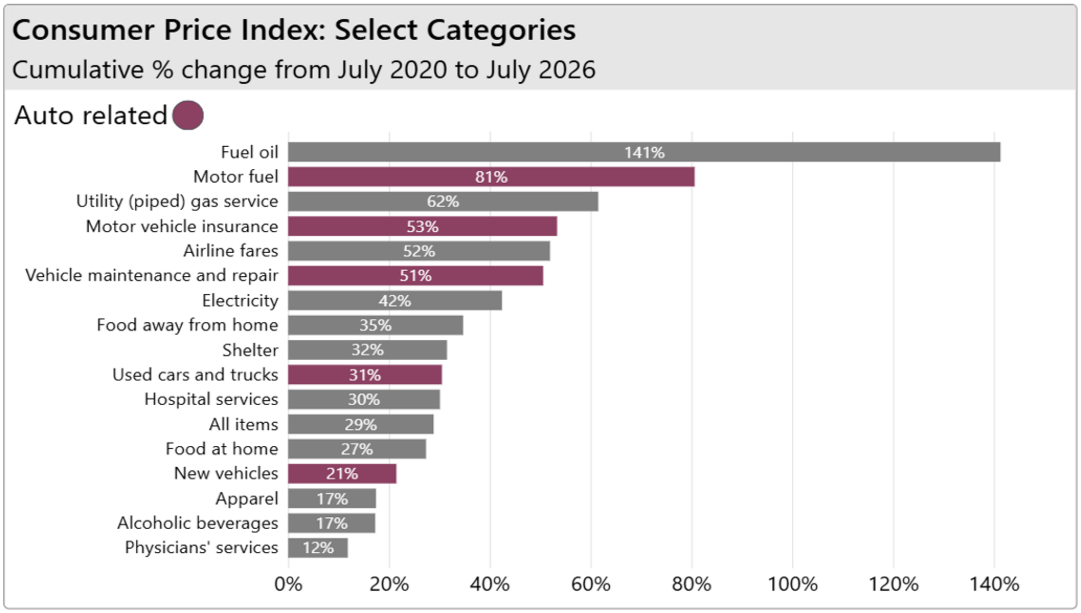


> *Bond traders can stop panicking when the Fed starts panicking. When the Fed failed to hike rates to counter 3%-4% sticky inflation, bond traders panicked and drove long-end yields to multi-decade highs.*
>
> **– Jim Bianco**
> Pres. & Index Manager, Bianco Research

Inflation improved overall, as the Consumer Price Index (CPI) rose 0.1% month over month, core CPI rose 0.2% and producer prices were unchanged. Non-farm payrolls data for July weakened by 23,000 jobs, pointing to a continued struggling employment picture. Retail sales fell 0.6% from June, perhaps a signal that the U.S. consumer is spent. Economists are estimating that U.S. growth will be between 2.0% and 2.6% annually for 2026.

Despite recent disinflationary prints, consumers are forced to manage higher long-term price adjustments in key CPI components. Over the last six years, consumer prices in the auto-related components embedded in the CPI have increased significantly more than the general "all items" index increase of 29%. Vehicle insurance and maintenance are all up over 50% from 2020, while motor fuel is up 81%. Both new and used car prices are up 21% and 31%, respectively. Rising prices also translate to rising loan demand as consumers tap additional financing to reach the sticker price.



Treasury yields continue to increase from a month ago due to uncertainty in the geopolitical atmosphere and the volatility of oil prices. Recently, the Treasury Department announced that they would double their buy back of longer-term Treasuries, targeting the 10-20-year and 20-30-year bonds. The primary objectives are to improve market liquidity, provide support to a long-end Treasury market that has experienced significant selling pressure and historically high yields, and encourage investor participation to help stabilize borrowing costs. The immediate market response to the announcement triggered a drop in 10-year yields and a rally in the 30-year bond. The market reaction confirms that long-end pricing remains acutely sensitive to marginal supply-demand dynamics rather than unanchored inflation expectations. *Continued on page 3*

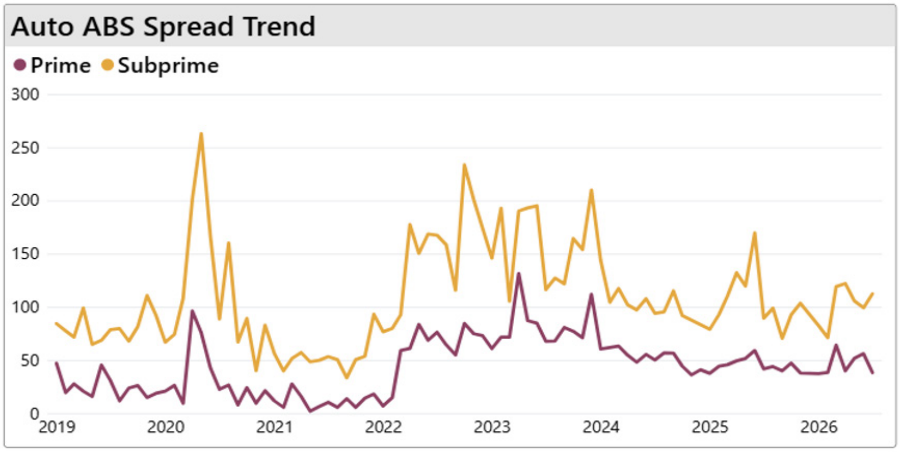
The U.S. Treasury's decision to double its routine long-end buybacks marks a quiet but significant shift in sovereign debt management. Starting in September, the Treasury under Secretary Scott Bessent will lift cash repurchase targets from roughly $2 billion to at least $4 billion per operation across the long end of the curve. This move is a first step in active debt optimization and will serve as an early operational test of whether direct issuer intervention can lean against a bloated term premium and address liquidity fragmentation in off-the-run paper. The expanded operations will run through early November, directly targeting off-the-run treasuries that have faced persistent liquidity discounts.

Predictably, the buyback announcement drew accusations of market manipulation from market participants (largely from those carrying short duration exposure). However, the Treasury is the ultimate issuer of the capital stack. Just as a corporate treasurer repurchases mispriced debt to optimize funding costs and lower capital volatility, sovereign debt managers have a mandate to address technical distortions. While $4 billion per operation remains modest against the broader deficit trajectory, it signals that the Treasury is willing to use its balance sheet and cash management tools to smooth market plumbing.

The conversation has since moved on to the Treasury deploying the Treasury General Account (TGA) to fund long-end bond buybacks. Standard buybacks funded by bill issuance are merely duration-for-cash swaps with neutral net liquidity, whereas funding buybacks via the TGA is a net liquidity injection. While not formally quantitative easing, since the Fed's balance sheet does not expand, the immediate market transmission is functionally equivalent. The catch? Depleted TGA balances must eventually be refilled via future borrowing or tax receipts. However, the timing asymmetry matters. The Treasury gains the optionality to inject liquidity during periods of acute yield fragility and rebuild its cash buffer once markets stabilize. Using the TGA as an active balance sheet weapon marks a clear evolution from passive debt issuance to proactive yield curve management.

AUTO ASSET-BACKED SECURITIES MARKET

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 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 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.



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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
7/21/2026	JPMorgan Chase & Co	$235	4.41%	792	69	5.52%	128
7/15/2026	American Heritage Federal Credit Union	$251	8.04%	744	78	4.66%	61
7/14/2026	CarMax Inc	$1,350	8.41%	765	67	4.44%	36
7/14/2026	Toyota Motor Corp	$1,853	5.36%	771	66	4.27%	29
7/9/2026	General Motors Co	$1,000	6.63%	781	71	4.27%	28
7/9/2026	Hankey Group	$500	10.90%	744	59	4.50%	45

FINAL THOUGHTS

For credit unions' investment portfolios, the disciplined, laddered investment approach is still appropriate. The recent economic data supports a patient, laddered investment strategy in the 1-5 year area, using market volatility to add investments selectively. Uncertainty about inflation and the risk of Fed hikes argue against concentrating new money in a single maturity point. The recommended approach is to preserve liquidity, maintain reinvestment flexibility and frame portfolio positioning around controlled extension rather than a one-way forecast for lower rates. For credit unions and institutional portfolio managers, this macro environment calls for decisive asset-liability management. With the Federal Reserve refusing to provide forward guidance and the Treasury actively managing an oversupplied sovereign debt profile, the risk-reward ratio at the long end of the curve remains unfavorable.

Recall how the auto-related CPI inflation discussed above impacts loan demand, and note that auto loan participation deals are the strongest they have been since 2022. 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**.