ALM FIRST
for a partnership built on trust.

November 4, 2026

Seeing Through the Haze

Economic Update

Speaker



Jason Haley

Chief Investment Officer

ALM First

Agenda

- Current market themes
- Consumer health check
- US fiscal update
- New Fed regime
- Industry financial update

Current Economic Themes

- **Another round of "vibecession"**
  - Consumer confidence fell to 5+ year low in September (Conference Board)
  - Unemployment remains historically low and consumer spending elevated
  - Cumulative inflation now more than 25% over last 5 years
  - Consumers unhappy about prices, secure in their jobs, & people who keep their jobs keep spending
- **Rates selloff persists**
  - Government bond yields sharply higher amid 1) inflation worries, 2) stronger economic data, and 3) increase competition for capital
  - Heavy bond issuance, both government (globally) and private
  - Corresponds with increase in expectations for forward fed funds rate (an assist for the Fed)

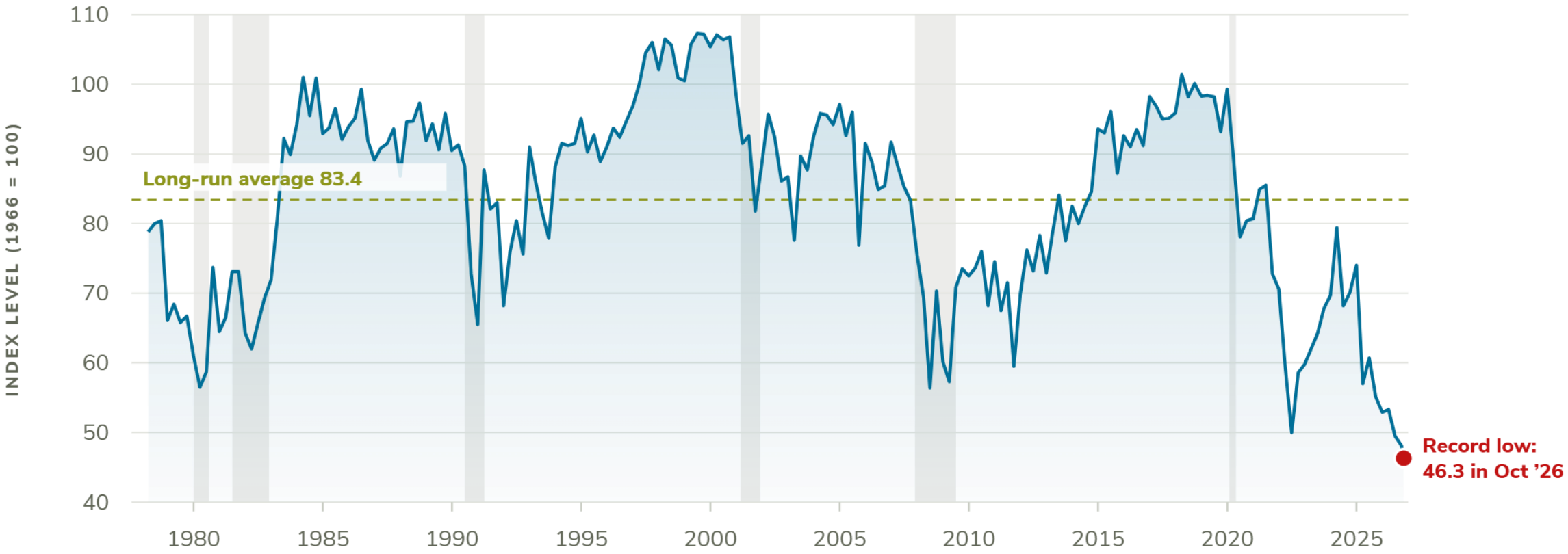
Consumer Sentiment at a Record Low

UNIVERSITY OF MICHIGAN · SURVEYS OF CONSUMERS

Consumer Sentiment Index

Q1 1978 – Oct 2026, quarterly. Latest reading 46.3, the lowest on record.

OCT 2026	LONG-RUN AVG	SINCE Q1 '24
46.3	83.4	–33.1 pts
Lowest since 1978	Q1 1978 – Oct 2026	From 79.4 peak



Source: University of Michigan Surveys of Consumers; NBER

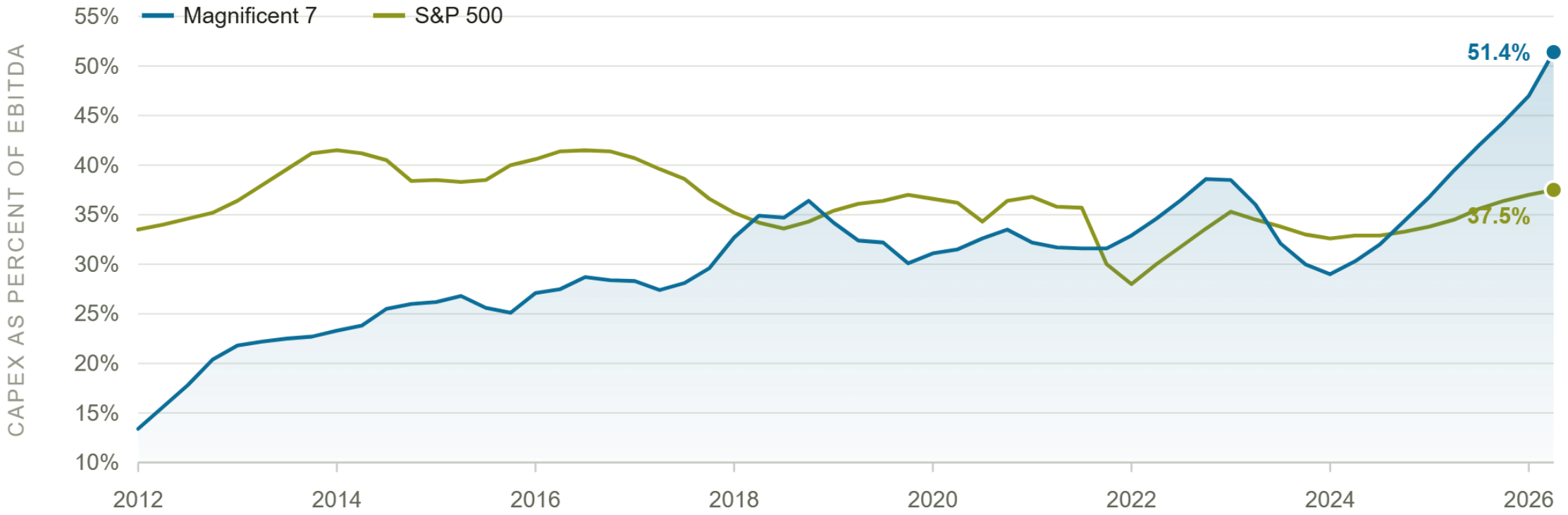
AI: Will the Earnings Follow the Spending?

MAGNIFICENT 7 VS. S&P 500 · LAST TWELVE MONTHS

CapEx as a Share of EBITDA

Q1 2012 – Q2 2026, quarterly. S&P 500 includes the Mag 7.

MAG 7	S&P 500
51.4%	37.5%
Q2 2026	Q2 2026

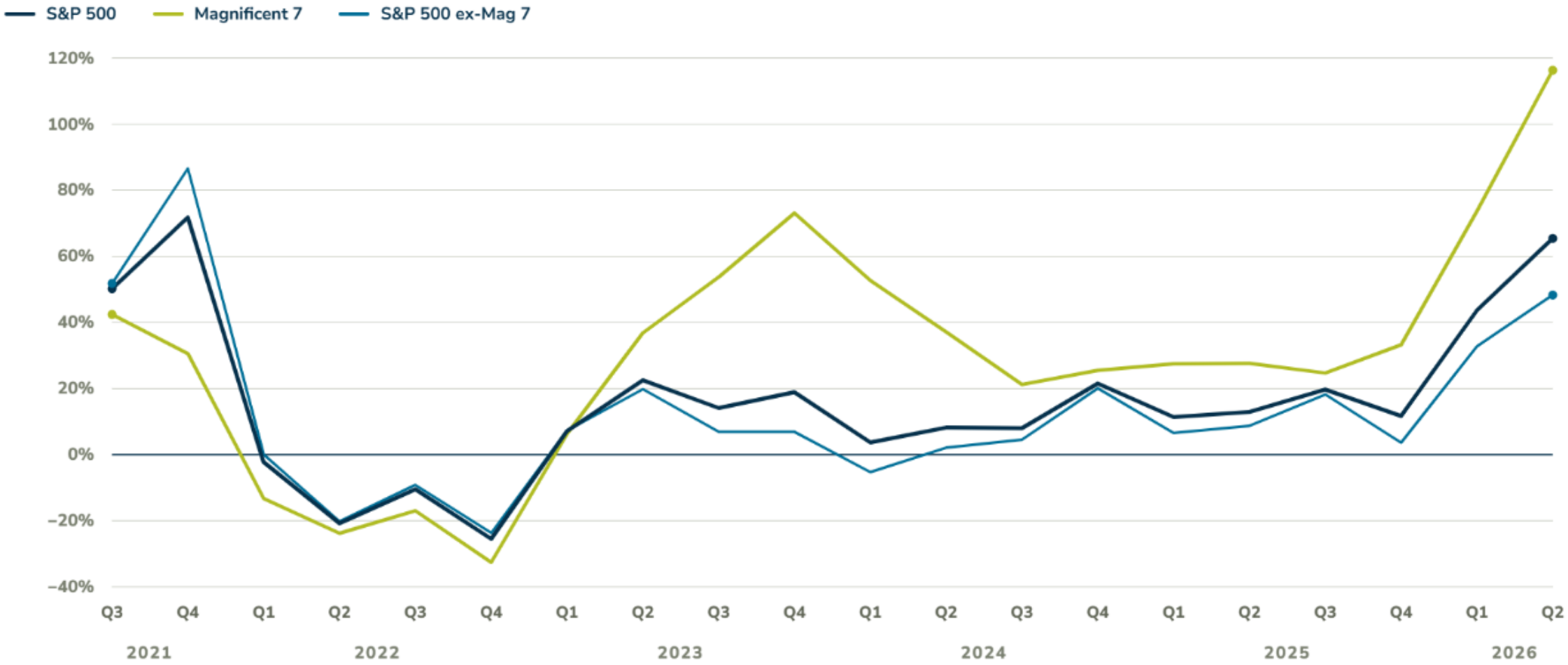


Note: Magnificent 7 (Mag 7) = Apple (AAPL), Microsoft (MSFT), Nvidia (NVDA), Alphabet (GOOGL), Amazon (AMZN), Meta Platforms (META) and Tesla (TSLA).

Source: S&P; Bloomberg

Earnings Momentum Has Been Broad Based

Quarterly net income, year over year

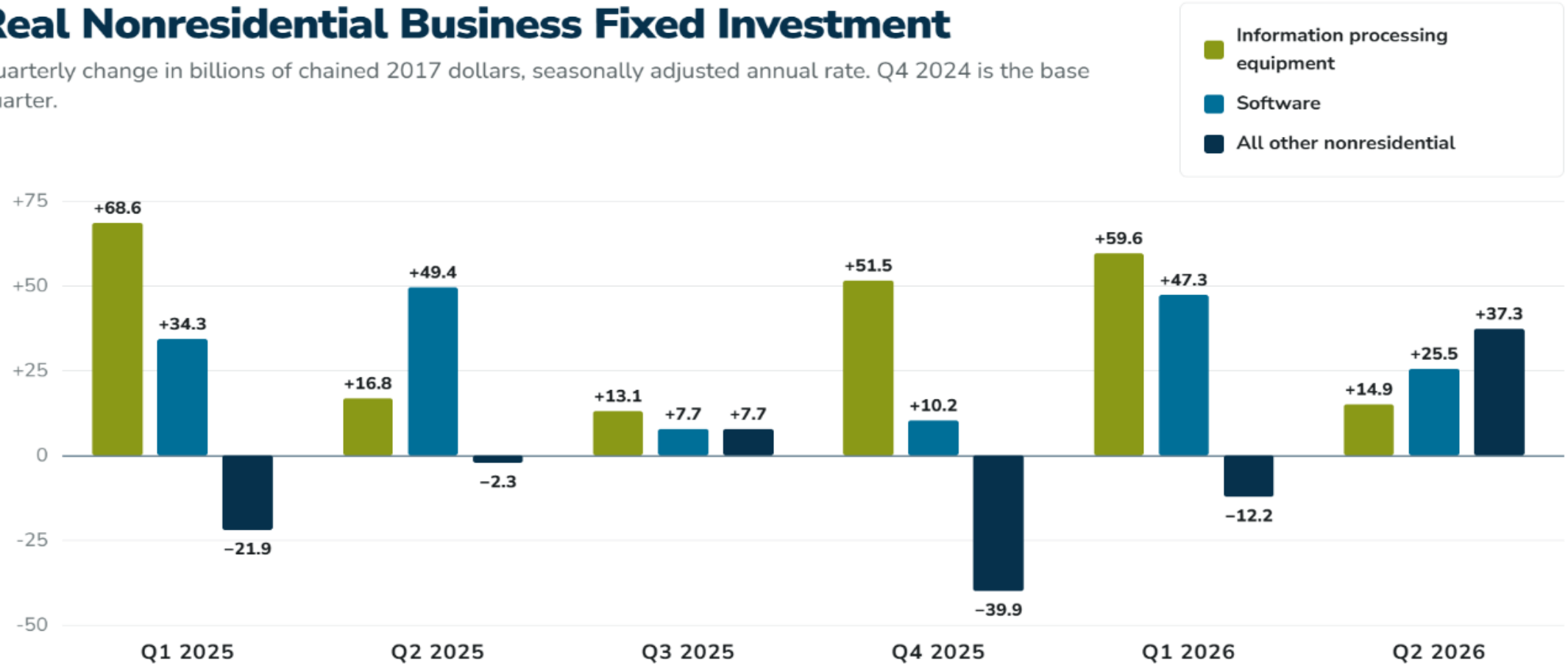


Source: Bloomberg; ALM First

Broader Business Investment in Q2

Real Nonresidential Business Fixed Investment

Quarterly change in billions of chained 2017 dollars, seasonally adjusted annual rate. Q4 2024 is the base quarter.



SOURCE: BEA, NIPA TABLE 5.3.6

All other nonresidential investment covers structures, industrial and transportation equipment, R&D and other intellectual property, and the chained-dollar residual.

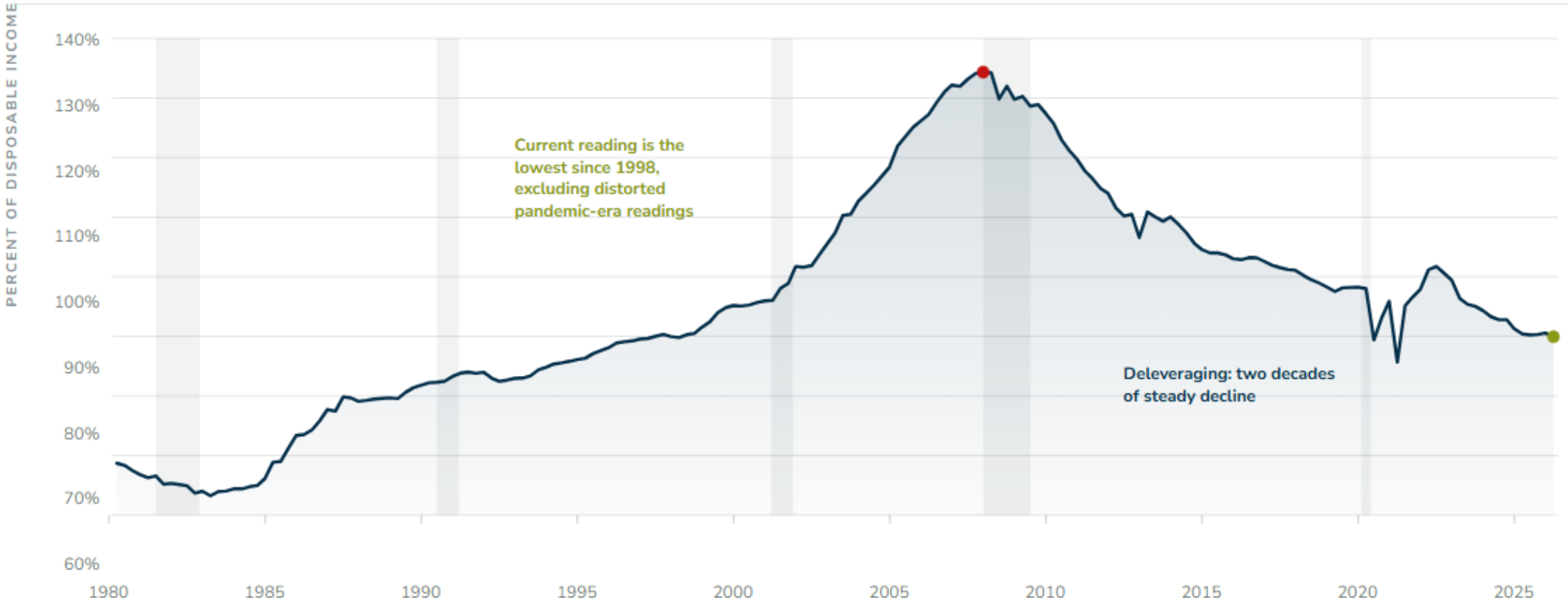
Consumer Update

Household Leverage Historically Low

Household Debt to Disposable Income

Q1 1980 – Q1 2026, quarterly. Latest reading 89.9%.

Q1 2026	2008 PEAK	OFF THE PEAK
89.9%	134.3%	-44.4 pts
Debt / disposable income	Q1 2008	Lowest since 1998*



Shaded spans mark US recessions. *The 2020–2021 dips are distorted readings, reflecting stimulus payments that temporarily inflated disposable income.

Source: Federal Reserve

Highest Home Equity Since 1950s

Owners' Equity as a Share of Household Real Estate

Q1 1952 – Q1 2026, quarterly.

LATEST	RECORD LOW	RECORD HIGH
71.6%	46.0%	80.7%
Q1 2026	Q1 2012	Q2 1952



Shaded span marks the 2006–2012 slide, when equity fell 15.8 percentage points before mortgage paydown and rising home prices rebuilt it.

Source: Federal Reserve; ALM First

Still Lots of Excess Household Liquidity

Change in Household Liquid Assets: Q4 2019 → Q1 2026

MILLIONS OF DOLLARS · NOMINAL, NOT ANNUALIZED

INCOME BRACKET	HOUSEHOLD INCOME RANGE (2022)	$ CHANGE (MILLIONS)	NOMINAL	CUMULATIVE INFLATION	REAL CHANGE	REAL CHANGE, INDEXED
Top 1%	$1.20M and up	**1,556,076**	61%	25%	**29%**	
80–99%	$151K – $1.20M	**3,766,133**	64%	25%	**31%**	
60–80%	$90.8K – $151K	**713,852**	37%	25%	**10%**	
40–60%	$54.4K – $90.8K	**622,525**	59%	25%	**27%**	
20–40%	$31.2K – $54.4K	**326,655**	42%	25%	**14%**	
0–20%	Under $31.2K	**(7,575)**	−1%	25%	**−21%**	
ALL HOUSEHOLDS	All income levels	**6,977,666**	55%	25%	**24%**	Bars scaled to ±40%

NOTES

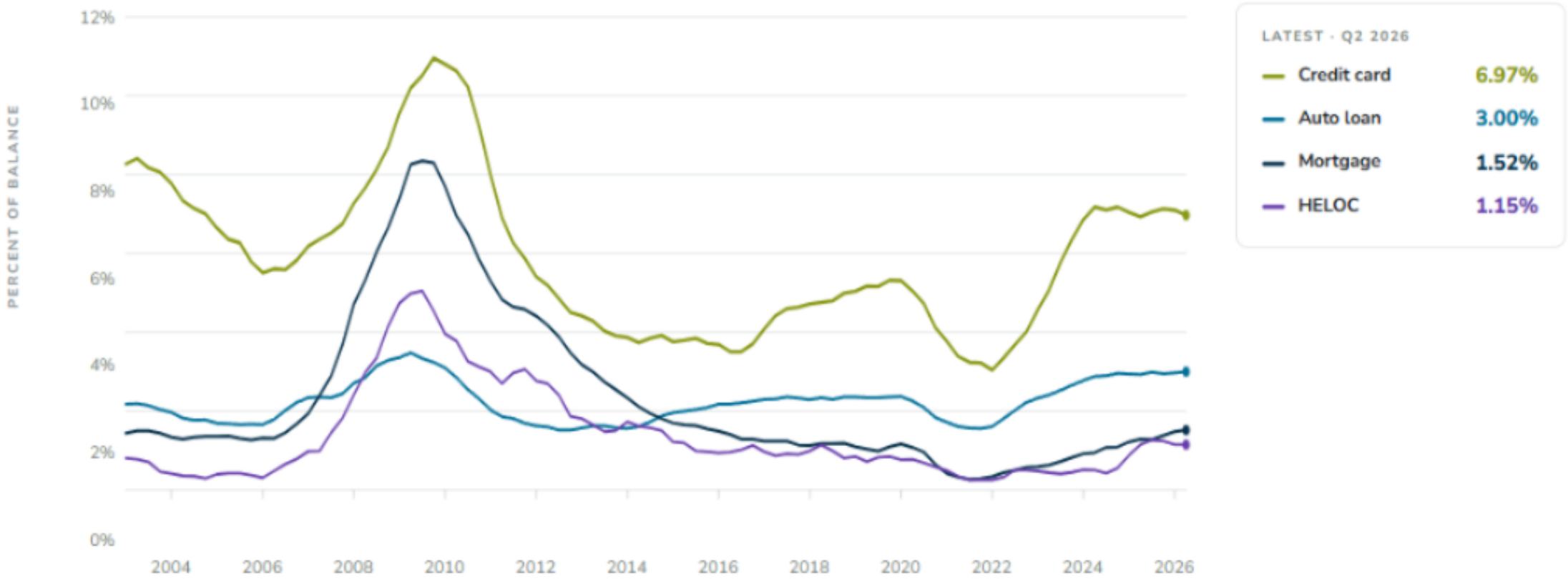
Household liquid assets include all deposits and money market fund shares. Income ranges are the bracket cutoffs from the 2022 Survey of Consumer Finances, the most recent available. Inflation is the cumulative change in the PCE chain-type price index (2017 = 100) over the stated timeframe.

Source: Federal Reserve; BEA; ALM First

New Credit Card Serious Delinquency Levels Off

Flow into Serious Delinquency by Loan Type

Q1 2003 – Q2 2026, quarterly. Percent of balance newly 90 or more days delinquent, four-quarter moving sum.



Source: NY Fed Household Debt & Credit Report, Q2 2026

Some Potholes

- **Geopolitical risks**
  - Escalation of Iran war and/or broadening of Ukraine/Russia war
- **Disruption of AI buildout**
  - Supply chain constraints, public backlash, power shortages, etc.
  - Revenues don't follow spending for some hyperscalers (i.e., leverage risk)
  - Credit markets distress
- **Private credit disruption**
  - Persistent net outflows of capital risks to overall economic growth
  - More systemic contagion
- **Continued selloff in longer Treasuries**
  - Rising worries over fiscal deficit, reliance on foreign investment, and sticky inflation

Fiscal Update

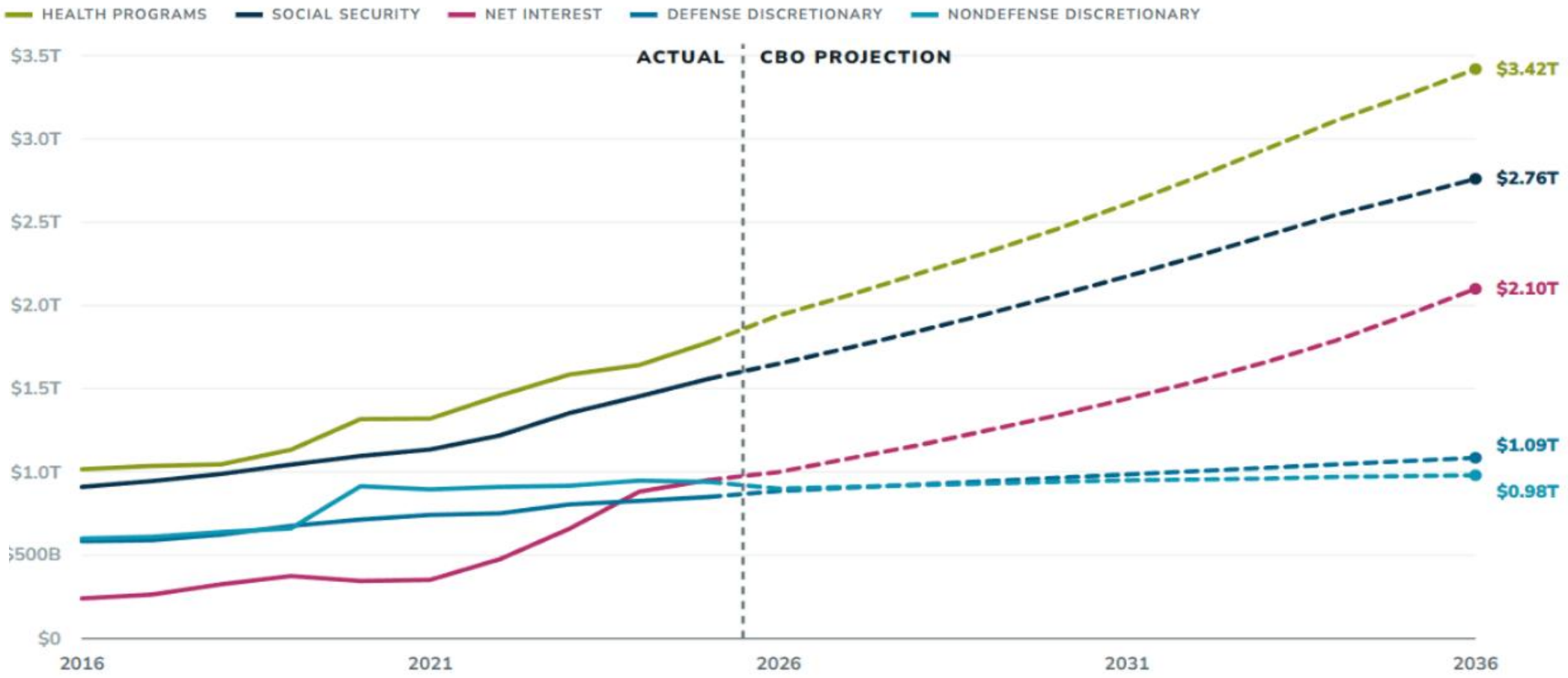
It’s The Mandatory Spending

Federal Spending By Category

Health programs, Social Security, and net interest all roughly double over the next decade. Defense and nondefense discretionary spending stay close to flat in nominal dollars.

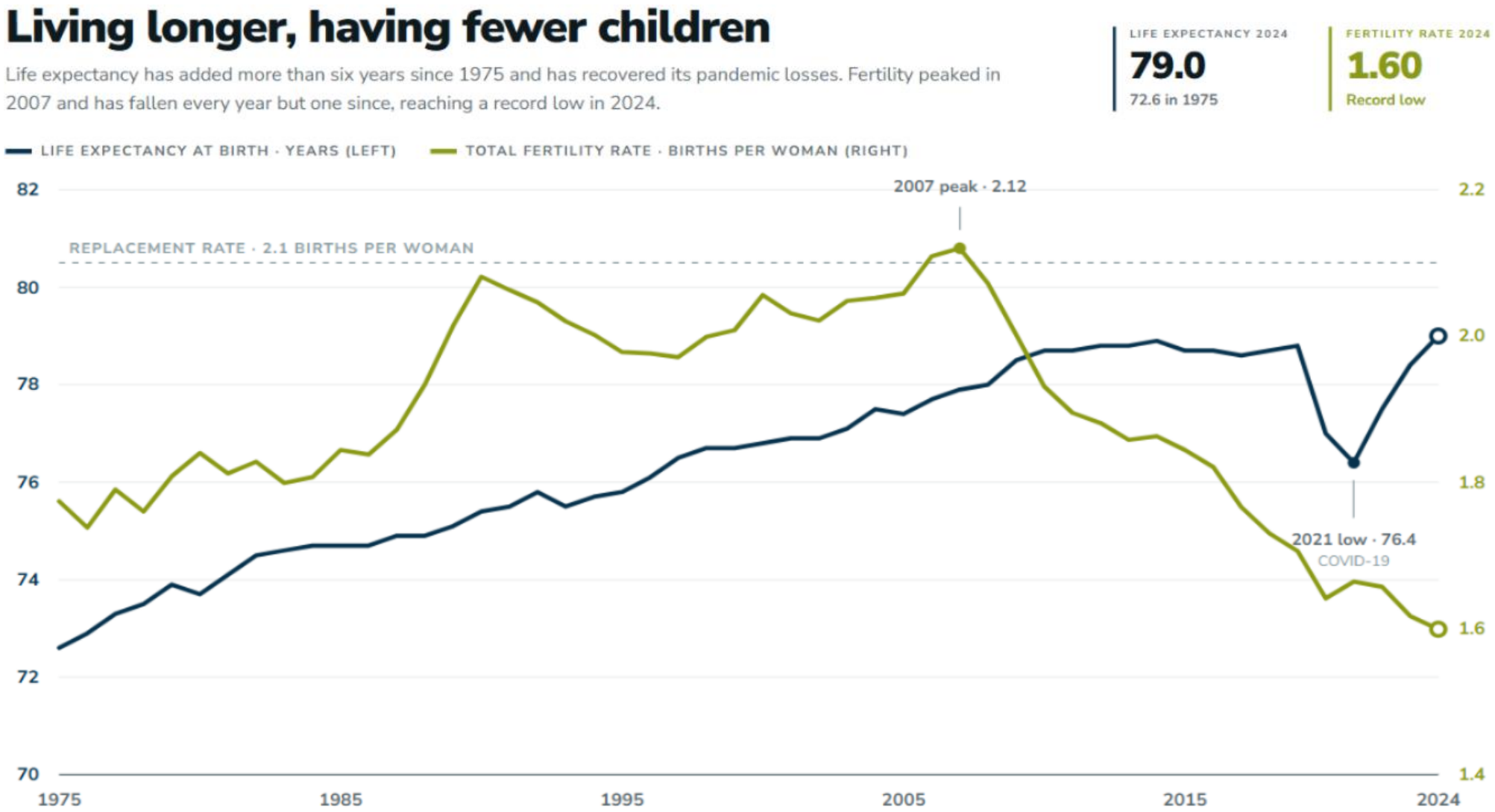
INTEREST 2024
$882B
passed defense in 2024

INTEREST 2036
$2.1T
2× defense



Source: CBO

Demographics Don’t Help

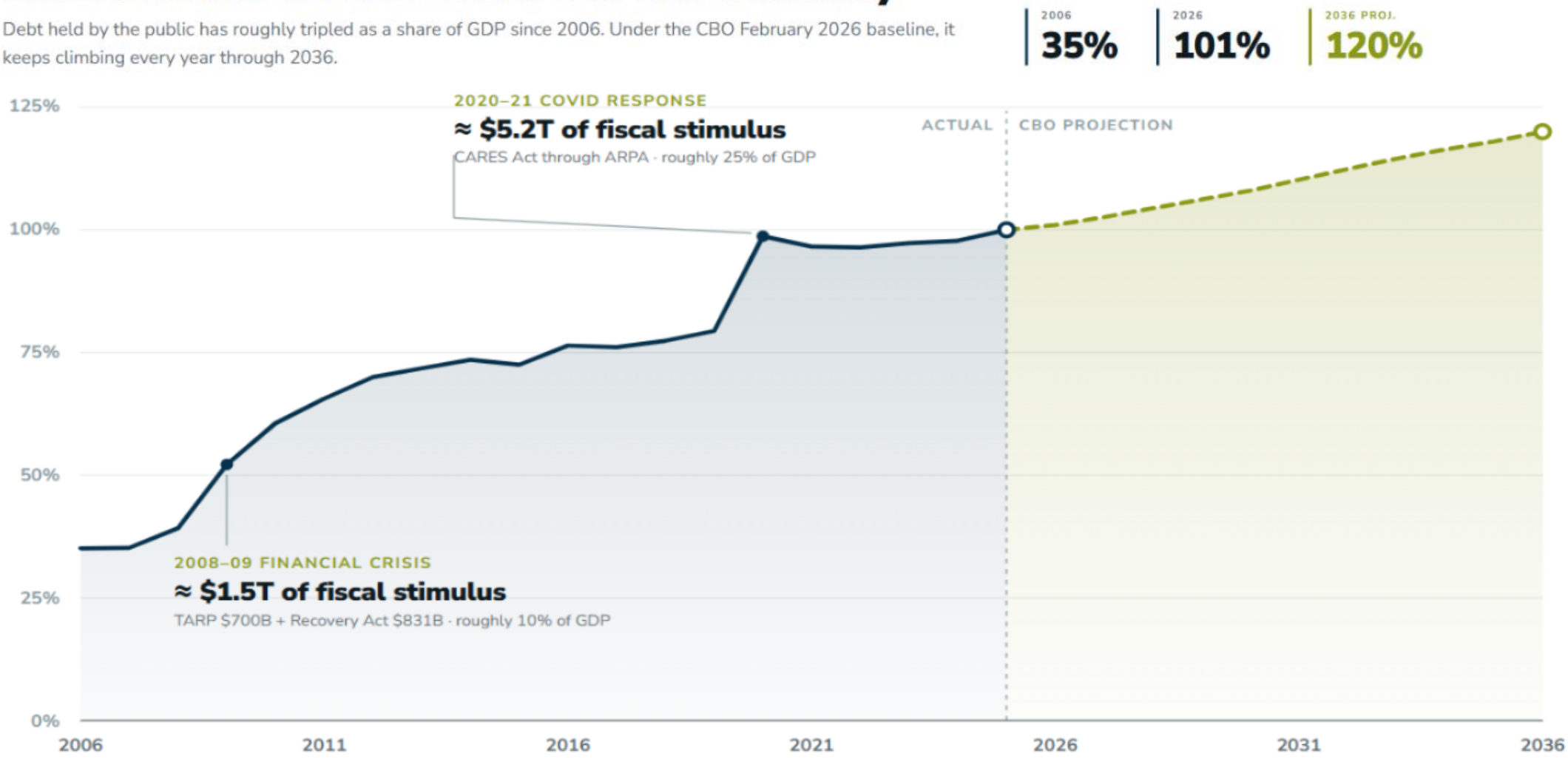


Source: CDC National Center for Health Studies

Government Leverage Rising

Debt reaches a record share of the economy

Debt held by the public has roughly tripled as a share of GDP since 2006. Under the CBO February 2026 baseline, it keeps climbing every year through 2036.



Source: CBO

Fed Update

New Sheriff in Town

- **New Fed Chair Kevin Warsh is eyeing major reforms**
  - Served as Fed Governor 2006-2011
  - Opposed continuing with quantitative easing in late 2010 (resigned in 2011)
    - Felt frequent QE use enabled fiscal expansion and supplanted fiscal stimulus
  - Became critical of Fed mission creep and moving beyond legal mandate

- **Ambitious reform; limited communication**
  - Warsh also wants to eliminate forward guidance
  - Botched July FOMC press conference
  - Financial markets more focused on near-term policy expectations

Kevin Warsh Jackson Hole Speech

- **Characterized economy as strong, led by business investment**
  - Relatively easy financial conditions, including tight credit spreads
  - Monetary policy is not 'modestly restrictive'
  - Labor markets are consistent with full employment
  - Said inflation is still too high and not improving fast enough

- **Laid out his monetary policy principles**
  - 2% inflation target is firm and fixed
  - Short-term interest rates are predominant policy tool
  - "Unconventional policies to spur economic activity may suit genuine crises but should otherwise be used sparingly, if at all."
  - "A quieter Fed, more purposeful in its communications, is better able to meet its objectives."

Summary of Fed Reform Task Forces

01

Communications

Re-evaluate how the Fed communicates via forward guidance and press conferences

CO-LEADERS

Peter R. Fisher
University of Washington

Arminio Fraga
Gávea Investimentos; ex-Central Bank of Brazil

Mervyn King
Former Governor, Bank of England

02

Balance Sheet

Review the risks and benefits of an expanded Fed balance sheet

CO-LEADERS

Karen Dynan
Harvard University

Raghuram Rajan
Chicago Booth; ex-Governor, RBI

Jeremy Stein
Harvard; former Fed governor

03

Data Sources

Assess and upgrade methods and metrics used to gather economic data

CO-LEADERS

Raj Chetty
Harvard University

Doug McMillon
Former CEO, Walmart

Kevin Murphy
University of Chicago

04

Productivity & Jobs

Study the impact of AI technologies on economic growth, productivity, and interest rates

CO-LEADERS

Marc Andreessen
Andreessen Horowitz

Charles I. Jones
Stanford University

Asha Sharma
EVP and Xbox CEO, Microsoft

05

Inflation Frameworks

Revisit current methodology for measuring inflation and addressing price stability

CO-LEADERS

Greg Mankiw
Harvard University

Thomas Sargent
New York University

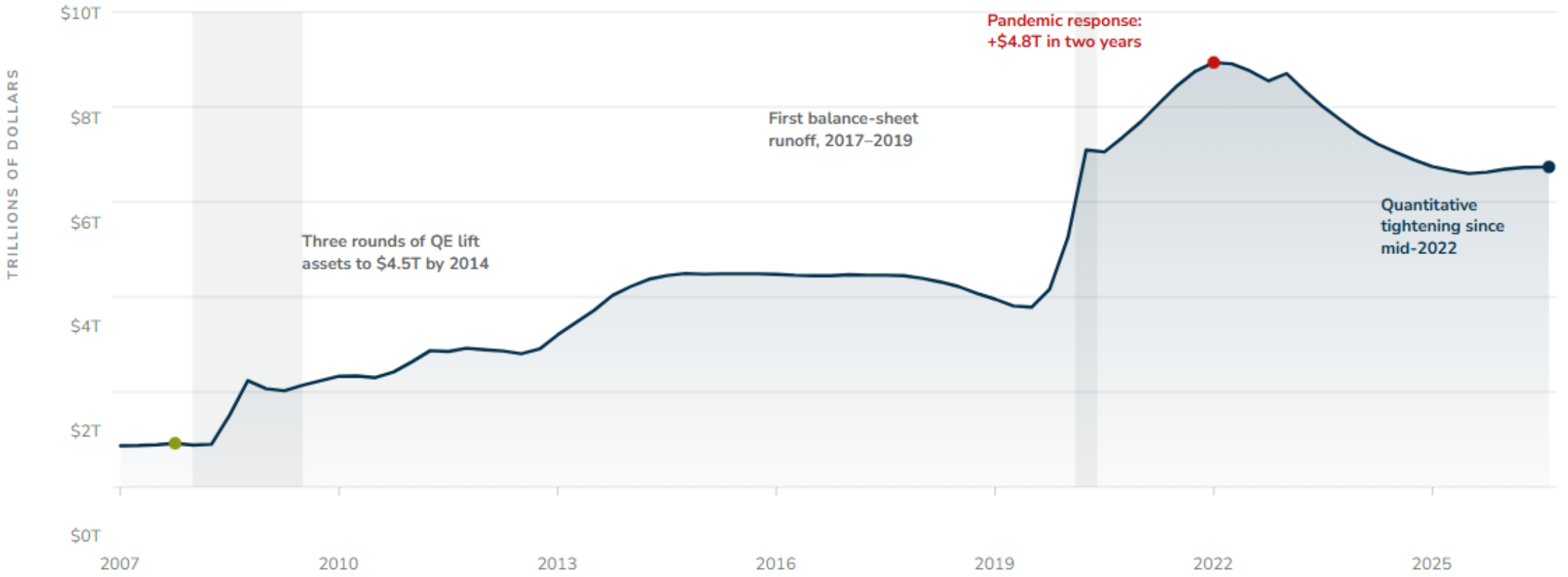
William White
C.D. Howe Institute; ex-BIS

Perspective on Fed Balance Sheet Expansion

Federal Reserve Balance Sheet

Q1 2007 – August 2026, quarterly. Latest week $6.74T.

LATEST	2022 PEAK	PRE-CRISIS
$6.74T	$8.94T	$0.92T
Week of Aug 5, 2026	Down $2.20T since	Q4 2007 · 7.3x smaller than today



Source: Federal Reserve

What's Next?

- **Warsh must ultimately sell it**
  - Most reforms require FOMC approval to codify reforms
  - Task force recommendations expected late 2026/early 2027

- **The delicate balance with financial markets**
  - Weening markets off greater Fed guidance requires nuance and consistency
  - Price stability and full employment now versus long-run reform ideals
  - Leaking guidance to the press to limit market volatility?
  - Will the crisis backstop still be there?

Industry Update

Summary Financial Trends (as of Q2 2026)

Quarter Ended	California Banks			U.S. Commercial Banks		
Millions of $	Jun 30, 26	Mar 31, 26	Jun 30, 25	Jun 30, 26	Mar 31, 26	Jun 30, 25
Profitability Ratios						
Return on Assets (ROA)	1.10	1.09	0.98	1.04	1.06	1.04
Return on Equity (ROE)	9.19	9.08	8.02	9.45	9.82	10.37
Net Interest Margin	3.41	3.30	3.28	3.47	3.41	3.43
Balance Sheet						
Tangible Equity Ratio	10.76	10.84	10.98	9.68	9.39	8.63
Asset Growth Rate	-5.93	2.85	3.98	1.92	-7.06	6.55
Loan Growth Rate	-5.43	1.48	6.22	0.24	-1.87	9.71
Deposit Growth Rate	-5.39	3.49	3.97	3.61	-7.03	8.15
Asset Quality						
Net Charge-Offs/ Avg Loans	0.30	0.20	0.19	0.35	0.37	0.33
Delinquent Loans/ Loans	0.83	0.77	0.62	0.75	0.69	0.62
PLL/ Avg Assets	0.20	0.13	0.18	0.31	0.26	0.29
Reserves/ Gross Loans	1.20	1.21	1.26	1.45	1.44	1.45
Other						
Cost of Funds	1.72	1.78	2.02	2.57	2.50	2.18
Efficiency Ratio	51.66	55.27	56.91	58.65	57.59	58.24
Noninterest Expense Ratio	2.02	2.08	2.11	2.48	2.46	2.39
Noninterest Income Ratio	0.62	0.56	0.54	0.88	0.88	0.78

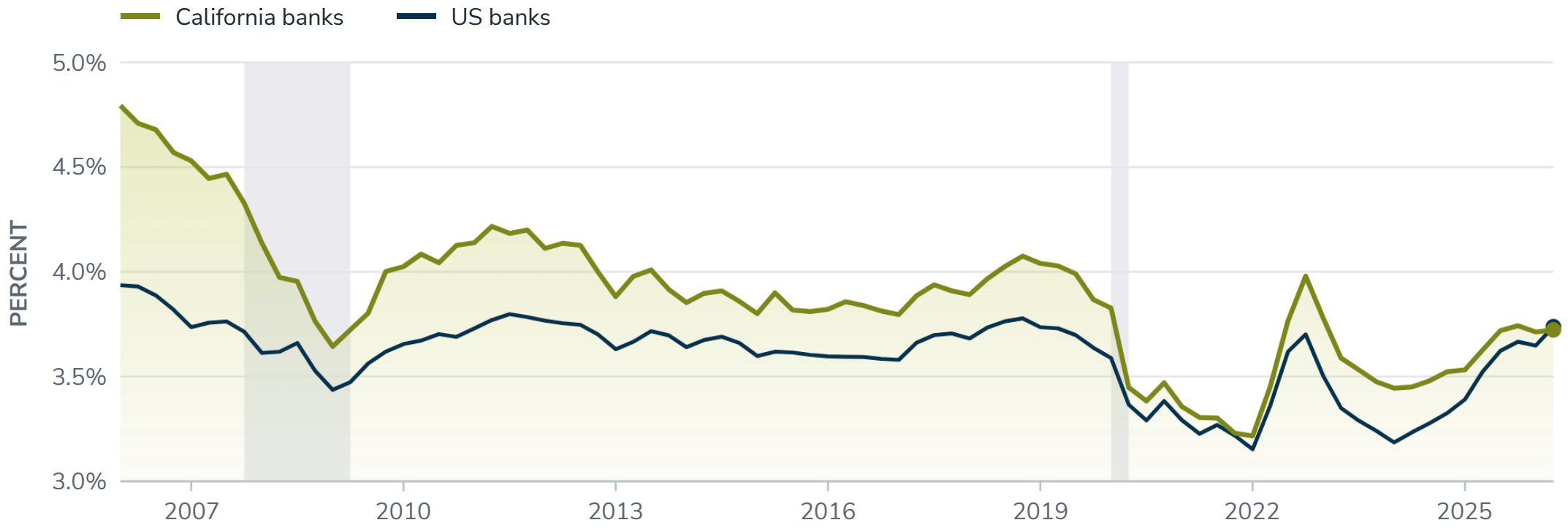
Note: Commercial banks include institutions with assets of $1 to $50 billion.

Source: S&P Global

Interest Margins Recover Post-SVB

Net Interest Margin

CALIFORNIA	US	CA – US SPREAD
3.72%	3.74%	−1 bps
Q2 2026 · +10 bps YoY	Q2 2026 · +21 bps YoY	vs +86 bps in Q1 2006



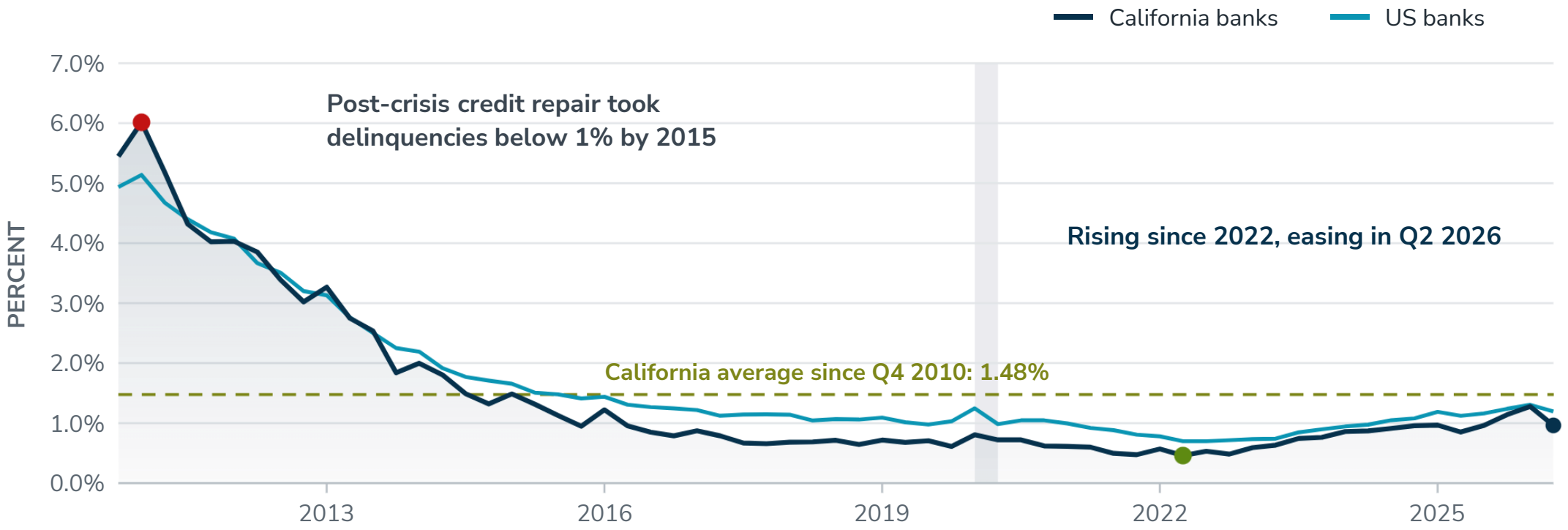
Simple average of bank-level net interest margins each quarter. Shaded spans mark US recessions.

Source: S&P Capital IQ Pro. Banks with $1–50B in assets; US includes California.

Delinquency Rates Still Tame

Total Delinquent Loans / Loans

Q2 2026	2011 PEAK	2022 LOW
0.96%	6.01%	0.46%
US: 1.19%	Q1 2011	Q2 2022



30–89 days past due plus nonperforming loans, as a percent of total loans; quarterly from Q4 2010. Shaded span marks the 2020 US recession.

Source: S&P Capital IQ Pro. Banks with $1–50B in assets; US includes California.

Conclusion

- **Business investment is carrying the expansion**
  - AI-driven capex accelerated without eroding earnings; investment broadened in Q2
  - Treasury selloff largely fundamental: sticky inflation, strong data, heavy issuance
- **Consumers are unhappy, but not in trouble**
  - Sentiment at a record low (46.3) on prices, while jobs and spending hold up
  - Leverage near lows, home equity highest since the 1950s; card delinquencies leveling off
- **A new Fed regime with an ambitious agenda**
  - Warsh: firm 2% target, rates as the main tool, less forward guidance
  - Task force recommendations late 2026/early 2027; reforms need FOMC approval
- **Banks: steady earnings, credit normalizing from historic lows**
  - California ROA 1.10% vs. 1.04% US, but assets, loans, deposits shrank 5–6% annualized
  - California delinquencies 0.83% vs. 0.75% US (both 0.62% a year ago); thinner reserves

Q&A

Important Information

ALM First Financial Advisors is an SEC registered investment advisor with a fiduciary duty that requires it to act in the best interests of clients and to place the interests of clients before its own; however, registration as an investment advisor does not imply any level of skill or training. ALM First Financial Advisors, LLC ("ALM First Financial Advisors"), an affiliate of ALM First Group, LLC ("ALM First"), is a separate entity and all investment decisions are made independently by the asset managers at ALM First Financial Advisors. Access to ALM First Financial Advisors is only available to clients pursuant to an Investment Advisory Agreement and acceptance of ALM First Financial Advisors' Brochure. You are encouraged to read these documents carefully. All investments involve risk and may lose money.

Speakers today are affiliates of ALM First. All investment decisions for client portfolios are made independently by the asset managers at ALM First. The views expressed are those of the speakers, and do not necessarily reflect the views of ALM First or any of its affiliates. These comments may not be relied upon as recommendations, investment advice or an indication of trading intent.

The content in this presentation is provided for informational purposes and should not be relied upon as recommendations or financial planning advice. We encourage you to seek personalized advice from qualified professionals regarding all personal finance issues. While such information is believed to be reliable, no representation or warranty is made concerning the accuracy of any information presented. Statements herein that reflect projections or expectations of future financial or economic performance are forward-looking statements. Such "forward-looking" statements are based on various assumptions, which assumptions may not prove to be correct. Accordingly, there can be no assurance that such assumptions and statements will accurately predict future events or actual performance. No representation or warranty can be given that the estimates, opinions or assumptions made herein will prove to be accurate. Actual results for any period may or may not approximate such forward-looking statements. No representations or warranties whatsoever are made by ALM First Financial Advisors as to the future profitability of investments recommended by ALM First Financial Advisors.

This content contains information derived from third-party sources. We believe that this third-party data is reliable; however, we cannot guarantee this data's currency, accuracy, timeliness, completeness, or fitness for any particular purpose.

Performance figures are net of fees charged to customers. For each strategy shown, the performance has been reduced by the amount of the highest fee charged to any ALM First Financial Advisors, LLC customer employing that particular strategy during the period under consideration (the "Model Fee"). Actual fees will vary depending on, among other things, the applicable fee schedule and portfolio size. ALM First's fees are available upon request and also may be found in its Form ADV Part 2A. Past performance does not guarantee future results.

No representation or warranty is made by ALM First that any of the returns or financial metrics detailed herein will be achieved in the future, as past performance is not a reliable indicator of future results. Certain assumptions may have been made in preparing this material that have resulted in the returns and financial metrics detailed herein. Changes to the assumptions may have a material impact on any returns or financial metrics herein. Furthermore, ALM First gives no representation, warranty or undertaking, or accepts any liability, as to the accuracy or completeness of the information contained this report. This report was prepared for informational purposes only without regard to any particular user's investment objectives, financial situation, or means, and ALM First is not soliciting any action based upon it. This material is not intended as, nor should it be construed in any way as accounting, tax, legal, or investment advice including within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Certain transactions give rise to substantial risk and are not suitable for all investors. The strategies discussed herein can have volatile performance and may employ leverage. Moreover, investment advisory fees and expenses may offset trading gains.

Index performance is discussed for illustrative purposes only as a benchmark for each strategy's performance and does not predict or depict performance of that strategy. While index comparisons may be useful to provide a benchmark for a strategy's performance, it must be noted that investments are not limited to the investments comprising the indices. Each of the strategy benchmark indices are unmanaged and cannot be purchased directly by investors.

This report was prepared by ALM First Financial Advisors, LLC. The hereto mentioned report contains information which is confidential and may also be privileged. It is for the exclusive use of the intended recipient(s). If you are not the intended recipient(s), please note that any distribution, copying, or use of this report or the information contained herein is strictly prohibited. If you have received this report in error, please notify the sender immediately and then destroy any copies of it. ALM First neither owes nor accepts any duty or responsibility to the unauthorized reader. ALM First shall not be liable in respect of any loss, damage, or expense of whatsoever nature which is caused by any use the unauthorized reader may choose to make of this report, or which is otherwise a result of gaining access to the report by the unauthorized reader.

© ALM First Group, LLC. All Rights Reserved.

3800 Maple Avenue, Suite 600
Dallas, TX 75219
Phone: 800.752.4628
Fax: 214.987.1052

www.almfirst.com

ALM FIRST
for a partnership built on trust.