Financial Stability Report



November 2026

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



The Federal Reserve 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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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. As part of its efforts to promote the stability of the financial system, the Federal Reserve actively monitors and assesses systemic risks both domestically and internationally. 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 October 28, 2026.

Overview of financial system vulnerabilities



Asset valuations

- The forward equity price-to-earnings ratio remained well above its historical median.
- Corporate bond and leveraged loan spreads stayed at the low end of their historical range.
- Treasury yields rose markedly, and term premiums climbed to a level above the median since the late 1990s.
- Residential real estate prices remained high relative to their historical relationship with fundamentals, and commercial real estate prices were stable.



Borrowing by businesses and households

- Total business debt to gross domestic product (GDP) declined slightly but remained in the upper quartile of its historical range. The household debt-to-GDP ratio decreased further and stood below the median of its historical distribution.
- The credit quality of investment-grade corporations was strong, while some riskier firms faced challenges in servicing their debt.
- Household balance sheets were solid, although auto delinquencies remained well above the median.
- Overall mortgage delinquency rates stayed low, benefiting from strong home equity cushions. Delinquencies of Federal Housing Administration loans were above pre-pandemic levels.



Leverage in the financial sector

- The banking system remained sound and resilient, with high regulatory capital ratios. Fair value losses on fixed-rate assets continued to be sizable.
- Hedge fund leverage reached the highest level since 2013 and continued to be concentrated in the largest funds.
- Leverage at the largest life insurers remained at historically high levels.
- Dealers' leverage stayed low, and their intermediation activity, including for Treasury securities, has increased in recent quarters.



Funding risks

- Most domestic banks maintained high levels of liquid assets, and their reliance on uninsured deposits was well below 2022 peaks.
- Redemption requests at certain business development companies trended lower, though funds maintained redemption limits and net flows remained negative.
- Life insurers' nontraditional liabilities edged higher in the second quarter of 2026.
- Assets in cash-management vehicles continued to grow, primarily in less-fragile government money market funds.

A summary of the developments in the four broad categories of vulnerabilities since the May 2026 *Financial Stability Report* is as follows:

1. **Asset valuations.** Asset valuation pressures continued to be elevated. Measures of equity valuations have remained high, partly driven by market enthusiasm for super intelligence (SI). The ratio of equity prices to earnings for S&P 500 companies stayed well above its historical median, and an estimate of the equity premium—the compensation for risk in equity markets—remained low. In the six months since the previous report, Treasury yields rose markedly, and volatility increased on net. Corporate bond spreads over comparable-maturity Treasury securities remained below long-run medians. Spreads for investment-grade bonds were little changed, but spreads for high-yield bonds rose moderately. In U.S. property markets, home price growth remained slow, and prices continued to be high relative to rents. Transaction-based price indexes (adjusted for inflation) for commercial real estate (CRE) properties have changed little since the previous report, though refinancing risks in that sector remained salient (see Section 1, Asset Valuations).

2. **Borrowing by businesses and households.** Overall vulnerabilities from business and household debt continued to be moderate. The ratio of business debt to gross domestic product (GDP) continued its gradual decline but remained in the upper quartile of its historical range. Robust debt issuance by large technology companies may drive aggregate business debt higher over time. Among investment-grade corporations, debt-servicing capacity was strong, but private companies and public firms with lower credit ratings demonstrated weaker debt-servicing capacity. The household debt-to-GDP ratio continued its long downward trend and stood below its historical median. The ability of households to service their debt remained solid, and most homeowners had significant equity in their properties. Delinquency rates on Federal Housing Administration (FHA) loans, typically associated with borrowers with lower credit scores and less equity, have been trending higher since 2022. Delinquency rates for auto loans remained well above their historical median (see Section 2, Borrowing by Businesses and Households).

3. **Leverage in the financial sector.** Vulnerabilities associated with financial leverage remained notable. The banking sector remained sound and resilient overall. Banks continued to report regulatory capital levels near historically high levels, but fair value losses on fixed-rate assets remained sizable and sensitive to changes in long-term interest rates. Leverage at hedge funds reached the highest level since the data began in 2013 and was concentrated in a small number of large funds. This leverage supports a broad range of trading strategies, including those involving Treasury securities, interest rate derivatives, and equities. Leverage at the largest life insurers stayed at historically high levels. Leverage at broker-dealers continued to be low, in line with levels observed over the past decade, and their intermediation activity, including for Treasury securities, has increased in recent quarters (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 in the aggregate, and fewer banks were as heavily reliant on such funding as they had been during that period. Redemption requests at certain perpetual-life nontraded business development companies (BDCs) have been trending lower more recently, though funds continued to limit the size of these redemptions and net flows remained negative. Life insurers' nontraditional liabilities grew further in the second quarter of 2026. Finally, assets in cash-management vehicles continued to grow, largely in government money market funds (MMFs), which historically have been the least susceptible to large-scale investor 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 September and October most frequently cited risks from artificial intelligence (AI), risk asset correction, higher long-term rates, cyberattacks, and fiscal debt sustainability.

Finally, the report contains additional boxes that analyze topics salient to financial stability: "Z.1 Data Enhancements" and "Leverage in the Data Center Buildout."

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."

	Artificial intelligence	Risk asset correction	Higher long-term rates	Cyberattacks	Fiscal debt sustainability
Fall 2026	87% of contacts surveyed	52% of contacts surveyed	48% of contacts surveyed	43% of contacts surveyed	43% of contacts surveyed
Spring 2026	50% of contacts surveyed	35% of contacts surveyed	20% of contacts surveyed	20% of contacts surveyed	30% of contacts surveyed

1 | Asset Valuations

Asset valuations remained elevated, while term premiums increased

Asset valuations remained near the upper end of their historical ranges across most markets. Broad equity valuation metrics continued to be elevated, partly driven by market enthusiasm for SI, though moderated by concerns over firms' capital expenditures and debt issuance plans. Spreads on corporate bonds and loans remained narrow compared with historical levels. Since the previous report, Treasury term premiums rose notably and volatility increased on net. CRE prices were stable. In residential real estate markets, prices stayed substantially above their historical relationship with fundamentals, although nominal house price growth remained slow.

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

Treasury yields rose markedly, and volatility moved higher

Treasury yields across 2- and 10-year maturities climbed markedly since the May report and remained 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 notably above its historical median (figure 1.2). Interest rate volatility implied by interest rate swaptions moved higher in September and October, rising above its median level (figure 1.3).

Equity valuations remained high, and volatility subsided

Measures of equity valuations have remained elevated since the previous report despite increases in earnings expectations that have pushed down the forward price-to-earnings ratio over the past year. Nevertheless, that ratio remained well above its historical median, partly driven by market enthusiasm for SI (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)—remained near the lower end of the range of its historical distribution (figure 1.5).[2] Two measures of equity market volatility—option implied and realized—have decreased since May, with option-implied equity volatility moving to a level below its historical median (figure 1.6).

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

Table 1.1. Size of selected asset markets

Item	Outstanding (billions of dollars)	Growth, 2025:Q2–2026:Q2 (percent)	Average annual growth, 1998–2026:Q2 (percent)
Public equities	93,608	25.3	9.5
Residential real estate	61,750	2.3	6.1
Treasury securities	30,878	8.3	8.3
Commercial real estate	22,848	9.7	5.6
Investment-grade corporate bonds	8,615	7.8	8.3
Farmland	3,663	3.3	5.5
High-yield and unrated corporate bonds	1,699	6.5	8.0
Leveraged loans[1]	1,568	5.0	25.9
Private credit[2]	1,504	13.8	20.1
Price growth (real)			
Commercial real estate[3]		−1.3	2.6
Residential real estate[4]		−2.1	2.4

Note: The data extend through 2026:Q2. Outstanding amounts are in nominal terms. Growth rates are nominal and are measured from Q2 of the year immediately preceding the period through Q2 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 1998 to 2026:Q2, as this market was fairly small before then.

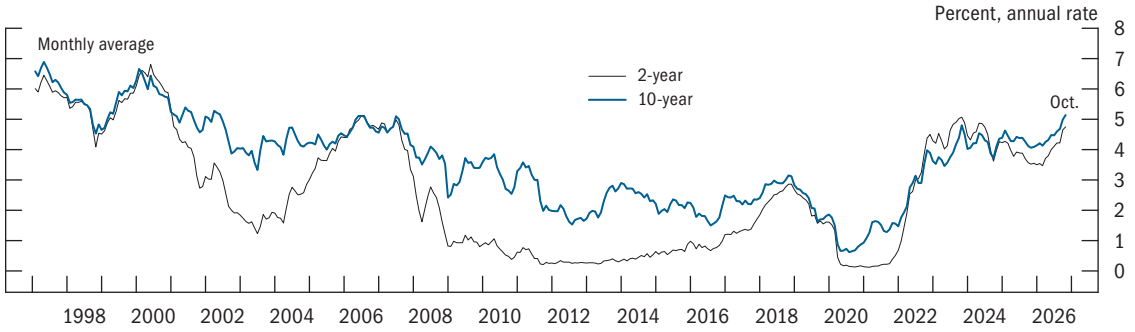
[2] Average annual growth of private credit is from 2012:Q4 to 2026:Q2.

[3] One-year growth of commercial real estate prices is from June 2025 to June 2026, and average annual growth is from June 1999 to June 2026. Both growth rates are calculated from equal-weighted nominal prices deflated using the consumer price index (CPI).

[4] One-year growth of residential real estate prices is from June 2025 to June 2026, and average annual growth is from June 1998 to June 2026. Nominal prices are deflated using the CPI.

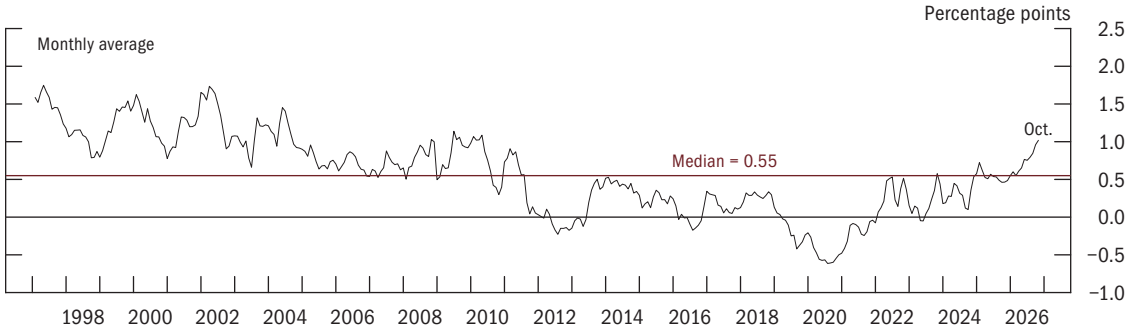
Source: For leveraged loans, PitchBook Data, Leveraged Commentary & Data; for corporate bonds, LSEG, Mergent Fixed Income Securities Database; for farmland, Department of Agriculture; for residential real estate price growth, Cotality; for commercial real estate price growth, CoStar Group, Inc., CoStar 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



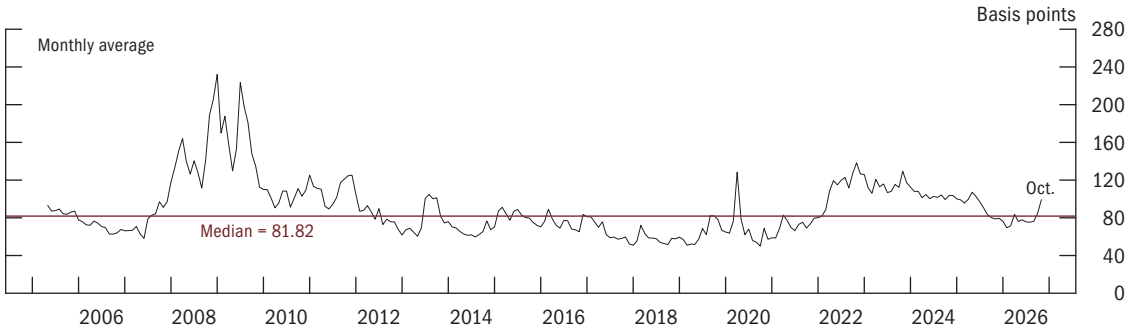
Source: Federal Reserve Board, Statistical Release H.15, "Selected Interest Rates."

Figure 1.2. Nominal Treasury term premium estimate



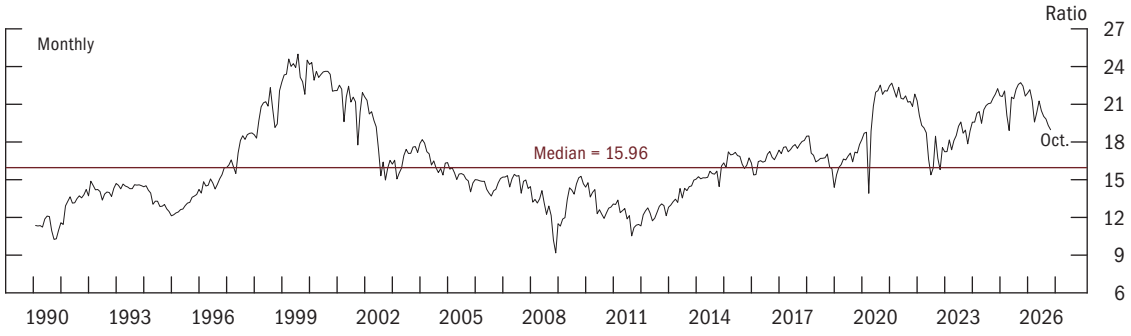
Source: Department of the Treasury; Wolters Kluwer, Blue Chip Financial Forecasts; Federal Reserve Bank of New York; Federal Reserve Board staff estimates.

Figure 1.3. Interest rate volatility



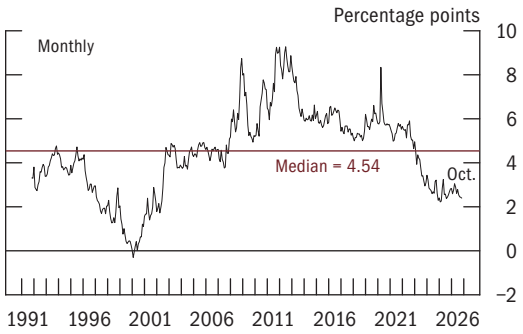
Source: For data through July 13, 2022, Barclays and S&P Global; for data from July 14, 2022, onward, ICAP, Swaptions and Interest Rate Caps and Floors Data.

Figure 1.4. S&P 500 price-to-earnings ratio



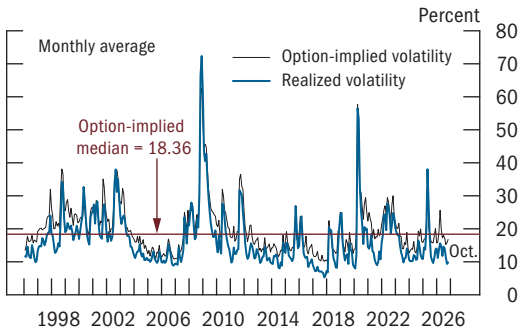
Source: LSEG, Institutional Brokers' Estimate System, North American Summary & Detail Estimates, Level 2, Current & History Data, Adjusted and Unadjusted, https://www.lseg.com/en/data-analytics/financial-data/company-data/ibes-estimates.

Figure 1.5. Equity premium estimate



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. Equity market volatility

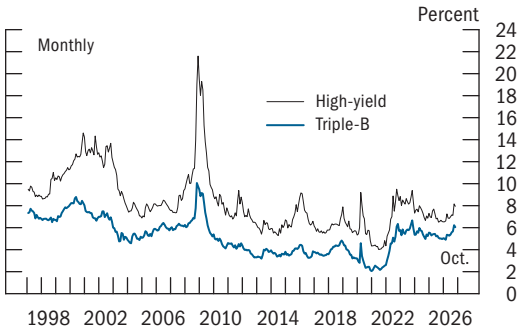


Source: Cboe Volatility Index® (VIX®) accessed via Bloomberg Finance L.P.; Federal Reserve Board staff estimates.

Corporate bond spreads stayed at the low end of their historical range; yields increased for riskier debt

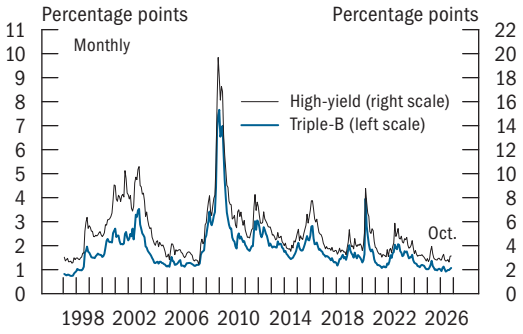
Yields on high-yield and triple-B-rated bonds both rose since the previous report, currently sitting above long-run historical medians (figure 1.7). The rise in yields largely reflects increases in benchmark Treasury yields. Corporate bond spreads relative to comparable-maturity Treasury securities largely held steady for investment-grade bonds and rose moderately for high-yield bonds over the past six months (figure 1.8). Both spreads stood at the low end of their historical range, signaling that investors require relatively modest compensation to hold corporate debt. The excess bond premium for all nonfinancial corporate bonds—a measure of the risk premium required by bond investors after controlling for bond characteristics as well as a granular treatment of credit quality—continued to inch down and remained below the median of its historical distribution (figure 1.9).

Figure 1.7. Corporate bond yields



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

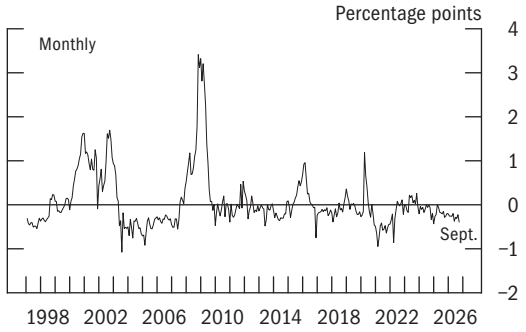
Figure 1.8. Corporate bond spreads



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

Issuance in the corporate bond market remained robust over the third quarter of 2026, as investor appetite for corporate debt appeared strong. Bond issuance by the largest investment-grade firms involved in operating data centers was greater than $150 billion year to date and has been met with strong investor demand. For additional information on the financing of advanced computing–related investment, see the box "Leverage in the Data Center Buildout."

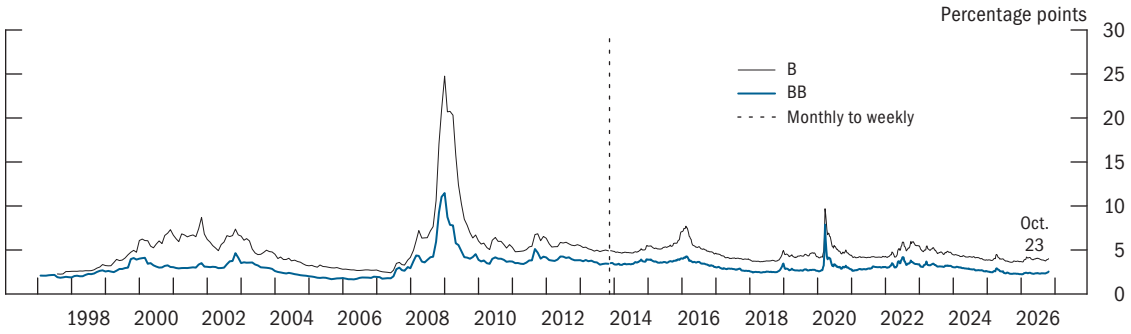
Figure 1.9. Excess bond premium



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.

Spreads on other risky debt remained relatively low by historical standards. The average spread on leveraged loans in the secondary market was little changed, on net, since the previous report and continued to be below its median since 2009 (figure 1.10). Average new-issue spreads in private credit markets widened modestly since the previous report but stayed relatively low.

Figure 1.10. Leveraged loan spreads



Source: PitchBook Data, Leveraged Commentary & Data.

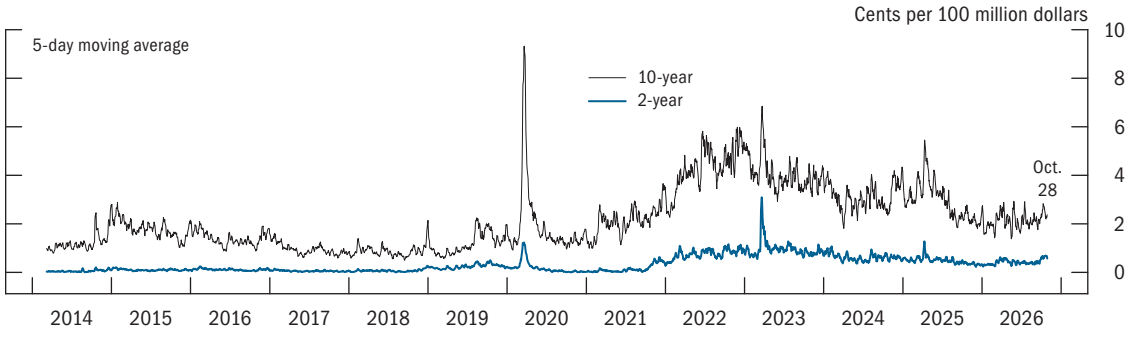
Key financial markets functioned in an orderly manner

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 further reduce market liquidity because liquidity providers may become more cautious in providing quotes. In extreme cases, low liquidity can threaten market functioning, leading to a situation in which participants are unable to trade at a reasonable cost.

Treasury market liquidity is particularly important because of the key role these securities play in the financial system. Since the May report, price impact—a measure of liquidity in the Treasury market that indicates how much prices move in response to a given amount of net buying or selling pressure—edged up for both the 2- and 10-year on-the-run Treasury notes. Price impact remained close to its median level since 2014 for the most liquid on-the-run 10-year Treasury note but held notably above its median level for the on-the-run 2-year note (figure 1.11). Price impact typically rises or falls with changes in market volatility, and the increase in price impact during September and October was low relative to the increase in volatility.

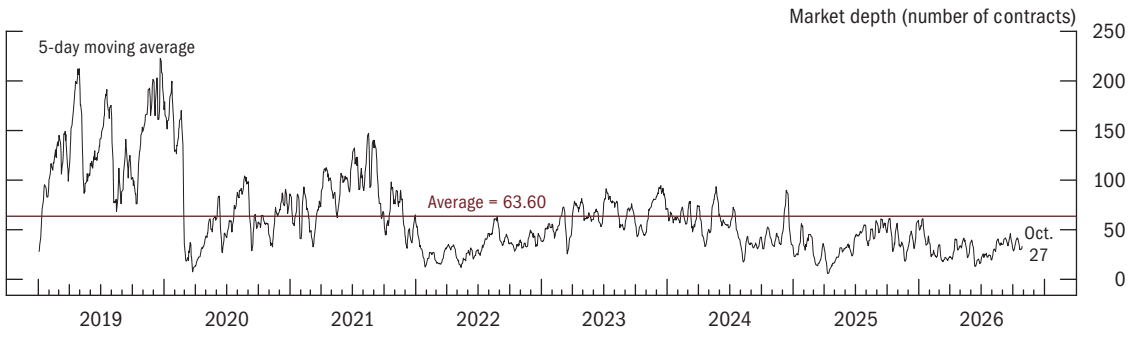
A measure of liquidity in equity markets was little changed since May but stayed at the lower end of its historical distribution since 2019 (figure 1.12). Liquidity in investment-grade and high-yield corporate bond markets remained ample over the third quarter of 2026, as bid-ask spreads sat near or below the bottom decile of their historical distribution.

Figure 1.11. Treasury market price impact



Source: Repo Inter Dealer Broker Community; Federal Reserve Board staff calculations.

Figure 1.12. Equity market liquidity

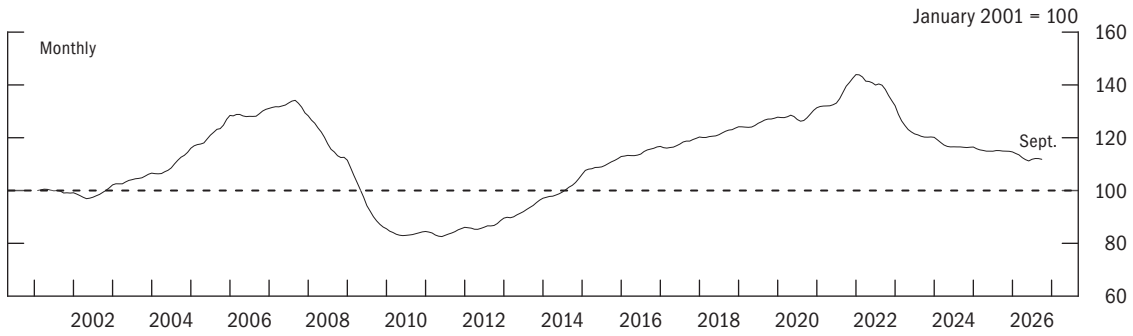


Source: LSEG, Tick History; Federal Reserve Board staff calculations.

Commercial real estate prices were steady

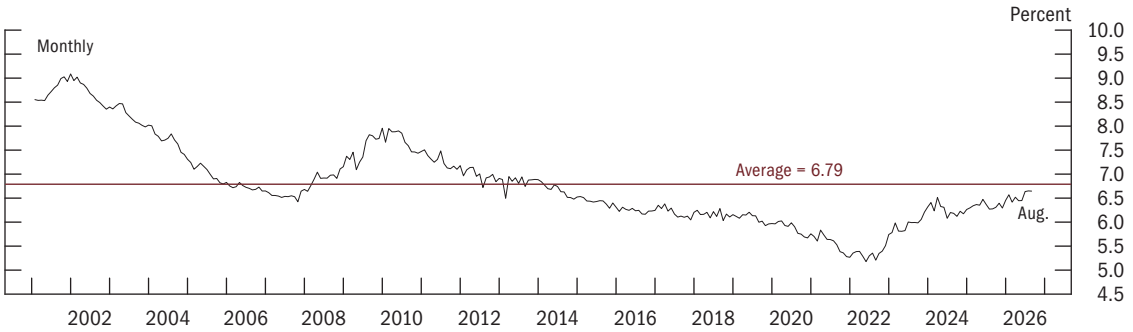
Aggregate CRE prices measured in inflation-adjusted terms have been fairly stable since the previous report (figure 1.13). Vacancy rates and rent growth—fundamental determinants of prices—likewise remained steady across a broad range of property sectors. Capitalization rates—the ratios of annual income of newly purchased commercial properties to their prices—have increased sizably from historical lows in 2022 (figure 1.14).

Figure 1.13. Inflation-adjusted commercial real estate prices



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

Figure 1.14. Income of commercial properties relative to prices

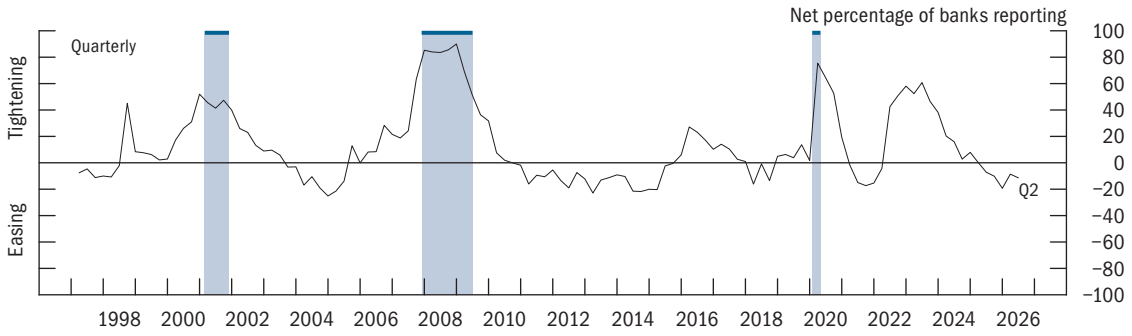


Source: MSCI—Real Capital Analytics.

According to the July 2026 Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS), banks' lending standards on new CRE loans continued to ease in the first two quarters of 2026, with this easing seen across the major loan segments of construction and land development, nonfarm nonresidential, and multifamily (figure 1.15).[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. Lending standards for commercial real estate loans



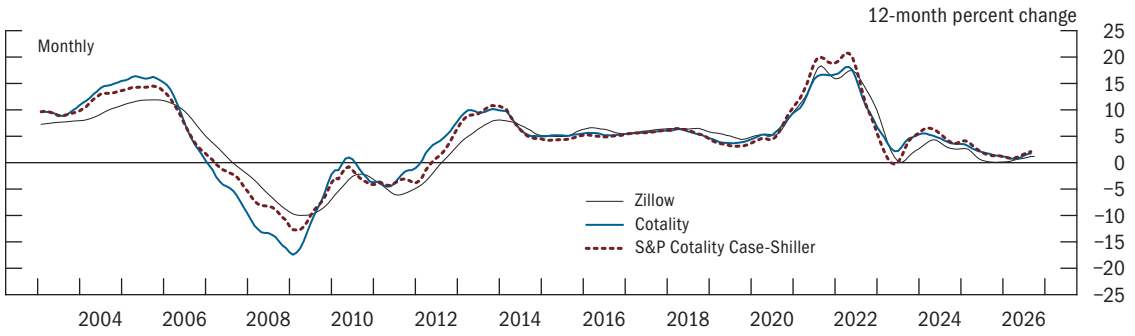
Source: Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices; Federal Reserve Board staff calculations.

A substantial volume of non-agency commercial mortgage-backed securities (CMBS) debt is set to mature in late 2026, and, if borrowers face difficulties in refinancing, potential forced property sales could occur and push prices lower. To date, lenders' willingness to extend or restructure maturing loans has helped mitigate this risk. Furthermore, non-agency CMBS represent a small part of total CRE debt.

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

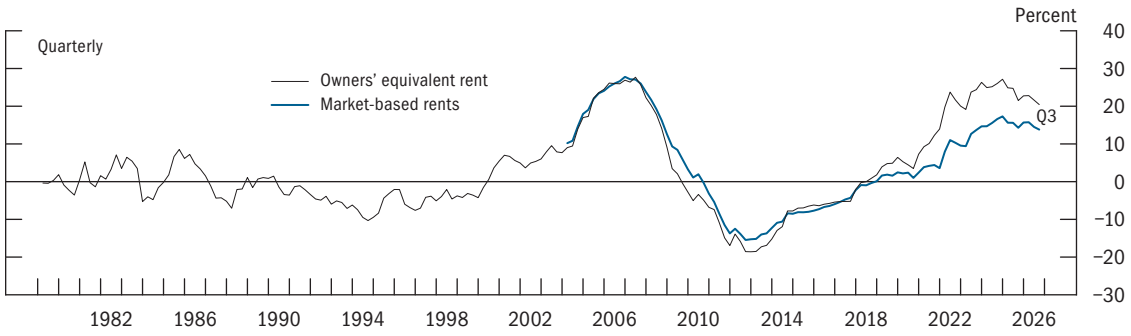
House price growth has remained weak, as it has since about 2022 (figure 1.16). Model-based measures of housing valuations, which evaluate their historical relationships with fundamentals, remained elevated, despite slight declines in September (figure 1.17). Price-to-rent ratios were stable, at high levels, across the largest 19 metropolitan statistical areas (figure 1.18). Credit standards for borrowers have eased slightly but remained tight relative to the early-to-mid 2000s, indicating that current high house prices are not driven by weak credit standards.

Figure 1.16. Nominal house price growth rates



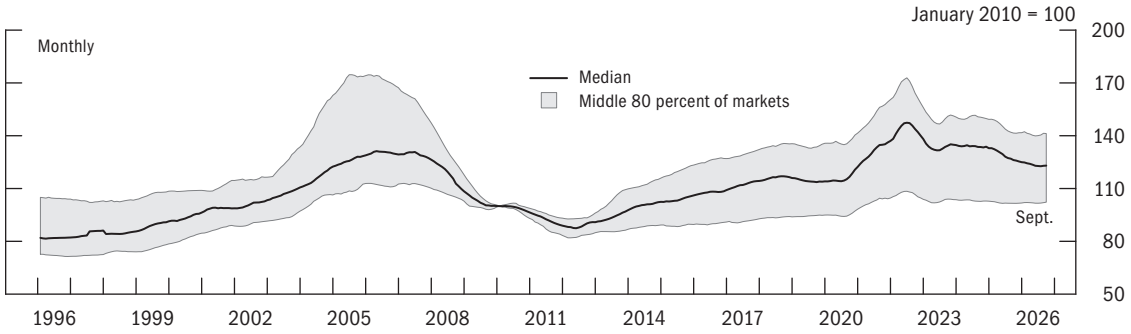
Source: Zillow, Inc., Real Estate Data; Cotality Real Estate Data; S&P Cotality Case-Shiller Home Price Indices.

Figure 1.17. Model-based house price valuations



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

Figure 1.18. House price-to-rent ratios

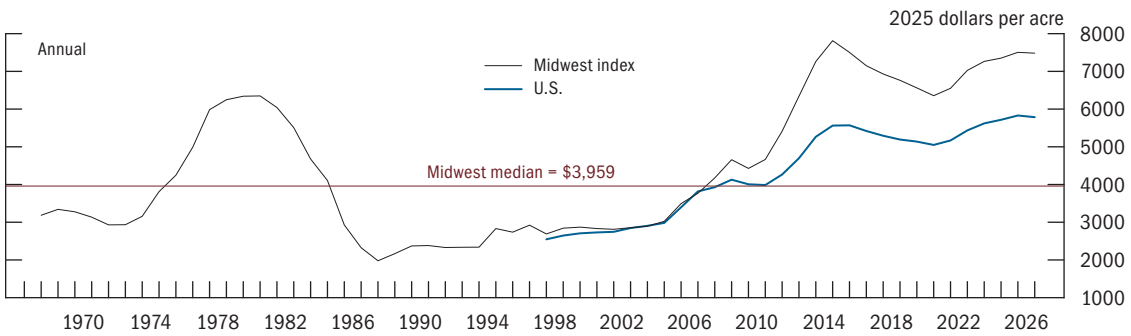


Source: For house prices, Zillow, Inc., Real Estate Data; for rent data, Bureau of Labor Statistics.

Farmland valuations continued to be at historical highs

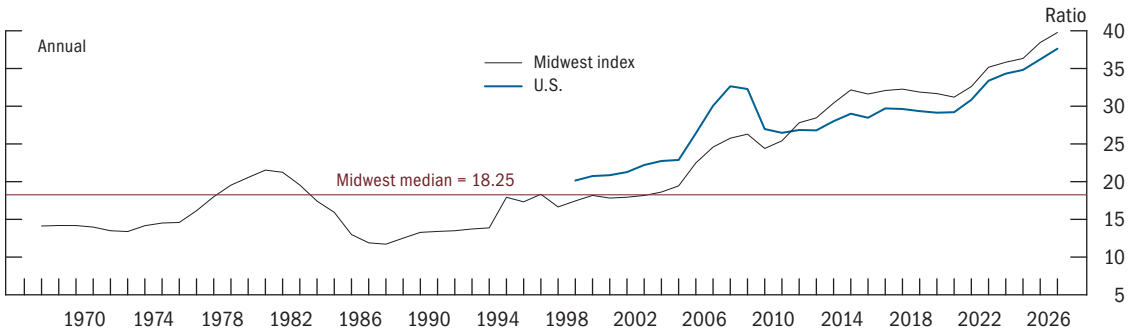
U.S. farmland prices remained elevated based on annual data as of September 2026. Farmland prices and ratios of price to rental income are currently at historically high levels (figures 1.19 and 1.20). These price levels have remained high because of limited farmland availability, even as interest rates and farm operating expenses have risen.

Figure 1.19. Inflation-adjusted farmland prices



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

Figure 1.20. Farmland price-to-rent ratios



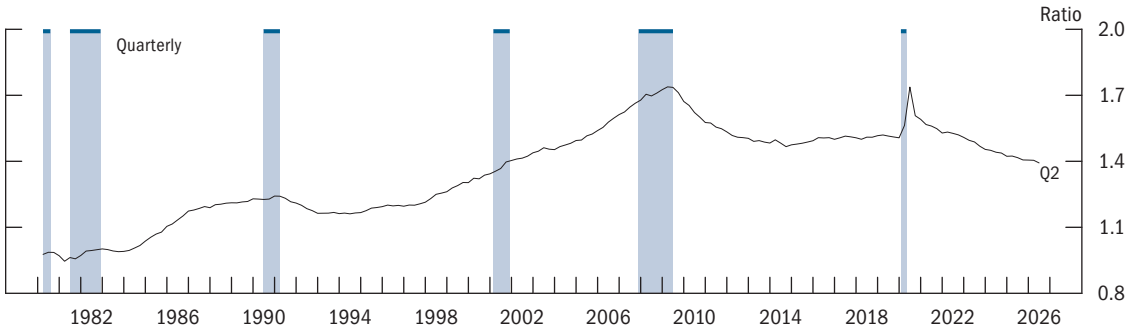
Source: Department of Agriculture; Federal Reserve Bank of Minneapolis staff calculations.

2 | Borrowing by Businesses and Households

Vulnerabilities from business and household debt remained moderate

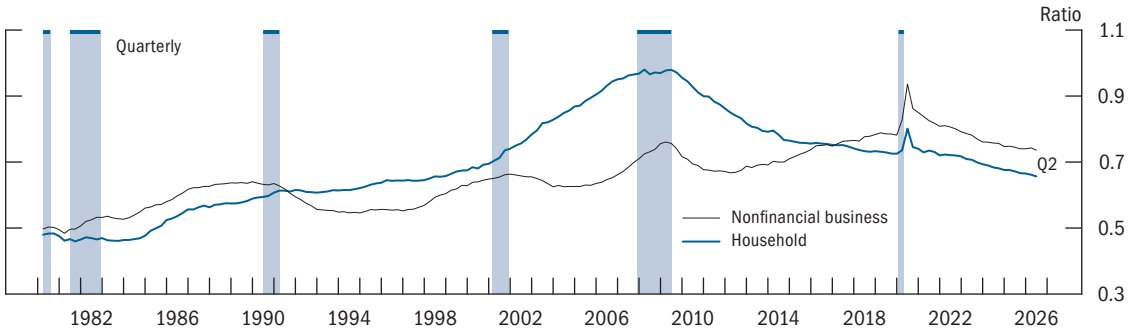
Overall, the balance sheets of nonfinancial businesses and households remained solid. The combined level of total private nonfinancial business debt and household-sector debt continued to grow more slowly than GDP, with the combined debt-to-GDP ratio still below its long-term trend (figure 2.1). This decline in the overall debt-to-GDP ratio resulted from decreases in both the business- and household-sector ratios (figure 2.2). The business debt-to-GDP ratio (the black line) continued its gradual decline but remained in the upper quartile of its historical range. The household debt-to-GDP ratio (the blue line) continued its long downward trend from its peak during the Global Financial Crisis (GFC), which has brought it down to levels not seen since the late 1990s.

Figure 2.1. Total nonfinancial business and household debt relative to 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. Nonfinancial business and household debt-to-GDP ratios



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 second quarter of 2026. Aggregate private credit market data are integrated for the first time, reflecting the Federal Reserve's Statistical Release Z.1, "Financial Accounts of the United States," published on September 11, 2026 (see the box "Z.1 Data Enhancements").

Table 2.1. Outstanding amounts of nonfinancial business and household credit

Item	Outstanding (billions of dollars)	Growth, 2025:Q2–2026:Q2 (percent)	Average annual growth, 1998–2026:Q2 (percent)
Total private nonfinancial credit	45,276	4.6	5.3
Total nonfinancial business credit	23,980	5.3	5.8
Corporate business credit, of which:	15,708	5.8	5.4
Bonds and commercial paper	9,190	4.1	5.5
Bank lending[1]	1,454	11.1	3.5
Leveraged loans[2]	1,412	3.6	11.8
Private credit (corporate)[3]	1,121	13.2	19.9
Commercial real estate (corporate)	1,206	5.2	5.2
Noncorporate business credit, of which:	8,272	4.4	6.7
Private credit (noncorporate)[3]	231	16.4	21.2
Commercial real estate (noncorporate)	2,210	1.9	1.9
Total household credit, of which:	21,296	3.9	4.9
Mortgages	13,977	3.0	4.9
Consumer credit, of which:	5,120	2.5	4.9
Student loans	1,858	3.1	7.0
Auto loans	1,575	.9	4.9
Credit cards	1,309	4.2	3.4
Nominal GDP	32,486	6.6	4.8

Note: The data extend through 2026:Q2. Outstanding amounts are in nominal terms. Growth rates are nominal and are measured from Q2 of the year immediately preceding the period through Q2 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. Total household-sector credit includes debt owed by other entities, such as nonprofit organizations. GDP is gross domestic product.

[1] Corporate bank lending does not include commercial mortgage lending.

[2] 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 2001 to 2026:Q2, as this market was fairly small before then.

[3] Average annual growth of private credit is from 2012:Q4 to 2026:Q2.

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."

Box 2.1. Z.1 Data Enhancements

The Z.1 statistical release published in September 2026 incorporated private credit and hedge funds into the Financial Accounts of the United States.[1] The release includes three new private credit sectors (private debt funds, BDCs, and interval and tender offer funds), middle-market collateralized loan obligations (CLOs), and a new hedge fund sector. It also includes new instrument tables for private credit loans, private debt fund shares, and hedge fund shares.

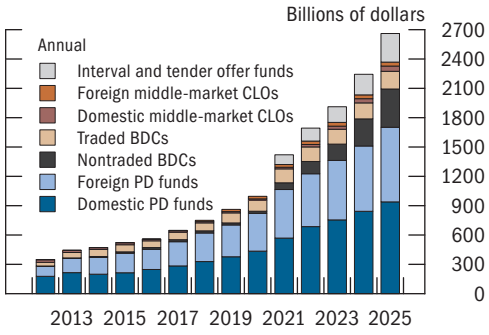
Private credit

The integration of private credit can help users trace the intermediation chain, from the investors that finance these vehicles, through the private credit funds themselves, to the businesses that ultimately borrow. Sector balance sheets are compiled using confidential data from the Securities and Exchange Commission's (SEC) Form PF and other sources.

Total financial assets of domestic and foreign private credit vehicles grew from approximately $350 billion in 2012 to more than $2.6 trillion in 2025 (figure A).[2] At the end of 2025, these vehicles held approximately $1.5 trillion in loans to U.S. businesses (figure B). Private debt funds and BDCs are the largest lenders, together accounting for the large majority of total private credit loans outstanding. Private credit now represents about 6 percent of total nonfinancial business debt, up from about 1 percent in 2012.[3]

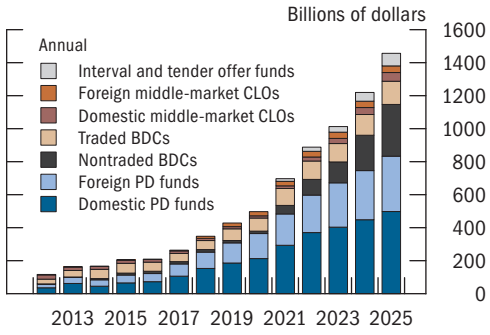
(continued)

Figure A. Total financial assets of private credit vehicles



Source: Securities and Exchange Commission, Form PF, Reporting Form for Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors; Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States."

Figure B. Private credit loans to U.S. businesses, by lender type



Source: Securities and Exchange Commission, Form PF, Reporting Form for Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors; Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States."

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[1] U.S.-domiciled private credit vehicles and hedge funds were not previously identified as separate sectors in the Financial Accounts, but now they are fully integrated into the Financial Accounts framework. Balance sheet data for U.S.-domiciled hedge funds were previously included in a supplementary table, and balance sheet data for all hedge funds filing Form PF were published in the Enhanced Financial Accounts. The Financial Accounts' treatment of most foreign-domiciled private credit vehicles and hedge funds vis-à-vis the U.S. has not changed, and the activities of these vehicles continue to be captured in the assets and liabilities of the rest-of-the-world sector; however, after the integration, the Financial Accounts release now separately identifies foreign issues and holdings of private credit loans, private debt fund shares, and hedge fund shares. For more information on the integration of private credit into the Financial Accounts, see Katie Brinkman, Christine Dobridge, Tim Dore, Simon Glossner, Elizabeth Holmquist, Nam Nguyen, Maria Perozek, and Irina Stefanescu (2026), "Introducing Private Credit into the Financial Accounts of the United States," FEDS Notes (Washington: Board of Governors of the Federal Reserve System, October 16), https://www.federalreserve.gov/econres/notes/feds-notes/introducing-private-credit-into-the-financial-accounts-of-the-united-states-20261016.html.

[2] Foreign private credit vehicles include foreign-domiciled private debt funds identified in Form PF and foreign middle-market CLOs.

[3] Following the integration of private credit into the Financial Accounts, the level of nonfinancial business debt expanded to include private credit loans that were previously classified as miscellaneous liabilities.

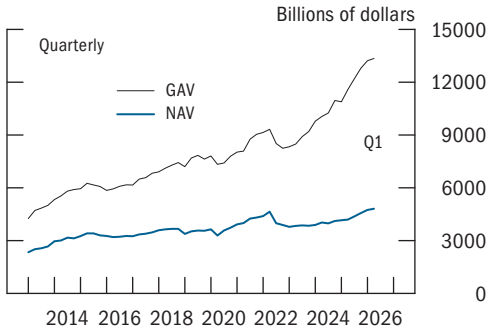
Box 2.1—*continued*

Sector balance sheets reveal substantial variation in portfolio composition and funding structures across private credit vehicles, reflecting differences in regulation, liquidity obligations, and investor bases. For example, the share of assets invested in loans varies significantly across the different types of private credit vehicles. Private debt funds invest 56 percent of their assets in private credit loans, compared with 80 percent of BDCs' assets and 26 percent for interval and tender offer fund assets. Leverage and funding structure also vary substantially, with BDCs generally more leveraged than private debt funds and interval and tender offer funds and relying on a broader mix of funding, including bank loans and bonds. Private debt funds are financed primarily by institutional investors providing long-term committed capital with limited redemption rights, including pension funds (42 percent), life insurers (14 percent), and households and nonprofit organizations (23 percent). By contrast, BDCs and interval and tender offer funds have more retail-oriented investor bases.

Hedge funds

Figure C shows the combined gross asset value (GAV) and net asset value (NAV) of domestic and foreign hedge funds reported in the Financial Accounts. Hedge fund GAV has increased rapidly in recent years, rising from $4 trillion in 2012 to $13 trillion in 2026. The widening gap between GAV and NAV reflects growing hedge fund leverage. Hedge funds use leverage—including repurchase agreements (repos), margin loans, short positions, and derivatives—to amplify returns. Their investments span equities, fixed-income securities, and derivatives.

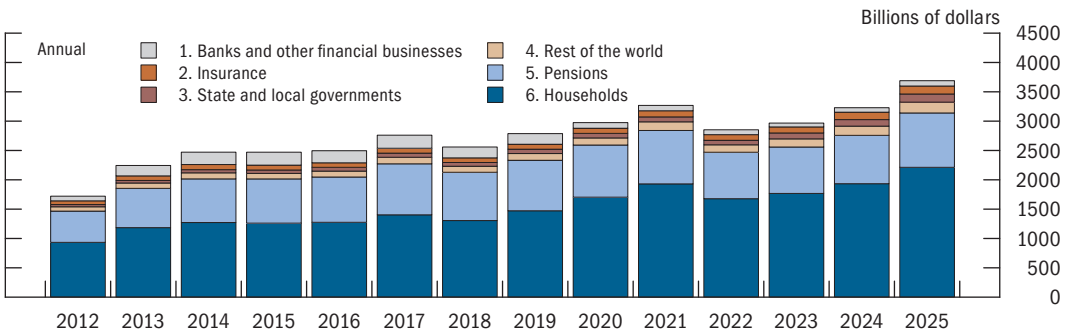
Figure C. Gross asset value and net asset value of domestic and foreign hedge funds



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

Figure D shows the investors in hedge fund shares that are captured within the scope of the Financial Accounts—that is, domestic-sector holdings of both domestically issued and foreign-issued shares and rest-of-the-world holdings of domestically issued shares (excludes foreign holdings of shares issued by foreign funds). As of year-end 2025, the combined household sector, which includes nonprofit organizations, held 60 percent of hedge fund shares in the Financial Accounts, while private and state and local defined-benefit pension plans held 25 percent. All other investors held a combined 15 percent.

Figure D. Hedge fund shares, by investor

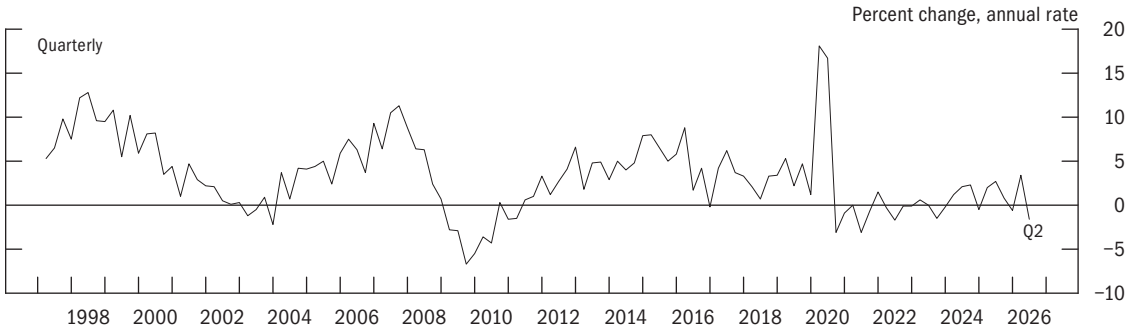


Source: Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States."

Business debt growth was largely flat, and debt-servicing capacity of non-investment-grade public firms and some private firms remained weak

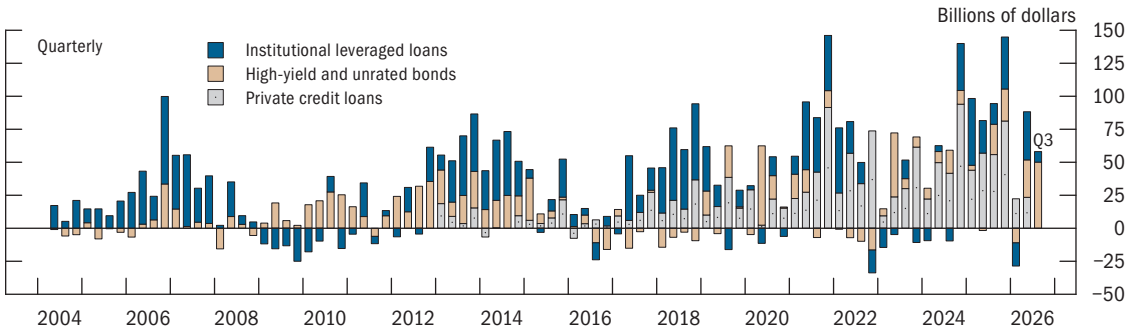
The growth rate of nonfinancial business debt adjusted for inflation was largely flat for the first half of 2026 (figure 2.3). Robust debt issuance by large technology companies may drive aggregate business debt higher over time, and complex financing arrangements and contingent guarantees also were growing rapidly at those firms. Net issuance—gross issuance minus retirements and repayments—of high-yield bonds and unrated bonds dipped but increased in the second and third quarters of 2026. Net issuance of both leveraged loans and private credit—loans originated by nonbanks that are negotiated on a bilateral basis—was modest, on net, so far in 2026 relative to 2025 (figure 2.4). Privately held firms, which include privately held corporate and noncorporate firms, accounted 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—currently makes up about 12 percent of total outstanding nonfinancial business debt, and its growth has slowed in 2026 compared with previous years.

Figure 2.3. Inflation-adjusted business debt



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

Figure 2.4. Net issuance of risky debt

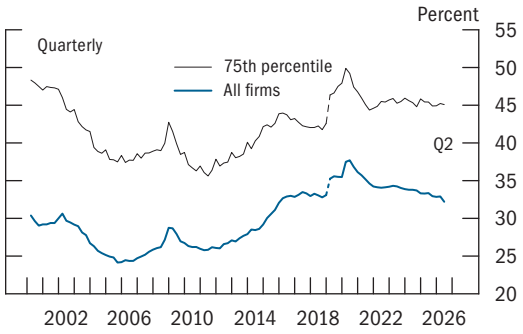


Source: LSEG, Mergent Fixed Income Securities Database; PitchBook Data, Leveraged Commentary & Data; Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States."

Among publicly traded nonfinancial firms, gross leverage—the ratio of debt to assets—continued to edge down through the first half of 2026 but remained high relative to its history (figure 2.5). Net leverage—calculated as debt minus cash divided by total assets—also was elevated. The median interest coverage ratio (ICR) for non-investment-grade public firms remained weak by historical standards (figure 2.6). By contrast, ICRs for investment-grade borrowers, which account for more than 75 percent of total outstanding debt among publicly traded nonfinancial firms, continued to be robust. The 12-month trailing volume-weighted corporate bond default rate remained below the median of the post–GFC period.

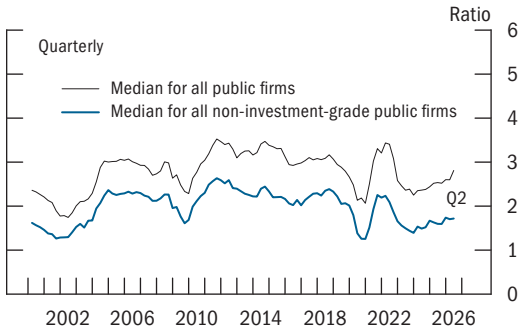
Gross leverage of privately held firms that also borrow from large U.S. banks was largely steady from the previous report and slightly below the median gross leverage levels over the period (figure 2.7). However, debt-servicing capacity remained low for some of these firms, especially those with elevated leverage and high use of floating-rate debt or a short-duration maturity structure.

Figure 2.5. Gross leverage of publicly traded nonfinancial firms



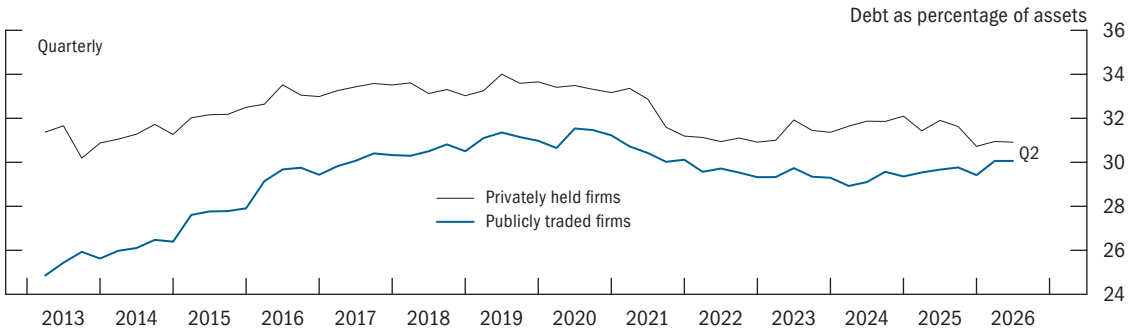
Source: Federal Reserve Board staff calculations based on S&P Global, Compustat.

Figure 2.6. Interest coverage ratios



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

Figure 2.7. Gross leverage for firms with commercial and industrial bank loans

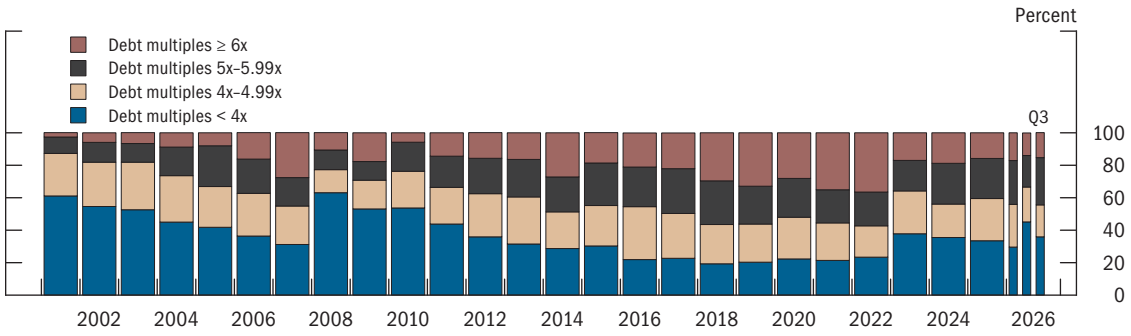


Source: Federal Reserve Board, Form FR Y-14Q (Schedule H.1), Capital Assessments and Stress Testing.

For leveraged loans, debt multiples—defined as the ratio of debt to earnings before interest, taxes, depreciation, and amortization—are a common measure of the credit quality of new issuance. The share of newly issued loans to large corporations with debt multiples of 4 or more remained around the historical median (figure 2.8). Gross and net leverage ratios of private leveraged loan borrowers that also borrow from large U.S. banks decreased from the previous report but remained above their historical medians. In terms of debt-servicing capacity, the median ICR for these private leveraged loan borrowers stayed near its historical low. Defaults including distressed exchanges—which reflect distressed loans that have been renegotiated between the borrower and the lender—declined to levels closer to the historical median (figure 2.9).

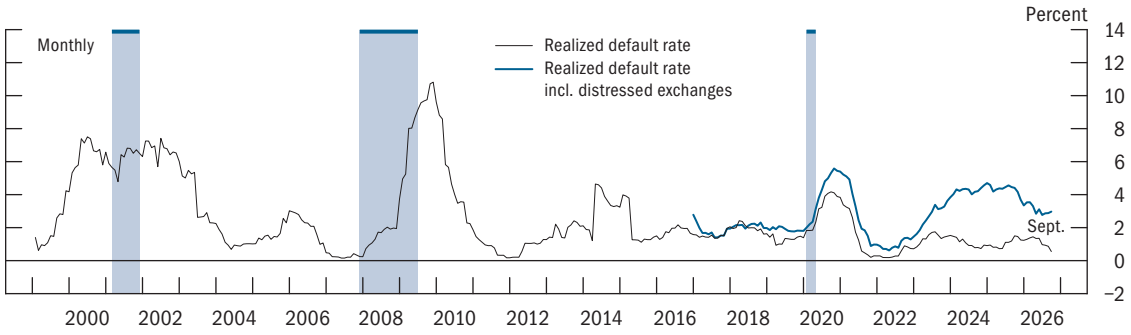
In private credit markets, the loan default rate increased, on net, since the previous report, reaching the upper end of its short historical distribution. Nonaccruals, including for loans with payment-in-kind (PIK) status, fell slightly in the second quarter of 2026, but the elevated usage of PIK indicates some degree of potential repayment difficulties.[4]

Figure 2.8. Debt-to-EBITDA multiples for newly issued leveraged loans



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

Figure 2.9. Realized default rate on leveraged loans



Source: PitchBook Data, Leveraged Commentary & Data.

[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.

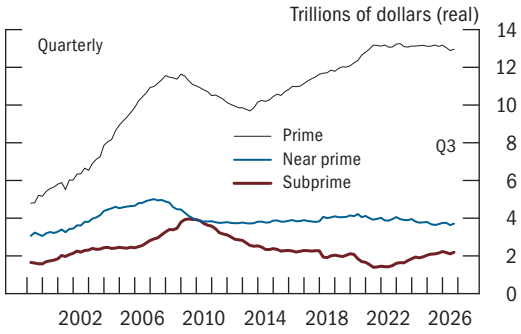
Since last year, the largest firms connected to the data center buildout have been increasing their debt loads rapidly (see the box "Leverage in the Data Center Buildout"). The complex interlinkages among firms engaged in the data center buildout, public credit markets, private lenders, and special purpose financing vehicles create vulnerabilities that necessitate close monitoring.

Credit to small businesses climbed relative to the same period in 2025

According to the August 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] In data from the Small Business Lending Survey from the Federal Reserve Bank of Kansas City, measures of small business loan originations rose in the second quarter of 2026 when compared with the same period in 2025, driven by an increase in new lines of credit at large and midsize banks.[6] Based on data through summer 2026, interest rates on small business loans declined over the past two years but remained near the top of the range observed since 2008. Delinquency rates were little changed and somewhat above pre-pandemic levels.

Outstanding household debt adjusted for inflation was little changed

Figure 2.10. Household debt



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 few years. Households with prime credit scores owe the majority of that debt (figure 2.10). The ratio of total required household debt payments to total disposable income (the household debt service ratio) was also little changed since the previous report and remained solid.

[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.

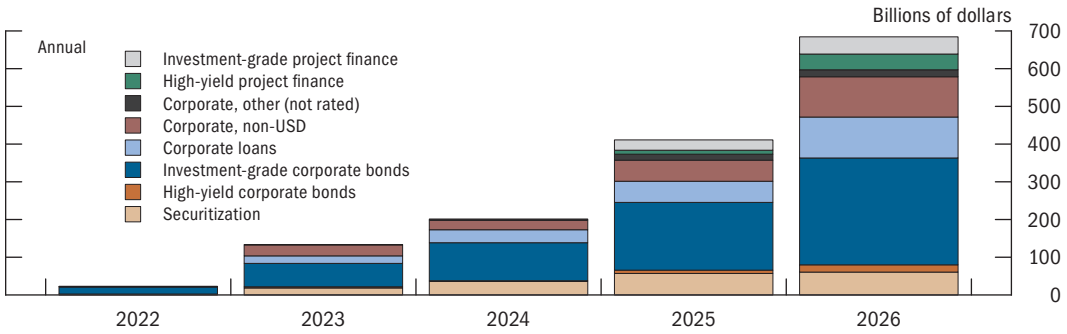
[6] This survey's data are available on the Federal Reserve Bank of Kansas City's website at https://www.kansascityfed.org/surveys/small-business-lending-survey.

Box 2.2. Leverage in the Data Center Buildout

Debt issuance to finance advanced computing infrastructure has grown rapidly over the past year. The composition of the debt being issued is also evolving from mostly corporate bonds to a combination of public and private debt, structured credit, and project finance.[1] In addition, large technology firms are rapidly increasing future lease commitments, backstop guarantees provided to other firms, and other complex and contingent obligations.

Advanced computing–related debt issuance rose to more than $680 billion by October 2026, about a fivefold increase from $130 billion in all of 2023 (figure A).[2] Investment-grade technology companies issued most of this debt, and advanced computing–related borrowing as a share of nonfinancial investment-grade corporate debt issuance increased from less than 6 percent in 2023 to about 31 percent in 2026. Outstanding public debt related to advanced computing is estimated at more than $1.1 trillion as of October 2026. Sizable transactions also occur in the private credit market, making the exact magnitude of advanced computing–related debt outstanding more difficult to measure.

Figure A. Debt issuance for advanced computing infrastructure



Source: Bank of America Global Research; Bloomberg Finance L.P.

The current data center buildout often draws comparisons to the late 1990s and early 2000s broadband telecom investment cycle. Figure B compares five hyperscaler firms' cumulative capital spending and debt issuance since 2020 with those of all firms in the telecommunications industry during the broadband investment cycle that started in 1995.[3] The negative dashed lines indicate cash outflows for capital expenditures, scaled by contemporaneous GDP. These lines have been tracking relatively closely, but advanced computing investment (the blue dashed line) has been accelerating of late, suggesting that the pace of the current cycle's investment may surpass that of the 1990s telecom cycle relatively soon. The positive solid lines in figure B indicate cash inflows from debt issuance. The blue solid line reflects how the hyperscaler firms' strong cash flows have reduced their need to issue debt to support similar investment levels, at least until this year.

(continued)

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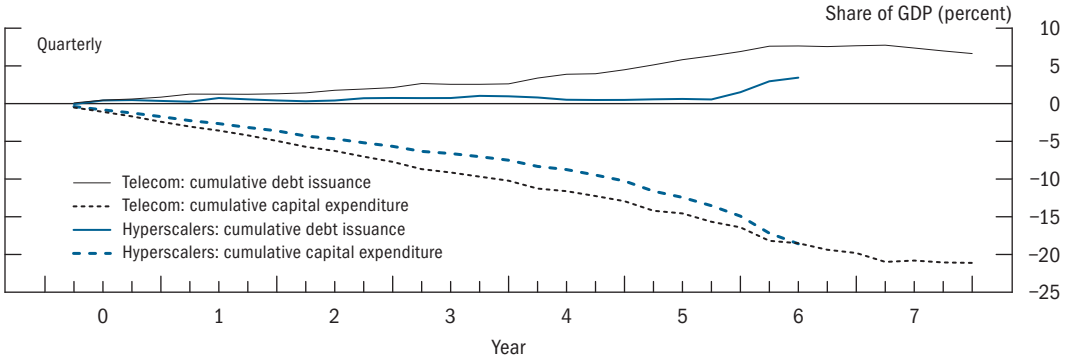
[1] Project finance refers to the financing of a long-term infrastructure project where the loan is repaid solely from the project's future cash flows; see World Bank Group (2026), "Project Finance – Key Concepts," webpage, Public-Private Partnership Resource Center, https://ppp.worldbank.org/financing/project-finance-concepts.

[2] This estimate includes public deal issuance and trackable private securities—that is, deals issued under rule 144A of the Securities Act of 1933. However, the data in this analysis do not capture all of these private deals. Private placements issued under section 4(a)(2) are excluded from this estimate.

[3] In 1995, several important technological breakthroughs in optics coincided with the National Science Foundation Network being privatized. The Netscape initial public offering in 1995 also indicated optimism about internet traffic growth, which would further gain steam from the Telecommunications Act becoming law the following year. This analysis defines hyperscalers as Amazon, Alphabet, Meta Platforms, Microsoft, and Oracle.

Box 2.2—*continued*

Figure B. Investment and debt issue cycle comparison: Advanced computing and telecom

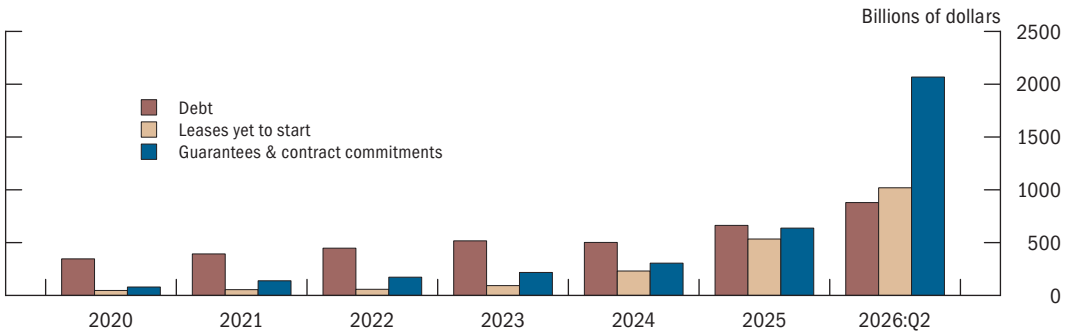


Source: Bureau of Labor Statistics; Compustat.

While debt balances have grown, other obligations have grown even more rapidly (figure C).[4] These obligations are a mixture of not-yet-commenced leases (whose undiscounted values exceed $1 trillion) and other obligations such as take-or-pay contracts and residual value guarantees (whose undiscounted values exceed $2 trillion).[5]

(continued)

Figure C. Debt and other obligations



Source: Securities and Exchange Commission, Forms 10-Q and 10-K; Bloomberg Finance L.P.; Federal Reserve Board staff estimates.

[4] For lease accounting details, see PwC (2026), "3.2 Overview of Lease Classification," in *Leases*, Viewpoint, July 23, https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/leases/leases__4_US/chapter_3_lease_clas_US/32_overview_of_lease_US.html. For contract commitments accounting, see Joanne Flood (2022), "ASC 460 Guarantees," in *Wiley Practitioner's Guide to GAAP 2022: Interpretation and Application of Generally Accepted Accounting Principles* (Hoboken, New Jersey: John Wiley & Sons), pp. 501–12.

[5] The guarantees, lease obligations, and other contract commitments that appear in company financial filings are generally not discounted and therefore are not directly comparable with on-balance-sheet debt, which is discounted. This analysis includes Amazon, Alphabet, Broadcom, Meta Platforms, Microsoft, Nvidia, and Oracle.

Box 2.2—*continued*

Long-term contracts, leases, and guarantees are all ways in which hyperscalers and other large firms with strong credit ratings can support the financing of projects developed by weaker-credit firms without having an immediate, direct effect on the balance sheets of the stronger-credit firms. For example, hyperscaler firms often enter into long-term leases for data center capacity with third-party data center developers. These leases are then used by the third-party developers to secure financing for the data center's construction. In addition, graphics processing unit (GPU) makers often provide a guaranteed residual value of the GPU collateral to support purchases of their GPUs by advanced computing technology or large language model (LLM) firms. These debt financings linking hyperscalers and GPU designers with smaller firms are often supplemented with equity investments by the hyperscalers and GPU designers, which create a "circular financing" dynamic.

The rapid growth of these other obligations represents deepening connections between the largest technology firms and smaller, riskier firms with less access to credit. Via these connections, the largest technology firms may absorb losses in the event of a future downturn, mitigating their effects on the rest of the financial system. However, it also suggests that these firms' economic exposure to such a downturn may be substantially larger than suggested by their on-balance-sheet liabilities.

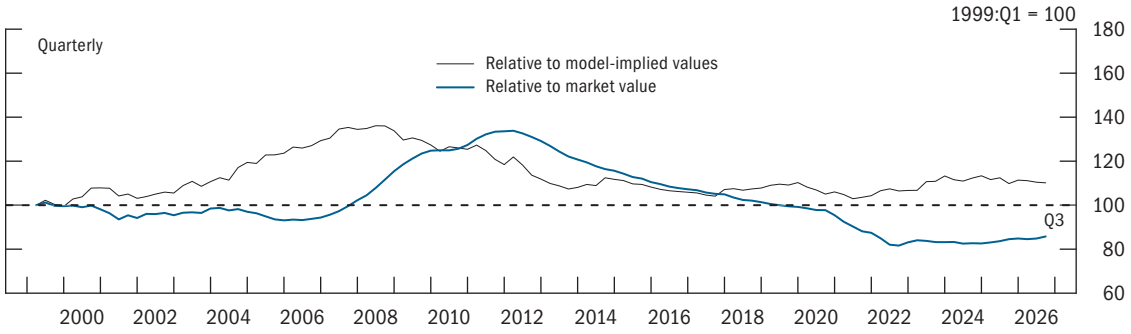
The hyperscaler and GPU firms' on-balance-sheet debt obligations are held primarily in mutual funds, pension funds, and insurance companies. A significant portion of these other obligations relate to financings that often involve special purpose entities (SPEs) that themselves issue both senior and subordinated debt. The riskier subordinated debt and equity tranches from these financings are held by high-yield bond funds, life insurance companies, BDCs, and other private debt vehicles. In addition, the largest U.S. bank holding companies have close to $1 trillion of exposure to large technology firms, data center developers, advanced computing–related SPEs and private credit vehicles, and utility companies, and those exposures are evaluated during the annual supervisory stress test.

Mortgage credit risk remained low

Mortgage debt accounted for approximately 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 (the blue line) or an estimate of home values from a model using rents and other market fundamentals (the black line), outstanding mortgage balances continued to sit well below previous peaks.

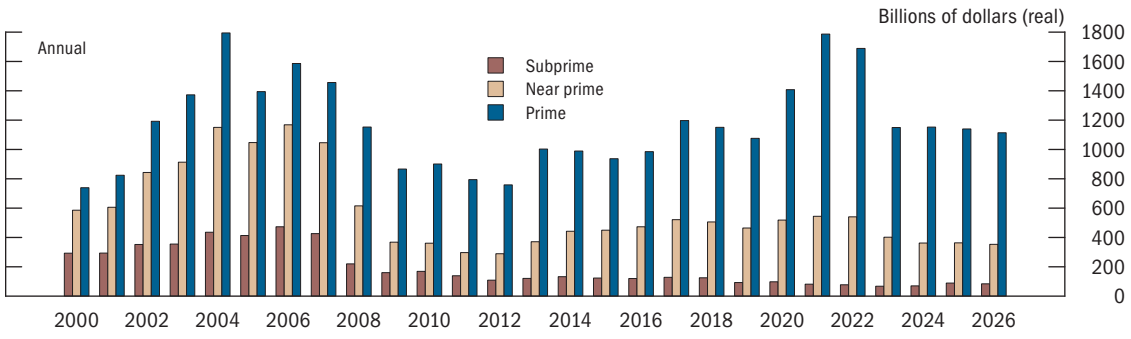
New mortgage extensions to prime and near-prime borrowers have been declining since 2022, while new mortgage extensions to subprime borrowers have been fairly flat over the same period (figure 2.12). Mortgage delinquency rates for conventional loans remained near historical lows (figure 2.13). Delinquency rates for FHA mortgages, which tend to be originated to lower-credit-score borrowers, have been increasing in recent years and continued to rise in 2026. While some borrowers are seeing strain, the rise in FHA delinquency rates does not seem to suggest a general deterioration in most households' balance sheets. The percentage of mortgages with negative equity remained very low (figure 2.14).

Figure 2.11. Housing leverage



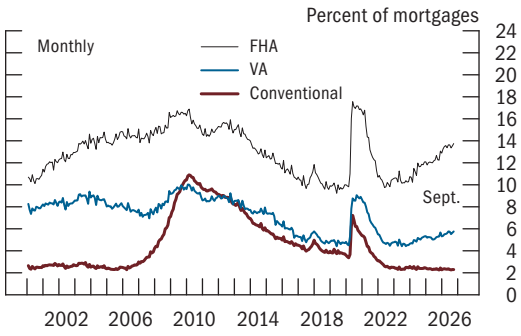
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax; Zillow, Inc., Real Estate Data; Bureau of Labor Statistics via Haver Analytics.

Figure 2.12. New mortgage extensions



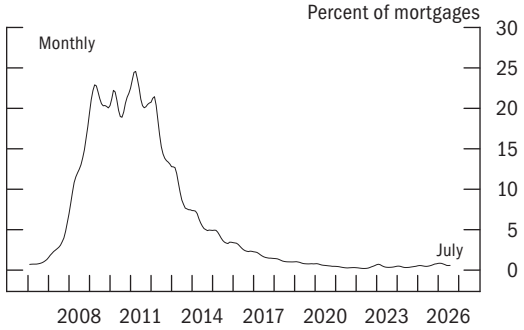
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax; consumer price index, Bureau of Labor Statistics via Haver Analytics.

Figure 2.13. Mortgage delinquency rates



Source: ICE, McDash®.

Figure 2.14. Share of mortgages with negative equity



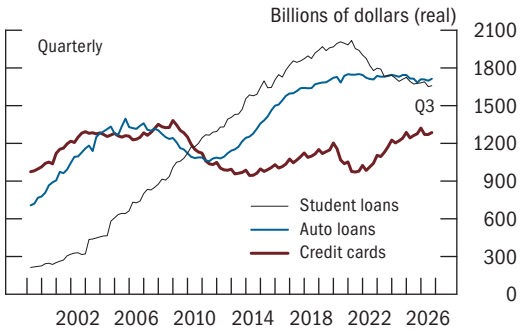
Source: Credit Risk Insight Servicing McDash/ Equifax; Federal Reserve Board staff calculations.

Consumer delinquencies changed little

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 fell slightly for credit card loans relative to the previous report (figure 2.15).

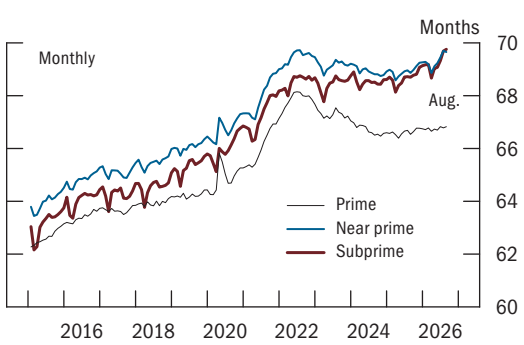
The average maturity of auto loans at origination for used cars remained near historical highs for most borrowers (figure 2.16). On balance, longer-maturity loans tend to have higher default risks, partly because such loans have a higher risk of falling deep into a negative equity position. The share of all auto loan balances in delinquent status remained elevated, at the 85th percentile of its historical distribution (figure 2.17).

Figure 2.15. Consumer debt balances



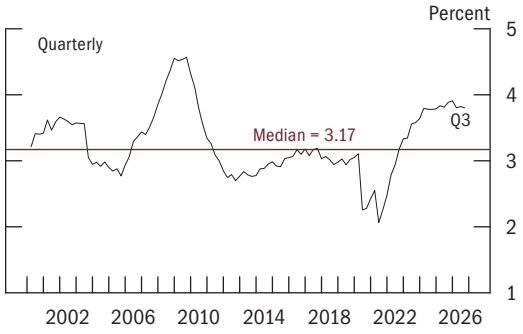
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax; consumer price index, Bureau of Labor Statistics via Haver Analytics.

Figure 2.16. Average maturity of loans at origination for used cars



Source: Experian Velocity.

Figure 2.17. Auto loan delinquencies

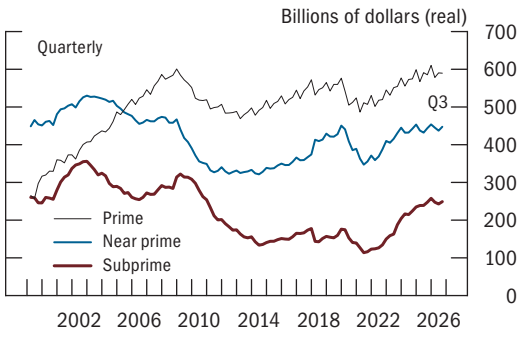


Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

The level of outstanding credit card debt was flat over the past year, and the composition of borrowers between prime, near-prime, and subprime segments was stable (figure 2.18). Credit card delinquency rates settled at an elevated level relative to the past 10 years but were near the median of the longer time series dating back to 2000 (figure 2.19). Delinquency rates across credit score and income groups also were about unchanged.[7] The overall increase in credit card delinquencies since 2022 was attributable primarily to nonprime performance, reflecting looser underwriting standards and large growth in inflation-adjusted revolving credit during the pandemic period and subsequent years.

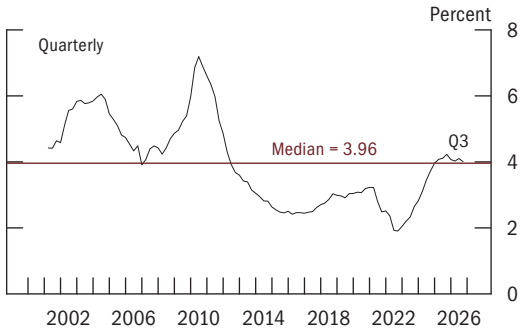
The outstanding stock of student loan debt remained below its pre-pandemic level, and delinquencies stayed high but within the range seen over the past decade. The high level of delinquencies reflected the resumption of student loan repayments and reporting of delinquent loans to credit bureaus that 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



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



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 continued to be notable

Hedge fund leverage reached its highest level over the period since 2013 during which comprehensive data have been collected, reflecting record or near-record leverage in equity, relative value, and macro strategies, despite a decrease in basis trade activity. Leverage at the largest life insurance companies stayed at historically high levels.

The banking system remained sound and resilient, as banks continued to reduce their exposure, albeit modestly, 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, and their intermediation activity, including for Treasury securities, has increased in recent quarters.

Table 3.1 shows the size and growth rates of assets held by selected financial institutions discussed in this section as of the second quarter of 2026. Hedge fund total assets data reflect fund reclassifications in the Federal Reserve's Statistical Release Z.1, "Financial Accounts of the United States," released on September 11, 2026 (see the box "Z.1 Data Enhancements").

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

Item	Total assets (billions of dollars)	Growth, 2025:Q2–2026:Q2 (percent)	Average annual growth, 1998–2026:Q2 (percent)
Banks and credit unions	30,031	5.1	5.5
Mutual funds	25,320	11.6	8.4
Insurance companies	15,848	7.9	5.6
Life	11,487	7.4	5.5
Property and casualty	4,360	9.2	5.9
Hedge funds[1]	13,349	15.2	8.7
Broker-dealers[2]	8,403	22.8	5.8
	Outstanding (billions of dollars)		
Securitization	14,723	3.8	5.3
Agency	12,741	2.6	5.6
Non-agency[3]	1,981	12.3	4.3

Note: The data extend through 2026:Q2 unless otherwise noted. Outstanding amounts are in nominal terms. Growth rates are nominal and are measured from Q2 of the year immediately preceding the period through Q2 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 2026:Q1. Growth rates for the hedge fund data are measured from Q1 of the year immediately preceding the period through Q1 of the final year of the period.

2 Broker-dealer assets are calculated as unnetted values.

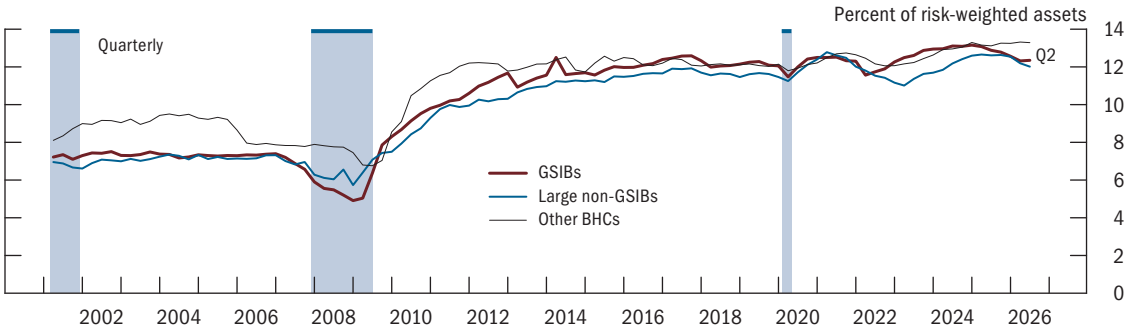
3 Non-agency securitization excludes securitized credit held on balance sheets of banks and finance companies.

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

Banks maintained high levels of regulatory capital, while fair value losses remained sizable

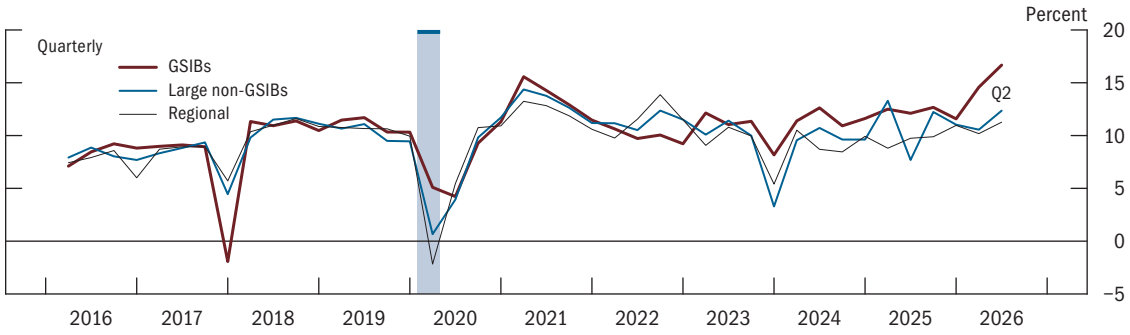
Robust capital positions allow banks to pursue growth opportunities while providing a cushion against unexpected losses. Strong earnings provide an additional source of resilience, as banks can accrete capital by retaining a portion of their earnings rather than raising external funds. The common equity Tier 1 (CET1) ratio, a regulatory risk-based measure of bank capital adequacy, remained at high levels (figure 3.1). Banks' return on equity—a measure of profitability—edged higher for U.S. global systemically important banks (GSIBs) over the first half of 2026 and stayed strong overall (figure 3.2).

Figure 3.1. Banks' risk-based capital ratios



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

Figure 3.2. Banks' return on equity

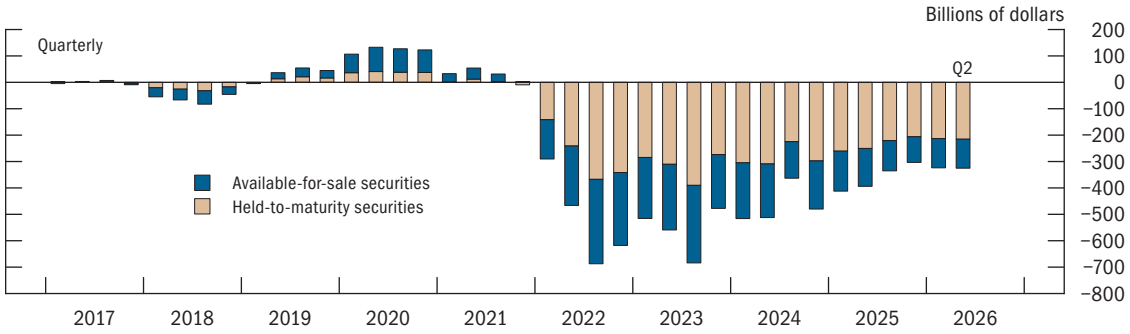


Source: Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) Form FFIEC 031; Federal Reserve Board, Form FR Y-9C, Consolidated Financial Statements for Holding Companies.

Banks have continued to reduce exposure to a potential rise in interest rates as their balance sheets moved toward less interest rate–sensitive shorter-duration securities. These actions have helped reduce fair value losses on banks' fixed-rate assets relative to peaks in 2022. The

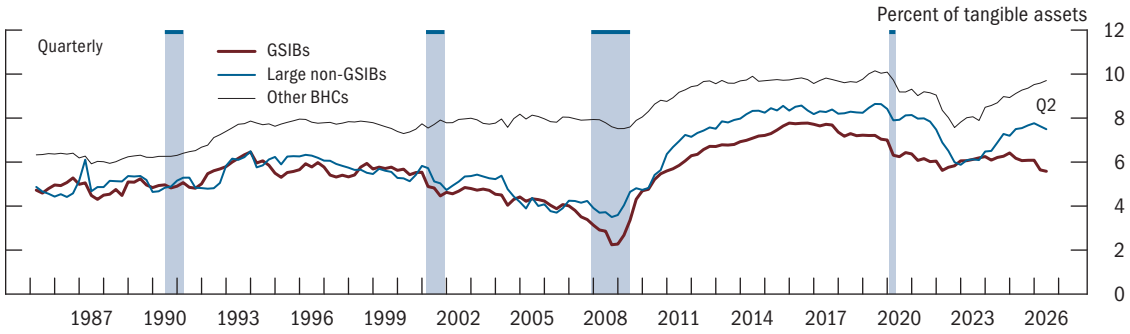
fair values of banks' available-for-sale (AFS) and held-to-maturity (HTM) portfolios were roughly $330 billion below their combined book value in the second quarter of 2026, and, with medium- to longer-term yields having since risen markedly through late October, fair values are likely facing additional downward pressure (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—edged down for GSIBs and large non-GSIBs (figure 3.4). This decline primarily reflected growth in total assets, and, all told, the ratio remained close to its median level over the past decade. For regional banks, the ratio has been increasing since 2022 and stands near the top of its historical distribution.

Figure 3.3. Fair value gains and losses on banks' securities portfolios



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.

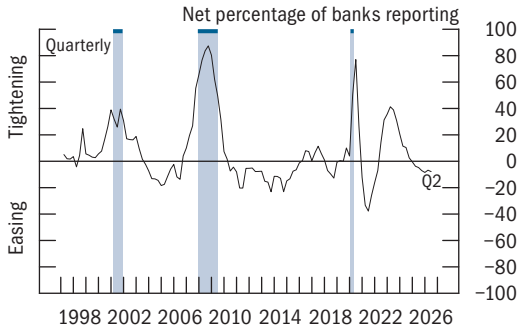
Figure 3.4. Ratio of tangible common equity to tangible assets



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.

Some bank lending standards eased, and credit performance continued to be strong

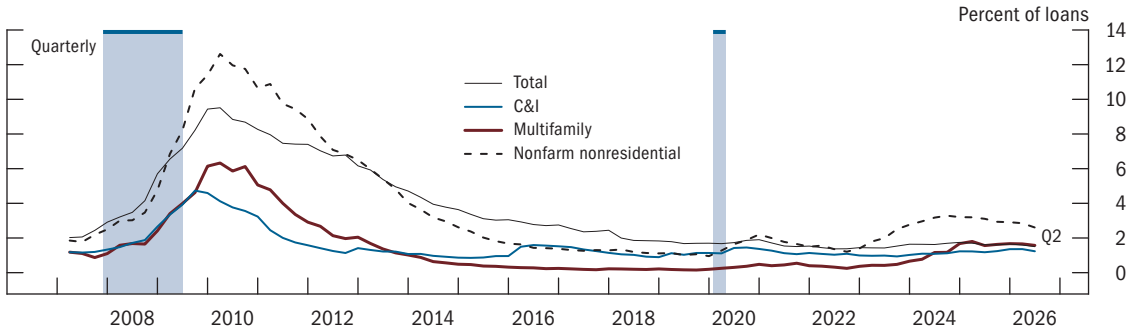
Figure 3.5. Changes in bank lending standards



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

Bank lending standards eased across several loan categories over the first half of 2026, according to recent SLOOS responses (figure 3.5). As of July 2026, the level of standards had moderated materially from the 2023 peaks, driven primarily by large banks, and stood below historical medians for the period since 2011 for commercial and industrial, CRE, and residential real estate loans. At the same time, credit performance remained strong, with delinquency rates declining across a range of loan categories (figure 3.6).

Figure 3.6. Bank loan delinquency rates



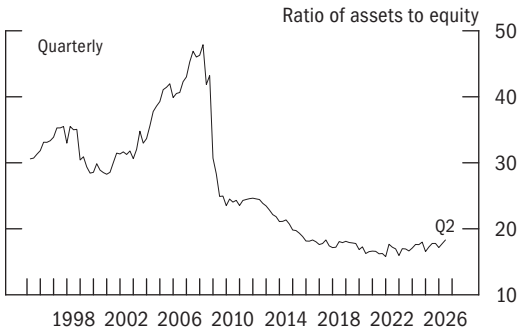
Source: Federal Reserve Board, Form FR Y-9C, Consolidated Financial Statements for Holding Companies; Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) Form FFIEC 031.

Broker-dealers' leverage remained low

Broker-dealer leverage edged up over the first half of 2026 but remained broadly in line with the low levels observed over the past decade (figure 3.7). Dealers' trading profits rose and now stand near the top of their historical distribution (figure 3.8). In addition, the share of dealer profits attributable to equity trading increased from one-third to one-half (figure 3.9).

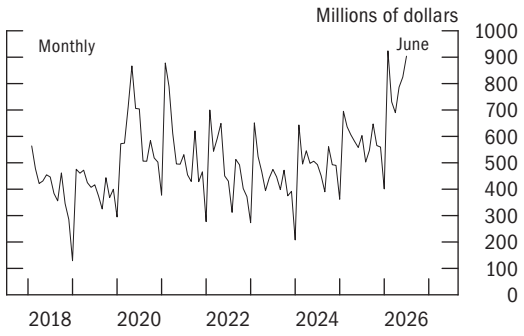
Dealers are important intermediaries in Treasury markets, serving in key roles that support orderly market functioning. In November 2025, federal banking agencies approved a modification to the enhanced supplementary leverage ratio rule for U.S. GSIBs, reducing regulatory balance sheet constraints and providing capacity to allocate additional resources to their dealer subsidiaries. Measures of dealer intermediation activity in Treasury markets increased further since the

Figure 3.7. Broker-dealer leverage



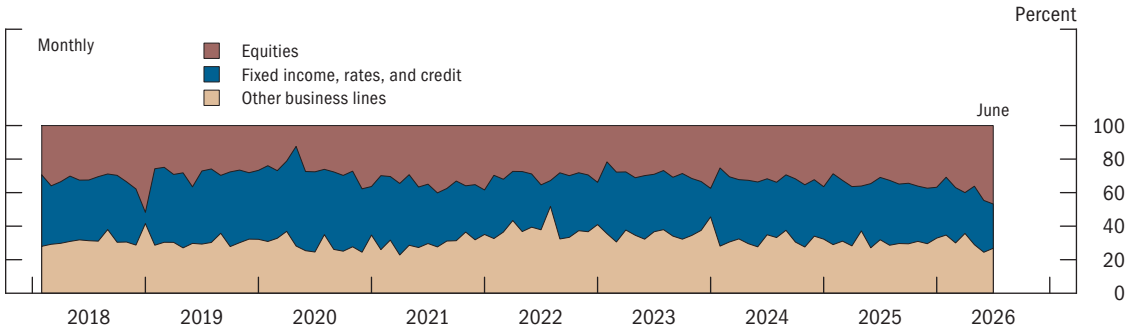
Source: Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States."

Figure 3.8. Broker-dealer trading profits



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 trading profits, by business line



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).

beginning of 2026. Dealers also maintained headroom relative to internal risk limits, suggesting they could support additional trading and financing in normal times. However, an increase in volatility could bring dealers closer to these risk-based limits and reduce their willingness and ability to intermediate during periods of market stress.

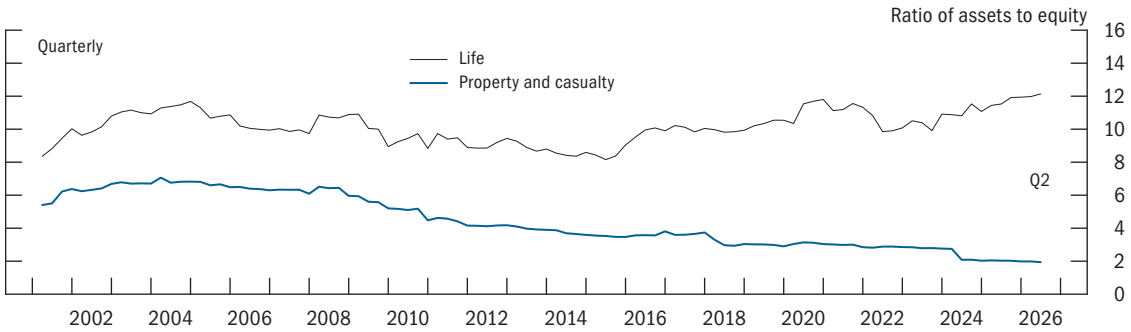
According to the September 2026 Senior Credit Officer Opinion Survey on Dealer Financing Terms (SCOOS), dealers reported that overall use of financial leverage and financing terms remained mostly unchanged.[8] In response to special questions seeking a longer-term perspective on securities financing and leverage, a large majority of dealers reported that their current collateral spreads on equities financing are above the midpoint of the past 10 years. Most dealers also reported that leverage among hedge funds and exchange-traded fund clients was above the midpoint of its range over the same period.

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

Leverage at large life insurance companies stayed at historically high levels

Leverage at the largest life insurers remained at historically high levels in the second quarter of 2026, while leverage at property and casualty insurers stayed low (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.[9]

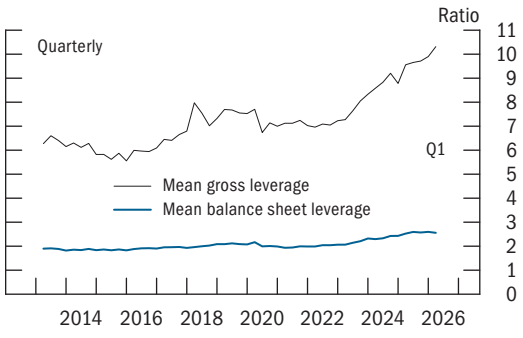
Figure 3.10. Leverage at life insurance companies and property and casualty insurers



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

Hedge funds' leverage reached the highest level since 2013

Figure 3.11. Hedge fund leverage

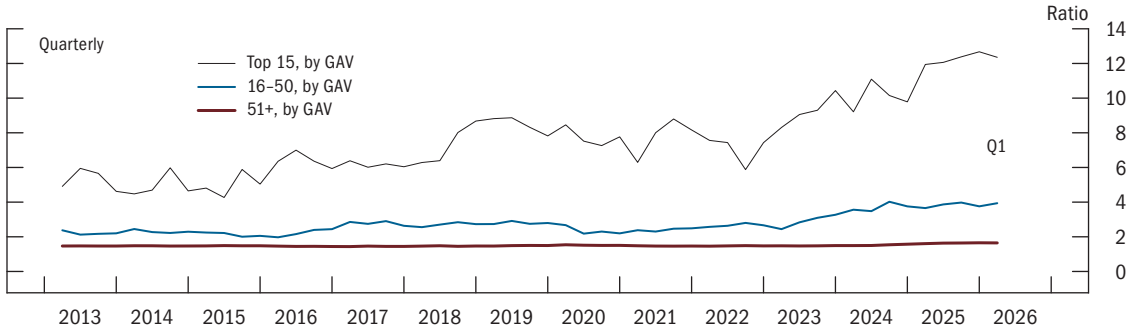


Source: Securities and Exchange Commission, Form PF, Reporting Form for Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors.

In the first quarter of 2026, the most recent quarter for which comprehensive data from the SEC's Form PF are available, gross notional leverage, measured as gross notional exposure divided by NAV, increased to the highest level since data began in 2013 (figure 3.11). 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. Leverage in the sector also remained skewed to larger funds (figure 3.12).

[9] In June 2026, the National Association of Insurance Commissioners finalized a recalibration of risk-based capital for CLOs. The recalibration of CLO capital charges coincided with a halt in the growth of life insurers' broadly syndicated loan CLO holdings.

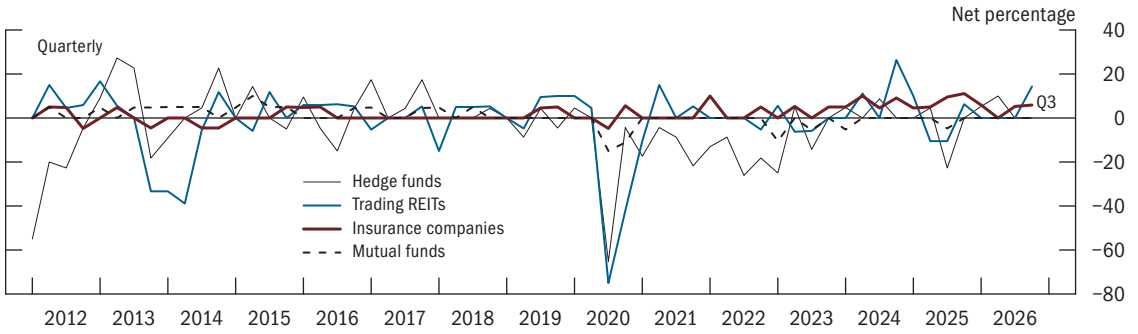
Figure 3.12. Hedge fund balance sheet leverage, by fund size



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

According to data from the September 2026 SCOOS, dealers reported that hedge funds' use of financial leverage remained roughly unchanged in the second and third quarters of 2026 (figure 3.13). High leverage can lead to spillovers if funds experience material losses or face worsening funding conditions.

Figure 3.13. Changes in broker-dealer clients' use of financial leverage



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

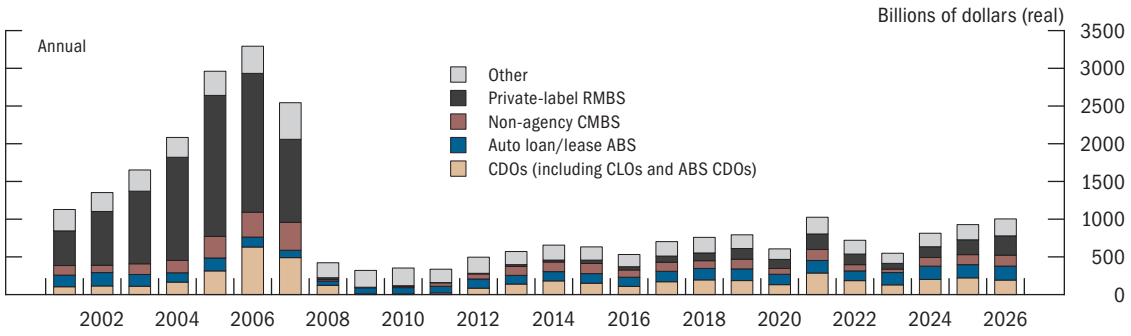
Launches of exchange-traded products with embedded leverage remained high

Introduction of new leveraged and inverse exchange-traded products (LETPs), which are investment vehicles used by retail traders, remained elevated, with net assets of equity-linked LETPs rising notably over the year to more than $170 billion and the number of products continuing to grow. Daily rebalancing needs of LETPs have the potential to amplify price declines of single stocks and broader stock indexes.

Issuance of non-agency securitized products stayed strong

Issuance of non-agency asset-backed securities (ABS) remained robust through September 2026, reaching multiyear highs (figure 3.14).[10] Issuance was led by CMBS and RMBS. Despite the notable increase in issuance of RMBS in recent years, it remained well below pre-GFC levels, and terms and structures suggest that the financing excesses that characterized the housing boom before the GFC have not returned. Securitizations of digital infrastructure, including data centers, also grew, providing debt capital to such developments, though the size of the outstanding market was small compared with the overall data center financing market. While many loans in CMBS deals are approaching maturity, the level of distressed sales has remained low, as servicers have various workout strategies available. Spreads of major securitized products were low by long-run standards, consistent with conditions in other credit markets.

Figure 3.14. Issuance of non-agency securitized products



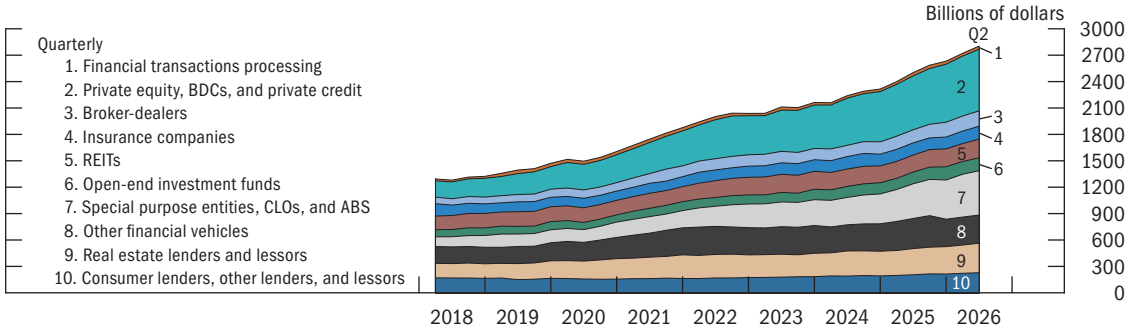
Source: Green Street, Commercial Mortgage Alert's CMBS Database and Asset-Backed Alert's ABS Database; consumer price index, Bureau of Labor Statistics via Haver Analytics.

Bank lending to private credit and structured finance vehicles continued to grow

Bank credit commitments to other financial institutions continued to grow, surpassing $2.8 trillion in the second quarter of 2026 (figure 3.15). Private equity, BDCs, and private credit remained the largest exposure category, accounting for one-fourth of total commitments. Growth of commitments was highest for the SPEs, CLOs, and ABS category, rising nearly 30 percent over the year to the second quarter of 2026 (figure 3.16).

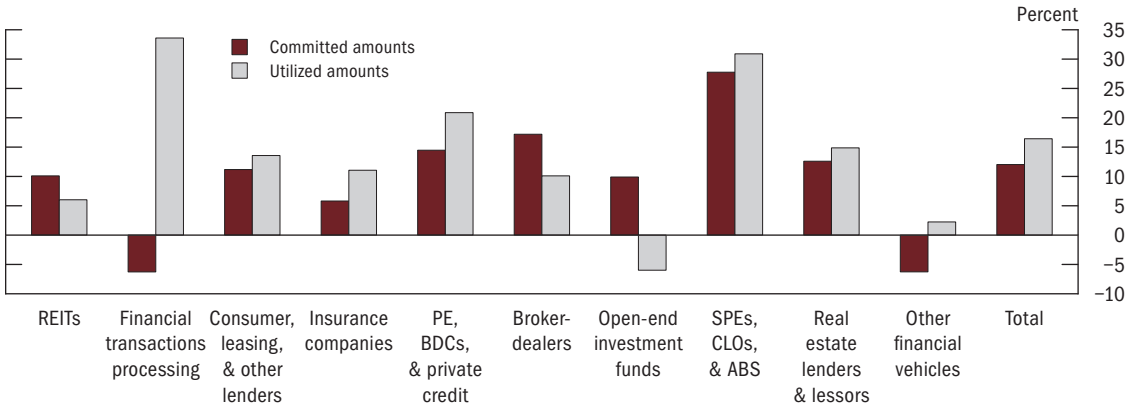
[10] Securitization allows financial institutions to bundle loans or other financial assets and sell claims on the cash flows generated by these assets as tradable securities, much like bonds. By funding assets with debt issued by investment funds known as SPEs, securitization can add leverage to the 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 CLOs (predominantly backed by leveraged loans), ABS (often backed by credit card and auto debt), CMBS, and residential mortgage-backed securities (RMBS).

Figure 3.15. Bank credit commitments to other financial institutions



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

Figure 3.16. Sectoral growth in bank credit to other financial institutions



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

4 | Funding Risks

Vulnerabilities from funding risks were roughly in line with historical norms

Funding risks for most banks remained moderate. On the asset side, large banks continued to hold high-quality liquid assets (HQLA), with their liquidity coverage ratio (LCR) about unchanged at 120 percent of requirements. As a share of assets, uninsured deposits—a key component of funding risk for most banks—were stable at considerably lower levels than in 2022, both in the aggregate and among banks that had been heavily reliant on such funding.

Assets in cash-management vehicles remained at record levels, primarily reflecting assets in government MMFs, which have historically proved the least susceptible to large-scale investor redemptions among these vehicles. Runnable instruments as a share of GDP edged higher over the first half of 2026, and instruments susceptible to liquidity disruptions remained roughly stable as a share of total runnable instruments. The total market value of stablecoins stayed at around $310 billion over the past year.[11]

Life insurers' nontraditional liabilities increased further over the first half of 2026. Redemption requests at some types of private credit vehicles have been trending lower, though they remained elevated. The ability of these vehicles to limit redemptions, together with their relatively low leverage, helped mitigate their exposure to run risk. Some open-end bond and loan mutual funds remained exposed to liquidity transformation risks; that is, 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 that the total relative to GDP stood at 87 percent as of the second quarter of 2026.

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, continued to decline for large banks but remained in the upper half of the historical distribution for all bank groups (figure 4.2). Many U.S. GSIBs 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 remain well below their original book values, selling them would require banks to record the difference in their balance sheets. As a result, to raise

[11] Approximately 99 percent of the market capitalization of stablecoins is denominated in U.S. dollars.

Table 4.1. Size of selected instruments and institutions

Item	Outstanding/total assets (billions of dollars)	Growth, 2025:Q2–2026:Q2 (percent)	Average annual growth, 1997–2026:Q2 (percent)
Total runnable money-like liabilities, of which:[1]	28,157	11.8	5.5
Uninsured deposits	7,969	9.0	10.6
Domestic money market funds[2]	7,900	12.5	6.8
Government	6,513	13.8	15.1
Prime	1,238	6.5	3.8
Tax exempt	149	7.7	–.3
Repurchase agreements	6,765	14.1	6.3
Commercial paper	1,451	4.9	2.9
Securities lending[3]	1,442	16.6	7.7
Bond mutual funds	5,534	10.3	8.0

Note: The data extend through 2026:Q2 unless otherwise noted. Outstanding amounts are in nominal terms. Growth rates are nominal and are measured from Q2 of the year immediately preceding the period through Q2 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.

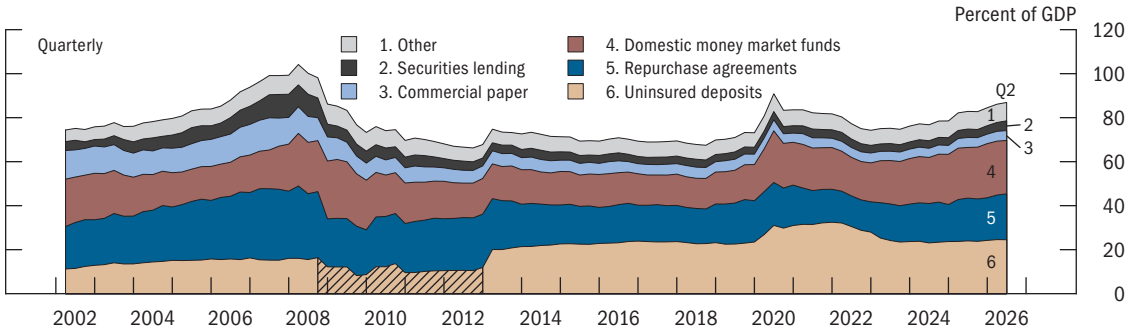
[1] Average annual growth is from 2003:Q1 to 2026:Q2.

[2] Average annual growth is from 2001:Q1 to 2026:Q2.

[3] Average annual growth is from 2000:Q1 to 2026:Q1. Securities lending includes only lending collateralized by cash.

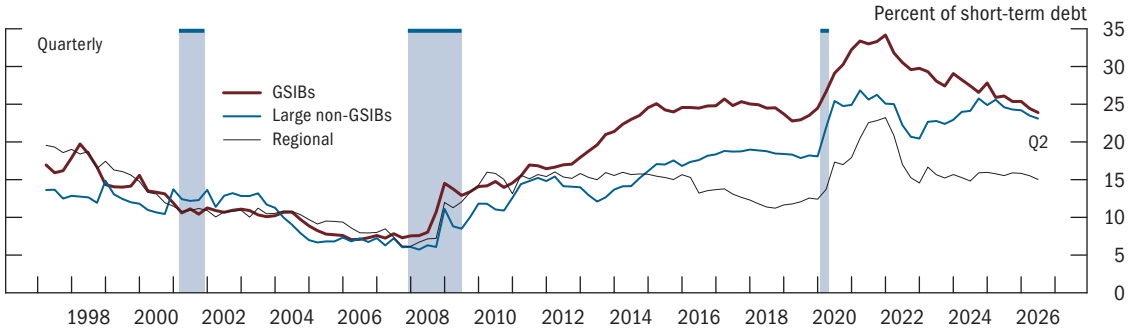
Source: Securities and Exchange Commission, Private Fund Statistics; iMoneyNet, Inc., Offshore Money Fund Analyzer; Bloomberg Finance L.P.; Securities Industry and Financial Markets Association: U.S. Municipal Variable-Rate Demand Obligation Update; DTCC Solutions LLC, an affiliate of the Depository 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 as a share of GDP



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. Ratio of high-quality liquid assets to short-term debt

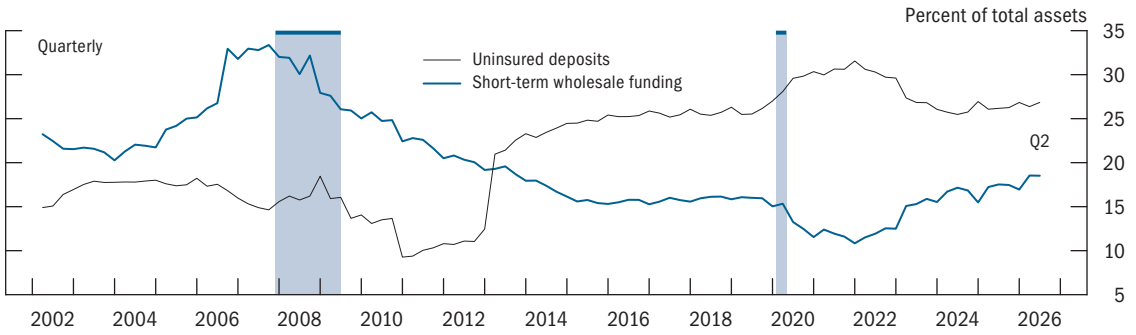


Source: Federal Reserve Board, Form FR Y-9C, Consolidated Financial Statements for Holding Companies; Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income (Call Report) Form FFIEC 031.

cash from these holdings without affecting regulatory capital, these banks could rely on repo markets rather than sell the assets outright.[12]

More generally, banks' funding structures were little changed in the aggregate over the first half of 2026 (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, both in the aggregate and among banks that had been most reliant on such funding. Since 2023, large banks have increased their reliance on short-term wholesale funding sources with maturities of less than one year. The current level of short-term wholesale funding is around the highest over

Figure 4.3. Bank funding structures



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.

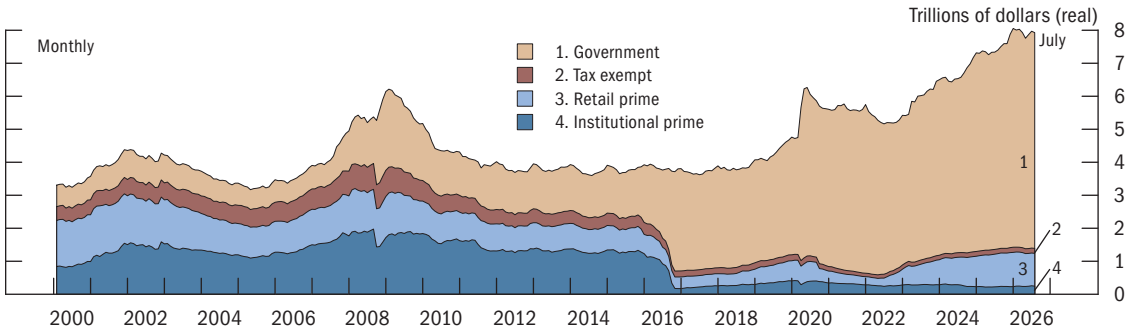
[12] Securities held in HTM accounts are accounted at fair value for LCR purposes but at book value for regulatory capital purposes. Selling HTM securities (rather than holding them to maturity) could "taint" the entire HTM investment portfolio, requiring it to be marked to market, which could result in the selling bank recognizing a significant mark-to-market loss and a 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.

the past decade but well below pre-2009 peaks. Over the same period, regional banks 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.[13]

Assets in cash-management vehicles remained at record levels, primarily reflecting assets in government money market funds

As of July 2026, total MMF assets remained at a record high of around $7.9 trillion, as MMF yields continued to be more attractive than those of most bank deposits (figure 4.4). The largest share of these assets was held in government funds, which are less susceptible to runs because they only hold short-term U.S. government and agency securities as well as repos backed by these securities. Institutional prime MMF assets accounted for about 3 percent of total MMF assets and stood at 22 percent below their February 2020 pre-pandemic level. Despite their relatively small size, institutional prime MMFs remain the most vulnerable segment of the industry and runs by their investors could trigger broader funding market disruptions.

Figure 4.4. Money market fund assets



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

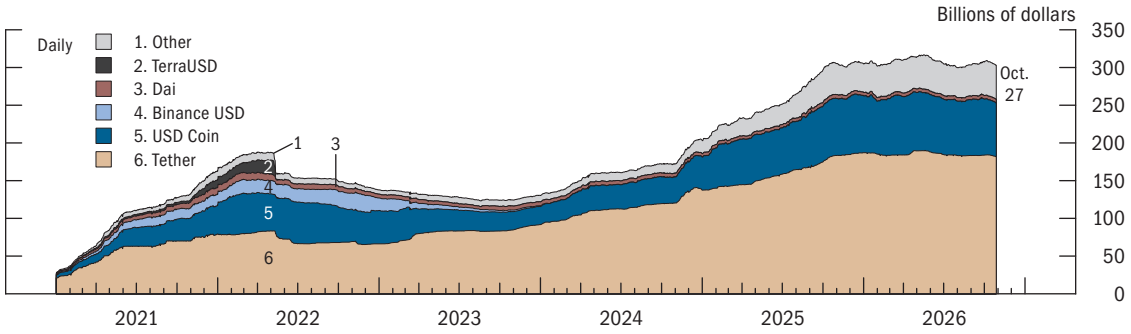
Other cash-management vehicles, including dollar-denominated offshore MMFs and short-term investment funds, also invest in money market instruments and engage in liquidity transformation. Estimated aggregate assets under management for these vehicles stood at $2.3 trillion as of the second quarter of 2026, with their share of GDP up 60 basis points from a year earlier. Many of these vehicles have portfolios similar to prime MMFs. Their exact size is difficult to gauge owing to data gaps, and estimates range from $1 trillion to $2 trillion.

[13] Recent legislation—the 21st Century ROAD (Renewing Opportunity in the American Dream) to Housing Act—allows banks to hold more reciprocal deposits without those deposits being classified as "brokered."

Stablecoin assets plateaued

The market capitalization of stablecoins—digital assets designed to maintain a stable value relative to a national currency or another reference asset—remained relatively flat at around $310 billion over the past year amid lower crypto-asset prices.[14] The market continues to be concentrated among the two largest issuers (figure 4.5).

Figure 4.5. Total stablecoin market capitalization



Source: Llama Corp, DeFiLlama.

The GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins Act), which will become effective on January 18, 2027, establishes a federal regulatory framework for the issuance and transaction of "payment stablecoins." The Office of the Comptroller of the Currency has finalized its rules to implement the act, and other federal agencies have proposed rules to implement the legislation.

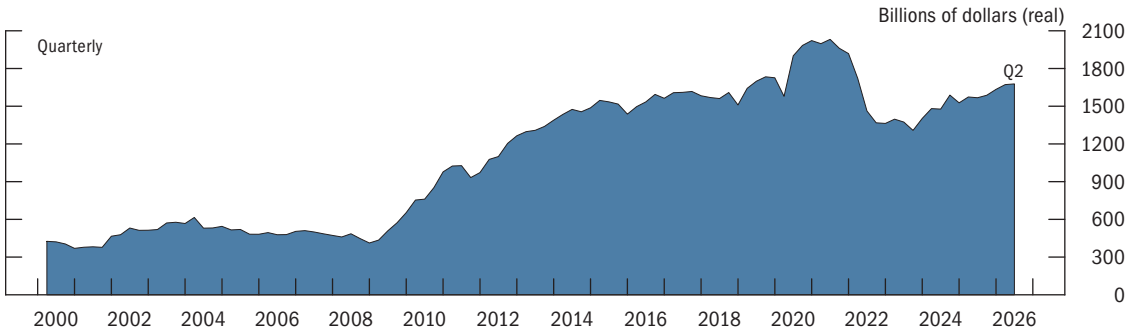
Bond and loan mutual funds navigated mixed market conditions without incident

Certain types of mutual funds, including those that hold corporate bonds or bank loans, can be particularly exposed to liquidity transformation risks, as they offer shareholders daily redemptions but hold assets that are less liquid and bear material credit and interest rate risks.

As of the second quarter of 2026, mutual funds continued to have a material footprint in corporate bond markets, holding approximately $1.7 trillion in U.S. corporate bonds, or 13 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—stood at $366 billion in August 2026, substantially below the high levels in 2021 (figure 4.7). Amid mixed volatility, inflows largely offset outflows for high-yield corporate bond and bank loan mutual funds through August 2026 (figure 4.8).

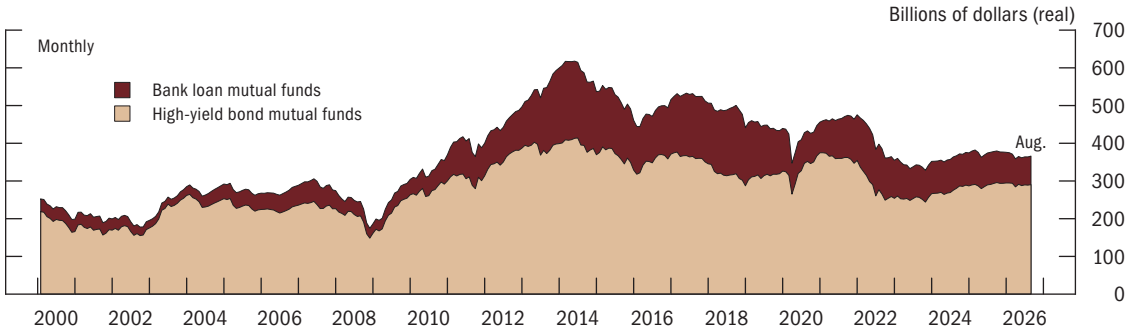
[14] Stablecoins are typically backed by a pool of "reserve" assets that include Treasury bills and other short-term instruments, but some stablecoins also include loans and other digital assets as part of their reserves.

Figure 4.6. Mutual fund holdings of corporate bonds



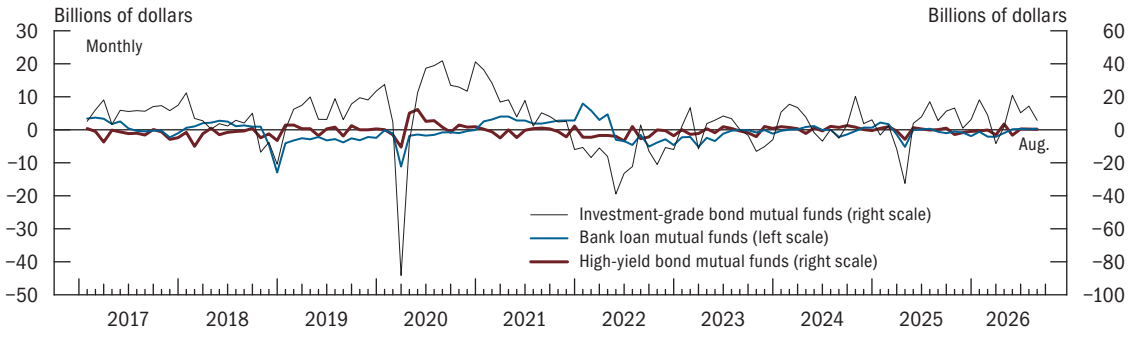
Source: Federal Reserve Board staff estimates based on Federal Reserve Board, Statistical Release Z.1, "Financial Accounts of the United States"; consumer price index, Bureau of Labor Statistics via Haver Analytics.

Figure 4.7. Total assets of bank loan and high-yield bond mutual funds



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

Figure 4.8. Net flows to bond and bank loan mutual funds



Source: Investment Company Institute.

Despite higher volatility conditions in certain markets, central counterparties maintained stable margin requirements

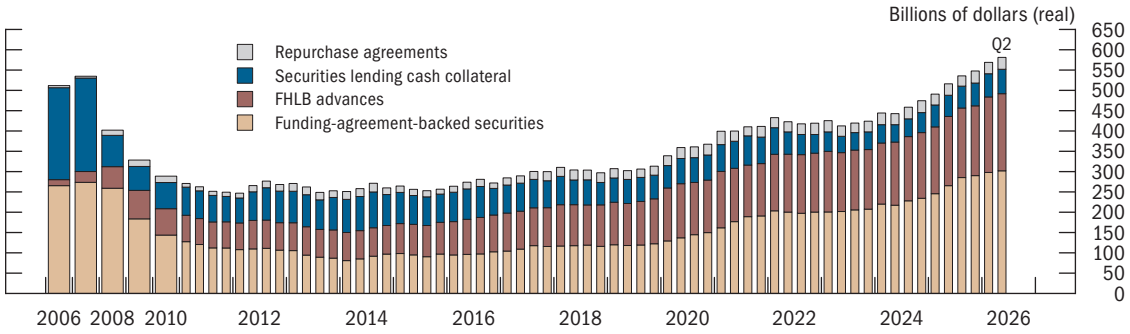
Since earlier this year, volatility declined in U.S. equities and credit default swaps markets but remained elevated in U.S. Treasury securities, natural gas, and crude oil markets. Despite mixed

volatility conditions, margin requirements at central counterparties (CCPs) stayed stable, reflecting in part margin buffers that several CCPs maintain to restrain increases in these requirements and mitigate potential liquidity demands on market participants during stress events.

Life insurers' nontraditional liabilities continued to grow

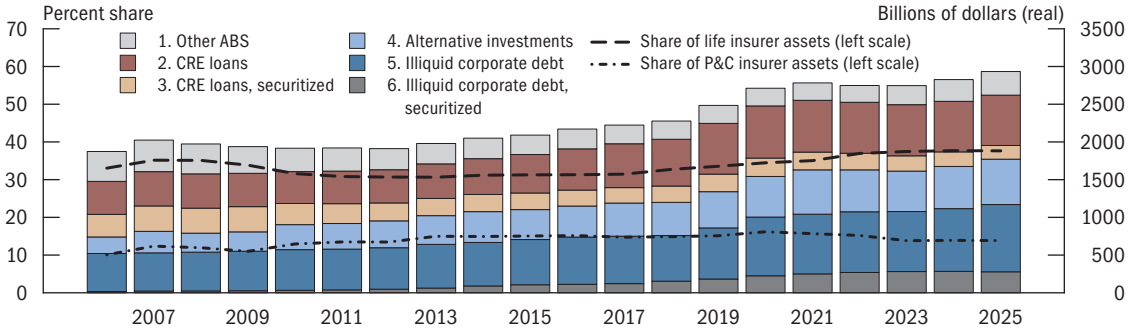
Life insurers continued to increase their reliance on nontraditional liabilities over the first half of 2026, including funding-agreement-backed securities and Federal Home Loan Bank advances (figure 4.9). Total nontraditional liabilities surpassed $580 billion in the second quarter of 2026. Measures of the share of illiquid assets to total general account assets for life insurers and for property and casualty insurers were around 38 percent and 14 percent, respectively, in 2025 (figure 4.10).

Figure 4.9. Life insurers' nontraditional liabilities



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. Insurers' illiquid asset holdings



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.

Redemption requests at some private credit vehicles trended lower but remained elevated

Redemption requests at perpetual-life nontraded BDCs trended lower through the third quarter of 2026, though they remained elevated. Despite these pressures, redemption requests remained manageable, mostly because these funds can limit the amount investors can redeem in a given quarter and the process has remained orderly as they have imposed those limits. Net flows stayed negative, however, as inflows have slowed notably in 2026.

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," most of the respondents in recent outreach noted risks associated with new computing technologies, which include the possibility of a sharp correction in technology-related asset valuations, vulnerabilities stemming from complex financing arrangements for data center investment, and the scope for cyber events enabled by frontier models that could have severe consequences. In addition, a larger percentage of respondents mentioned risks from high interest rates than had done so in the spring survey, while fewer participants cited risks related to private credit.

The remainder of this section describes three potential near-term risks and discusses how their consequences could interact with existing domestic vulnerabilities.

Disappointing returns on U.S. business investment could decelerate the economy and trigger declines in asset prices

With the development and adoption of new computing technologies advancing rapidly, private fixed investment has been a significant driver of U.S. macroeconomic growth this year. An unexpected downturn in corporate earnings could prompt declines in corporate asset valuations, a tightening of credit conditions, and a pullback from capital expenditures, reducing aggregate demand in the economy. A weaker economy could, in turn, stress businesses with high leverage and the most vulnerable households, leading to increased credit losses for banks and other lenders. Declines in corporate asset valuations could be amplified by sales of securities by leveraged and other risk-sensitive investors, potentially straining intermediaries that provide maturity and liquidity transformation.

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

Survey respondents and other commentators have expressed recurring concerns about cyber-related risks to the financial system. Furthermore, recent advances in the ability of LLMs and agentic systems to detect and exploit vulnerabilities have introduced new challenges in safeguarding system security for financial institutions, infrastructures, and third-party service providers. Reports that agentic systems have been involved in cyber events have increased

in frequency since the May report, amid an overall increase in reported cyber events. Shocks caused by cyber events can be transmitted through indirect interdependence among financial institutions, market infrastructures, and service providers and can be further amplified by existing financial vulnerabilities. For example, a cyber event at a financial institution that impedes 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 service providers could affect multiple institutions, with the effects of such disruptions likely to be further amplified if substitutability for the affected services is limited. 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.

Persistent geopolitical conflicts could affect U.S. financial stability through multiple channels

As discussed in previous reports, geopolitical tensions can lead to broad adverse spillovers, weighing on economic activity both in the U.S. and abroad, where elevated public debt levels limit some governments' ability to respond to weaker growth.[15] If geopolitical conflicts escalate, prolonged commodity shortages and impaired supply chains can put upward pressure on global inflation and lead to further increases in interest rates. A resulting increase in consumer borrowing costs, along with inflation, could strain household budgets and weaken borrowers' loan repayment capacity. Higher interest rates also could lead to declines in the fair values of fixed-rate assets held by lenders, which, in turn, could reduce the supply of credit to the economy. 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.[16]

[15] See, for example, Board of Governors of the Federal Reserve System (2026), *Financial Stability Report* (Washington: Board of Governors, May), p. 48, https://www.federalreserve.gov/publications/files/financial-stability-report-20260508.pdf.

[16] 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 September and October, responses were received from 23 contacts, including professionals at broker-dealers, banks, investment funds, and advisory firms. This box 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.

AI was the top-cited risk, with responses noting concerns around elevated equity valuations, AI-enabled cyberattacks, and complex forms of AI-related financing (figure A). Respondents also widely cited a correction in risk assets and a further rise in long-dated Treasury yields as key risks. Cyberattack and fiscal debt sustainability risks were viewed as having the most severe potential consequences. Across cited risks, mentions of AI, higher long-term interest rates, and cyberattacks saw the greatest increase relative to the spring survey (figure B).

Artificial intelligence

Respondents noted three distinct areas of concern: (1) elevated equity valuations and the possibility that lower-than-expected earnings could result in lower valuations and a market correction; (2) cybersecurity risk, stemming from either a malicious attack by sophisticated state actors or damage caused by frontier AI models themselves; and (3) risks associated with complex forms of AI-related financing.

Risk asset correction

Respondents widely cited the risk of a sharp correction in AI-related equities, driven by uncertain returns on large capital expenditures. Many noted that stretched valuations, circular financing arrangements, and heavy reliance on debt to fund the AI buildout could amplify losses, with the potential for a deterioration in broader risk assets to spill over to business investment and household consumption.

Higher long-term rates

A sustained rise in long-term Treasury yields was also widely cited, with respondents noting that drivers may include some combination of higher energy prices, deteriorating fiscal dynamics, and reduced foreign demand for U.S. Treasury securities.

Cyberattacks

Cyberattacks on financial market infrastructure were seen as a growing risk. Many respondents noted that advances in AI are lowering the barrier to sophisticated attacks by state and non-state actors, while others pointed to the risk of unintended damage caused by frontier AI models themselves. Several respondents noted concerns that disruptions to trading, settlement, or payment systems could materially damage confidence in financial institutions.

Fiscal debt sustainability

Respondents cited a worsening of fiscal dynamics in the U.S. as a key risk, with several noting concerns that persistent deficits and heavy Treasury issuance could trigger a disorderly rise in yields.

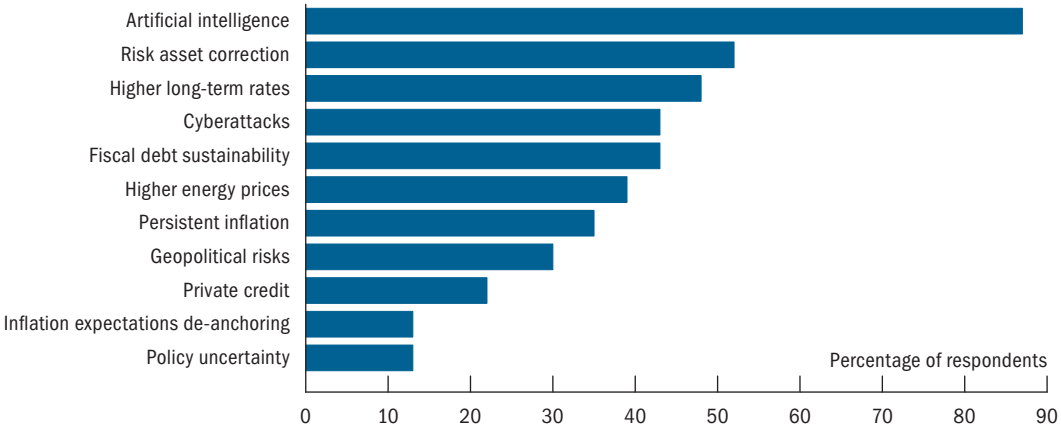
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Box 5.1—*continued*

Higher energy prices

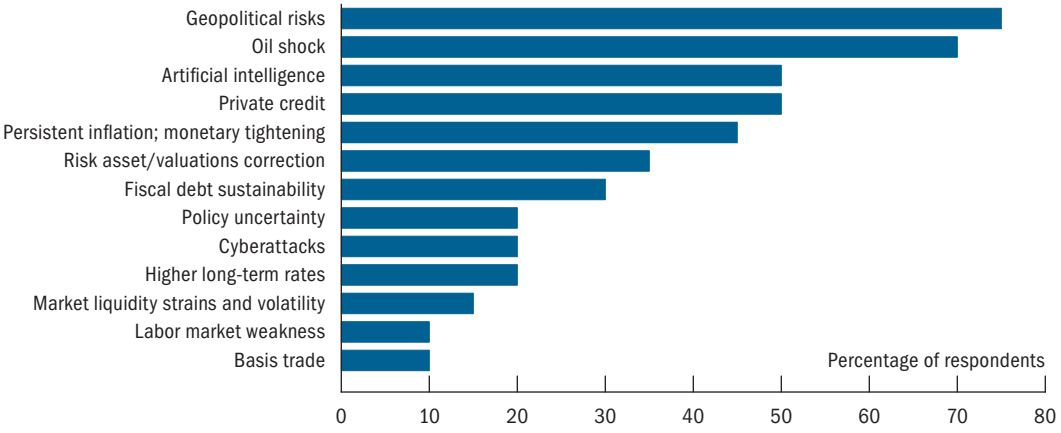
Many respondents expressed concerns that an escalation in the Middle East conflict could lead to additional oil supply disruptions and a sharp rise in energy prices. Several respondents further noted that such energy supply shocks could generate stagflation, forcing central banks to tighten policy even as growth slows.

Figure A. Fall 2026: 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.

Figure B. 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.

Appendix | Figure Notes

Figure 1.1. Nominal Treasury yields

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. Nominal Treasury term premium estimate

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

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. S&P 500 price-to-earnings ratio

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. Equity premium estimate

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. Equity market volatility

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

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

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. Excess bond premium

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. Leveraged loan spreads

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 price impact

The data show 5-day moving averages of the estimated price impact from a $100 million trade flow imbalance, based on the median of 30-minute intraday window estimates (8:00 a.m. to 4:00 p.m. ET on each trading day).

Figure 1.12. Equity market liquidity

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 1.13. Inflation-adjusted commercial real estate prices

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

Figure 1.14. Income of commercial properties relative to prices

The data are the weighted average of the office, retail, multifamily, and industrial sectors, based on transaction volumes. The August value is estimated.

Figure 1.15. Lending standards for commercial real estate loans

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 1.16. Nominal house price growth rates

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

Figure 1.17. Model-based house price valuations

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 1.18. House price-to-rent ratios

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

Figure 1.19. Inflation-adjusted farmland prices

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 1.20. Farmland price-to-rent ratios

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. Total nonfinancial business and household debt relative to 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. Nonfinancial business and household debt-to-GDP ratios

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.

Box 2.1. Z.1 Data Enhancements

Figure A. Total financial assets of private credit vehicles

The figure includes data for collateralized loan obligations (CLOs), business development companies (BDCs), and private debt (PD) funds. The data are as of the fourth quarter of each year. The key identifies bars in order from top to bottom.

Figure B. Private credit loans to U.S. businesses, by lender type

The figure includes data for collateralized loan obligations (CLOs), business development companies (BDCs), and private debt (PD) funds. The data are as of the fourth quarter of each year. The key identifies bars in order from top to bottom.

Figure C. Gross asset value and net asset value of domestic and foreign hedge funds

GAV is the gross asset value and NAV is the net asset value derived from SEC Form PF data for the set of funds defined in Financial Accounts table S124.7.s, “Hedge funds,” and supplemental table S124.7.f.s, “Foreign hedge funds.”

Figure D. Hedge fund shares, by investor

Includes domestic sector holdings of domestic and foreign hedge fund shares and rest of the world holdings of domestic hedge fund shares. Excludes rest of the world holdings of foreign-domiciled hedge fund shares. The key identifies bars in order from top to bottom.

Figure 2.3 Inflation-adjusted business debt

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. The key identifies bars in order from top to bottom.

Figure 2.4. Net issuance of risky debt

The data begin in 2004:Q2 and extend through 2026:Q3, except for private credit data, which begin in 2013:Q1 and extend through 2026:Q2. Institutional leveraged loans generally exclude loan commitments held by banks.

Figure 2.5. Gross leverage of publicly traded nonfinancial firms

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

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. Gross leverage for firms with commercial and industrial bank loans

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. Debt-to-EBITDA multiples for newly issued leveraged loans

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. Realized default rate on leveraged loans

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

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 2026 dollars using the consumer price index.

Box 2.2. Leverage in the Data Center Buildout

Figure A. Debt issuance for advanced computing infrastructure

The data begin in November 2022 and extend through October 2026; they include rule 144A private placements but exclude section 4(a)(2) transactions. USD is U.S. dollar. The key identifies bars in order from top to bottom.

Figure B. Investment and debt issue cycle comparison: Advanced computing and telecom

Debt issuance is positive, reflecting cash inflows for the firm; capital expenditure is negative, indicating cash outflows. For the telecommunications (telecom) cycle, year 0 is 1995; for advanced computing, year 0 is 2020. GDP is gross domestic product.

Figure C. Debt and other obligations

The data include the hyperscaler firms Alphabet, Amazon, Meta Platforms, Microsoft, and Oracle, as well as graphics processing unit makers Broadcom and Nvidia. The key identifies bars in order from left to right.

Figure 2.11. Housing leverage

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

The figure plots the year-over-year change in balances for the third 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 2026 dollars using the consumer price index. The key identifies bars in order from left to right.

Figure 2.13. Mortgage delinquency rates

The data are the percent of loans 30 or more days past due or in foreclosure and are seasonally adjusted by Federal Reserve Board staff. FHA is Federal Housing Administration; VA is Department of Veterans Affairs.

Figure 2.14. Share of mortgages with negative equity

Negative equity is defined as a combined loan-to-value ratio greater than 100 percent.

Figure 2.15. Consumer debt balances

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

Figure 2.16. Average maturity of loans at origination for used cars

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

Delinquent includes loans reported to the credit bureau as at least 30 days past due. The data are seasonally adjusted by Federal Reserve Board staff.

Figure 2.18. Credit card balances across borrowers

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 2026 dollars using the consumer price index.

Figure 2.19. Credit card delinquencies

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

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. GSIBs are global systemically important banks. Large non-GSIBs are BHCs and IHCs with greater than $100 billion in total assets that are not GSIBs. 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. Banks' return on equity

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. GSIBs are global systemically important banks. Large non-GSIBs are bank holding companies and intermediate holding companies with greater than $100 billion in total assets that are not GSIBs. The shaded bar with a top cap indicates a period of business recession as defined by the National Bureau of Economic Research: February 2020–April 2020.

Figure 3.3. Fair value gains and losses on banks' securities portfolios

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. Ratio of tangible common equity to tangible assets

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. GSIBs are global systemically important banks. Large non-GSIBs are BHCs and IHCs with greater than $100 billion in total assets that are not GSIBs. 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. Changes in bank 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

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. Broker-dealer leverage

Leverage is calculated by dividing total assets by equity.

Figure 3.8. Broker-dealer trading profits

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

Figure 3.9. Broker-dealer trading profits, by business line

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. Leverage at life insurance companies and property and casualty insurers

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 insurance companies and property and casualty insurers are represented.

Figure 3.11. Hedge fund leverage

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 begin in 2013:Q1 and are reported on a 2-quarter lag.

Figure 3.12. Hedge fund balance sheet leverage, by fund size

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 within each cohort. The data begin in 2013:Q1 and are reported on a 2-quarter lag.

Figure 3.13. Changes in broker-dealer clients' use of financial leverage

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. Issuance of non-agency securitized products

The data from the first, second, and third quarters 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 other financial institutions

The figure shows committed amounts on credit lines and term loans extended to other financial institutions. Other financial institutions 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. Sectoral growth in bank credit to other financial institutions

The figure shows 2026:Q2-over-2025:Q2 growth rates as of the end of the second quarter of 2026. 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 as a share of GDP

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. Ratio of high-quality liquid assets to short-term debt

The sample consists of domestic bank holding companies (BHCs), intermediate holding companies (IHCs) with a substantial U.S. commercial banking presence, and commercial banks. GSIBs are global systemically important banks. Large non-GSIBs are BHCs and IHCs with greater than $100 billion in total assets that are not GSIBs. 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

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

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

Figure 4.5. Total stablecoin market capitalization

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

Figure 4.6. Mutual fund holdings of corporate bonds

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 2026 dollars using the consumer price index.

Figure 4.7. Total assets of bank loan and high-yield bond mutual funds

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. Net flows to bond and bank loan mutual funds

Mutual fund assets under management as of August 2026 included $2,640 billion in investment-grade bond mutual funds, $290 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' nontraditional liabilities

The data are converted to constant 2026 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. Insurers' illiquid asset holdings

The data are converted to constant 2025 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 5.1. Survey of Salient Risks to Financial Stability

Figure A. Fall 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. 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?"

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