Financial Stability Report

May 2026

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The Federal Reserve System is the central bank of the United States. It performs five key functions to promote the effective operation of the U.S. economy and, more generally, the public interest.

The Federal Reserve

- **conducts the nation's monetary policy** to promote maximum employment and stable prices in the U.S. economy;
- **promotes the stability of the financial system** and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad;
- **promotes the safety and soundness of individual financial institutions** and monitors their impact on the financial system as a whole;
- **fosters payment and settlement system safety and efficiency** through services to the banking industry and U.S. government that facilitate U.S.-dollar transactions and payments; and
- **promotes consumer protection and community development** through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and administration of consumer laws and regulations.

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Contents

Note: This report generally reflects information that was available as of April 23, 2026.

Purpose and Framework

This report presents the Federal Reserve Board's current assessment of the stability of the U.S. financial system. By publishing this report, the Board intends to promote public understanding by increasing transparency around, and creating accountability for, the Federal Reserve's views on this topic. Financial stability supports the objectives assigned to the Federal Reserve, including full employment and stable prices, a safe and sound banking system, and an efficient payments system.

A financial system is considered stable when banks, other lenders, and financial markets are able to provide households, communities, and businesses with the financing they need to invest, grow, and participate in a well-functioning economy—and can do so even when hit by adverse events, or "shocks."

Consistent with this view of financial stability, the Federal Reserve Board's monitoring framework distinguishes between shocks to, and vulnerabilities of, the financial system. Shocks are inherently difficult to predict, while vulnerabilities, which are the aspects of the financial system that would exacerbate stress, can be monitored as they build up or recede over time. As a result, the framework focuses primarily on assessing vulnerabilities, with an emphasis on four broad categories and how those categories might interact to amplify stress in the financial system.[1]

More on the Federal Reserve's Monitoring Efforts

See the Financial Stability section of the Federal Reserve Board's website for more information on how the Federal Reserve monitors the stability of the U.S. and world financial systems.

The website includes:

- a more detailed look at our monitoring framework for assessing risk in each category;
- more data and research on related topics;
- information on how we coordinate, cooperate, and otherwise take action on financial system issues; and
- public education resources describing the importance of our efforts.

1. **Valuation pressures** arise when asset prices are high relative to economic fundamentals or historical norms. These developments are often driven by an increased willingness of investors to take on risk. As such, elevated valuation pressures may increase the possibility of outsized drops in asset prices (see Section 1, Asset Valuations).

[1] For a review of the research literature in this area, see Tobias Adrian, Daniel Covitz, and Nellie Liang (2015), "Financial Stability Monitoring," *Annual Review of Financial Economics*, vol. 7 (December), pp. 357–95.

2. Excessive **borrowing by businesses and households** exposes the borrowers to distress if their incomes decline or the assets they own fall in value. In these cases, businesses and households with high debt burdens may need to cut back spending, affecting economic activity and causing losses for investors (see Section 2, Borrowing by Businesses and Households).

3. Excessive **leverage within the financial sector** increases the risk that financial institutions will not have the ability to absorb losses without disruptions to their normal business operations when hit by adverse shocks. In those situations, institutions will be forced to cut back lending, sell their assets, or even shut down. Such responses can impair credit access for households and businesses, further weakening economic activity (see Section 3, Leverage in the Financial Sector).

4. **Funding risks** expose the financial system to the possibility that investors will rapidly withdraw their funds from a particular institution or sector, creating strains across markets or institutions. Many financial institutions raise funds from the public with a commitment to return their investors' money on short notice, but those institutions then invest much of those funds in assets that are hard to sell quickly or have a long maturity. This liquidity and maturity transformation can create an incentive for investors to withdraw funds quickly in adverse situations. Facing such withdrawals, financial institutions may need to sell assets quickly at "fire sale" prices, thereby incurring losses and potentially becoming insolvent, as well as causing additional price declines that can create stress across markets and at other institutions (see Section 4, Funding Risks).

The Federal Reserve's monitoring framework also tracks domestic and international developments to identify near-term risks—that is, plausible adverse developments or shocks that could stress the U.S. financial system. The analysis of these risks focuses on assessing how such potential shocks may spread through the U.S. financial system, given our current assessment of vulnerabilities.

While this framework provides a systematic way to assess financial stability, some potential risks may be novel or difficult to quantify and therefore are not captured by the current approach. Given these complications, we rely on ongoing research by the Federal Reserve staff, academics, and other experts to improve our measurement of existing vulnerabilities and to keep pace with changes in the financial system that could create new forms of vulnerabilities or add to existing ones.

Federal Reserve actions to promote the resilience of the financial system

The assessment of financial vulnerabilities informs Federal Reserve actions to promote the resilience of the financial system. The Federal Reserve works with other domestic agencies directly and through the Financial Stability Oversight Council to monitor risks to financial stability and to undertake supervisory and regulatory efforts to mitigate the risks and consequences of financial instability.

Actions taken by the Federal Reserve to promote the resilience of the financial system include its supervision and regulation of financial institutions. In the aftermath of the 2007–09 financial crisis, these actions have included requirements for more and higher-quality capital, an innovative stress-testing regime, and new liquidity regulations applied to the largest banks in the U.S. In addition, the Federal Reserve's assessment of financial vulnerabilities informs decisions regarding the countercyclical capital buffer (CCyB). The CCyB is designed to increase the resilience of large banking organizations when there is an elevated risk of above-normal losses and to promote a more sustainable supply of credit over the economic cycle.

Overview

This report reviews vulnerabilities affecting the stability of the U.S. financial system related to valuation pressures, borrowing by businesses and households, financial-sector leverage, and funding risks. It also highlights several near-term risks that, if realized, could interact with these vulnerabilities. This report reflects market conditions and data as of April 23, 2026.

Overview of financial system vulnerabilities

Asset valuations

- The forward equity price-to-earnings ratio remained in the upper ranges of its historical distribution.
- Corporate bond spreads remained low by historical standards. Leveraged loan spreads increased but remain below median levels.
- Treasury term premiums moved higher and liquidity briefly declined during a period of elevated interest rate volatility, but liquidity has since recovered.
- Valuation pressures in residential real estate remained elevated, while commercial real estate prices continued to stabilize.

Borrowing by businesses and households

- Total business and household debt relative to gross domestic product continued to decline, falling to levels not seen since the early 2000s.
- Credit quality of investment-grade corporations was robust, while some riskier firms, particularly those relying on private credit, faced challenges in servicing their debt.
- Household balance sheets continued to be strong, with most debt owed by borrowers with strong credit scores. Auto and credit card delinquencies remained at high levels relative to the past decade.
- Overall mortgage delinquency rates stayed low by historical standards, and home equity cushions remained large. That said, delinquencies of Federal Housing Administration loans are above pre-pandemic levels.

Leverage in the financial sector

- Hedge fund leverage stayed high and continues to be concentrated in the largest funds.
- The banking system remained sound and resilient, with historically high regulatory capital ratios. Fair value losses on fixed-rate assets improved somewhat but stayed elevated.
- Leverage at the largest life insurers stayed in the top quartile of its historical distribution.
- Dealer leverage stayed low, while their intermediation activity has increased somewhat in recent quarters.

Funding risks

- Most domestic banks maintained high levels of liquid assets, and their reliance on uninsured deposits was well below 2023 peaks.
- Life insurers' nontraditional liabilities continued to grow, although the ratio of those liabilities to general account assets remained small.
- Certain business development companies experienced increased redemptions triggered by concerns about underlying assets, leading some to exercise limits on these redemptions.
- Assets in cash-management vehicles continued to grow, primarily driven by historically less-fragile government money market funds.

A summary of the developments in the four broad categories of vulnerabilities since the November 2025 *Financial Stability Report* is as follows:

1. **Asset valuations.** Asset valuation pressures were elevated. Measures of equity valuations have remained high. The ratio of equity prices to earnings for S&P 500 companies stayed in the upper range of its historical distribution, and an estimate of the equity premium—the compensation for risk in equity markets—remained well below its historical average. Treasury term premiums moved higher amid volatility owing, in part, to geopolitical tensions. Corporate bond spreads over comparable-maturity Treasury securities were roughly unchanged and remained low by longer-run standards. In U.S. property markets, home price increases have continued to slow. Nevertheless, the ratio of house prices to rents remained in the upper ranges of its historical distribution. Transaction-based price indexes (adjusted for inflation) for commercial real estate (CRE) properties have further stabilized following significant declines, though vulnerabilities due to upcoming refinancing needs remained (see Section 1, Asset Valuations).

2. **Borrowing by businesses and households.** Vulnerabilities from business and household debt remained moderate. Total debt of businesses and households as a fraction of gross domestic product (GDP) continued to trend down, falling to levels not seen since the early 2000s. Some measures of the leverage of publicly traded firms stayed high relative to their historical distributions, but solid interest coverage ratios (ICRs) suggest these firms remained well positioned to continue servicing their debt. Debt-servicing capacity was lower among some publicly traded non-investment-grade firms and riskier private firms, especially those that rely on floating-rate debt such as leveraged loans and private credit. In the household sector, balance sheets remained strong overall, with most debt being owed by borrowers with strong credit histories. Mortgage delinquency rates remained low due to large home equity cushions and strong underwriting standards, although some distress is evident among Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) loans as well as borrowers who purchased homes with low down payments in recent years. Delinquencies on credit cards and auto loans remained above levels that have prevailed over the past decade (see Section 2, Borrowing by Businesses and Households).

3. **Leverage in the financial sector.** Vulnerabilities associated with financial leverage remained notable. Leverage at hedge funds remained near all-time highs and was concentrated in a small number of large funds. This leverage supports a broad range of strategies, including those involving Treasury securities, interest rate derivatives, and equities. Leverage at the largest life insurers stayed well into the upper quartile of its historical distribution. The banking sector remained sound and resilient overall. Banks continued to report regulatory capital levels near historically high levels. Fair value losses on fixed-rate assets continued to decline but were still sizable and sensitive to changes in long-term interest rates. Leverage at broker-dealers remained subdued, with asset-to-equity ratios at a level slightly below its median over

the past decade, and their intermediation activity supported a range of markets, including those for Treasury securities (see Section 3, Leverage in the Financial Sector).

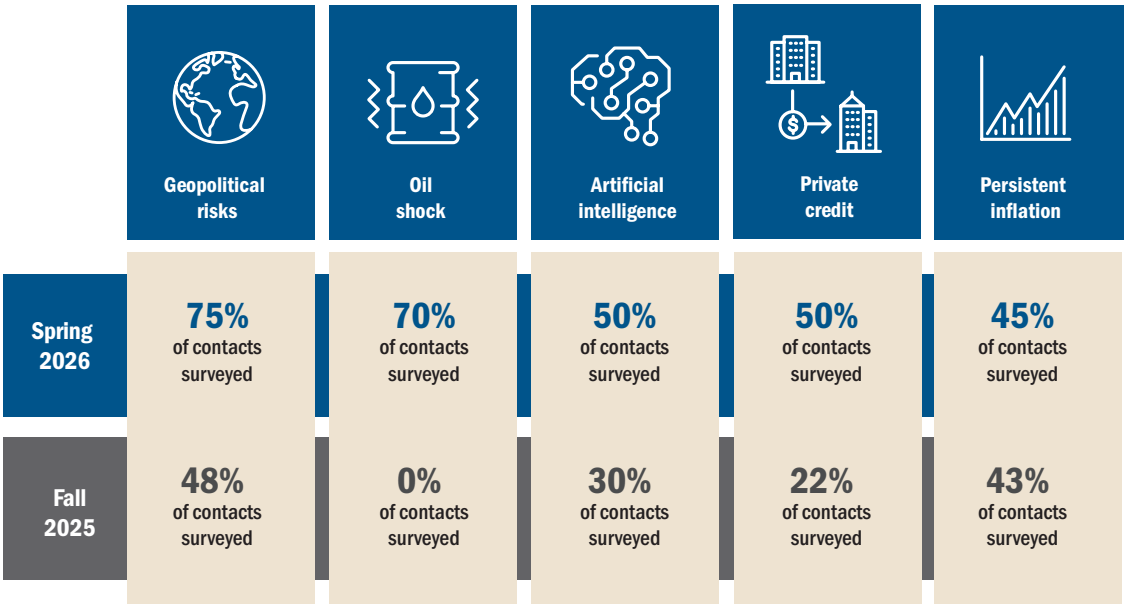
4. **Funding risks.** Funding risks have remained moderate. Banks' reliance on uninsured deposits—an important component of their funding risk—was well below the peaks in 2022 and early 2023. Assets in cash-management vehicles continued to grow, largely driven by government money market funds (MMFs), which historically have been the least susceptible to large-scale investor redemptions. Life insurers' nontraditional liabilities grew further, although they represent only a small share of general account assets. Finally, driven by concerns about the quality of underlying assets, certain nontraded business development companies (BDCs) faced notable increases in redemption requests, and some exercised limits on the size of these redemptions (see Section 4, Funding Risks).

This report also discusses potential near-term risks, based in part on topics cited in market outreach (reported in the box "Survey of Salient Risks to Financial Stability"). Box 5.1 shows that when asked about risks to U.S. financial stability, a wide range of market contacts who participated in the Survey of Salient Risks in March and April most frequently cited geopolitical risks, an oil shock, risks from artificial intelligence (AI), private credit, and persistent inflation.

Finally, the report contains additional boxes that analyze topics salient to financial stability: "Updates in the Classification of Nonbank Financial Institutions" and "Developments in Private Credit."

Survey of salient risks to the financial system

Survey respondents cited several emerging and existing events or conditions as presenting risks to the U.S. financial system and the broader global economy. For more information, see the box "Survey of Salient Risks to Financial Stability."



1 | Asset Valuations

Asset valuations remained elevated, although risk premiums increased in several markets amid periods of higher volatility

Asset valuations stayed at the high end of their ranges in most markets. Measures of broad equity valuations remained elevated. Corporate bond and loan spreads continued to be low by historical standards. Since the last report, Treasury term premiums increased amid periods of heightened interest rate volatility. Prices and fundamentals in CRE markets showed continued signs of stabilizing, although the potential for distressed commercial property sales remains if CRE borrowers who need to refinance their mortgages are unable to do so. In residential real estate markets, prices remained well above their historical relationship with fundamentals, even as house price growth has continued to slow.

Table 1.1 shows the sizes of the asset markets discussed in this section. The two largest asset markets are those for public equities and residential real estate, which are substantially larger than the next two markets, Treasury securities and CRE. The table also shows recent and historical growth rates for each asset class. The remainder of this section presents the status of vulnerabilities across these markets.

Treasury yields inched up, and volatility, on net, was little changed

Treasury yields across 2- and 10-year maturities rose modestly since the November report and continued to be well above their average levels over the past 15 years (figure 1.1). A model-based estimate of the nominal Treasury term premium—a measure of the compensation that investors require to hold longer-term Treasury securities rather than shorter-term ones—rose to a level near the top of its range over the past 15 years, although it is in line with its historical median over a longer horizon (figure 1.2). Interest rate volatility implied by interest rate swaptions moved higher in March but subsequently retreated, leaving it little changed, on net, and near its long-term median (figure 1.3).

Table 1.1. Size of selected asset markets

Item	Outstanding (billions of dollars)	Growth, 2024:Q4–2025:Q4 (percent)	Average annual growth, 1997–2025:Q4 (percent)
Public equities	83,097	17.6	9.9
Residential real estate	59,640	1.8	6.0
Treasury securities	30,070	6.9	8.1
Commercial real estate	22,083	1.8	5.8
Investment-grade corporate bonds	8,284	2.9	7.8
Farmland	3,629	4.0	5.6
High-yield and unrated corporate bonds	1,772	4.7	6.0
Leveraged loans[1]	1,549	9.2	12.6
Price growth (real)			
Commercial real estate[2]		−1.5	2.6
Residential real estate[3]		−1.7	2.5

Note: The data extend through 2025:Q4. Outstanding amounts are in nominal terms. Growth rates are nominal and are measured from Q4 of the year immediately preceding the period through Q4 of the final year of the period. Equities, real estate, and farmland are at nominal market value; bonds and loans are at nominal book value.

[1] The amount outstanding shows institutional leveraged loans and generally excludes loan commitments held by banks. For example, lines of credit are generally excluded from this measure. Average annual growth of leveraged loans is from 2000 to 2025:Q4, as this market was fairly small before then.

[2] One-year growth of commercial real estate prices is from December 2024 to December 2025, and average annual growth is from December 1999 to December 2025. Both growth rates are calculated from equal-weighted nominal prices deflated using the consumer price index (CPI).

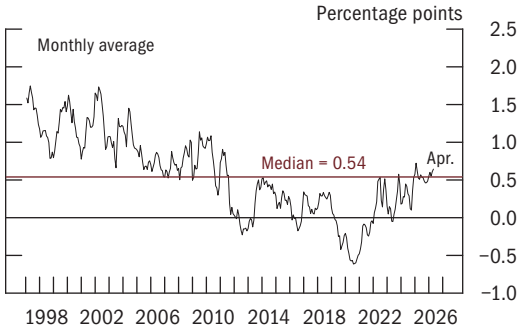
[3] One-year growth of residential real estate prices is from December 2024 to December 2025, and average annual growth is from December 1998 to December 2025. Nominal prices are deflated using the CPI.

Source: For leveraged loans, PitchBook Data, Leveraged Commentary & Data; for corporate bonds, LSEG, Mergent Fixed Income Securities Database; for farmland, Department of Agriculture; for residential real estate price growth, Cotality; for commercial real estate price growth, CoStar Group, Inc., CoStar Commercial Repeat Sale Indices; for all other items, Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States."

Figure 1.1. Nominal Treasury yields rose modestly and remained elevated relative to levels over the past 15 years

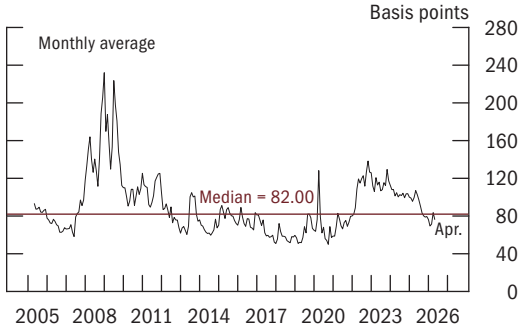
Source: Federal Reserve Board, Statistical Release H.15, "Selected Interest Rates."

Figure 1.2. An estimate of the nominal Treasury term premium ticked up just above its historical median



Source: Department of the Treasury; Wolters Kluwer, Blue Chip Financial Forecasts; Federal Reserve Bank of New York; Federal Reserve Board staff estimates.

Figure 1.3. Interest rate volatility remained near its median since 2005

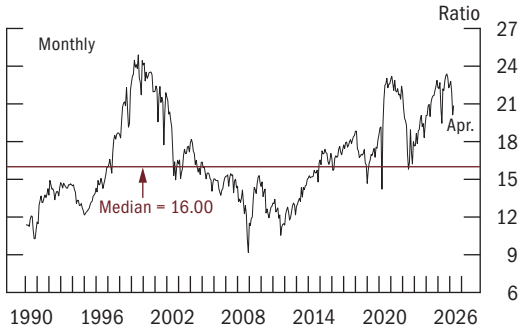


Source: For data through July 13, 2022, Barclays and S&P Global; for data from July 14, 2022, onward, ICAP, Swaptions and Interest Rate Caps and Floors Data.

Equity valuations remained high despite increased volatility

Measures of equity valuations remained high since the previous report. The forward price-to-earnings ratio, defined as the ratio of equity prices to expected 12-month earnings, remained well above its historical median (figure 1.4). The difference between the forward earnings-to-price ratio and the real 10-year Treasury yield—a crude measure of the additional return that investors require for holding stocks relative to risk-free bonds (the equity premium)—moved up a touch from an overall low level (figure 1.5).[2] Two measures of equity market volatility—option-implied and realized—increased since November, with option-implied equity volatility moving to a level above its historical median (figure 1.6).

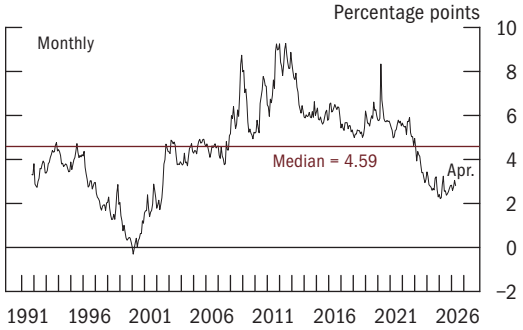
Figure 1.4. The price-to-earnings ratio of S&P 500 firms fell but stayed close to the upper end of its historical range



Source: LSEG, Institutional Brokers' Estimate System, North American Summary & Detail Estimates, Level 2, Current & History Data, Adjusted and Unadjusted, https://www.lseg.com/en/data-analytics/financial-data/company-data/ibes-estimates.

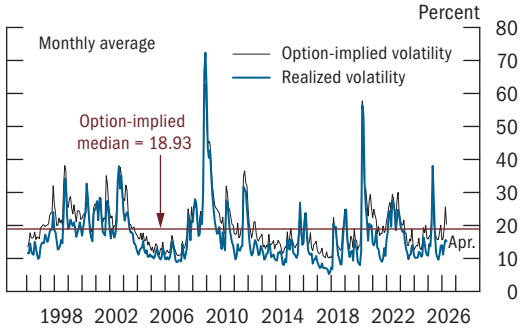
[2] This estimate is constructed based on expected corporate earnings for 12 months ahead.

Figure 1.5. As of April, an estimate of the equity premium remained near a 20-year low



Source: LSEG, Institutional Brokers' Estimate System, North American Summary & Detail Estimates, Level 2, Current & History Data, Adjusted and Unadjusted, https://www.lseg.com/en/data-analytics/financial-data/company-data/ibes-estimates.

Figure 1.6. Volatility in equity markets picked up but stayed near the historical median

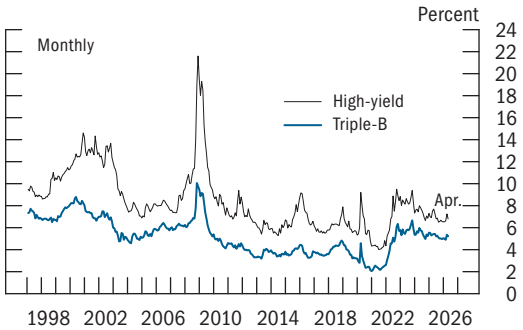


Source: Cboe Volatility Index®(VIX®) accessed via Bloomberg Finance L.P.; Federal Reserve Board staff estimates.

Corporate bond spreads remained low by historical standards; credit concerns increased for riskier debt

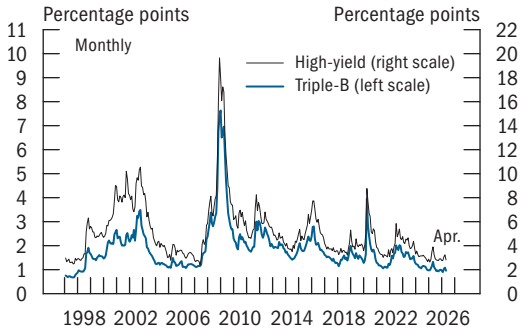
Yields on triple-B-rated bonds rose since November and approached their long-run medians, while those for high-yield bonds also rose but remained low by historical standards (figure 1.7). Spreads relative to comparable-maturity Treasury securities were roughly unchanged and remained at the low end of their historical range, although spreads for speculative-grade technology firms widened more notably (figure 1.8). The excess bond premium for all nonfinancial corporate bonds—a measure of the risk premium required by bond investors after controlling for bond characteristics and credit quality—continued to edge down and remained below the median of its historical distribution (figure 1.9).

Figure 1.7. Corporate bond yields rose slightly but remained in line with historical levels



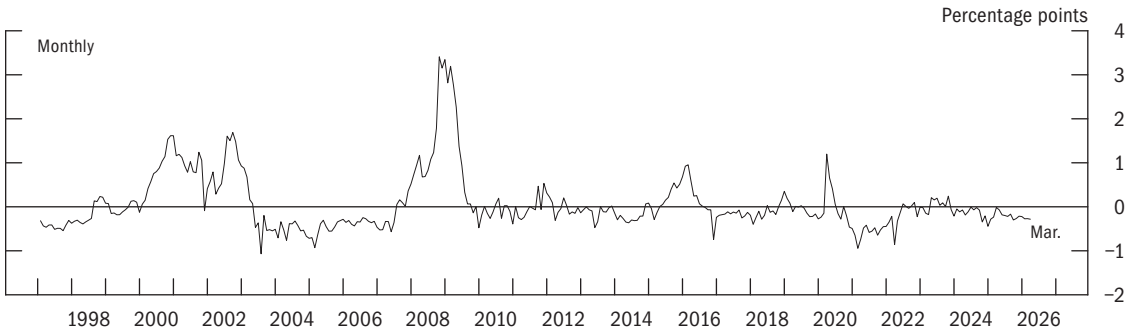
Source: ICE Data Indices, LLC, used with permission.

Figure 1.8. Corporate bond spreads were roughly unchanged and stayed at low levels



Source: ICE Data Indices, LLC, used with permission.

Figure 1.9. The excess bond premium continued to inch down

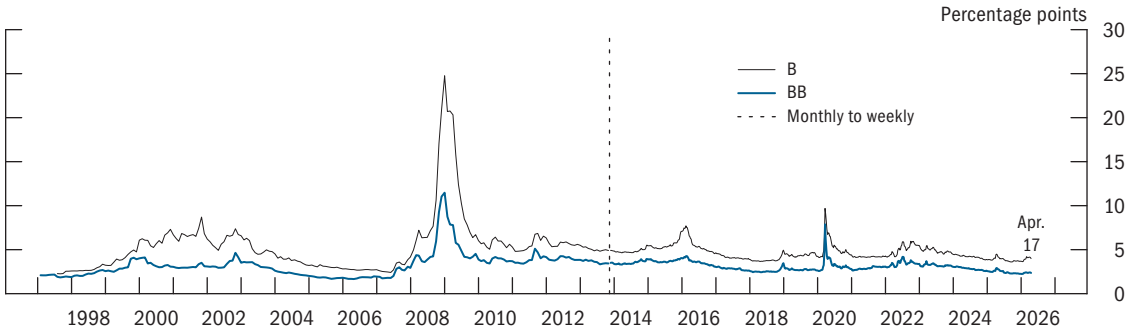


Source: Federal Reserve Board staff calculations based on Lehman Brothers Fixed Income Database (Warga); Intercontinental Exchange, Inc., ICE Data Services; Center for Research in Security Prices, CRSP/Compustat Merged Database, Wharton Research Data Services; S&P Global, Compustat.

Issuance in the corporate bond market remained strong in early 2026, as investor appetite for corporate debt appeared generally resilient. Bond issuance among the largest investment-grade firms involved in cloud computing neared $100 billion in the first quarter and was met with strong investor demand. Market-based forecasts of one-year-ahead default probabilities of nonfinancial firms (a forward-looking indicator of credit quality) were little changed and remained at the low end of their historical distributions.

Since the previous report, the average spread on leveraged loans in the secondary market increased moderately, reflecting a high concentration of leveraged loan borrowers in the software industry. Overall, the average spread continued to be below its historical median since 2009 (figure 1.10). Moreover, new-loan spreads in private credit markets ticked up, reflecting ongoing investor concerns over the credit quality of private credit portfolios.

Figure 1.10. Spreads on leveraged loans increased moderately but remained low relative to their historical distribution



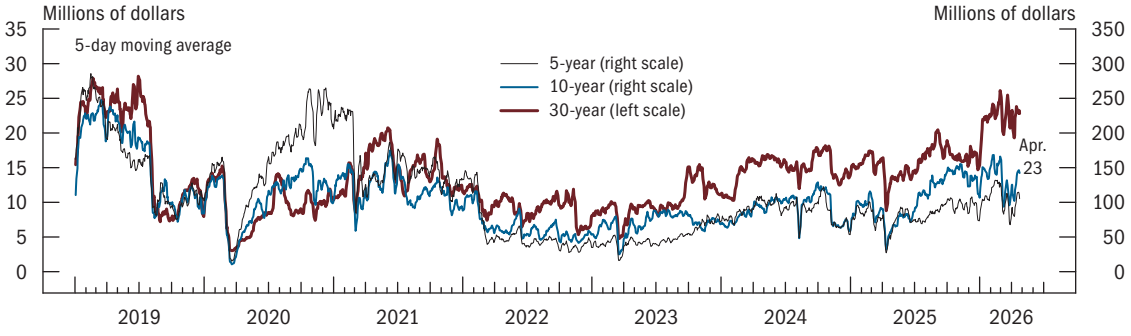
Source: PitchBook Data, Leveraged Commentary & Data.

Some measures of market liquidity deteriorated in March but since recovered

Market liquidity refers to the ease of buying and selling an asset. Low liquidity can amplify the volatility of asset prices and result in larger price moves in response to shocks. In turn, increased volatility can reduce market liquidity because liquidity providers may become more cautious in providing quotes. In extreme cases, low liquidity can threaten continued market functioning, leading to a situation in which participants are unable to trade without incurring a prohibitive cost.

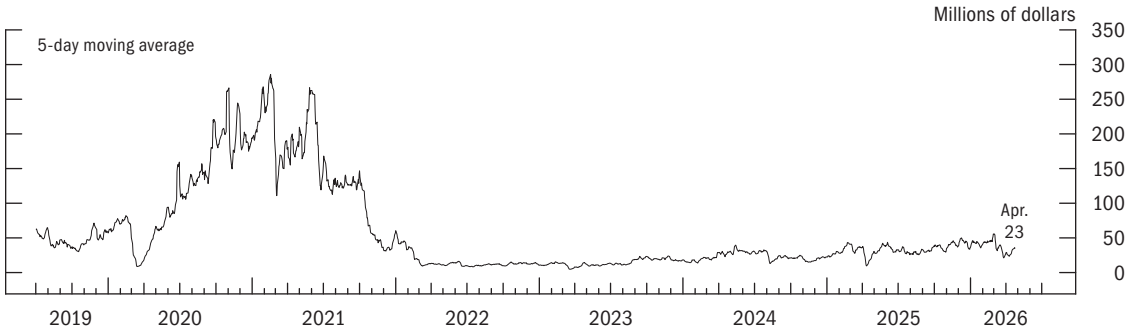
Treasury market liquidity is particularly important because of the key role these securities play in the financial system. Since the November report, geopolitical risk associated with developments in the Middle East led to periods of heightened interest rate volatility, especially for shorter-tenor Treasury rates. Treasury market liquidity initially deteriorated in line with this heightened volatility, demonstrating the vulnerability of market liquidity during periods of acute stress. In subsequent weeks, liquidity recovered, and, on net, market depth—a measure of liquidity in the Treasury market—was little changed since the previous report (figure 1.11). That said, a market depth measure for the most liquid on-the-run two-year Treasury note remained near the first quartile of its historical distribution (figure 1.12).

Figure 1.11. Treasury market depth was volatile but, on net, remained mostly unchanged since November



Source: Inter Dealer Broker Community.

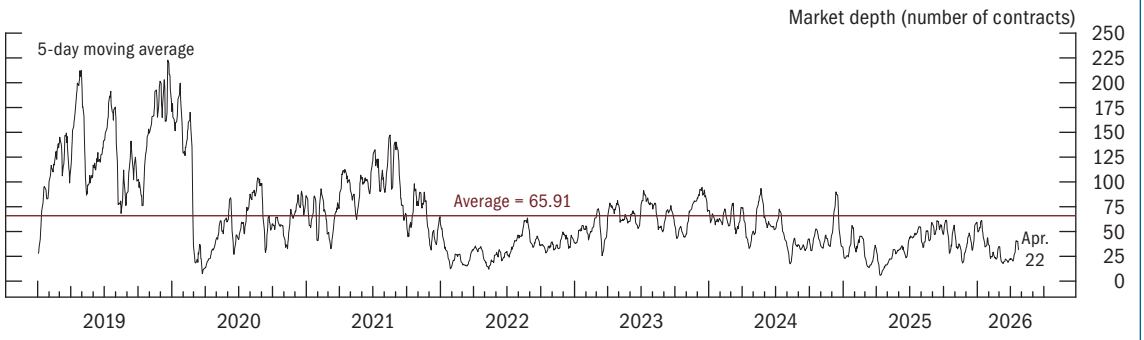
Figure 1.12. Market depth for the most liquid 2-year on-the-run Treasury note stayed at historically low levels



Source: BrokerTec; Federal Reserve Board staff calculations.

A measure of market liquidity in equity markets declined since November and moved toward the lower end of its historical distribution since 2019 (figure 1.13). Liquidity in corporate bond markets remained robust through March and in line with the average level observed in recent years.

Figure 1.13. A measure of equity market liquidity worsened and remained low

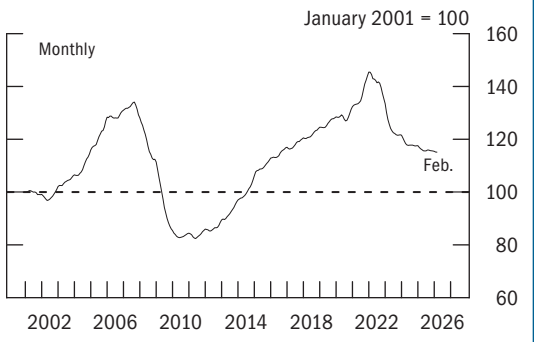


Source: LSEG, Tick History; Federal Reserve Board staff calculations.

Commercial real estate prices continued to stabilize

Aggregate CRE prices measured in inflation-adjusted terms showed further signs of stabilization, following significant declines between mid-2022 and early 2024 (figure 1.14). Vacancy rates and rent growth—fundamental determinants of prices—likewise continued to stabilize across a broad range of property sectors. Capitalization rates at the time of property purchase, which measure the annual income of commercial properties relative to their prices, have recovered from historical lows reached in 2022, rising to a level just below its historical average in the most recent data (figure 1.15).

Figure 1.14. Inflation-adjusted commercial real estate prices were little changed

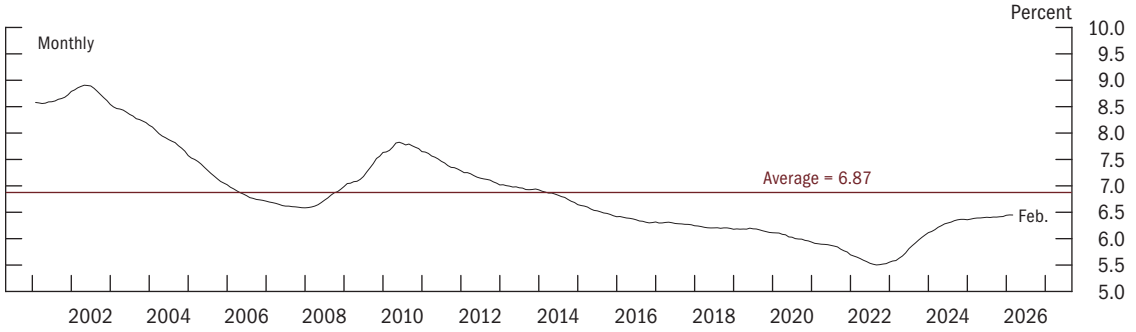


Source: MSCI—Real Capital Analytics; consumer price index, Bureau of Labor Statistics via Haver Analytics.

According to the January 2026 Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS), banks' lending standards on new CRE loans, which tightened steadily from 2022 through 2024, have eased over the second half of 2025 (figure 1.16). Moreover, survey respondents expect modest improvements in the credit quality of existing CRE loans going forward.[3]

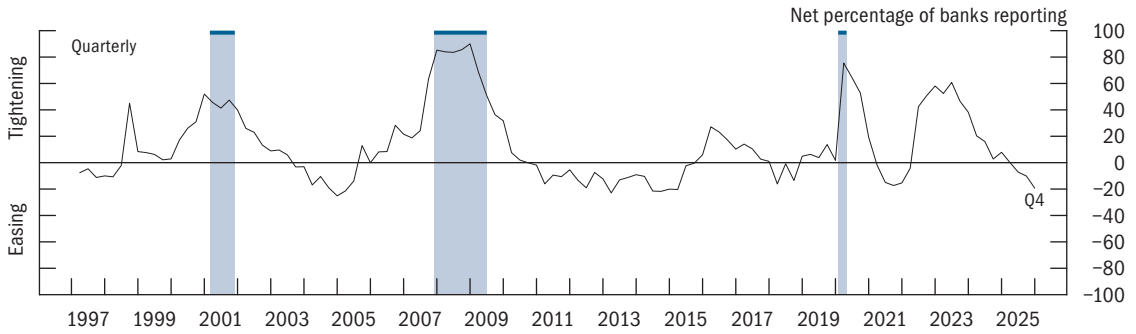
[3] The SLOOS results reported are based on banks' responses weighted by each bank's outstanding loans in the respective loan category and might therefore differ from the results reported in the published SLOOS, which are based on banks' unweighted responses; SLOOS results are available on the Board's website at https://www.federalreserve.gov/data/sloos.htm.

Figure 1.15. Income of commercial properties relative to prices leveled off but remained below the historical average



Source: MSCI—Real Capital Analytics; Andrew C. Florance, Norm G. Miller, Ruijue Peng, and Jay Spivey (2010), "Slicing, Dicing, and Scoping the Size of the U.S. Commercial Real Estate Market," *Journal of Real Estate Portfolio Management,* vol. 16 (May–August), pp. 101–18.

Figure 1.16. Banks reported easing lending standards for commercial real estate loans through 2025



Source: Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices; Federal Reserve Board staff calculations.

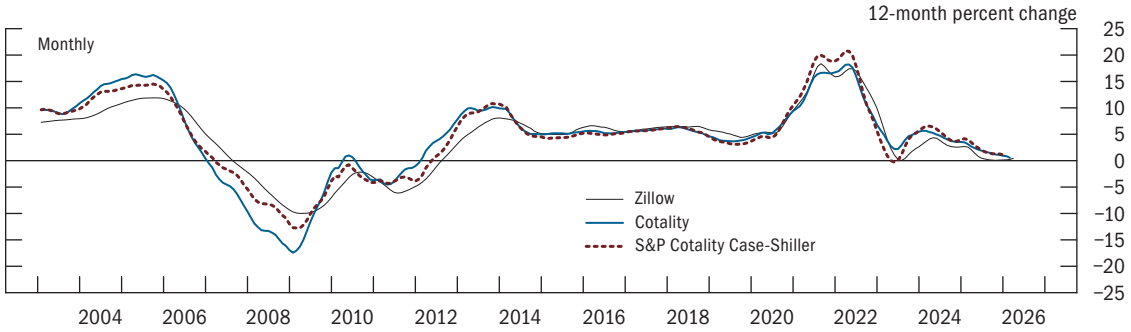
A large volume of CRE debt is scheduled to mature over the coming year, raising the possibility that forced sales, were they to occur, could put downward pressure on CRE prices. Lenders' willingness to extend or modify maturing loans has helped to limit this risk to date. However, this option may be increasingly limited going forward, and this is a particular concern in the non-agency CMBS market. Even so, spillovers to broader CRE prices would likely be limited, as non-agency CMBS represents a small share of total CRE debt.

Residential real estate prices remained high relative to their historical relationship with fundamentals

House price growth has continued to moderate over the past several years (figure 1.17). Model-based measures of housing valuations, which assess their historical relationships with fundamentals, remained high (figure 1.18). Price-to-rent ratios were largely unchanged and

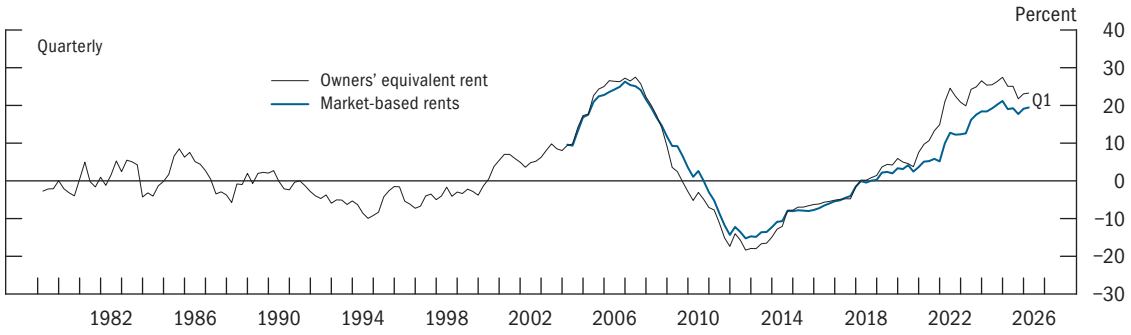
remained at elevated levels across geographic areas, particularly in places where they have been high in recent years (figure 1.19). Credit standards for borrowers have remained tight relative to the early 2000s, suggesting that currently elevated house prices are not the result of weak credit standards.

Figure 1.17. House prices continued to increase in recent months but at a lower rate



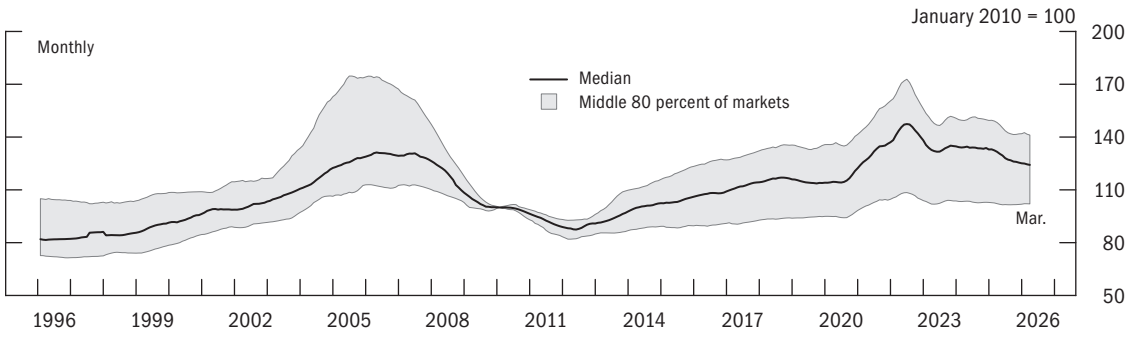
Source: Zillow, Inc., Real Estate Data; Cotality Real Estate Data; S&P Cotality Case-Shiller Home Price Indices.

Figure 1.18. Model-based measures of house price valuations remained near historically high levels



Source: For house prices, Zillow, Inc., Real Estate Data; for rent data, Bureau of Labor Statistics.

Figure 1.19. House price-to-rent ratios dropped slightly yet stayed elevated across geographic areas

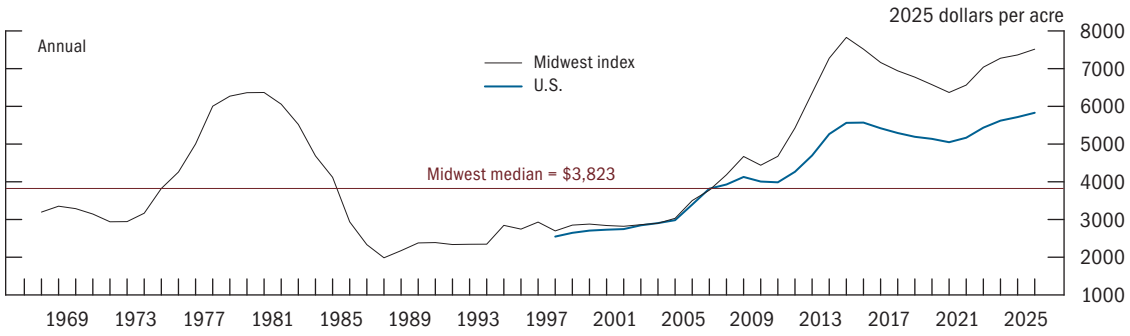


Source: For house prices, Zillow, Inc., Real Estate Data; for rent data, Bureau of Labor Statistics.

Farmland valuations are at historical highs

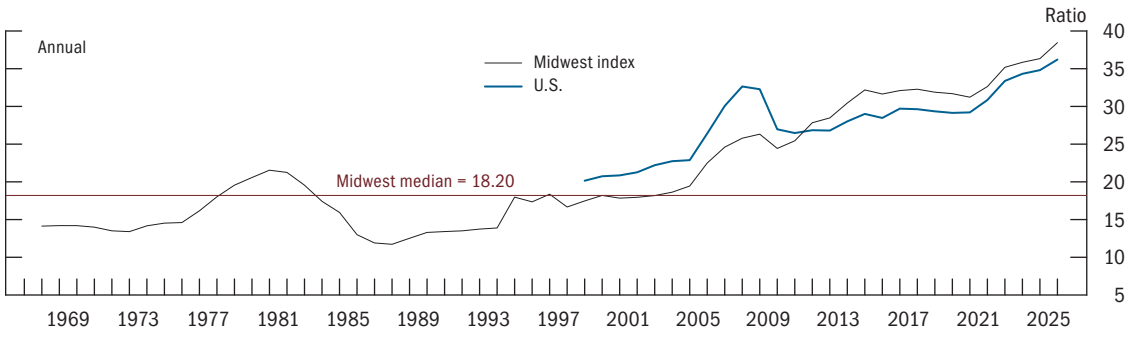
U.S. farmland values remained elevated based on annual data as of December 2025. Inflation-adjusted farmland prices and price-to-rent ratios have continued to rise and currently stand at historically high levels (figures 1.20 and 1.21). Elevated price levels continue to be sustained by limited farmland inventory, despite elevated interest rates and higher operating costs.

Figure 1.20. Inflation-adjusted farmland prices rose further in 2025 to near historical highs



Source: Department of Agriculture; Federal Reserve Bank of Minneapolis staff calculations.

Figure 1.21. Farmland prices relative to rents increased to historical highs in 2025



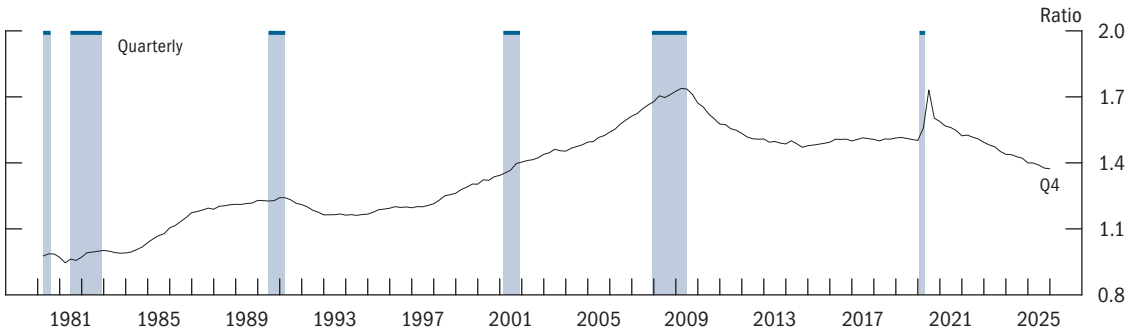
Source: Department of Agriculture; Federal Reserve Bank of Minneapolis staff calculations.

2 | Borrowing by Businesses and Households

Vulnerabilities from business and household debt remained moderate

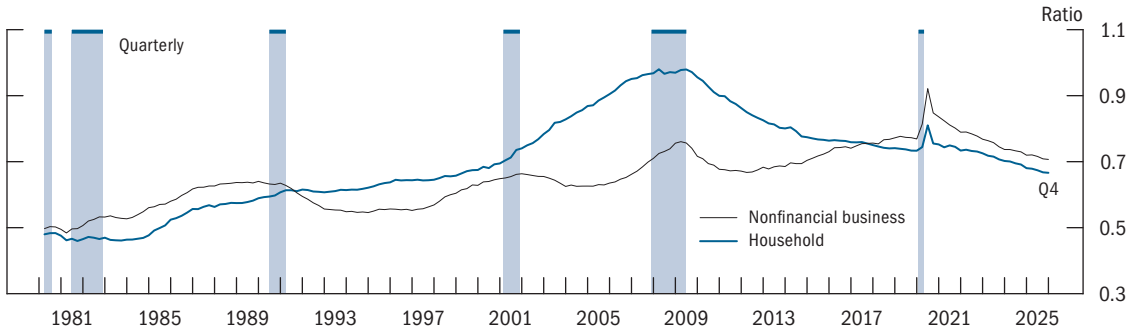
Balance sheets of nonfinancial businesses and households remained solid in aggregate. The level of total private nonfinancial-sector debt continued to grow more slowly than GDP, with the debt-to-GDP ratio falling to levels not seen since the early 2000s (figure 2.1). The drop in the overall debt-to-GDP ratio was driven by declines in the ratios for both the business and household sectors (figure 2.2). Business debt-to-GDP (black line) continued edging down but remained elevated compared to its historical range. The household debt-to-GDP ratio (blue line) also continued declining and remained at more than 25-year lows.

Figure 2.1. The total debt of businesses and households continued to grow more slowly than GDP



Source: Federal Reserve Board staff calculations based on Bureau of Economic Analysis, national income and product accounts, and Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States."

Figure 2.2. Both business and household debt-to-GDP ratios continued to fall



Source: Federal Reserve Board staff calculations based on Bureau of Economic Analysis, national income and product accounts, and Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States."

For additional context, table 2.1 shows the outstanding amounts and recent historical growth rates of different forms of debt owed by nonfinancial businesses and households as of the fourth quarter of 2025.

Table 2.1. Outstanding amounts of nonfinancial business and household credit

Item	Outstanding (billions of dollars)	Growth, 2024:Q4–2025:Q4 (percent)	Average annual growth, 1997–2025:Q4 (percent)
Total private nonfinancial credit	43,144	3.3	5.3
Total nonfinancial business credit	22,209	3.5	5.7
Corporate business credit	14,183	3.5	5.2
Bonds and commercial paper	8,791	3.2	5.5
Bank lending	1,905	.0	3.3
Leveraged loans[1]	1,380	12.6	12.9
Noncorporate business credit	8,027	3.4	6.7
Commercial real estate credit	3,368	2.4	5.9
Total household credit	20,935	3.2	4.9
Mortgages	13,767	2.9	4.9
Consumer credit	5,107	3.2	5.0
Student loans	1,842	3.6	7.0
Auto loans	1,562	–.2	5.0
Credit cards	1,324	2.1	3.4
Nominal GDP	31,442	5.4	4.7

Note: The data extend through 2025:Q4. Outstanding amounts are in nominal terms. Growth rates are nominal and are measured from Q4 of the year immediately preceding the period through Q4 of the final year of the period. The table reports the main components of corporate business credit, total household credit, and consumer credit. Other, smaller components are not reported. The commercial real estate (CRE) row shows CRE debt owed by both nonfinancial corporate and noncorporate businesses as defined in Table L.220: Commercial Mortgages in the "Financial Accounts of the United States." Total household-sector credit includes debt owed by other entities, such as nonprofit organizations. GDP is gross domestic product.

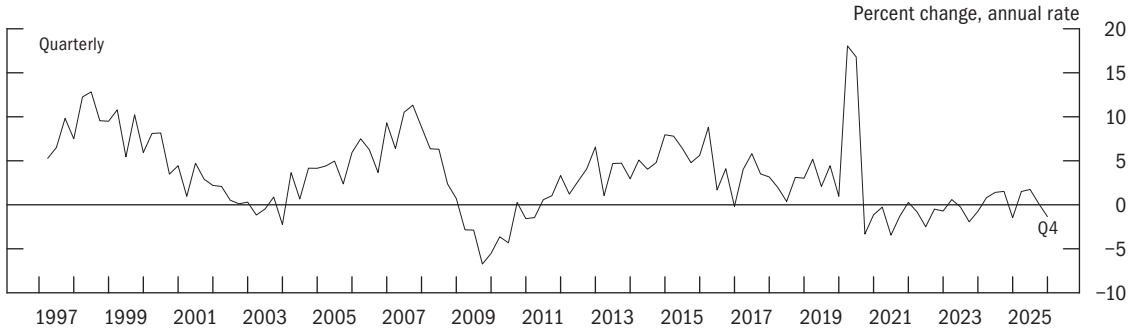
[1] The amount outstanding shows institutional leveraged loans and generally excludes loan commitments held by banks. For example, lines of credit are generally excluded from this measure. Average annual growth of leveraged loans is from 2000 to 2025:Q4, as this market was fairly small before then.

Source: For leveraged loans, PitchBook Data, Leveraged Commentary & Data; for GDP, Bureau of Economic Analysis, national income and product accounts; for all other items, Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States."

Business debt growth was flat, and debt-servicing capacity was solid overall despite pockets of weakness

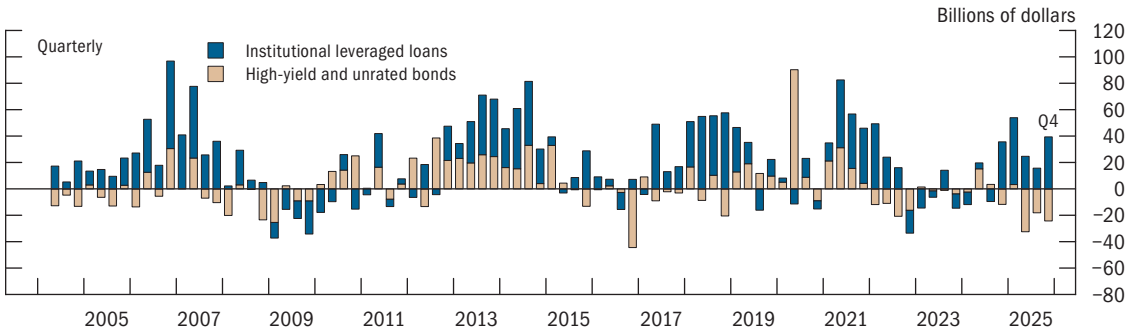
The growth rate of nonfinancial business debt adjusted for inflation fell to just below negative 1 percent over the second half of 2025 (figure 2.3). Net issuance of high-yield bonds, unrated bonds, and leveraged loans minus retirements and repayments grew modestly during the second half of 2025, mostly driven by positive leveraged loan issuance (figure 2.4). Private credit, which consists of loans to businesses from nonbank lenders such as private credit funds and BDCs, continued to grow at a solid pace, albeit slower than in previous years.

Figure 2.3. Business debt adjusted for inflation fell moderately during the second half of 2025



Source: Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States."

Figure 2.4. Net issuance of risky debt was modest during the second half of 2025

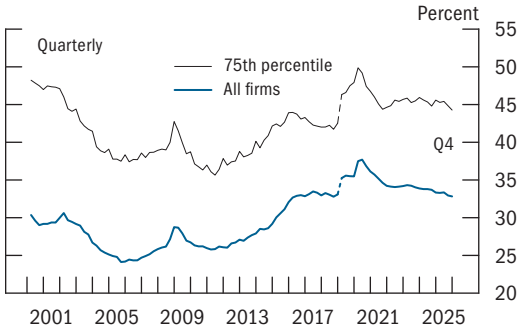


Source: LSEG, Mergent Fixed Income Securities Database; PitchBook Data, Leveraged Commentary & Data.

Among publicly traded nonfinancial firms, gross leverage—the ratio of debt to assets—continued to edge down through the second half of 2025 but remained high relative to its history (figure 2.5). Net leverage—the ratio of debt less cash to total assets—also remained elevated. The median ICR for non-investment-grade firms stayed low, in the bottom quartile of its historical distribution (figure 2.6). In contrast, ICRs for investment-grade borrowers, which account for nearly 70 percent of all outstanding debt among publicly traded nonfinancial firms, remained robust.

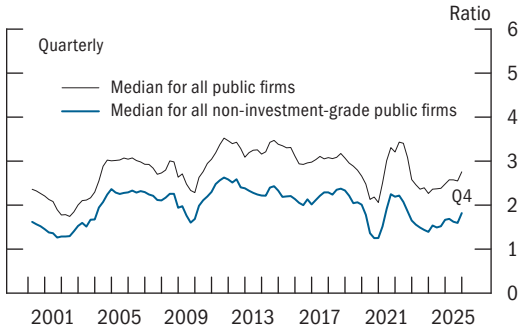
In contrast with public firms, privately held firms tend to have less access to capital markets and primarily borrow from banks, other institutional investors through the leveraged loan market, and various other providers of private credit. Privately held firms account for roughly 60 percent of the total outstanding debt of U.S. nonfinancial firms. Riskier debt owed by privately held firms—primarily leveraged loans and private credit—has continued to grow at a solid pace, albeit slower than in previous years, and currently makes up about 10 percent of total outstanding nonfinancial business debt.

Figure 2.5. Gross leverage of publicly traded nonfinancial firms ticked down but was still high by historical standards



Source: Federal Reserve Board staff calculations based on S&P Global, Compustat.

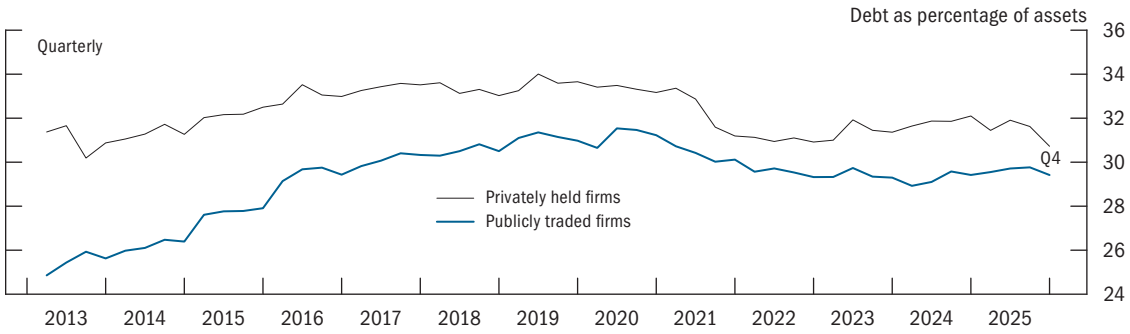
Figure 2.6. Interest coverage ratios, which indicate firms' ability to service their debt, remained solid



Source: Federal Reserve Board staff calculations based on S&P Global, Compustat.

Gross leverage—the ratio of debt to assets—of privately held firms with commercial and industrial loans from banks dropped and remained below pre-pandemic levels (figure 2.7). However, debt-servicing capacity remained low for some of these firms, especially those with elevated leverage and high use of floating-rate debt combined with a short-duration maturity structure.

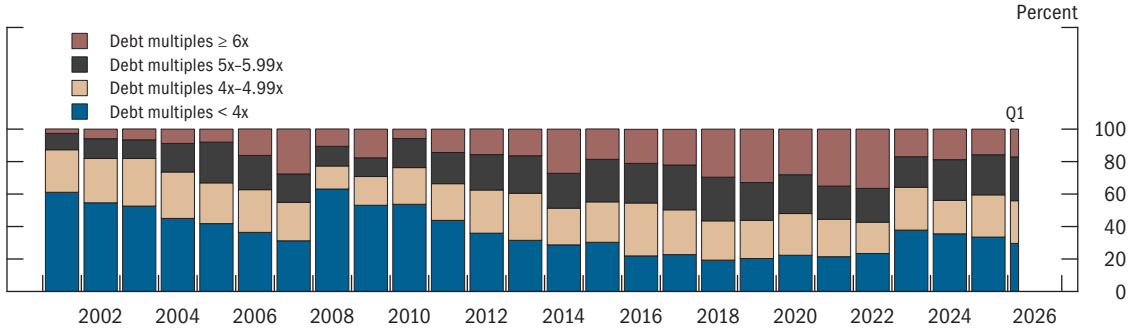
Figure 2.7. Firms with commercial and industrial bank loans lowered their leverage



Source: Federal Reserve Board, Form FR Y-14Q (Schedule H.1), Capital Assessments and Stress Testing.

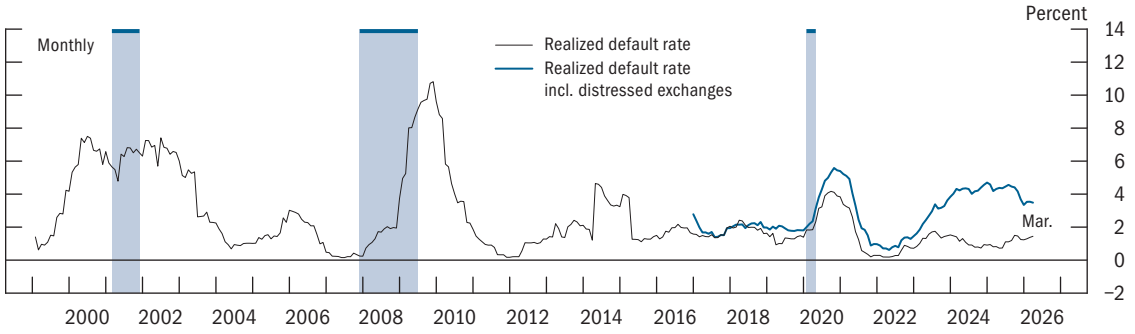
For leveraged loans, the share of newly issued loans to large corporations with debt multiples—defined as the ratio of debt to earnings before interest, taxes, depreciation, and amortization—of 4 or more increased moderately and remained above the historical median (figure 2.8). Gross and net leverage ratios were largely unchanged from the previous report at levels above their historical medians. In terms of debt-servicing capacity, the median ICR for leveraged loan borrowers stayed near its historical low. Further, while the volume-weighted default rate on leveraged loans stayed below its historical median, defaults including distressed exchanges—which reflect distressed loans that have been renegotiated between the borrower and the lender—remained relatively high (figure 2.9).

Figure 2.8. Newly issued leveraged loans with debt-to-EBITDA multiples of 4 or more increased moderately and stayed above the historical median



Source: LSEG, Mergent Fixed Income Securities Database; PitchBook Data, Leveraged Commentary & Data.

Figure 2.9. The realized default rate on leveraged loans remained well below its previous peaks



Source: PitchBook Data, Leveraged Commentary & Data.

In private credit markets, loan defaults remained at relatively low levels, but the elevated usage of payment-in-kind (PIK) provisions indicates some borrowers may face repayment difficulties.[4]

Credit was flat to small businesses, and delinquencies remained above pre-pandemic levels

According to the March 2026 National Federation of Independent Business's Small Business Economic Trends Survey, the share of firms that borrow regularly has flattened out since the beginning of the year following a protracted decline.[5] According to data from the Small Business Lending Survey from the Federal Reserve Bank of Kansas City, measures of small business loan originations were little changed during the second half of 2025, and banks continued to tighten

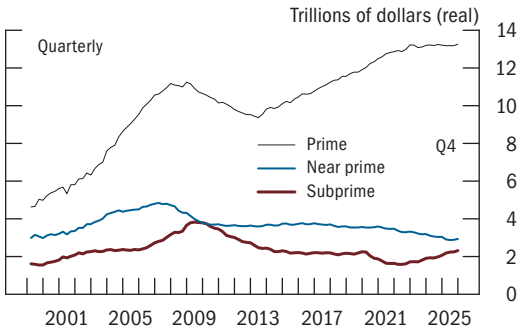
[4] PIK provisions allow borrowers to defer interest payments by adding them to the loan principal, which preserves liquidity but could indicate credit quality deterioration.

[5] This survey's data are available on the National Federation of Independent Business's website at https://www.nfib.com/surveys/small-business-economic-trends.

credit standards.[6] Over the past two years, interest rates on small business loans have declined in line with the broader interest rate environment but remain near the top of the range observed since 2008. Short-term (up to 90 days) delinquency rates edged down but remained above pre-pandemic levels. Long-term (more than 90 days) delinquency rates have leveled off recently but also remained elevated compared to levels before the pandemic.

Outstanding household debt adjusted for inflation was little changed

Figure 2.10. Household debt was largely unchanged



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax; consumer price index, Bureau of Labor Statistics via Haver Analytics.

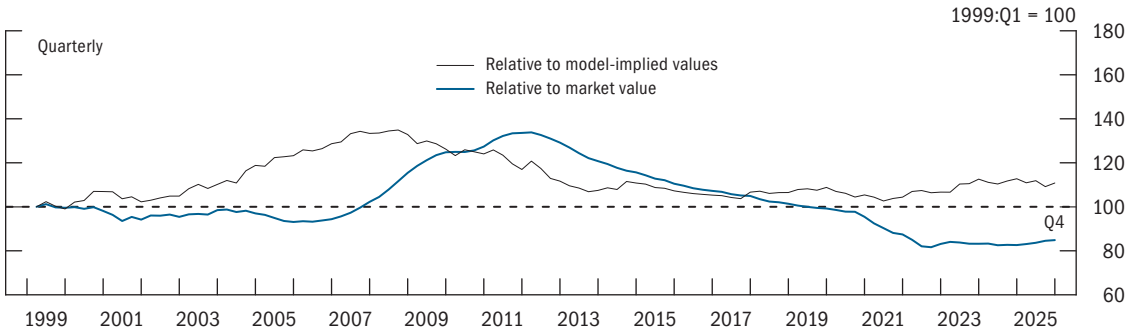
Outstanding household debt adjusted for inflation continued to be roughly flat, as it has been over the past two years. While the majority of that debt is owed by households with prime credit scores, the share currently owed by households with a subprime credit rating has risen modestly, reflecting in part the rise in consumer delinquencies and the resulting migration of some borrowers from the prime and near-prime credit score categories to the subprime credit score category (figure 2.10). The ratio of total required household debt payments to total disposable income (the household debt service ratio) inched up since the previous report.

Mortgage credit risk remained low

Mortgage debt accounted for roughly three-fourths of total household debt. Housing leverage—measured as outstanding mortgage loan balances relative to home values—remained subdued (figure 2.11). When measured relative to either market prices (blue line) or an estimate of home values from a model using rents and other market fundamentals (black line), outstanding mortgage balances continued to sit well below previous peaks. New mortgage extensions ticked up modestly for borrowers with prime credit scores (the group with the largest share) and were flat for borrowers with near-prime or subprime credit scores over the past year (figure 2.12).

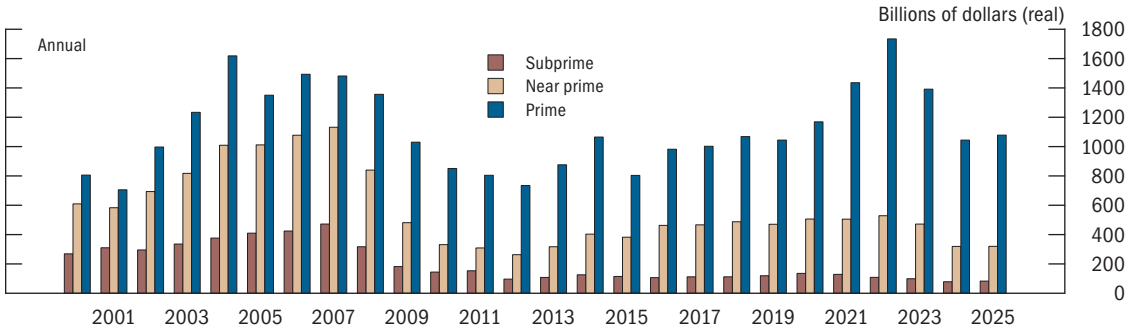
[6] This survey's data are available on the Federal Reserve Bank of Kansas City's website at https://www.kansascityfed.org/surveys/small-business-lending-survey/.

Figure 2.11. Measures of housing leverage stayed significantly below their peak levels



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax; Zillow, Inc., Real Estate Data; Bureau of Labor Statistics via Haver Analytics.

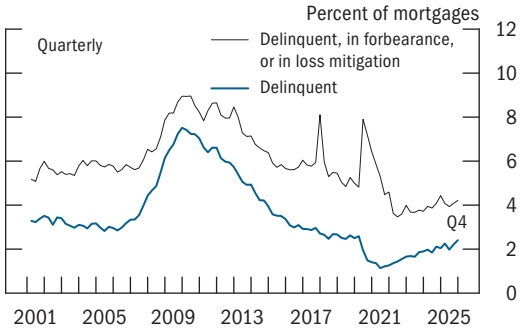
Figure 2.12. New mortgage extensions were largely unchanged



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax; consumer price index, Bureau of Labor Statistics via Haver Analytics.

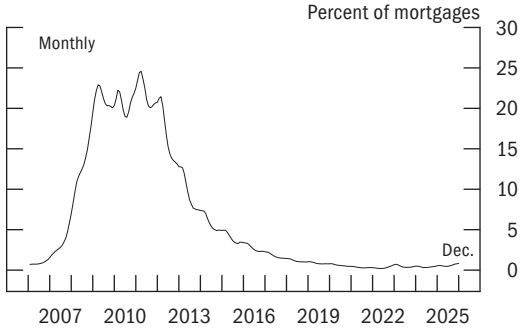
The overall mortgage delinquency rate ticked up in the fourth quarter of last year but remained at the lower end of its historical distribution (figure 2.13). Overall mortgage delinquency rates stayed low due to large home equity cushions and strong underwriting standards (figure 2.14). However, some distress is evident among a small subset of borrowers who purchased homes with low down payments in recent years, especially among borrowers with FHA and VA loans, as slower house price growth leaves some of them with little equity cushion. As of the fourth quarter of 2025, the early payment delinquency rate—the share of balances becoming delinquent within one year of mortgage origination—among near- and subprime borrowers remained somewhat above the median of its historical distribution.

Figure 2.13. Mortgage delinquency rates remained close to the low end of their historical distribution



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

Figure 2.14. Very few homeowners had negative equity in their homes



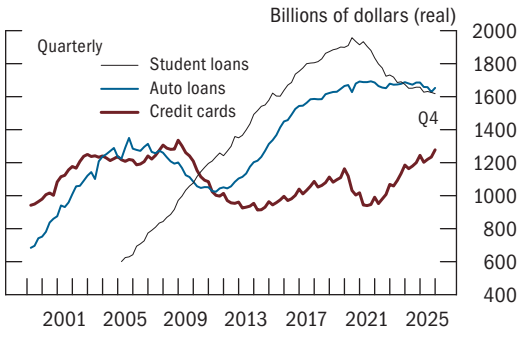
Source: Credit Risk Insight Servicing McDash/ Equifax; Federal Reserve Board staff calculations.

Consumer delinquencies remained high by historical standards

Consumer debt, consisting primarily of student, auto, and credit card loans, accounted for the remaining one-fourth of household debt. Balances were broadly unchanged in inflation-adjusted terms for student and auto loans and edged up for credit card loans relative to the previous report (figure 2.15).

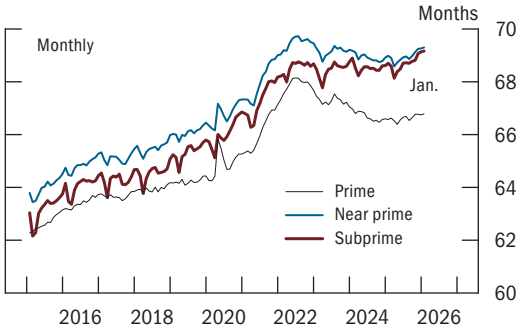
The average maturity of auto loans at origination for used cars remained near historical highs for most borrowers (figure 2.16). On balance, longer-maturity loans tend to have higher default risks, partly because such loans have a higher risk of falling deep into a negative equity position. The share of all auto loan balances in delinquent status inched up from the previous report and remained elevated at the 90th percentile of its historical distribution (figure 2.17).

Figure 2.15. Consumer debt balances were largely unchanged for student and auto loans but moved up for credit cards



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax; consumer price index, Bureau of Labor Statistics via Haver Analytics.

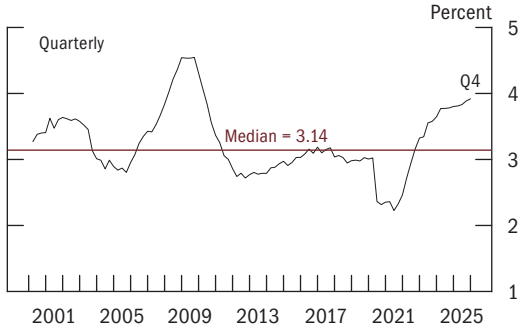
Figure 2.16. The average maturity of loans at origination for used cars remained elevated



Source: Experian Velocity.

The stock of outstanding credit card debt shifted slightly to subprime borrowers over the past year, driven in large part by prime and near-prime borrowers transitioning into the subprime rating category (figure 2.18). Credit card delinquency rates edged down in the fourth quarter of 2025 but remained elevated relative to the past 10 years (figure 2.19). The stabilization of credit performance has been broad based, with delinquency rates leveling off across credit score and income groups.[7] The overall increase in credit card delinquencies since early 2022 was attributable primarily to elevated delinquencies among borrowers with nonprime credit scores and reflected in large part looser underwriting standards and large growth in inflation-adjusted revolving credit over the pandemic period.

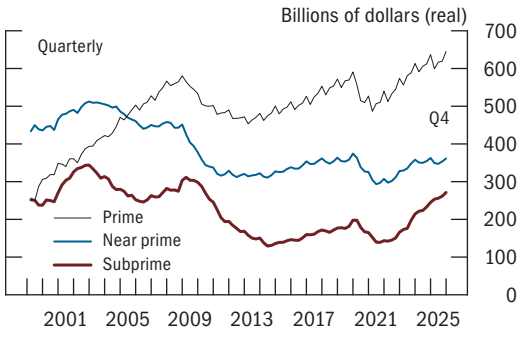
Figure 2.17. Auto loan delinquencies stayed well above the historical median



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

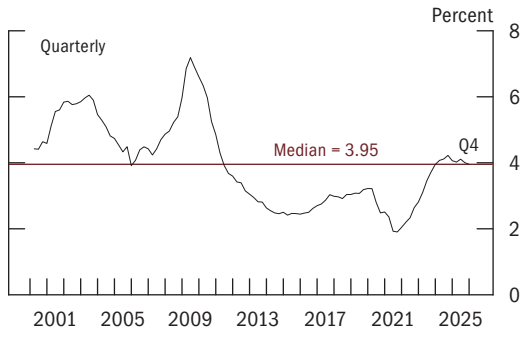
The outstanding stock of student loan debt remained below its pre-pandemic level, and delinquencies stayed high, but within the range seen over the past decade. The high level of delinquencies reflected the resumption of student loan repayments and reporting of delinquent loans to credit bureaus that began in October 2024. However, student loan borrowers have not yet shown much greater difficulty in meeting their non-student loan debt payments relative to the overall population.

Figure 2.18. Credit card balances across borrowers were up slightly



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax; consumer price index, Bureau of Labor Statistics via Haver Analytics.

Figure 2.19. Credit card delinquencies leveled off at their long-term median



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

[7] Income and credit score are not strongly correlated; see Rachael Beer, Felicia Ionescu, and Geng Li (2018), "Are Income and Credit Scores Highly Correlated?" FEDS Notes (Washington: Board of Governors of the Federal Reserve System, August 13), https://doi.org/10.17016/2380-7172.2235.

3 | Leverage in the Financial Sector

Vulnerabilities associated with financial leverage remained notable

Leverage for hedge funds remained stable at record-high levels over the period for which comprehensive data have been collected, as a decrease in the cash-futures basis trade was largely offset by other relative value trades, such as swap spread trades. Leverage at the largest life insurance companies remained well into the upper quartile of its historical distribution.

The banking system remained sound and resilient as banks have reduced exposure to interest rate risk by shortening asset duration. Leverage at broker-dealers stayed near historically low levels. Dealers' ability and willingness to intermediate remained robust, as they maintained adequate levels of market making capacity.

Table 3.1 shows the size and growth rates of assets held by selected financial institutions discussed in this section as of the fourth quarter of 2025.

Table 3.1. Size of selected sectors of the financial system, by types of institutions and vehicles

Item	Total assets (billions of dollars)	Growth, 2024:Q4–2025:Q4 (percent)	Average annual growth, 1997–2025:Q4 (percent)
Banks and credit unions	29,153	5.3	5.6
Mutual funds	23,635	9.0	9.1
Insurance companies	15,070	8.9	5.7
Life	11,172	8.2	5.7
Property and casualty	3,899	10.8	5.9
Hedge funds[1]	13,712	14.8	9.0
Broker-dealers[2]	7,142	19.8	5.7
	Outstanding (billions of dollars)		
Securitization	14,324	3.2	5.3
Agency	12,511	2.1	5.7
Non-agency[3]	1,813	11.3	4.0

Note: The data extend through 2025:Q4 unless otherwise noted. Outstanding amounts are in nominal terms. Growth rates are nominal and are measured from Q4 of the year immediately preceding the period through Q4 of the final year of the period. Life insurance companies' assets include both general and separate account assets.

1 Hedge fund data start in 2012:Q4 and are updated through 2025:Q3. Growth rates for the hedge fund data are measured from Q3 of the year immediately preceding the period through Q3 of the final year of the period.

2 Broker-dealer assets are calculated as unnetted values.

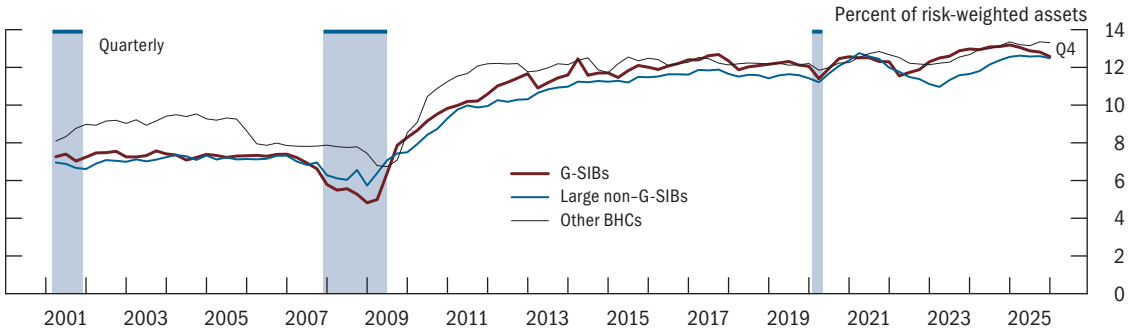
3 Non-agency securitization excludes securitized credit held on balance sheets of banks and finance companies.

Source: Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States"; Federal Reserve Board, "Enhanced Financial Accounts of the United States."

Banks maintained historically high levels of regulatory capital, with declining fair value losses and exposure to interest rate risk

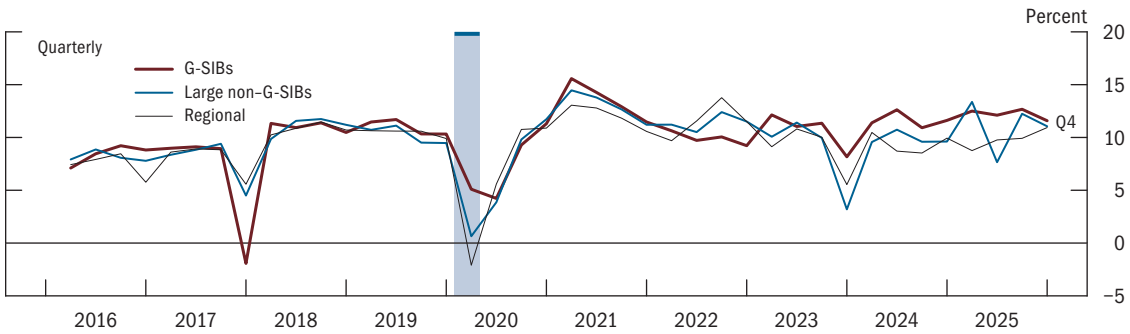
Robust capital positions allow banks to pursue growth opportunities while providing a cushion against unexpected losses. The common equity Tier 1 (CET1) ratio, a regulatory risk-based measure of bank capital adequacy, remained at historically high levels (figure 3.1). Banks' return on equity—a measure of profitability—remained within recent historical ranges through the fourth quarter of 2025 (figure 3.2). Continued strong income-generating capacity is an additional potential source of resiliency for banks, as they can more easily accrete capital by retaining a portion of their current earnings than by raising external funds.

Figure 3.1. Banks' risk-based capital ratios remained near historically high levels



Source: Federal Reserve Board, Form FR Y-9C, Consolidated Financial Statements for Holding Companies.

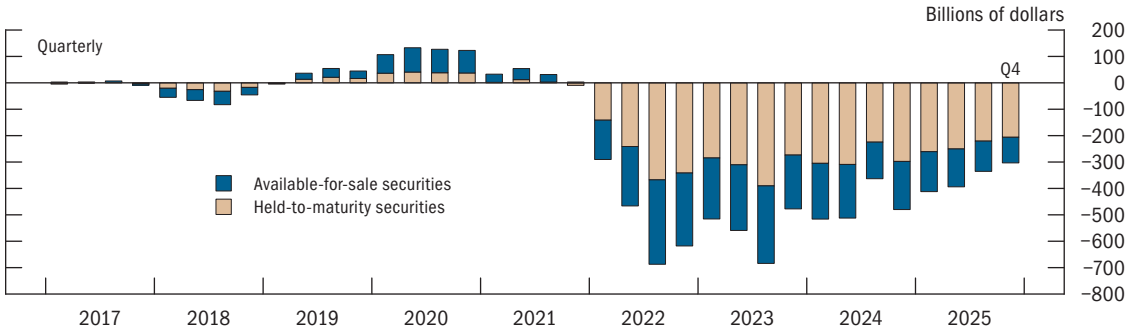
Figure 3.2. Return on equity for banks stayed consistent with norms from the past 10 years



Source: Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) Form FFIEC 031; Federal Reserve Board, Form FR Y-9C, Consolidated Financial Statements for Holding Companies.

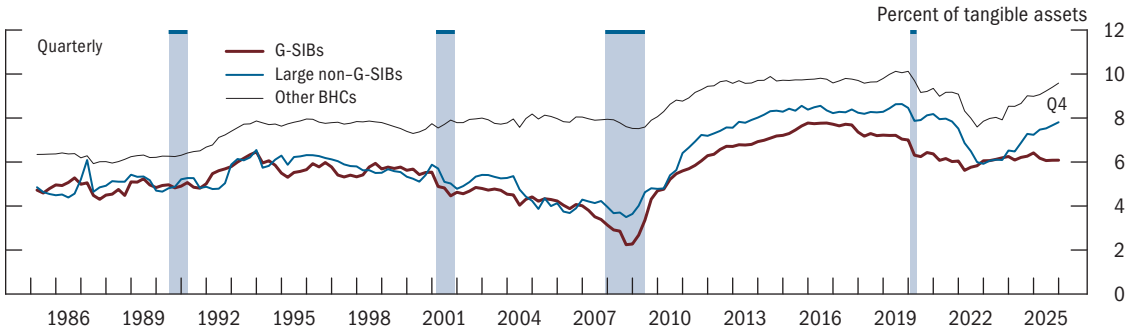
Banks have continued to reduce exposure to a potential rise in interest rates by shortening duration as their balance sheets moved toward less interest rate sensitive short-duration securities. These actions, combined with some decreases in interest rates, helped reduce fair value losses on banks' fixed-rate assets relative to peaks in 2022, but these losses remain sizable. The fair values of banks' available-for-sale (AFS) and held-to-maturity (HTM) portfolios were below their book values by a combined $300 billion at the end of 2025 (figure 3.3). An alternative measure of bank capital—the ratio of tangible common equity to total tangible assets, which, unlike the CET1 ratio, does not factor in the riskiness of assets but does include fair value declines on AFS securities—remained stable for global systemically important banks (G-SIBs) and close to its median level over the past decade, and it increased for large non–G-SIBs and other regional banks (figure 3.4).

Figure 3.3. Banks' securities portfolios experienced declining fair value losses



Source: Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) Form FFIEC 031; Federal Reserve Board, Form FR Y-9C, Consolidated Financial Statements for Holding Companies.

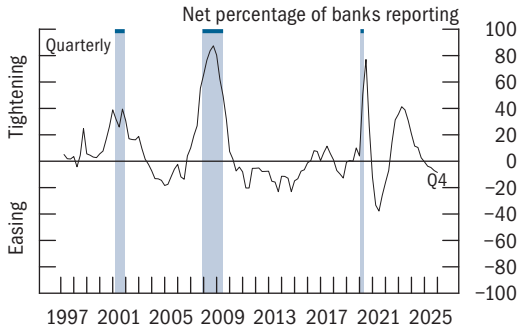
Figure 3.4. The ratio of tangible common equity to tangible assets rose



Source: For data through 1996, Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) Form FFIEC 031. For data from 1997 onward, Federal Reserve Board, Form FR Y-9C, Consolidated Financial Statements for Holding Companies; Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) Form FFIEC 031.

Banks maintained strong credit quality

Figure 3.5. A growing share of banks eased their lending standards

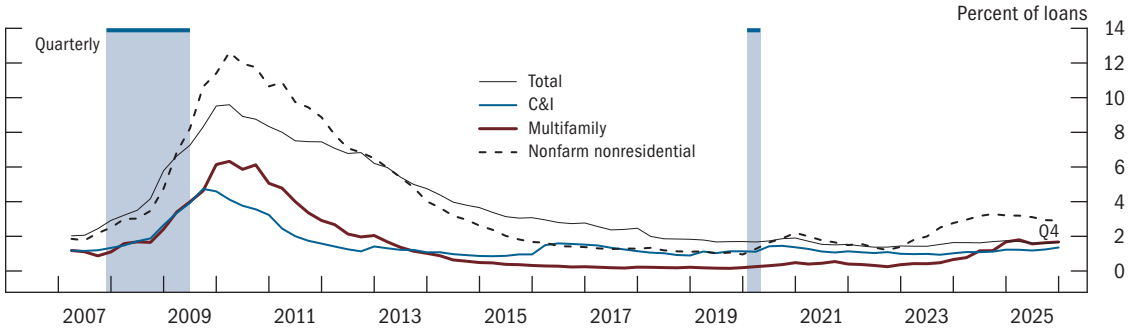


Source: Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices; Federal Reserve Board staff calculations.

Recent responses from the SLOOS indicated that overall bank lending standards eased again in the fourth quarter of 2025 (figure 3.5). At the same time, delinquency rates on bank loans declined across key categories (figure 3.6).

Delinquencies of loans backed by commercial properties were largely stable at the end of 2025. Banks modified their CRE loan terms to manage exposure, including by requiring additional collateral from some borrowers.

Figure 3.6. Bank loan delinquency rates remained at low levels by historical standards



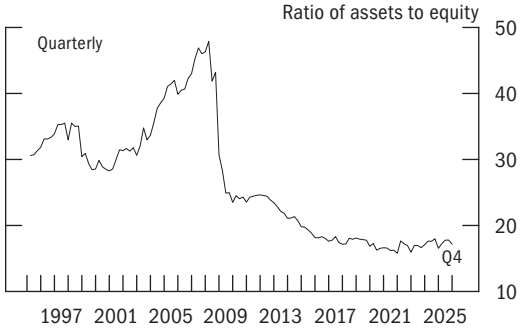
Source: Federal Reserve Board, Form FR Y-9C, Consolidated Financial Statements for Holding Companies; Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) Form FFIEC 031.

Broker-dealers' leverage remained low

Broker-dealer leverage remained roughly unchanged, with asset-to-equity ratios at a level slightly below its median over the past decade (figure 3.7). Trading profits declined at the end of the year, in line with seasonal trends (figure 3.8). In addition, the distribution of trading profits remained balanced across equities; fixed income, rates, and credit; and other business lines (figure 3.9).

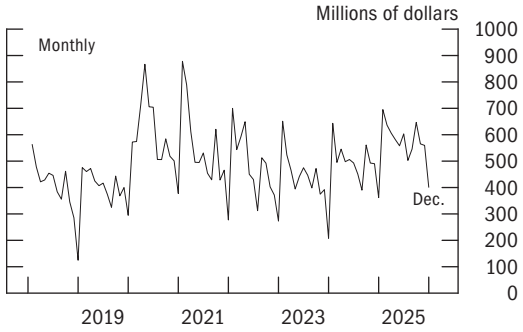
Dealers are important intermediaries in Treasury markets, serving in key roles that support orderly market functioning. Measures of dealer intermediation activity in Treasury markets increased further due to growth in secured lending, particularly repurchase agreement (repo)

Figure 3.7. Leverage levels at broker-dealers continued to be low



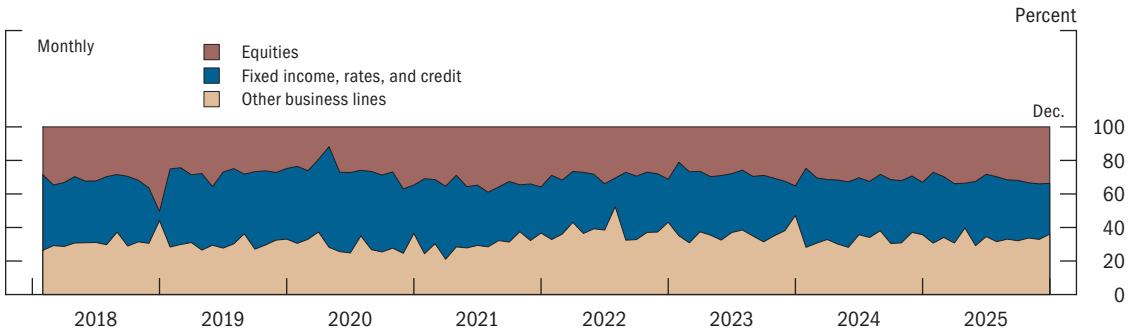
Source: Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States."

Figure 3.8. Broker-dealer profits moderated at the end of 2025, mirroring previous year-end performance



Source: Federal Reserve Board, Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation VV (Proprietary Trading and Certain Interests in and Relationships with Covered Funds, 12 C.F.R. pt. 248).

Figure 3.9. Broker-dealer profits maintained a stable distribution across business lines



Source: Federal Reserve Board, Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation VV (Proprietary Trading and Certain Interests in and Relationships with Covered Funds, 12 C.F.R. pt. 248).

lending to hedge fund clients. Dealers' value-at-risk (VaR) remained below internal risk limits, suggesting dealers' intermediation capacity remains adequate for market functioning in normal times.[8] That said, VaR can rise rapidly when volatility increases, so dealers' willingness and ability to intermediate can be tested if VaR approaches those limits during periods of market stress.

According to the March 2026 Senior Credit Officer Opinion Survey on Dealer Financing Terms (SCOOS), dealers report that overall use of financial leverage and financing terms remained

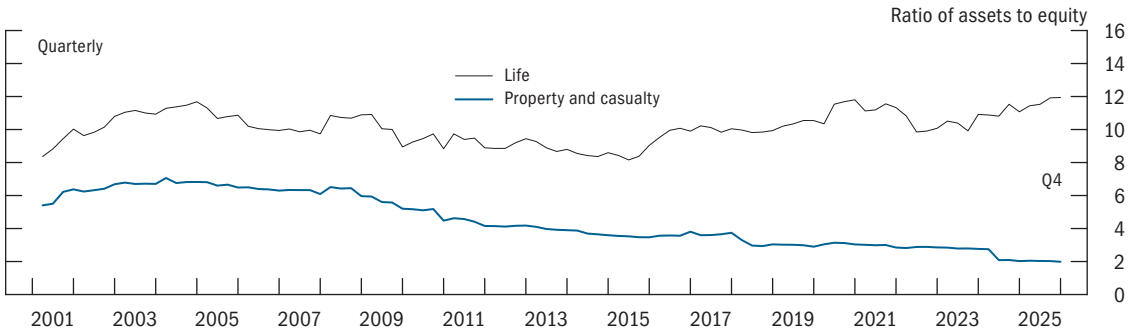
[8] VaR is a statistical measure that estimates the maximum potential loss in the value of a trading portfolio over a specified time horizon at a given confidence level. Dealers set internal risk limits based on their risk appetite, capital adequacy, and regulatory requirements.

mostly unchanged.[9] In response to a special question on funding in securities financing transactions, dealers indicated that they expect demand for securities financing across different asset classes to increase over the coming year, while also reporting that they expect to increase their capacity to supply such funding.

Leverage at large life insurance companies remained elevated

Leverage at the largest life insurers remained well into the upper quartile of its historical distribution over the second half of 2025, while leverage at property and casualty insurers remained at historically low levels (figure 3.10). Life insurers have also steadily increased their investments in risky and illiquid assets over the past decade, and their activity has contributed to the expansion of private credit.

Figure 3.10. Life insurance company leverage remained at the upper quartile of its distribution



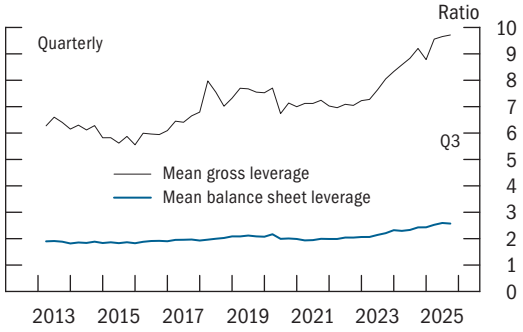
Source: Generally accepted accounting principles data from 10-Q and 10-K filings accessed via S&P Global, Capital IQ Pro.

Hedge funds' leverage was elevated

In the third quarter of 2025, the most recent quarter for which comprehensive data from the Securities and Exchange Commission's Form PF are available, gross notional leverage, measured as gross notional exposure divided by net asset value (NAV), was about unchanged at near all-time high levels (figure 3.11). Leverage in the sector also remained skewed to larger funds (figure 3.12). The use of leverage over the past couple of years has increased across a range of strategies and supported significant positions in key markets, such as Treasury securities, interest rate derivatives, and equities. According to data from the March 2026 SCOOS, dealers reported that hedge funds' use of financial leverage remained unchanged since the end of 2025 (figure 3.13). High leverage can lead to spillovers if the fund suddenly loses access to funding.

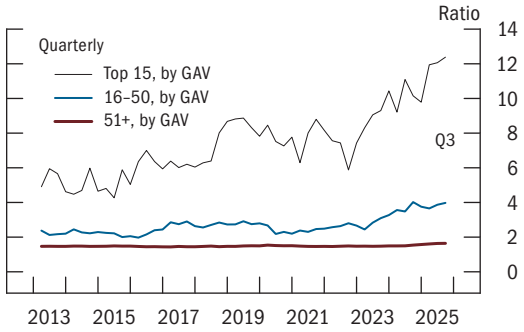
[9] The SCOOS is available on the Federal Reserve Board's website at https://www.federalreserve.gov/data/scoos.htm.

Figure 3.11. Hedge fund gross leverage reached record highs



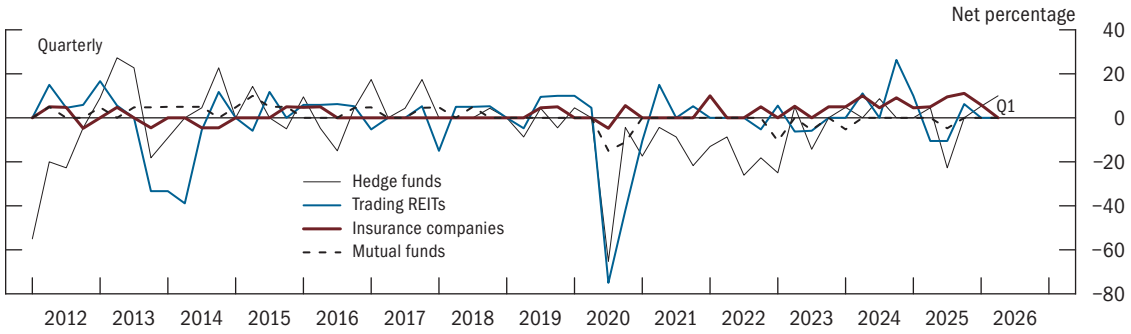
Source: Securities and Exchange Commission, Form PF, Reporting Form for Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors.

Figure 3.12. Balance sheet leverage at the 15 largest hedge funds increased a bit in the third quarter of 2025



Source: Securities and Exchange Commission, Form PF, Reporting Form for Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors.

Figure 3.13. Most dealers reported no change in hedge fund leverage use by their clients



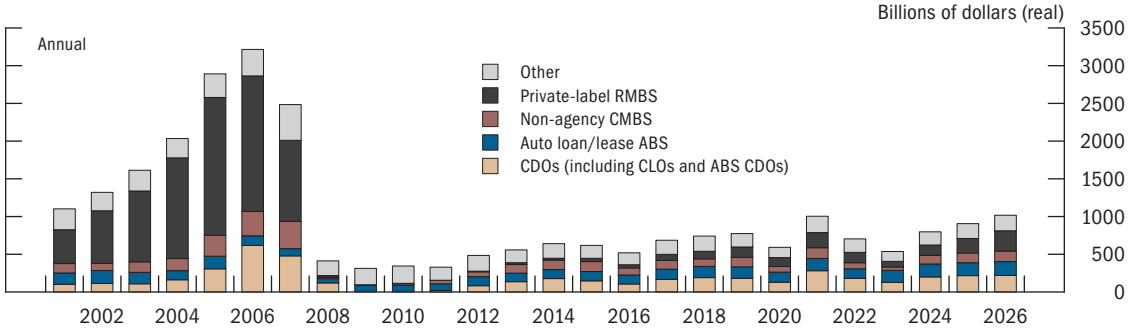
Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

Issuance of non-agency securitized products remained strong

Issuance of non-agency securities remained robust through March 2026 (figure 3.14).[10] Credit performance was mixed, with delinquencies increasing for CMBS deals and auto asset-backed securities but decreasing for securitized credit card products.

[10] Securitization allows financial institutions to bundle loans or other financial assets and sell claims on the cash flows generated by these assets as tradable securities, much like bonds. By funding assets with debt issued by investment funds known as special purpose entities (SPEs), securitization can add leverage to the financial system, in part because SPEs are generally subject to regulatory regimes, such as risk retention rules, that are less stringent than banks' regulatory capital requirements. Examples of the resulting securities include collateralized loan obligations (predominantly backed by leveraged loans), asset-backed securities (often backed by credit card and auto debt), commercial mortgage-backed securities, and residential mortgage-backed securities.

Figure 3.14. The pace of non-agency securitization issuance in early 2026 exceeded the strong pace seen in 2025

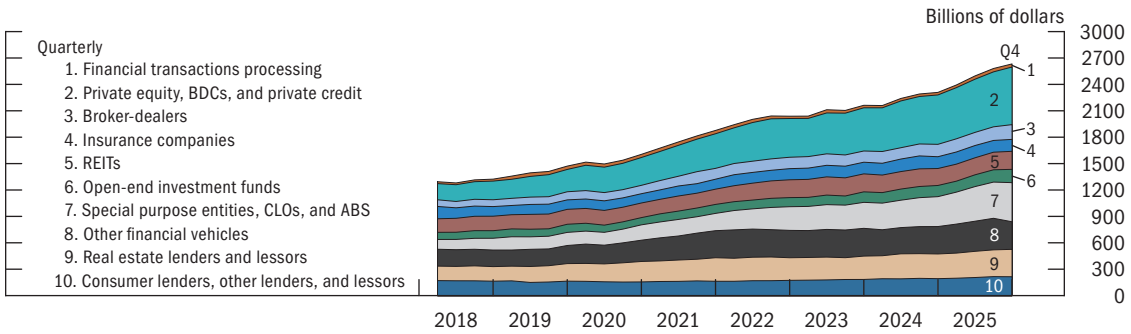


Source: Green Street, Commercial Mortgage Alert's CMBS Database and Asset-Backed Alert's ABS Database; consumer price index, Bureau of Labor Statistics via Haver Analytics.

Bank lending to other financial entities continued to grow at a robust pace

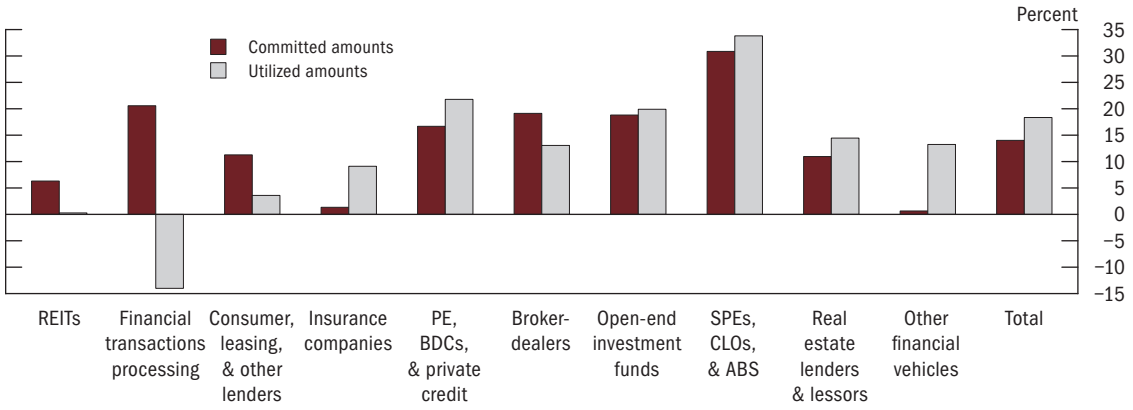
Bank credit commitments to other financial entities grew appreciably in the fourth quarter of 2025 to $2.6 trillion, reflecting the growth in market-based finance and other forms of private nonbank lending (figure 3.15). Private equity, BDCs, and other private credit vehicles constituted the largest portion of bank lending to other financial entities; see the box "Updates in the Classification of Nonbank Financial Institutions" for clarification on methodological changes. Yearly growth of commitments has been notably robust for the special purpose entities, collateralized loan obligations (CLOs), and asset-backed securities category, followed by the other financial vehicles category and the private equity, BDCs, and private credit category (figure 3.16).

Figure 3.15. Bank credit commitments to nonbank financial institutions continued to grow, with private equity, BDCs, and private credit being the largest exposure category



Source: Federal Reserve Board, Form FR Y-14Q (Schedule H.1), Capital Assessments and Stress Testing.

Figure 3.16. Bank credit sectoral growth rates in 2025:Q4 were broadly similar to 2024:Q4



Source: Federal Reserve Board, Form FR Y-14Q (Schedule H.1), Capital Assessments and Stress Testing.

Box 3.1. Updates in the Classification of Nonbank Financial Institutions

Since the November report, the methodology for identifying bank credit commitments to nonbank financial institutions (NBFIs) has been further updated. The classification in figure 3.15 now incorporates new information from several data vendors, which allows for a reclassification of certain funds from categories such as "other financial vehicles," "special purpose entities, CLOs, and asset-backed securities," and "open-end investment funds" into the "private equity, BDCs, and private credit" category.

As in the previously updated classification, reflected in the April 2025 report, total commitment amounts to private equity, BDCs, and private credit were revised up by $261 billion in the fourth quarter of 2025.[1] The estimated level of loan commitments to this sector now represents about 25 percent of total bank loan commitments to NBFIs. With the revised data, the year-over-year growth rate in loan commitments to this sector in 2025 was 17 percent, relative to the year-over-year growth in commitments to all types of NBFIs of 14 percent.

[1] See the box "Changes in the Classification of Nonbank Financial Institutions" in Board of Governors of the Federal Reserve System (2025), *Financial Stability Report* (Washington: Board of Governors, April), p. 36, https://www.federalreserve.gov/publications/files/financial-stability-report-20250425.pdf.

4 | Funding Risks

Vulnerabilities from funding risks were roughly in line with historical norms

Funding risks for most banks remained moderate. As a share of assets, uninsured deposits—an important component of most banks' funding risk—were largely unchanged and significantly below elevated levels attained in 2023. Large banks also maintained sound levels of high-quality liquid assets (HQLA).

Assets in cash-management vehicles continued to grow, primarily driven by government MMFs, which have historically proved the least susceptible to large-scale investor redemptions among cash-management vehicles. Runnable instruments as a share of GDP remained roughly flat at around the middle of its historical distribution, and instruments susceptible to market freezes continued to gradually decline as a share of total runnables. Stablecoin growth moderated in recent months.

Although life insurers' nontraditional liabilities represent only a small share of general account assets, they grew faster than assets. Separately, some types of private credit vehicles faced increased redemption requests triggered by concerns about reduced returns and the quality of some underlying assets. These requests caused most of those private credit vehicles to exercise their right to limit the size of redemptions. Some open-end bond and loan mutual funds remained exposed to liquidity transformation risks that could cause asset fire sales in market downturns, as they allow daily redemptions while holding assets that might become illiquid in times of stress.

Table 4.1 gives the outstanding amounts of runnable money-like liabilities, and figure 4.1 shows the total relative to GDP standing at 86 percent at the end of 2025.

Most banks maintained high levels of liquidity, and their funding sources were little changed

Aggregate liquidity in the banking system as measured by the ratio of HQLA to short-term debt ticked down for large banks since the previous report but remains at the higher end of the historical distribution for all bank groups (figure 4.2). Many U.S. G-SIBs continued to hold a significant portion of their HQLA in HTM securities, primarily in long-duration agency mortgage-backed securities. Because current market prices for these instruments remained well below their original book values, selling them would require banks to recognize that gap on their balance sheets. Consequently, to generate liquidity from these holdings without impacting regulatory capital, these banks would likely rely on repo market access rather than outright asset sales.[11]

[11] Securities held in HTM accounts are accounted at fair value for liquidity coverage ratio purposes but at book value for regulatory capital purposes. Selling HTM securities (rather than holding them to maturity) could "taint" the entire HTM investment portfolio, requiring it to be marked to market. This could result in the selling bank recognizing a significant mark-to-market loss and reduction in regulatory capital. Banks with access to repo markets can raise cash by pledging securities in a repo transaction without tainting their HTM portfolio.

Table 4.1. Size of selected instruments and institutions

Item	Outstanding/total assets (billions of dollars)	Growth, 2024:Q4–2025:Q4 (percent)	Average annual growth, 1997–2025:Q4 (percent)
Total runnable money-like liabilities[1]	27,033	12.0	5.4
Domestic money market funds[2]	7,746	13.0	6.7
Government	6,375	13.1	15.2
Prime	1,220	13.1	3.7
Tax exempt	151	11.1	–.4
Uninsured deposits	7,608	7.7	10.6
Repurchase agreements	5,887	19.1	6.1
Commercial paper	1,368	12.2	2.9
Securities lending[3]	1,201	13.8	7.5
Bond mutual funds	5,032	7.7	8.0

Note: The data extend through 2025:Q4 unless otherwise noted. Outstanding amounts are in nominal terms. Growth rates are nominal and are measured from Q4 of the year immediately preceding the period through Q4 of the final year of the period. Total runnable money-like liabilities exceed the sum of listed components. Unlisted components of runnable money-like liabilities include variable-rate demand obligations, federal funds, funding-agreement-backed securities, private liquidity funds, offshore money market funds, short-term investment funds, local government investment pools, and stablecoins. Bond mutual funds are not part of the total runnable money-like liabilities.

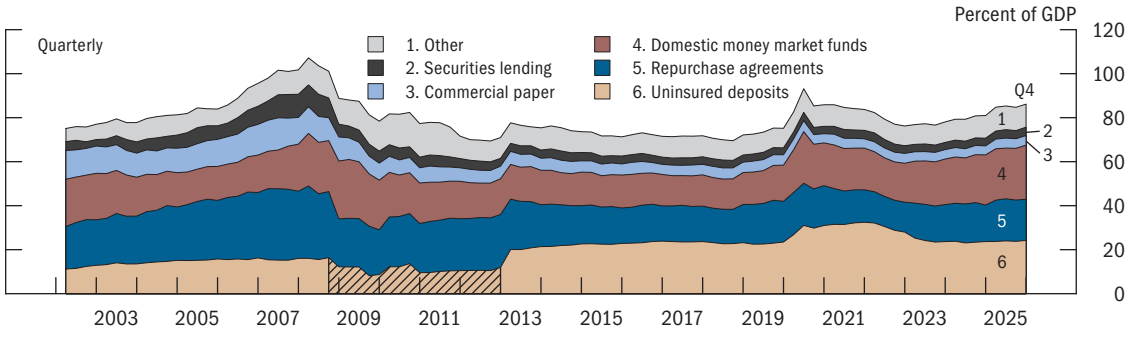
[1] Average annual growth is from 2003:Q1 to 2025:Q4.

[2] Average annual growth is from 2001:Q1 to 2025:Q4.

[3] Average annual growth is from 2000:Q1 to 2025:Q3. Securities lending includes only lending collateralized by cash.

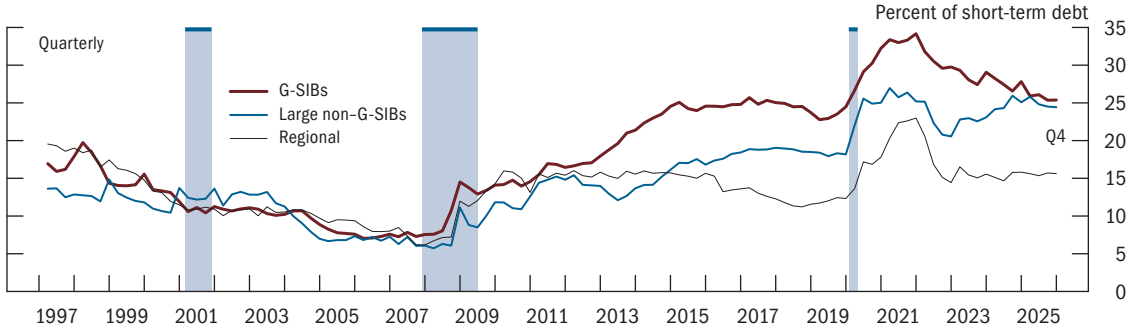
Source: Securities and Exchange Commission, Private Fund Statistics; iMoneyNet, Inc., Offshore Money Fund Analyzer; Bloomberg Finance L.P.; Securities Industry and Financial Markets Association: U.S. Municipal Variable-Rate Demand Obligation Update; DTCC Solutions LLC, an affiliate of the Depository Trust & Clearing Corporation: commercial paper data; Federal Reserve Board staff calculations based on Risk Management Association, Securities Lending Report; S&P Securities Finance; Investment Company Institute; Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States"; Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) Form FFIEC 031; Morningstar, Inc., Morningstar Direct; Llama Corp, DeFiLlama.

Figure 4.1. Runnable liabilities in short-term funding markets were stable around the middle of their historical range



Source: Securities and Exchange Commission, Private Fund Statistics; iMoneyNet, Inc., Offshore Money Fund Analyzer; Bloomberg Finance L.P.; Securities Industry and Financial Markets Association: U.S. Municipal Variable-Rate Demand Obligation Update; DTCC Solutions LLC, an affiliate of the Depository Trust & Clearing Corporation: commercial paper data; Federal Reserve Board staff calculations based on Risk Management Association, Securities Lending Report; S&P Securities Finance; Investment Company Institute; Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States"; Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) Form FFIEC 031; gross domestic product, Bureau of Economic Analysis via Haver Analytics; Llama Corp, DeFiLlama.

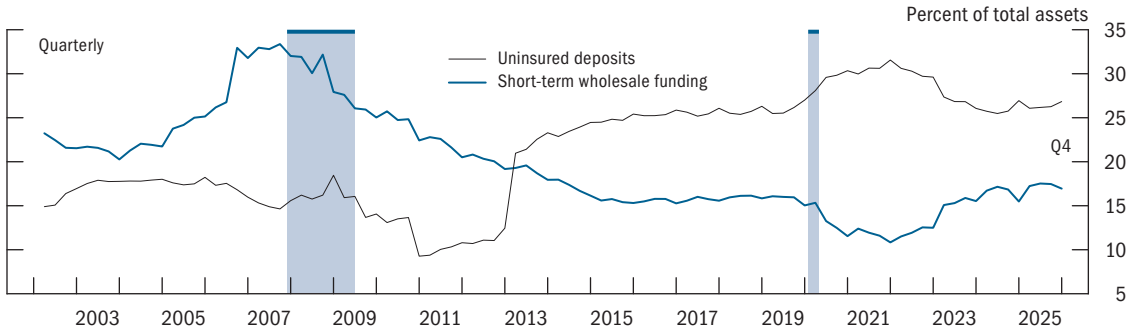
Figure 4.2. The share of high-quality liquid assets to short-term debt remained at the higher end of the historical distribution



Source: Federal Reserve Board, Form FR Y-9C, Consolidated Financial Statements for Holding Companies; Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) Form FFIEC 031.

More generally, banks' funding structures were little changed in the aggregate over the second half of 2025 (figure 4.3). Uninsured deposits as a percentage of total assets were in line with levels seen through the mid-2010s and significantly lower than their peak level in 2022. Since 2023, large banks increased their reliance on short-term wholesale funding sources with maturities of less than one year. The current level is around the highest over the past decade but well below pre-2009 peaks. Over the same period, regional banks generally relied more on reciprocal and, to a lesser degree, brokered deposits. While all reciprocal deposits and a majority of brokered deposits are fully insured, they are more expensive than traditional core insured deposits and may not be as stable during times of stress.

Figure 4.3. Bank funding structures stabilized at levels consistent with historical norms

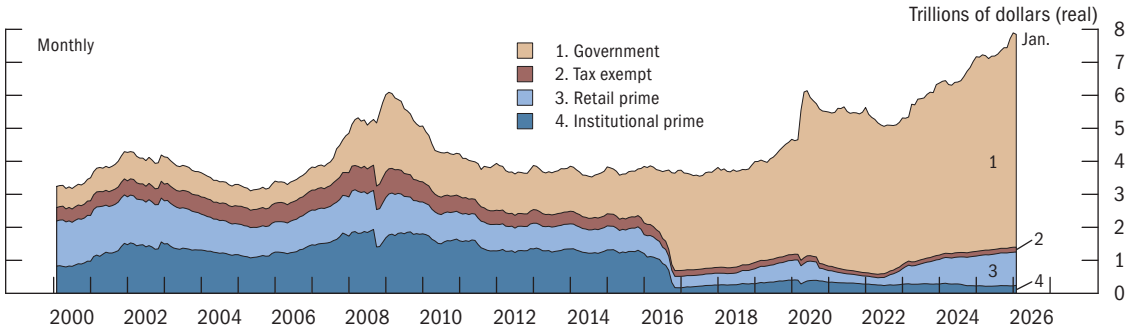


Source: Federal Reserve Board, Form FR Y-9C, Consolidated Financial Statements for Holding Companies; Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) Form FFIEC 031.

Assets in cash-management vehicles continued to grow, primarily driven by inflows into government money market funds

As of January 2026, total MMF assets had risen to $7.9 trillion from $7.2 trillion a year earlier, likely because MMF yields remained consistently more attractive than those of most bank

Figure 4.4. Money market fund assets maintained their upward trend through the beginning of 2026



Source: Federal Reserve Board staff calculations based on Investment Company Institute data; consumer price index, Bureau of Labor Statistics via Haver Analytics.

deposits (figure 4.4). The main contributor to this growth was inflows into government funds, which are less susceptible to runs because they only hold U.S. government and agency securities as well as repos backed by them. Assets under management in institutional prime MMFs—historically, the most vulnerable segment—account for 3 percent of MMFs' assets.

Other cash-management vehicles, including dollar-denominated offshore MMFs and short-term investment funds, also invest in money market instruments and engage in liquidity transformation. Estimated aggregate assets under management remained around $2.2 trillion as of the end of 2025. Many of these vehicles have portfolios similar to prime MMFs. Although the exact size of those most similar to prime MMFs is difficult to gauge owing to data gaps, estimates range from $1 trillion to $2 trillion.

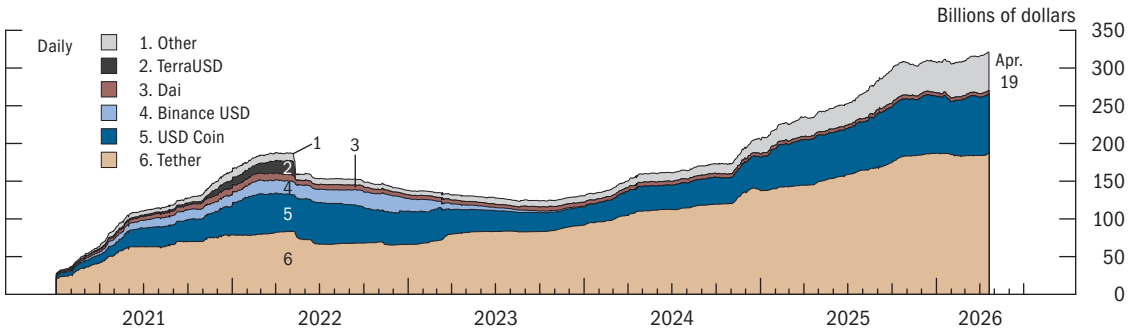
Stablecoin growth moderated

Stablecoin assets—digital assets designed to maintain a stable value relative to a national currency or another reference asset—have grown 16 percent from July 2025 to the end of last year.[12] However, this rapid growth has moderated in recent months amid a broader decline in the price of crypto-assets—a pattern consistent with the fact that stablecoins are mostly used to facilitate crypto-trading activities—and the level is currently $320 billion, concentrated among the two largest issuers (figure 4.5).

The GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins Act) was signed into law in July 2025. This legislation established a federal regulatory framework for the issuance and transaction of "payment stablecoins." Currently, regulatory agencies are drafting

[12] Stablecoins are typically backed by a pool of "reserve" assets that include Treasury bills and other short-term instruments, but some stablecoins also include loans and other digital assets as part of their reserve.

Figure 4.5. Total stablecoin market capitalization remained at record highs



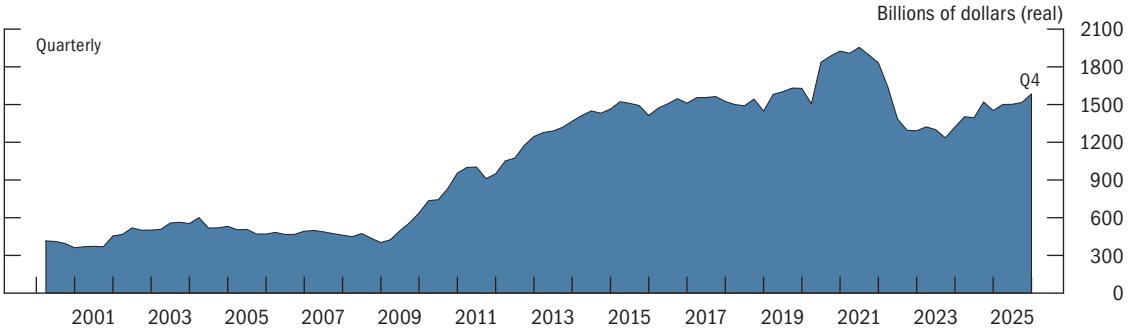
Source: Llama Corp, DeFiLlama.

rules to implement the act's core provisions. Key among these are new requirements regarding reserve transparency and redemption rights, which are designed to mitigate run risks and foster sustainable growth within this asset class.

Bond and loan mutual funds navigated recent volatility without incident

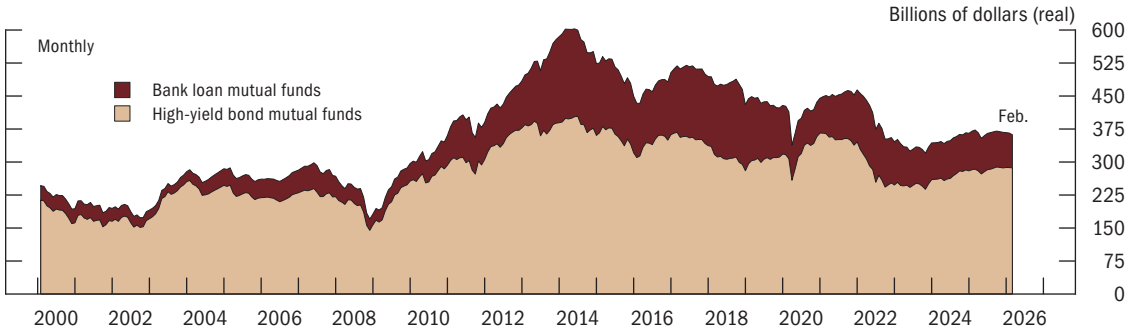
As of the fourth quarter of 2025, mutual funds held approximately $1.6 trillion in U.S. corporate bonds—accounting for around 14 percent of U.S. corporate bonds outstanding (figure 4.6). Assets under management in mutual funds with holdings that are concentrated in bank loans and high-yield bonds—which are riskier and less liquid forms of debt—were around $362 billion in February 2026, about 20 percent below the high levels in 2021 (figure 4.7). Despite heightened volatility, inflows largely offset outflows for high-yield corporate bond and bank loan mutual funds in the beginning of 2026, leaving net flows roughly neutral (figure 4.8).

Figure 4.6. Mutual fund corporate bond holdings returned to pre-pandemic levels



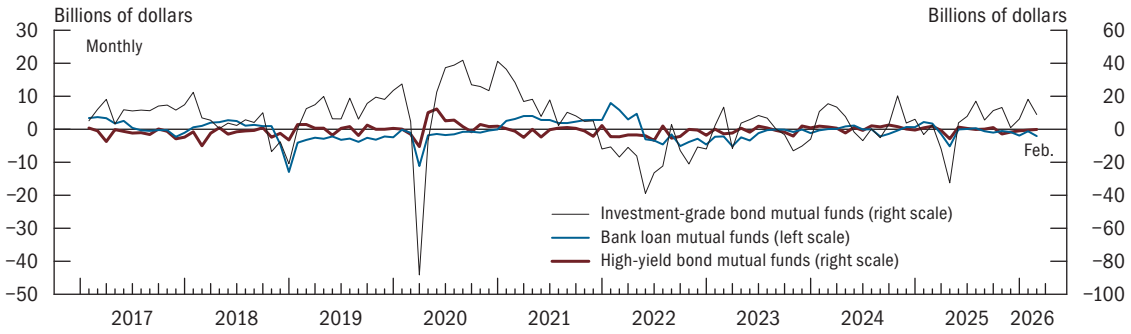
Source: Federal Reserve Board staff estimates based on Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States"; consumer price index, Bureau of Labor Statistics via Haver Analytics.

Figure 4.7. Bank loan and high-yield fund assets stayed well below their 2021 peaks



Source: Investment Company Institute; consumer price index, Bureau of Labor Statistics via Haver Analytics.

Figure 4.8. Inflows to mutual funds continued in early 2026



Source: Investment Company Institute.

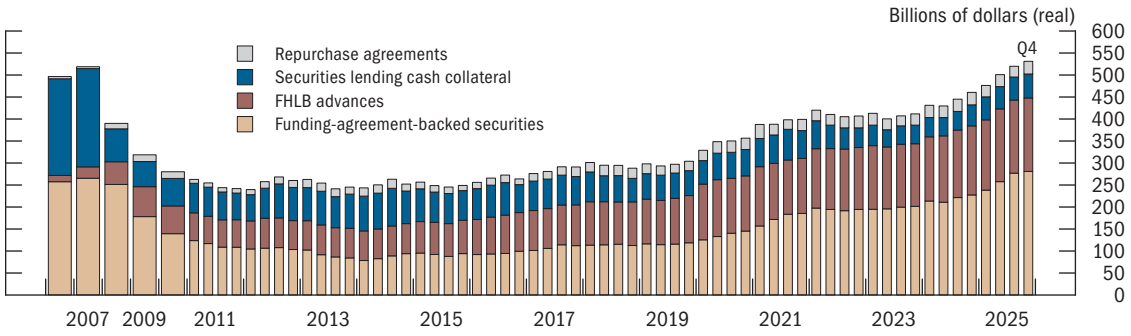
Central counterparties increased margin requirements amid heightened volatility, but margin calls were met with no difficulties

The start of the conflict between the U.S. and Iran introduced a wave of volatility into energy markets, affecting the markets for crude oil and European natural gas most acutely. In response, central counterparties (CCPs) increased margin requirements significantly for products within the affected markets. There was no evidence that market participants faced difficulty in meeting those demands. CCPs had been actively working to improve their risk-management practices and liquidity positions well before this latest market disruption by increasing prefunded mutualized resources from already high levels. Elevated initial margins and ample overall prefunded resources lower the risk faced by CCPs of the potential default by a clearing member or market participant.

Life insurers' nontraditional liabilities increased further while remaining a small share of assets

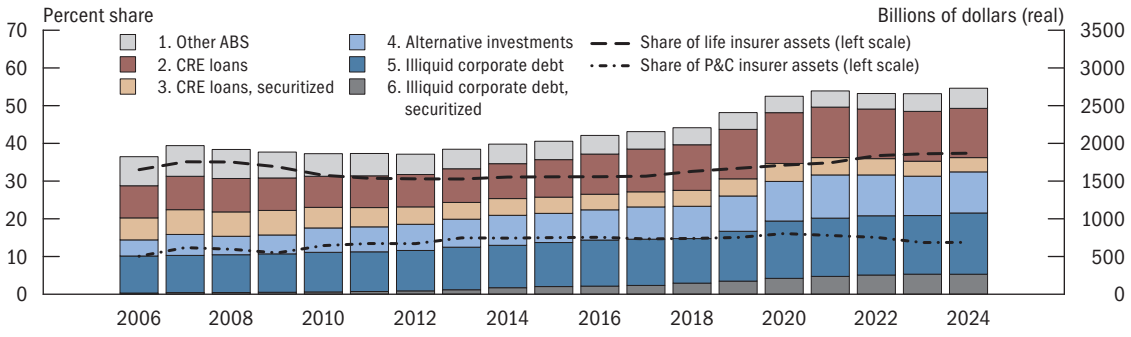
Life insurers continued to increase their reliance on nontraditional liabilities, including funding-agreement-backed securities, Federal Home Loan Bank advances, and cash received through securities lending and repo transactions (figure 4.9). Total nontraditional liabilities summed to $531 billion in the fourth quarter of 2025, growing 15 percent in real terms from a year ago, although they remain small relative to insurers' asset portfolios. Measures of the share of illiquid assets to total assets for life insurers and for property and casualty insurers were around 37 percent and 14 percent, respectively, in 2024 (figure 4.10).

Figure 4.9. Life insurers' use of nontraditional liabilities increased further



Source: Consumer price index, Bureau of Labor Statistics via Haver Analytics; Moody's Analytics, Inc., CreditView, Asset-Backed Commercial Paper Program Index; Securities and Exchange Commission, Forms 10-Q and 10-K; National Association of Insurance Commissioners, quarterly and annual statutory filings accessed via S&P Global, Capital IQ Pro; Bloomberg Finance L.P.

Figure 4.10. Life insurers continued to hold a significant share of illiquid assets on their balance sheets



Source: Consumer price index, Bureau of Labor Statistics via Haver Analytics; Federal Reserve Board staff estimates based on data from Bloomberg Finance L.P. and National Association of Insurance Commissioners, annual statutory filings.

Some private credit vehicles faced increases in redemption requests

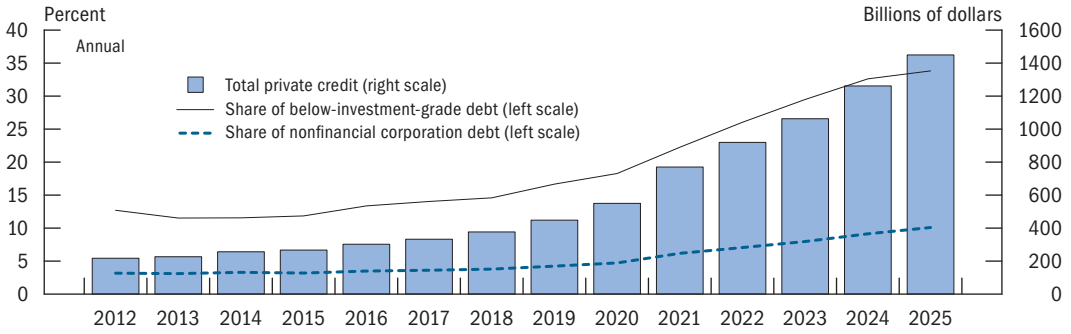
In recent years, firms active in private credit markets have been raising more capital from individual investors through two types of "semi-liquid" vehicles: perpetual-life BDCs and interval funds. These semi-liquid vehicles offer investors an option to redeem capital subject to restrictions, such as discretionary redemption caps. As sentiment in private credit markets deteriorated over the past year—reflecting changes in interest rates, some defaults, and other concerns about asset quality—semi-liquid private credit vehicles have faced notable increases in redemption requests, and in most cases their managers chose to cap redemptions. Although outflows from these funds have moderately exceeded new inflows in the first quarter of 2026, redemption requests have remained manageable. See the box "Developments in Private Credit" for more information.

Based on data through the fourth quarter of 2025, banks continued lending to private credit funds and BDCs, with aggregate loan commitments and outstanding amounts increasing relative to the previous quarter. There were some reductions in loan commitments to certain private credit vehicles during this period, while commitments to other private credit vehicles increased. These adjustments were consistent with historical patterns and seemed to reflect normal risk-management practices at banks.

Box 4.1. Developments in Private Credit

Private credit, defined as loans originated by nonbanks that are negotiated on a bilateral basis between borrowers and lenders, experienced rapid growth over the past decade and is an important source of financing for below-investment-grade businesses. As of the latest data in the second half of 2025, private credit loans accounted for about $1.4 trillion, or 10 percent, of the total debt of U.S. nonfinancial corporations, or about one-third of total below-investment-grade debt, excluding bank loans (figure A).

Figure A. Private credit market size and share of corporate debt



Source: Preqin; LSEG Data & Analytics: BDC Collateral; ICE Data Indices, LLC, used with permission; PitchBook Data, Leveraged Commentary & Data; Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States."

Private credit lending has historically relied on raising money from institutional investors via private debt funds that are locked up from 7 to 10 years and do not offer investors an option to redeem their capital. However, in recent years, more private capital has been raised from individual investors through two types of "semi-liquid" vehicles:

- **Perpetual-life BDCs ($306 billion in gross assets, $161 billion in net assets)** raise capital continuously and offer investors the ability to redeem their shares quarterly. Most of these BDCs disclosed an intention to cap total investor redemptions at 5 percent of their NAV per quarter, although managers can exercise discretion regarding whether to accept more or fewer redemptions. These funds typically operate with less leverage than do BDCs that trade on an exchange and which do not offer redemptions.

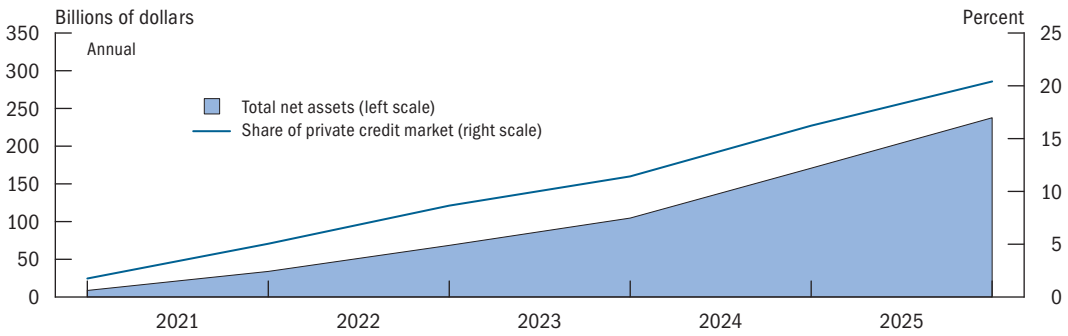
- **Interval funds ($119 billion in gross assets, $80 billion in net assets)** are specialized closed-end funds that raise capital continuously from individual investors. They offer redemption features at certain intervals, typically quarterly, and, unlike perpetual BDCs, are required to accept at least 5 percent of the redemption requests. Interval funds tend to operate with much lower levels of leverage than perpetual BDCs.

Taken together, semi-liquid funds account for $425 billion in gross assets and $241 billion in net assets, or about 20 percent of net assets under management in private credit vehicles (figure B).

(continued)

Box 4.1—*continued*

Figure B. Semi-liquid private credit funds



Source: LSEG Data & Analytics: BDC Collateral; Morningstar, Inc., Morningstar Direct; Preqin.

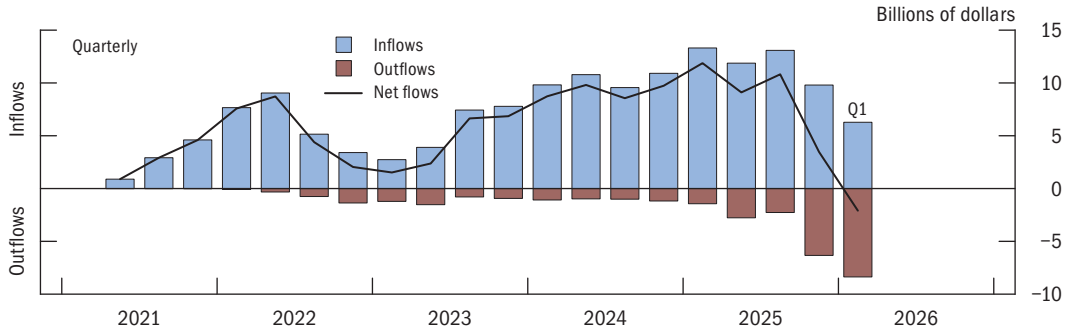
Since the middle of last year, investor sentiment turned increasingly negative following some high-profile corporate defaults and concerns about the potential for advances in AI to disrupt industries, particularly software. The software sector had become the largest sector in private credit portfolios, driven by elevated private equity activity.

Redemption requests increased from relatively low levels during the fourth quarter of 2025 and accelerated further in the first quarter of 2026, when a number of funds received requests that were much larger than 5 percent of NAV (figure C). Most managers chose to cap redemptions at 5 percent of NAV.

Concurrently, inflows to perpetual BDCs weakened in the fourth quarter and slowed further in the first quarter. Accepted redemption requests somewhat exceeded new inflows in the first quarter of 2026, the first time this has occurred since these vehicles were created (figure C).

(continued)

Figure C. Perpetual business development company net flows



Source: Federal Reserve staff calculations based on Securities and Exchange Commission, Form 8-K.

Box 4.1—*continued*

Semi-liquid funds maintain a number of liquidity sources in order to manage potential investor redemptions. These include investor inflows, regular principal repayments of existing loans, revolving lines of credit from banks, and holdings of more liquid assets such as leveraged loans. For the largest 10 perpetual BDCs, which account for 80 percent of the sector's assets, available bank credit and cash can cover at least three calendar quarters of net redemptions up to the 5 percent level of NAV. Moreover, perpetual BDCs have the ability to not accept any redemptions if they deem that would be in the best interest of the fund.

As such, risks to financial stability from further redemption requests appear limited and manageable. However, continued redemptions and negative sentiment could lead to a reduction in credit availability for some borrowers, especially those with relatively higher credit risk, who could find other sources of credit costly or difficult to access.

5 | Near-Term Risks to the Financial System

The Federal Reserve routinely engages in discussions with domestic and international policymakers, community groups, and market participants to gauge the set of risk events that, should they occur, would be of greatest concern to these groups. As captured in the box "Survey of Salient Risks to Financial Stability," more respondents in recent outreach noted risks associated with geopolitical tensions, private credit, and AI than had done so in last fall's survey, while fewer participants cited risks related to policy uncertainty. As in previous surveys, a number of respondents continued to note that a successful cyberattack could have particularly severe consequences.

The following discussion considers possible interactions of existing domestic vulnerabilities with three potential near-term risks.

Cyberattacks and other cyber events could disrupt market functioning and the provision of financial services

In addition to survey respondents' recurring concerns about cyber events, commentators have suggested that an increased intensity of malicious cyberattacks could accompany the conflict in the Middle East. Furthermore, recent advances in the ability of large language models and agentic AI systems to detect and exploit vulnerabilities have introduced new challenges in safeguarding system security for financial institutions, infrastructures, and third-party service providers. Non-malicious cyber events, such as software malfunctions, have also caused disruptions to the provision of financial services. Shocks caused by cyber events may propagate through complex interdependencies among financial institutions and market infrastructures as well as service providers and can be further amplified by existing financial vulnerabilities. For example, a cyber event at a financial institution that disrupts its ability to provide services could have wide-ranging effects, including degraded market liquidity, erosion of investor and depositor confidence, and forced sales of assets. Attacks on critical third-party providers could affect multiple institutions, with the effects of such disruptions likely to be further amplified when there is limited substitutability for the affected services. Through continued interagency coordination and information sharing, U.S. government agencies and financial regulators are advancing efforts to further protect the financial system and financial infrastructure from cyber risks.

A protracted conflict in the Middle East could affect U.S. financial stability through multiple channels

As discussed in previous reports, a worsening of geopolitical tensions can lead to broad adverse spillovers.[13] A prolonged conflict, particularly if accompanied by persistent commodity shortages and impaired supply chains, could lead to upward pressure on global inflation and an economic slowdown in the U.S. and abroad, including some foreign economies where elevated public debt levels may limit governments' ability to respond to weaker growth. In addition, a downturn in sentiment for investors, businesses, and consumers could prompt a broader pullback from riskier assets or those with elevated valuations, increasing volatility in financial markets. Sharp movements in the prices of commodities and related derivative instruments also could strain market participants. Tighter financing conditions could also result from weaker investor sentiment, leading to reduced dollar credit from non-U.S. banks and sales of dollar debt securities by international investors that rely on less stable wholesale sources for dollar funding or for hedging exchange rate risk.[14] Weaker-than-expected economic activity could also erode the fundamentals of some businesses and households.

A further increase in term premiums leading to higher-than-anticipated long-term interest rates, particularly if accompanied by persistent inflation, could pose risks for both borrowers and lenders

Nominal term premiums have increased since the previous report, and the conflict in the Middle East has put upward pressure on near-term inflation. Higher interest rates and inflation could have significant financial and economic effects, including declines in asset prices. In the near term, higher interest rates, as well as weaker balance sheets resulting from asset price declines, could raise consumer borrowing costs and, along with inflation, strain household budgets. Debt-servicing costs for governments and businesses would similarly increase, which, for some businesses, could amplify existing vulnerabilities linked to high leverage and upcoming refinancing needs. Higher interest rates could lead to declines in the fair values of fixed-rate assets held by financial intermediaries, which, in turn, could reduce the supply of credit to the economy.

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[13] See, for example, Board of Governors of the Federal Reserve System (2024), *Financial Stability Report* (Washington: Board of Governors, November), p. 45, https://www.federalreserve.gov/publications/files/financial-stability-report-20241122.pdf.

[14] Non-U.S. banks' large role in dollar-denominated financial intermediation and their dollar funding vulnerabilities are documented in the box "Vulnerabilities in Global U.S. Dollar Funding Markets" in Board of Governors of the Federal Reserve System (2021), *Financial Stability Report* (Washington: Board of Governors, May), pp. 55–58, https://www.federalreserve.gov/publications/files/financial-stability-report-20210506.pdf. The sale of dollar securities by international investors during a period of strained liquidity is documented in the box "The Role of Foreign Investors in the March 2020 Turmoil in the U.S. Treasury Market" in Board of Governors of the Federal Reserve System (2021), *Financial Stability Report* (Washington: Board of Governors, November), pp. 22–25, https://www.federalreserve.gov/publications/files/financial-stability-report-20211108.pdf.

Box 5.1. Survey of Salient Risks to Financial Stability

As part of its market intelligence gathering, staff from the Federal Reserve Bank of New York solicited views from a wide range of contacts on risks to U.S. financial stability. During March and April, the staff surveyed 20 contacts, including professionals at broker-dealers, banks, investment funds, and advisory firms. This section is a summary of the views provided by survey respondents and should not be interpreted as representing the views of the Federal Reserve Board or the Federal Reserve Bank of New York.

Geopolitical risks and an oil shock were the top-cited risks in this survey, with respondents focused on the inflationary implications of energy supply disruptions following the outbreak of the Iran conflict (figure A). AI-related risks were in focus as well, particularly concerns around equity valuations, debt-financed capital spending, and risks to the labor market. Private credit was also widely cited, receiving greater focus than in the previous survey (figure B). Respondents also remained concerned about the potential for a correction in risk assets, with several noting that triggers could come from AI valuation concerns or an escalation in the Iran conflict. While not cited as a top risk, the prospect of a successful cyberattack continued to be flagged as having the most severe potential consequences.

Geopolitical risks and oil shock

Respondents widely noted the Iran conflict's potential to cause prolonged supply disruptions in energy markets as well as the possibility of a prolonged period of higher inflation. Several noted that inflationary pressure from an energy shock could force central banks to tighten monetary policy even if economic growth were to weaken, potentially triggering risk aversion and amplifying vulnerabilities elsewhere.

Artificial intelligence

Respondents raised several risks related to AI, including equity valuations; that capital expenditures are increasingly funded by debt, creating leverage in the system; and that widespread adoption of AI may contribute to labor market weakness.

Private credit

Private credit was viewed as facing increasing pressure from investor redemptions, worsening sentiment, and AI-driven disruption affecting the credit quality of some borrowers, which could result in a tightening of credit conditions that could spill over into broader credit markets.

Persistent inflation; monetary tightening

More persistent inflation was widely cited as a risk, with many respondents expressing concerns that prolonged energy supply disruptions from the Iran conflict may necessitate tighter monetary policy.

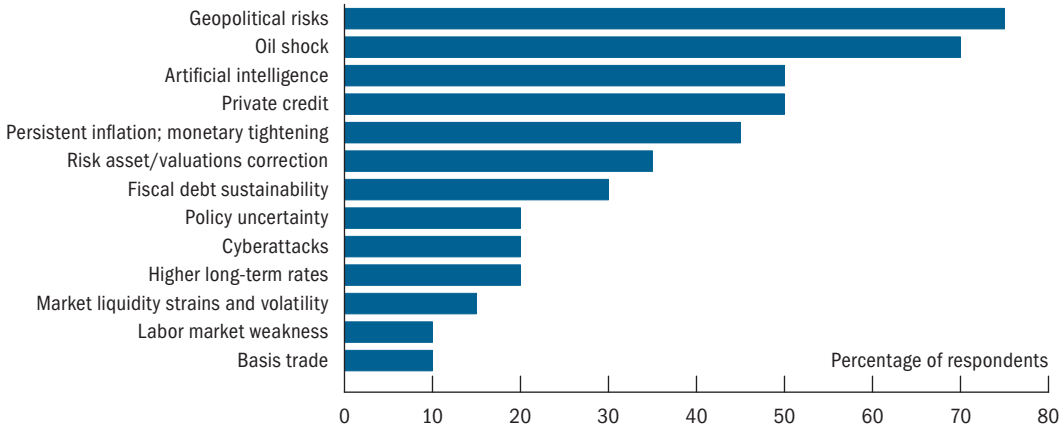
Risk asset correction

A potential correction in risk assets was widely cited, with many respondents noting that such an event could be triggered by concerns around AI-related valuations or supply chain shortages from the Iran conflict.

(continued)

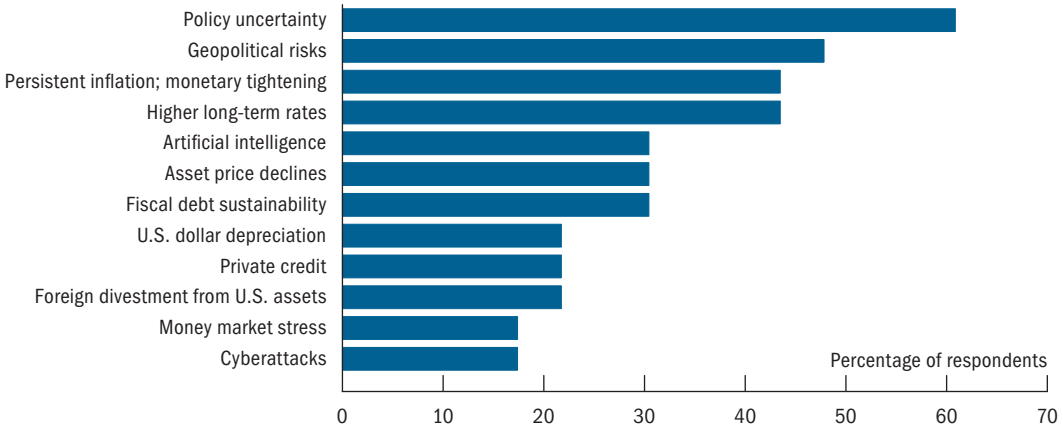
Box 5.1—*continued*

Figure A. Spring 2026: Most cited potential shocks over the next 12 to 18 months



Source: Federal Reserve Bank of New York survey of 20 market contacts from March through April.

Figure B. Fall 2025: Most cited potential shocks over the next 12 to 18 months



Source: Federal Reserve Bank of New York survey of 23 market contacts from September through October.

Appendix | Figure Notes

Figure 1.1. Nominal Treasury yields rose modestly and remained elevated relative to levels over the past 15 years

Treasury rates are the 2-year and 10-year constant-maturity yields based on the most actively traded securities. Values are averaged within a calendar month, except for the value of the last month of the series, which is averaged through the data close date.

Figure 1.2. An estimate of the nominal Treasury term premium ticked up just above its historical median

Term premiums are estimated from a 3-factor term structure model using Treasury yields and Blue Chip interest rate forecasts. Values are averaged within a calendar month, except for the value of the last month of the series, which is averaged through the data close date.

Figure 1.3. Interest rate volatility remained near its median since 2005

The data begin in April 2005. Implied volatility on the 10-year swap rate, 1 month ahead, is derived from swaptions. Values are averaged within a calendar month, except for the value of the last month of the series, which is averaged through the data close date.

Figure 1.4. The price-to-earnings ratio of S&P 500 firms fell but stayed close to the upper end of its historical range

The figure shows the aggregate forward price-to-earnings ratio of Standard & Poor's (S&P) 500 firms, based on expected earnings for 12 months ahead. Values are reported as of month-end, except for the value of the last month of the series, which is reported as of the data close date.

Figure 1.5. As of April, an estimate of the equity premium remained near a 20-year low

The data begin in October 1991. The figure shows the difference between the aggregate forward earnings-to-price ratio of Standard & Poor's 500 firms and the expected real Treasury yields, based on expected earnings for 12 months ahead. Expected real Treasury yields are calculated from the 10-year consumer price index inflation forecast, and the smoothed nominal yield curve is estimated from off-the-run securities. Values are reported as of month-end, except for the value of the last month of the series, which is reported as of the data close date.

Figure 1.6. Volatility in equity markets picked up but stayed near the historical median

Realized volatility is computed from an exponentially weighted moving average of 5-minute daily realized variances with 75 percent of the weight distributed over the past 20 business days. Values are averaged within a calendar month, except for the value of the last month of the series, which is averaged through the data close date.

Figure 1.7. Corporate bond yields rose slightly but remained in line with historical levels

The triple-B series reflects the effective yield of the ICE Bank of America Merrill Lynch (BofAML) triple-B U.S. Corporate Index (C0A4), and the high-yield series reflects the effective yield of the

ICE BofAML U.S. High Yield Index (H0A0). Values are reported as of month-end, except for the value of the last month of the series, which is reported as of the data close date.

Figure 1.8. Corporate bond spreads were roughly unchanged and stayed at low levels

The triple-B series reflects the option-adjusted spread of the ICE Bank of America Merrill Lynch (BofAML) triple-B U.S. Corporate Index (C0A4), and the high-yield series reflects the option-adjusted spread of the ICE BofAML U.S. High Yield Index (H0A0). Values are reported as of month-end, except for the value of the last month of the series, which is reported as of the data close date.

Figure 1.9. The excess bond premium continued to inch down

The excess bond premium (EBP) is a measure of bond market investors' risk sentiment. It is derived as the residual of a regression that models corporate bond spreads after controlling for expected default losses. By construction, its historical mean is 0. Positive (negative) EBP values indicate that investors' risk appetite is below (above) its historical mean.

Figure 1.10. Spreads on leveraged loans increased moderately but remained low relative to their historical distribution

The data show secondary-market discounted spreads to maturity. Spreads are the constant spread used to equate discounted loan cash flows to the current market price. B-rated spreads begin in July 1997. The black dashed line represents the data transitioning from monthly to weekly in November 2013.

Figure 1.11. Treasury market depth was volatile but, on net, remained mostly unchanged since November

Market depth is defined as the average top 3 bid and ask quote sizes for on-the-run Treasury securities.

Figure 1.12. Market depth for the most liquid 2-year on-the-run Treasury note stayed at historically low levels

The data show the time-weighted average market depth at the best quoted prices to buy and sell for 2-year Treasury notes.

Figure 1.13. A measure of equity market liquidity worsened and remained low

The data show the depth at the best quoted prices to buy and sell, defined as the ask size plus the bid size divided by 2, for E-mini Standard & Poor's 500 futures.

Figure 1.14. Inflation-adjusted commercial real estate prices were little changed

The data are deflated using the consumer price index. The dashed line at 100 indicates the index to January 2001 values.

Figure 1.15. Income of commercial properties relative to prices leveled off but remained below the historical average

The data are a 12-month moving average of weighted capitalization rates in the industrial, retail, office, and multifamily sectors, based on national square footage in 2009.

Figure 1.16. Banks reported easing lending standards for commercial real estate loans through 2025

Banks' responses are weighted by their commercial real estate loan market shares. Survey respondents to the Senior Loan Officer Opinion Survey on Bank Lending Practices are asked about the changes over the quarter. The shaded bars with top caps indicate periods of business recession as defined by the National Bureau of Economic Research: March 2001–November 2001, December 2007–June 2009, and February 2020–April 2020.

Figure 1.17. House prices continued to increase in recent months but at a lower rate

The data extend through March 2026 for Zillow and February 2026 for Cotality and S&P Cotality Case-Shiller.

Figure 1.18. Model-based measures of house price valuations remained near historically high levels

The owners' equivalent rent value for 2026:Q1 is based on monthly data through February 2026. The data for the market-based rents model begin in 2004:Q1. Valuation is measured as the deviation from the long-run relationship between the price-to-rent ratio and the real 10-year Treasury yield.

Figure 1.19. House price-to-rent ratios dropped slightly yet stayed elevated across geographic areas

The data are seasonally adjusted by Federal Reserve Board staff. Percentiles are based on 19 large metropolitan statistical areas.

Figure 1.20. Inflation-adjusted farmland prices rose further in 2025 to near historical highs

The data for the U.S. begin in 1997. Midwest index is a weighted average of Corn Belt and Great Plains states derived from staff calculations. Values are given in real terms.

Figure 1.21. Farmland prices relative to rents increased to historical highs in 2025

The data for the U.S. begin in 1998. Midwest index is a weighted average of Corn Belt and Great Plains states derived from staff calculations.

Figure 2.1. The total debt of businesses and households continued to grow more slowly than GDP

The shaded bars with top caps indicate periods of business recession as defined by the National Bureau of Economic Research: January 1980–July 1980, July 1981–November 1982, July 1990–March 1991, March 2001–November 2001, December 2007–June 2009, and February 2020–April 2020. GDP is gross domestic product.

Figure 2.2. Both business and household debt-to-GDP ratios continued to fall

The shaded bars with top caps indicate periods of business recession as defined by the National Bureau of Economic Research: January 1980–July 1980, July 1981–November 1982, July 1990–March 1991, March 2001–November 2001, December 2007–June 2009, and February 2020–April 2020. GDP is gross domestic product.

Figure 2.3. Business debt adjusted for inflation fell moderately during the second half of 2025

Nominal debt growth is seasonally adjusted and is translated into real terms after subtracting the growth rate of the price deflator for the core personal consumption expenditures price index.

Figure 2.4. Net issuance of risky debt was modest during the second half of 2025

The data begin in 2004:Q2. Institutional leveraged loans generally exclude loan commitments held by banks. The key identifies bars in order from top to bottom (except for some bars with at least one negative value).

Figure 2.5. Gross leverage of publicly traded nonfinancial firms ticked down but was still high by historical standards

Gross leverage is an asset-weighted average of the ratio of firms' book value of total debt to book value of total assets. The 75th percentile is calculated from a sample of the 2,500 largest firms by assets. The dashed sections of the lines in 2019:Q1 reflect the structural break in the series due to the 2019 compliance deadline for Financial Accounting Standards Board rule Accounting Standards Update 2016-02. The accounting standard requires operating leases, previously considered off-balance-sheet activities, to be included in measures of debt and assets.

Figure 2.6. Interest coverage ratios, which indicate firms' ability to service their debt, remained solid

The interest coverage ratio is earnings before interest and taxes divided by interest payments. Firms with leverage less than 5 percent and interest payments less than $500,000 are excluded.

Figure 2.7. Firms with commercial and industrial bank loans lowered their leverage

The figure shows the weighted median leverage of nonfinancial firms that borrow using commercial and industrial loans from the 23 banks that have filed in every quarter since 2013:Q1. Leverage is measured as the ratio of the book value of total debt to the book value of total assets of the borrower, as reported by the lender, and the median is weighted by committed amounts.

Figure 2.8. Newly issued leveraged loans with debt-to-EBITDA multiples of 4 or more increased moderately and stayed above the historical median

Volumes are for large corporations with earnings before interest, taxes, depreciation, and amortization (EBITDA) greater than $50 million and exclude existing tranches of add-ons and amendments as well as restatements with no new money. The key identifies bars in order from top to bottom.

Figure 2.9. The realized default rate on leveraged loans remained well below its previous peaks

The data for the realized default rate begin in December 1998; the data including distressed exchanges begin in December 2016. The default rate is calculated as the amount in default over the past 12 months divided by the total outstanding volume of loans that are not in default at the beginning of the 12-month period. The default rate including distressed exchanges is calculated as the number of issuers in default or distressed exchange over the past 12 months divided by the total number of issuers that are not in default at the beginning of the 12-month

period. The shaded bars with top caps indicate periods of business recession as defined by the National Bureau of Economic Research: March 2001–November 2001, December 2007–June 2009, and February 2020–April 2020.

Figure 2.10. Household debt was largely unchanged

Subprime are borrowers with an Equifax Risk Score less than 620; near prime are from 620 to 719; prime are greater than 719. Scores are measured contemporaneously. Student loan balances before 2004 are estimated using average growth from 2004 to 2007, by risk score. The data are converted to constant 2025 dollars using the consumer price index.

Figure 2.11. Measures of housing leverage stayed significantly below their peak levels

Housing leverage is estimated as the ratio of the average outstanding mortgage loan balance for owner-occupied homes with a mortgage to (1) current home values using the Zillow national house price index and (2) model-implied house prices estimated by a staff model based on rents, interest rates, and a time trend.

Figure 2.12. New mortgage extensions were largely unchanged

The figure plots the year-over-year change in balances for the first quarter of each year among those households whose balance increased over this window. Subprime are borrowers with an Equifax Risk Score less than 620; near prime are from 620 to 719; prime are greater than 719. Scores were measured 1 year ago. The data are converted to constant 2025 dollars using the consumer price index. The key identifies bars in order from left to right.

Figure 2.13. Mortgage delinquency rates remained close to the low end of their historical distribution

Loss mitigation includes tradelines that have a narrative code of forbearance, natural disaster, payment deferral (including partial), loan modification (including federal government plans), or loans with no scheduled payment and a nonzero balance. Delinquent loans in both series are loans reported to the credit bureau as at least 30 days past due.

Figure 2.14. Very few homeowners had negative equity in their homes

The data extend through December 2025 for all outstanding first-lien mortgages. Negative equity is defined as a combined loan-to-value ratio greater than 100 percent.

Figure 2.15. Consumer debt balances were largely unchanged for student and auto loans but moved up for credit cards

The data are converted to constant 2025 dollars using the consumer price index. Student loan data begin in 2005:Q1.

Figure 2.16. The average maturity of loans at origination for used cars remained elevated

Loans are for used auto vehicles only. Subprime are borrowers with a VantageScore less than 601; near prime are from 601 to 660; prime are greater than 660. The data are seasonally adjusted by Federal Reserve Board staff.

Figure 2.17. Auto loan delinquencies stayed well above the historical median

Delinquent includes loans reported to the credit bureau as at least 30 days past due. The data for auto loans are reported semiannually by the Risk Assessment, Data Analysis, and Research Data Warehouse until 2017, after which they are reported quarterly. The data are seasonally adjusted by Federal Reserve Board staff.

Figure 2.18. Credit card balances across borrowers were up slightly

Subprime are borrowers with an Equifax Risk Score less than 620; near prime are from 620 to 719; prime are greater than 719. Scores are measured contemporaneously. The data are converted to constant 2025 dollars using the consumer price index.

Figure 2.19. Credit card delinquencies leveled off at their long-term median

Delinquency measures the fraction of balances that are at least 30 days past due, excluding severe derogatory loans, which are delinquent and have been charged off, foreclosed, or repossessed by the lender. The data are seasonally adjusted by Federal Reserve Board staff.

Figure 3.1. Banks' risk-based capital ratios remained near historically high levels

The data are seasonally adjusted by Federal Reserve Board staff. The sample consists of domestic bank holding companies (BHCs) and intermediate holding companies (IHCs) with a substantial U.S. commercial banking presence. G-SIBs are global systemically important banks. Large non–G-SIBs are BHCs and IHCs with greater than $100 billion in total assets that are not G-SIBs. Before 2014:Q1 (advanced-approaches BHCs) or before 2015:Q1 (non-advanced-approaches BHCs), the numerator of the common equity Tier 1 (CET1) ratio is Tier 1 common capital. Afterward, the numerator is CET1 capital. The denominator is risk-weighted assets. The shaded bars with top caps indicate periods of business recession as defined by the National Bureau of Economic Research: March 2001–November 2001, December 2007–June 2009, and February 2020–April 2020.

Figure 3.2. Return on equity for banks stayed consistent with norms from the past 10 years

Return on equity is equal to net income divided by average equity. The net income of banks that acquired failed banks was adjusted for the one-off gains from the acquisitions. Calculations for 2023:Q4 exclude Federal Deposit Insurance Corporation special assessment costs. G-SIBs are global systemically important banks. Large non–G-SIBs are bank holding companies and intermediate holding companies with greater than $100 billion in total assets that are not G-SIBs. The shaded bar with top cap indicates a period of business recession as defined by the National Bureau of Economic Research: February 2020–April 2020.

Figure 3.3. Banks' securities portfolios experienced declining fair value losses

The figure plots the difference between the fair and amortized cost values of the securities. The sample consists of all bank holding companies and commercial banks.

Figure 3.4. The ratio of tangible common equity to tangible assets rose

The data are seasonally adjusted by Federal Reserve Board staff. The sample consists of domestic bank holding companies (BHCs), intermediate holding companies (IHCs) with a

substantial U.S. commercial banking presence, and commercial banks. G-SIBs are global systemically important banks. Large non–G-SIBs are BHCs and IHCs with greater than $100 billion in total assets that are not G-SIBs. Bank equity is total equity capital net of preferred equity and intangible assets. Bank assets are total assets net of intangible assets. The shaded bars with top caps indicate periods of business recession as defined by the National Bureau of Economic Research: July 1990–March 1991, March 2001–November 2001, December 2007–June 2009, and February 2020–April 2020.

Figure 3.5. A growing share of banks eased their lending standards

Banks' responses are weighted by each bank's outstanding loans in the respective loan category. Survey respondents to the Senior Loan Officer Opinion Survey on Bank Lending Practices are asked about the changes over the quarter. The shaded bars with top caps indicate periods of business recession as defined by the National Bureau of Economic Research: March 2001–November 2001, December 2007–June 2009, and February 2020–April 2020.

Figure 3.6. Bank loan delinquency rates remained at low levels by historical standards

The figure shows banks with total assets greater than or equal to $10 billion. C&I is commercial and industrial. The shaded bars with top caps indicate periods of business recession as defined by the National Bureau of Economic Research: December 2007–June 2009 and February 2020–April 2020.

Figure 3.7. Leverage levels at broker-dealers continued to be low

Leverage is calculated by dividing total assets by equity.

Figure 3.8. Broker-dealer profits moderated at the end of 2025, mirroring previous year-end performance

The sample includes all trading desks of bank holding companies subject to the Volcker rule reporting requirement.

Figure 3.9. Broker-dealer profits maintained a stable distribution across business lines

The sample includes all trading desks of bank holding companies subject to the Volcker rule reporting requirement. The "other business lines" category comprises desks trading in municipal securities, foreign exchange, and commodities, as well as any unclassified desks. The key identifies series in order from top to bottom.

Figure 3.10. Life insurance company leverage remained at the upper quartile of its distribution

Ratio is calculated as (total assets – separate account assets)/(total capital – accumulated other comprehensive income) using generally accepted accounting principles. The largest 10 publicly traded life and property and casualty insurers are represented.

Figure 3.11. Hedge fund gross leverage reached record highs

Means are weighted by net asset value (NAV). On-balance-sheet leverage is the ratio of gross asset value to NAV. Gross leverage is the ratio of gross notional exposure to NAV. Gross notional exposure includes both on-balance-sheet exposures and off-balance-sheet derivative notional

exposures. Options are delta adjusted, and interest rate derivatives are reported at 10-year bond equivalent values. The data are reported on a 2-quarter lag beginning in 2013:Q1.

Figure 3.12. Balance sheet leverage at the 15 largest hedge funds increased a bit in the third quarter of 2025

Leverage is measured by gross asset value (GAV) divided by net asset value (NAV). Funds are sorted into cohorts based on GAV. Average leverage is computed as the NAV-weighted mean. The data are reported on a 2-quarter lag beginning in 2013:Q1.

Figure 3.13. Most dealers reported no change in hedge fund leverage use by their clients

Net percentage equals the percentage of institutions that reported increased use of financial leverage over the past 3 months minus the percentage of institutions that reported decreased use of financial leverage over the past 3 months. REIT is real estate investment trust.

Figure 3.14. The pace of non-agency securitization issuance in early 2026 exceeded the strong pace seen in 2025

The data from the first quarter of 2026 are annualized to create the 2026 bar. RMBS is residential mortgage-backed securities; CMBS is commercial mortgage-backed securities; CDO is collateralized debt obligation; CLO is collateralized loan obligation. The "other" category consists of other asset-backed securities (ABS) backed by credit card debt, student loans, equipment, floor plans, and miscellaneous receivables; resecuritized real estate mortgage investment conduit (Re-REMIC) RMBS; and Re-REMIC CMBS. The data are converted to constant 2026 dollars using the consumer price index. The key identifies bars in order from top to bottom.

Figure 3.15. Bank credit commitments to nonbank financial institutions continued to grow, with private equity, BDCs, and private credit being the largest exposure category

The figure shows committed amounts on credit lines and term loans extended to nonbank financial institutions (NBFIs). NBFIs are identified based on reported North American Industry Classification System (NAICS) codes. In addition to NAICS codes, a name-matching algorithm is applied to identify specific entities such as real estate investment trusts (REITs), special purpose entities, collateralized loan obligations (CLOs), asset-backed securities (ABS), private equity, business development companies (BDCs), and private credit. REITs incorporate both mortgage (trading) REITs and equity REITs. Broker-dealers also include commodity contracts dealers and brokerages and other securities and commodity exchanges. Other financial vehicles include closed-end investment and mutual funds.

Figure 3.16. Bank credit sectoral growth rates in 2025:Q4 were broadly similar to 2024:Q4

The figure shows 2025:Q4-over-2024:Q4 growth rates as of the end of the fourth quarter of 2025. REIT is real estate investment trust; PE is private equity; BDC is business development company; SPE is special purpose entity; CLO is collateralized loan obligation; ABS is asset-backed securities. The key identifies bars in order from left to right.

Figure 4.1. Runnable liabilities in short-term funding markets were stable around the middle of their historical range

The black striped area denotes the period from 2008:Q4 to 2012:Q4, when insured deposits increased because of the Transaction Account Guarantee program. The "other" category consists of variable-rate demand obligations (VRDOs), federal funds, funding-agreement-backed securities, private liquidity funds, offshore money market funds, short-term investment funds, local government investment pools, and stablecoins. Securities lending includes only lending collateralized by cash. GDP is gross domestic product. Values for VRDOs come from Bloomberg beginning in 2019:Q1. See Jack Bao, Josh David, and Song Han (2015), "The Runnables," FEDS Notes (Washington: Board of Governors of the Federal Reserve System, September 3), https://www.federalreserve.gov/econresdata/notes/feds-notes/2015/the-runnables-20150903.html.

Figure 4.2. The share of high-quality liquid assets to short-term debt remained at the higher end of the historical distribution

The sample consists of domestic bank holding companies (BHCs), intermediate holding companies (IHCs) with a substantial U.S. commercial banking presence, and commercial banks. G-SIBs are global systemically important banks. Large non–G-SIBs are BHCs and IHCs with greater than $100 billion in total assets that are not G-SIBs. Short-term debt is total liabilities less long-term debt. The figure shows banks with total assets greater than or equal to $10 billion. The shaded bars with top caps indicate periods of business recession as defined by the National Bureau of Economic Research: March 2001–November 2001, December 2007–June 2009, and February 2020–April 2020.

Figure 4.3. Bank funding structures stabilized at levels consistent with historical norms

Short-term wholesale funding is defined as the sum of large time deposits with maturity less than 1 year, federal funds purchased and securities sold under agreements to repurchase, deposits in foreign offices with maturity less than 1 year, trading liabilities (excluding revaluation losses on derivatives), and other borrowed money with maturity less than 1 year. The shaded bars with top caps indicate periods of business recession as defined by the National Bureau of Economic Research: December 2007–June 2009 and February 2020–April 2020.

Figure 4.4. Money market fund assets maintained their upward trend through the beginning of 2026

The data are converted to constant 2026 dollars using the consumer price index.

Figure 4.5. Total stablecoin market capitalization remained at record highs

The key identifies series in order from top to bottom. USD is U.S. dollar.

Figure 4.6. Mutual fund corporate bond holdings returned to pre-pandemic levels

The data show holdings of all U.S. corporate bonds by all U.S.-domiciled mutual funds (holdings of foreign bonds are excluded). The data are converted to constant 2025 dollars using the consumer price index.

Figure 4.7. Bank loan and high-yield fund assets stayed well below their 2021 peaks

The data are converted to constant 2026 dollars using the consumer price index. The key identifies series in order from top to bottom.

Figure 4.8. Inflows to mutual funds continued in early 2026

Mutual fund assets under management as of February 2026 included $2,637 billion in investment-grade bond mutual funds, $286 billion in high-yield bond mutual funds, and $75 billion in bank loan mutual funds. Bank loan mutual funds, also known as floating-rate bond funds, are excluded from high-yield bond mutual funds.

Figure 4.9. Life insurers' use of nontraditional liabilities increased further

The data are converted to constant 2025 dollars using the consumer price index. FHLB is Federal Home Loan Bank. The data are annual from 2006 to 2010 and quarterly thereafter. The key identifies bars in order from top to bottom.

Figure 4.10. Life insurers continued to hold a significant share of illiquid assets on their balance sheets

The data are converted to constant 2024 dollars using the consumer price index. Securitized products include collateralized loan obligations for corporate debt, private-label commercial mortgage-backed securities for commercial real estate (CRE), and private-label residential mortgage-backed securities and asset-backed securities (ABS) backed by autos, credit cards, consumer loans, and student loans for other ABS. Illiquid corporate debt includes private placements, bank and syndicated loans, and high-yield bonds. Alternative investments include assets filed under Schedule BA. P&C is property and casualty. The key identifies bars in order from top to bottom.

Box 4.1. Developments in Private Credit

Figure A. Private credit market size and share of corporate debt

Based on invested capital of North America–focused private debt funds and total assets of business development companies and credit-focused interval funds.

Figure B. Semi-liquid private credit funds

Based on net assets of perpetual business development companies and credit-focused interval funds.

Figure C. Perpetual business development company net flows

Based on 14 largest perpetual business development companies, which account for 86 percent of the segment's total assets. The data begin in 2021:Q2.

Box 5.1. Survey of Salient Risks to Financial Stability

Figure A. Spring 2026: Most cited potential shocks over the next 12 to 18 months

Responses are to the following question: "Over the next 12–18 months, which shocks, if realized, do you think would have the greatest negative impact on the functioning of the U.S. financial system?"

Figure B. Fall 2025: Most cited potential shocks over the next 12 to 18 months

Responses are to the following question: “Over the next 12–18 months, which shocks, if realized, do you think would have the greatest negative impact on the functioning of the U.S. financial system?”

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