MOODY'S

Proposed 2026 Stress Test

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Agenda

1. Forecast expansion timeline (Edward Friedman)
2. State of the banking system (Mark Zandi)
3. U.S. macro portion of the proposed stress test (Cris deRitis)
4. Global macro portion of the proposed stress test (Ilir Hysa)
5. Model-related remarks (Mark Hopkins)

1 | Timeline – On Schedule

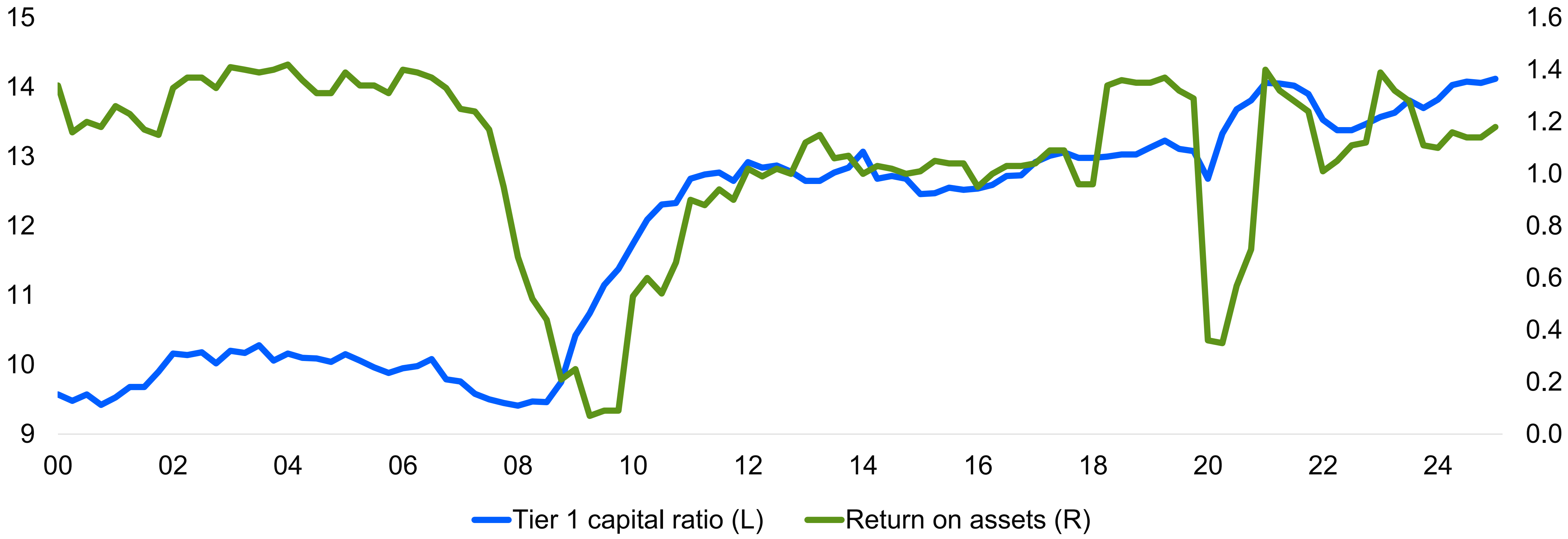
Comprehensive Capital Analysis and Review 2026 Forecast Expansion Timeline

Target Day	Publication Date	Database
0	24 Oct	FRB disseminates CCAR guidance
4	28 Oct	Historical reconciliation document
6	30 Oct	U.S. macro forecast (Q)
7	31 Oct	U.S. macro forecast (M)
7	31 Oct	U.S. macro forecast in Scenario Studio
7	31 Oct	CME Term SOFR forecasts
12	05 Nov	U.S. state forecast (Q)
13	06 Nov	U.S. state forecast (M)
14	07 Nov	Global macro forecast
17	10 Nov	Global macro forecast in Scenario Studio
17	10 Nov	Global financial markets database
19	12 Nov	U.S. narratives
19	12 Nov	U.S. metro area forecast
20	13 Nov	Case-Shiller® Home Price Index Forecast
24	17 Nov	Autocycle
26	19 Nov	Global macro narratives

2 | Solid Banking System

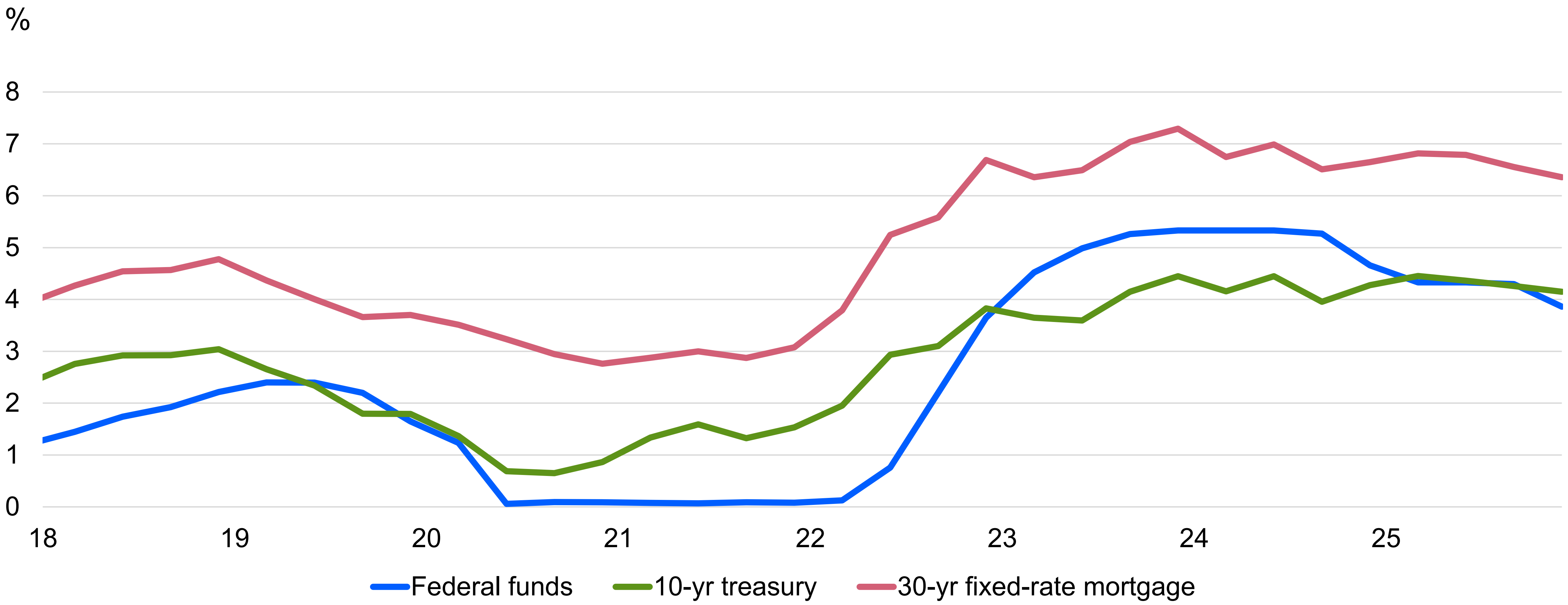
The Banking System Is Highly Capitalized and Profitable

Commercial banks, %



Sources: FDIC, Moody’s Analytics

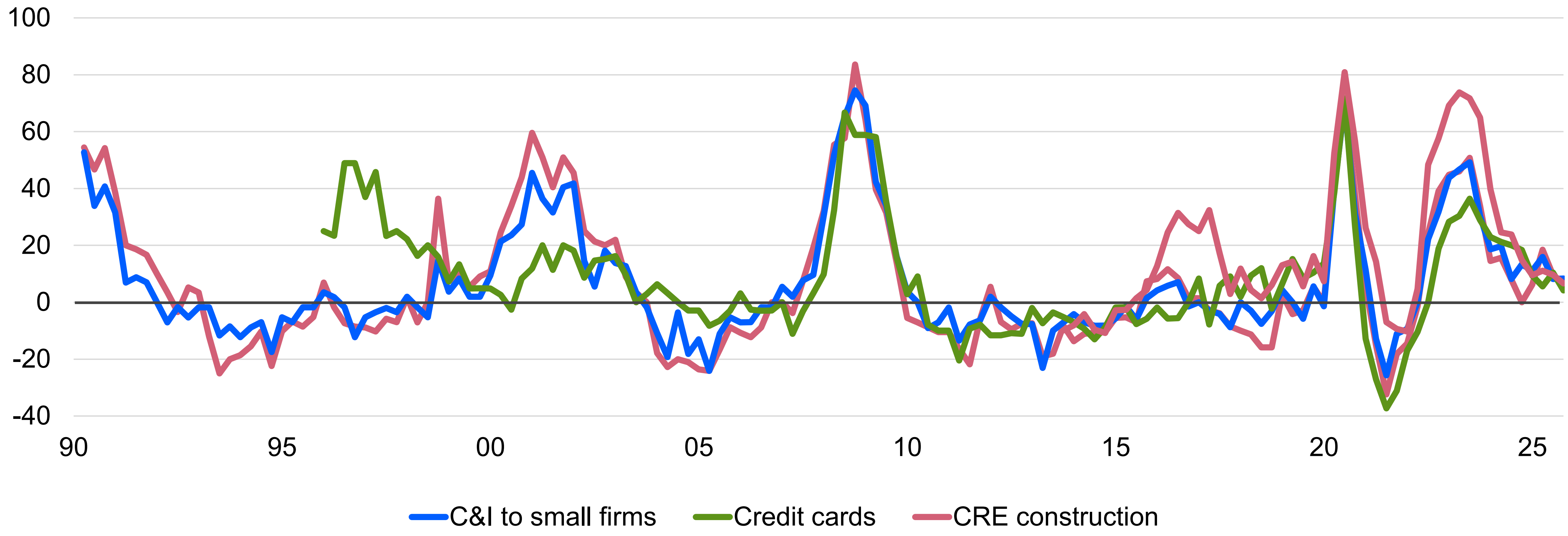
The Yield Curve and Interest Rates Normalize



Sources: Federal Reserve, Freddie Mac, Intercontinental Exchange, Moody's Analytics

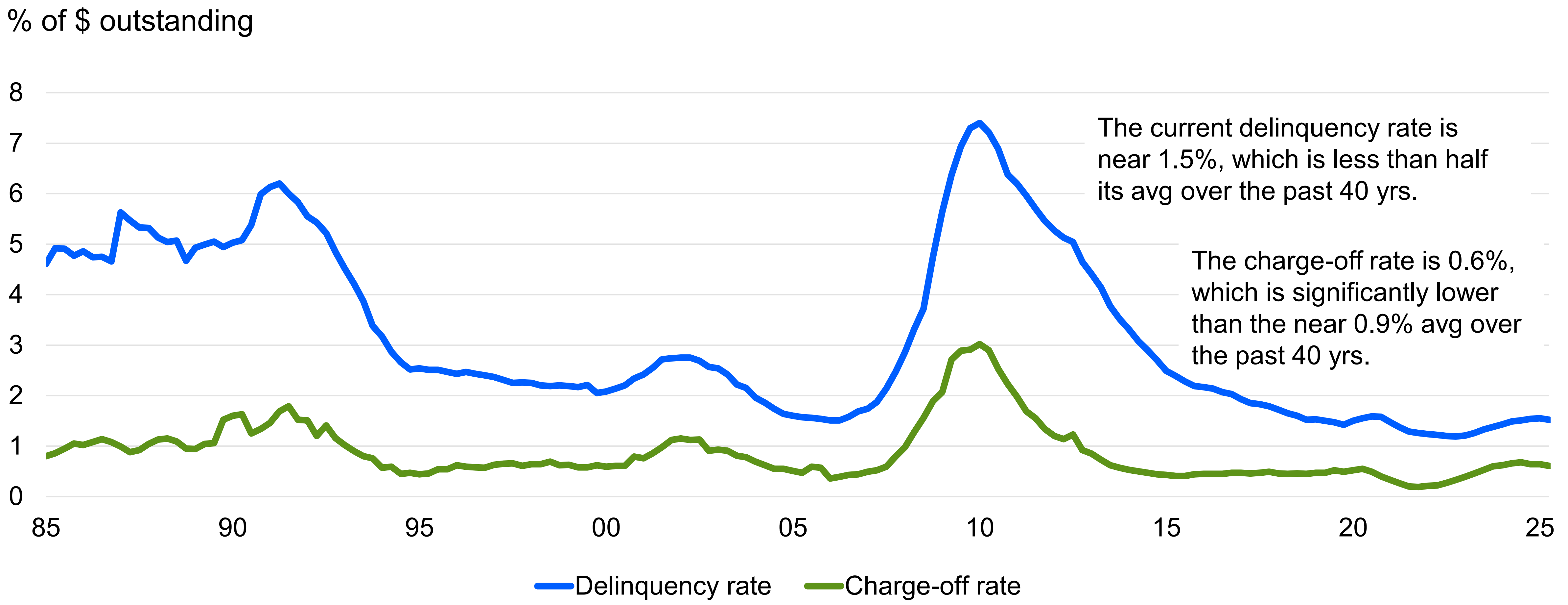
Bank Underwriting Remans Tight…

Net percentage of banks tightening lending standards on



Sources: Federal Reserve, Moody's Analytics

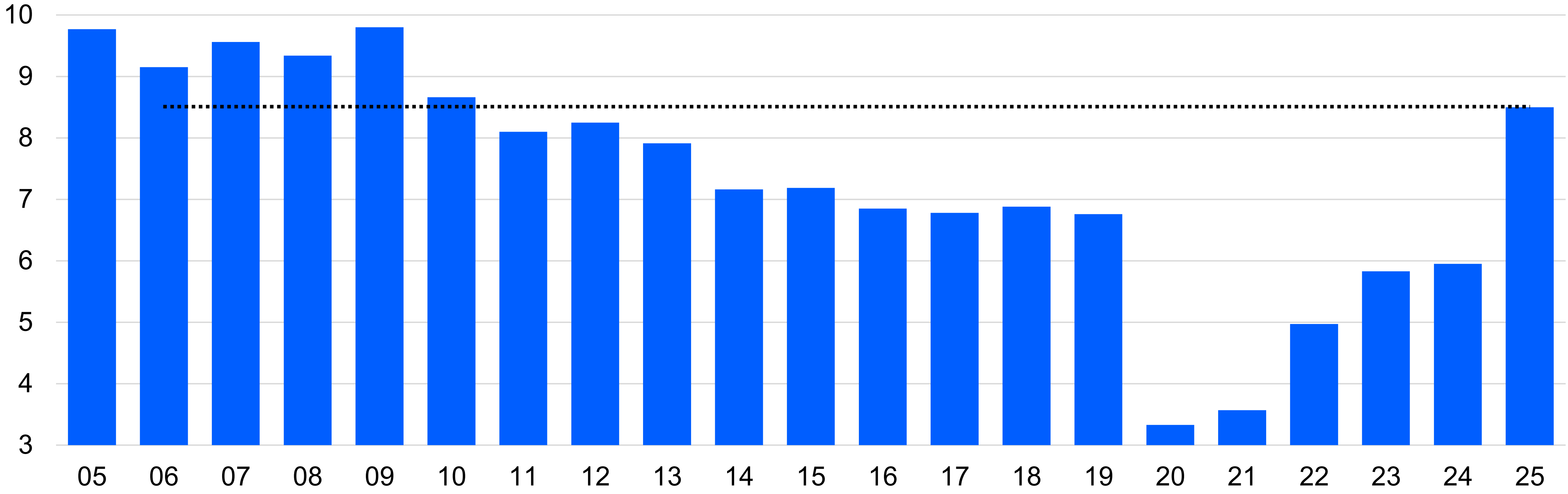
…Leading to Strong Credit Quality



Sources: Federal Reserve, Moody's Analytics

Subprime Borrowers Are Under Financial Stress

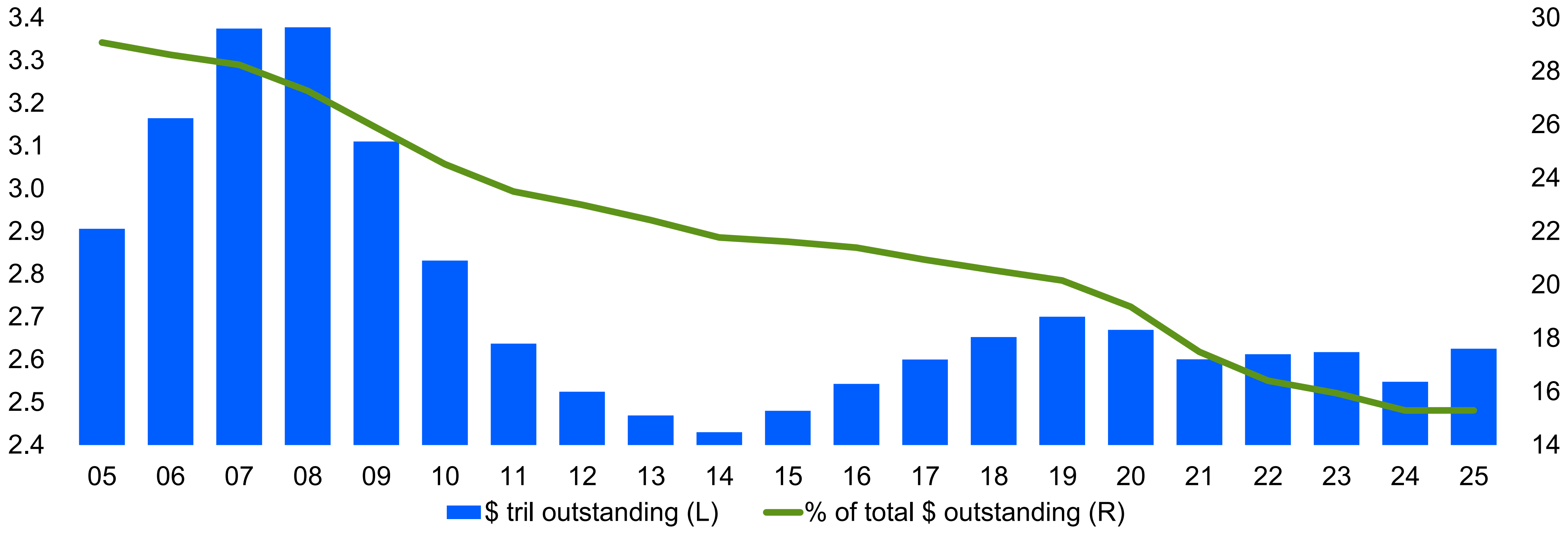
Subprime loan delinquency rate, % of loans, Oct of each yr



Sources: Equifax, Moody's Analytics

…But This Is Less of a Threat to the Financial System and Economy

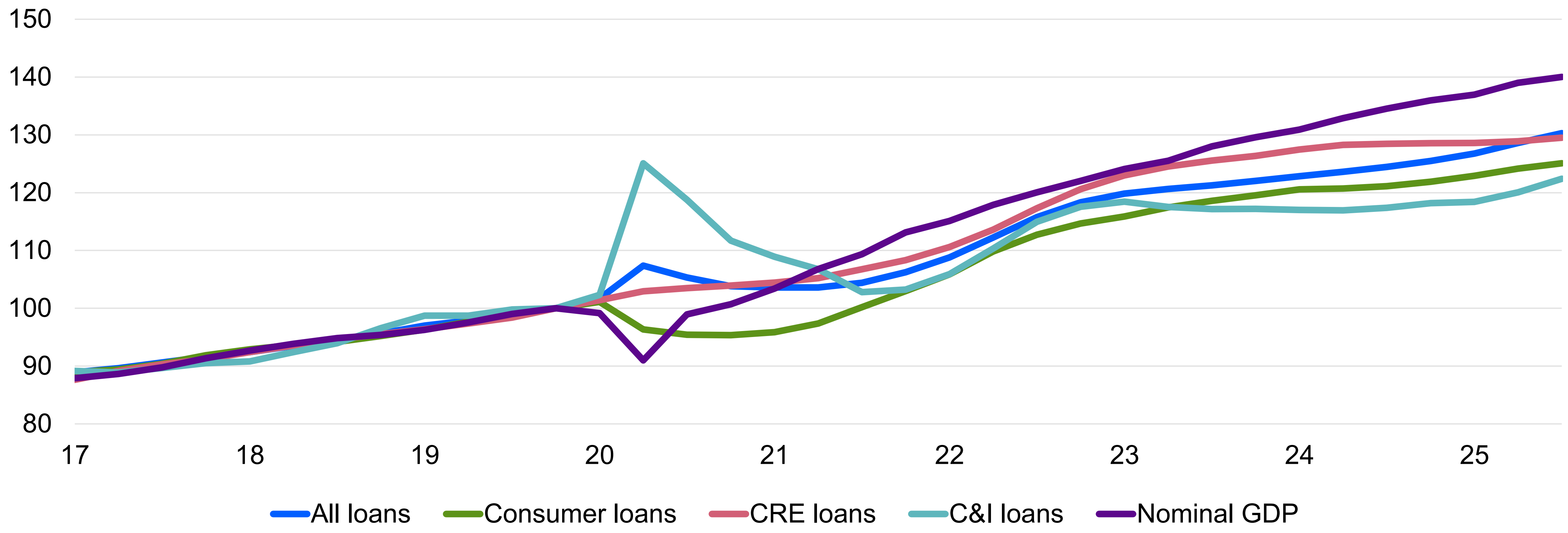
Subprime loans outstanding, Oct of each yr



Sources: Equifax, Moody's Analytics

Bank Lending Lags the Economy Since the Pandemic…

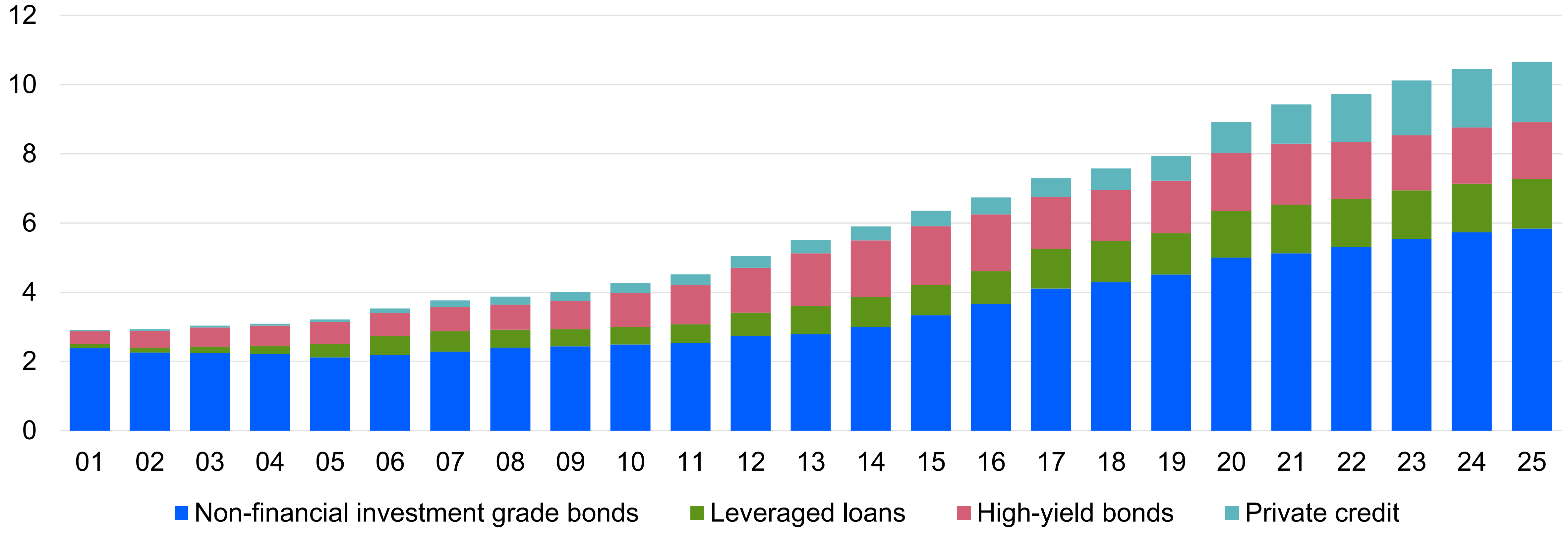
Loans outstanding, 2019Q4=100



Sources: Federal Reserve, Moody's Analytics

…As Non-Bank Credit Is on the Rise

U.S. corporate debt outstanding, $ tril

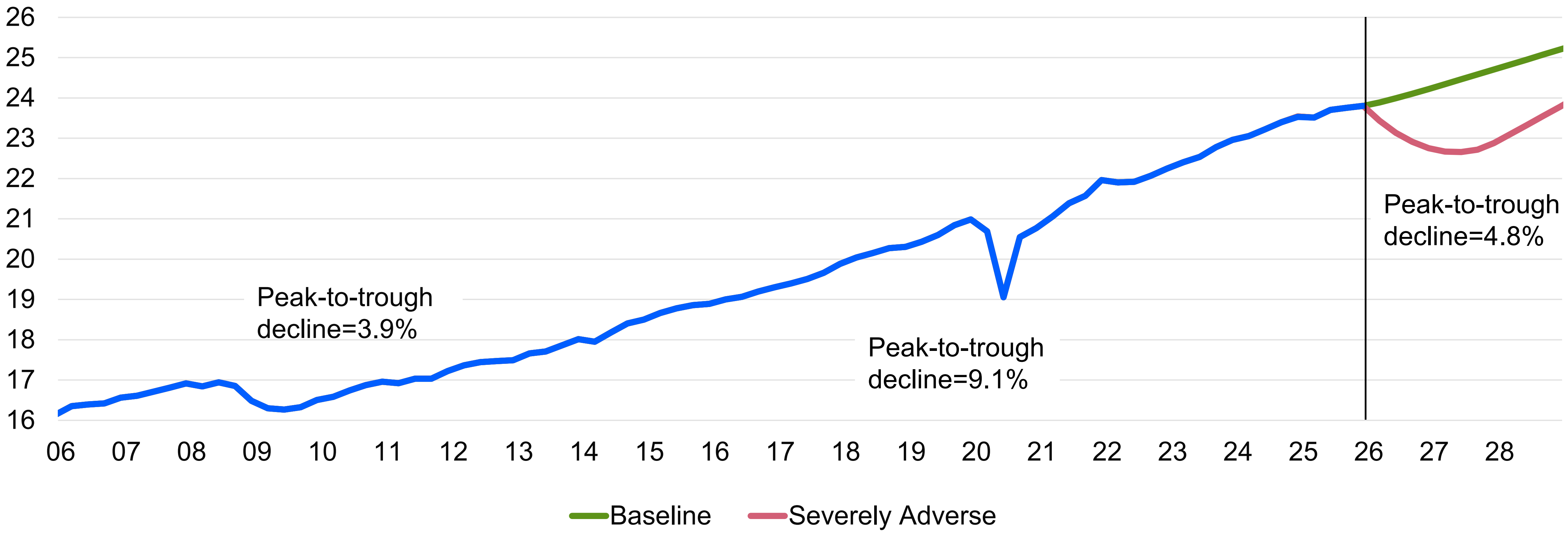


Sources: IMF, Federal Reserve, Moody’s Analytics

3 | Proposed 2026 Stress Test

CCAR 2026 Includes a Severe Recession…

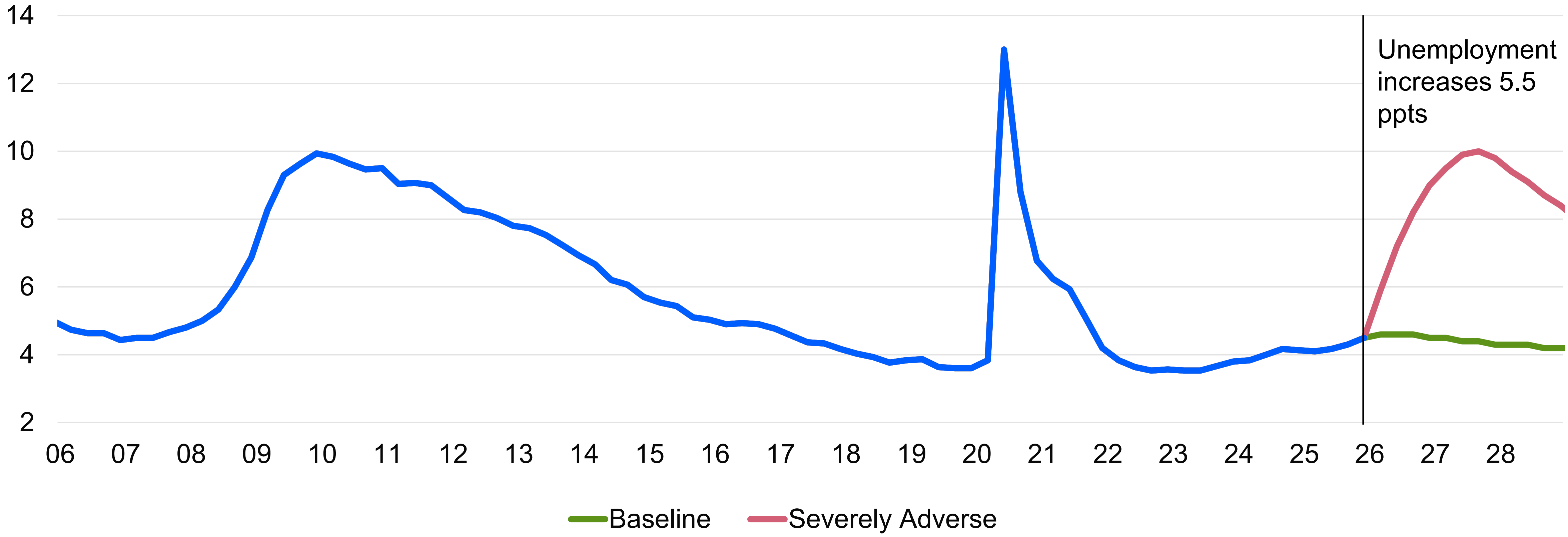
Real GDP, 2017$ tril



Sources: Federal Reserve, BEA, Moody's Analytics

…Pushing Unemployment to a Peak of 10%

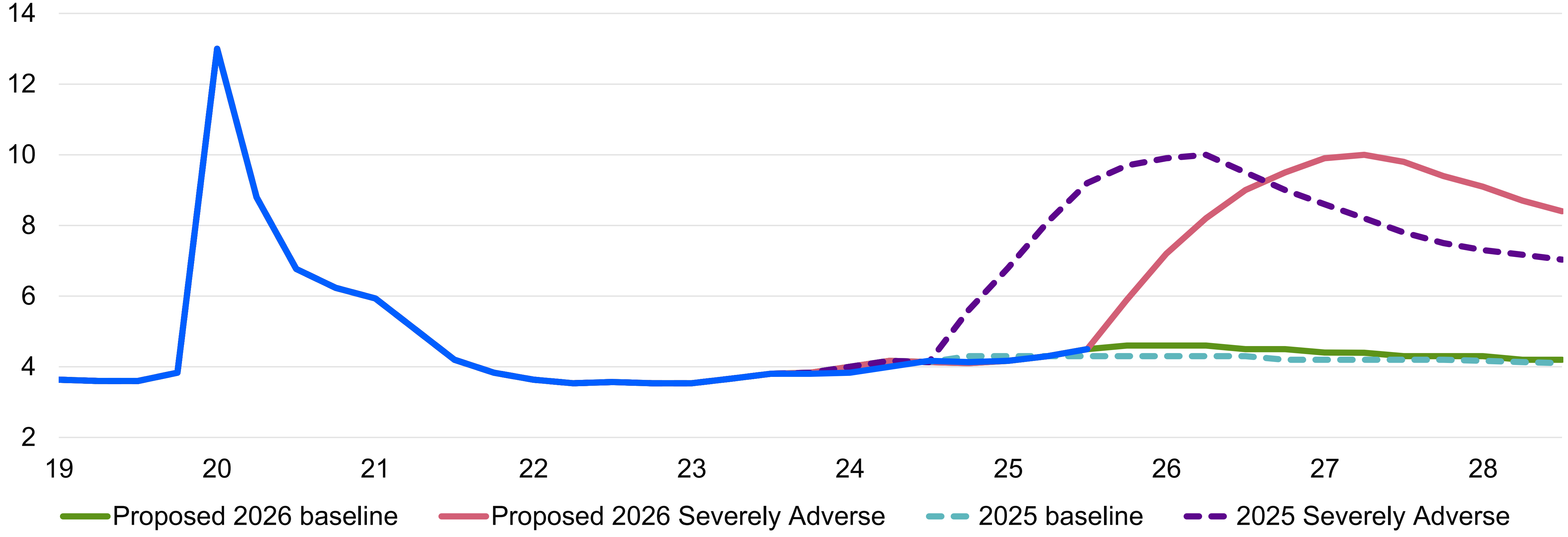
Unemployment rate, %



Sources: BLS, Federal Reserve, Moody's Analytics

This Year's Proposed CCAR Test Is Similar to Last Year's

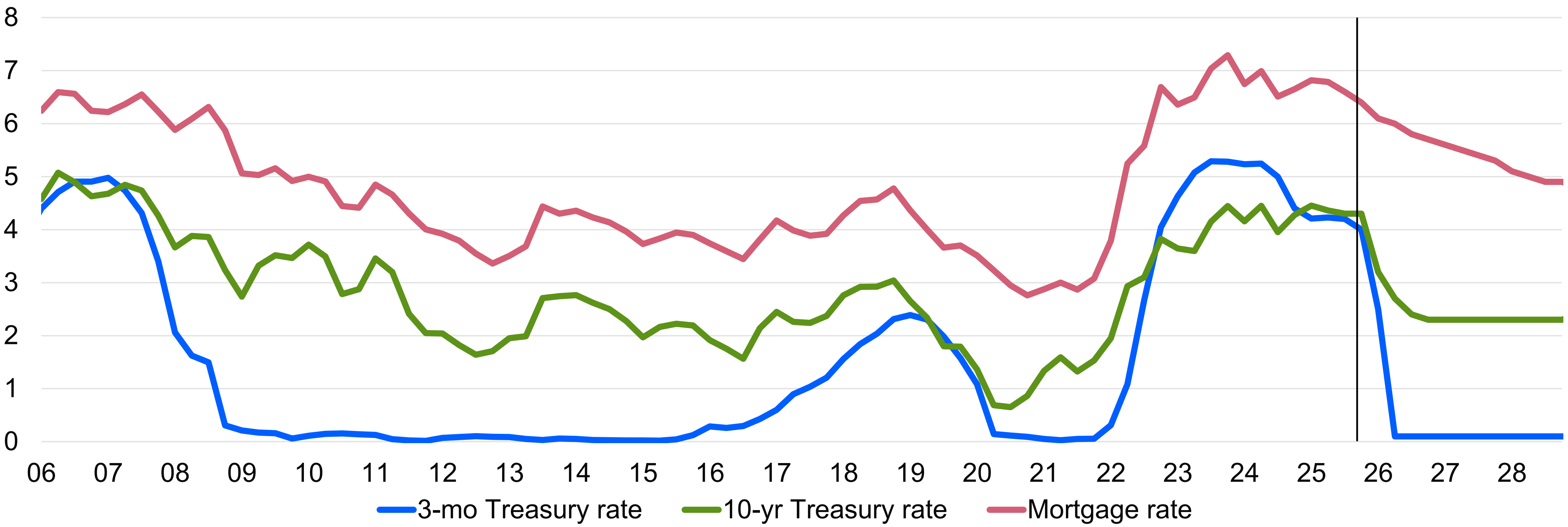
Unemployment rate, %



Sources: BLS, Federal Reserve, Moody's Analytics

Interest Rates Fall Sharply but Remain Positive

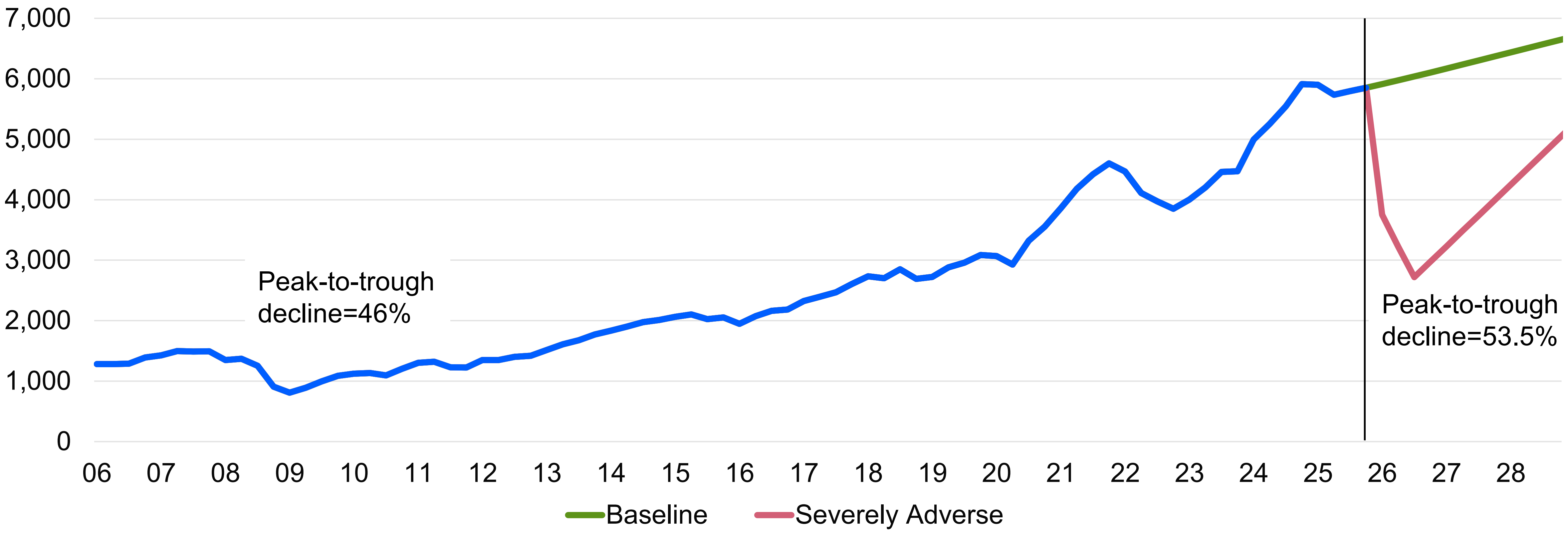
Severely Adverse scenario, %



Sources: Freddie Mac, Federal Reserve, Moody's Analytics

Stock Prices Take a Hit and the Damage Is Prolonged

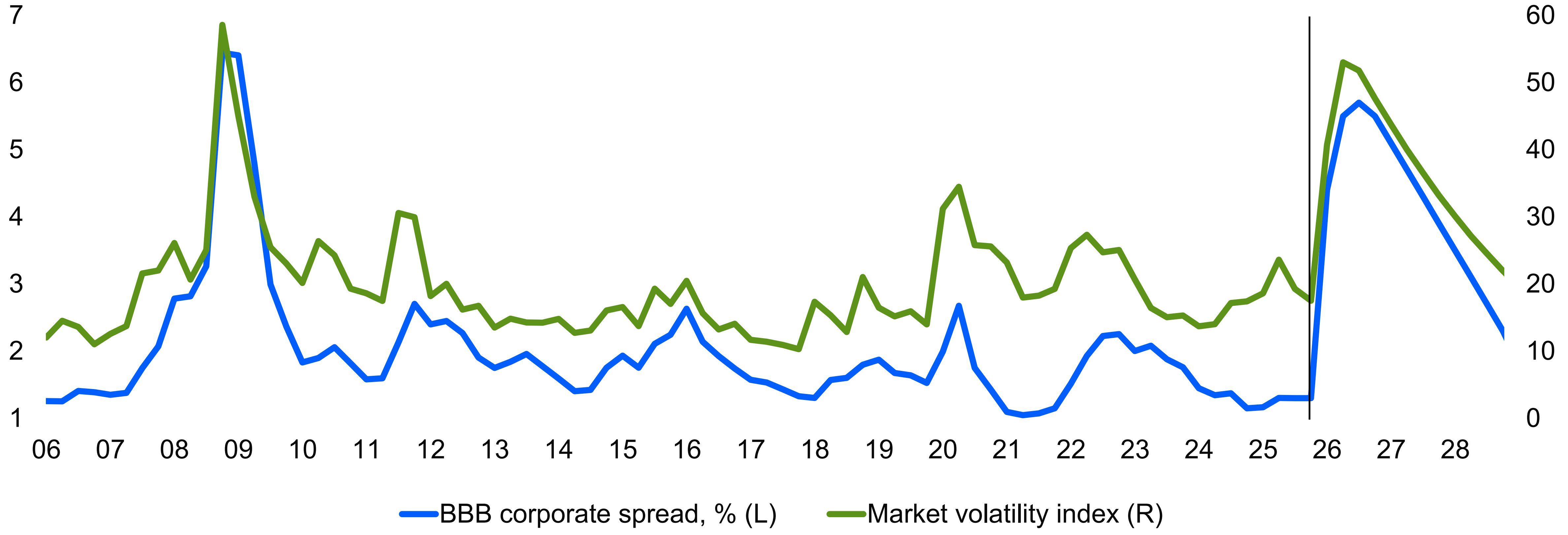
S&P 500



Sources: S&P, Moody's Analytics

Corporate Credit Under High Stress

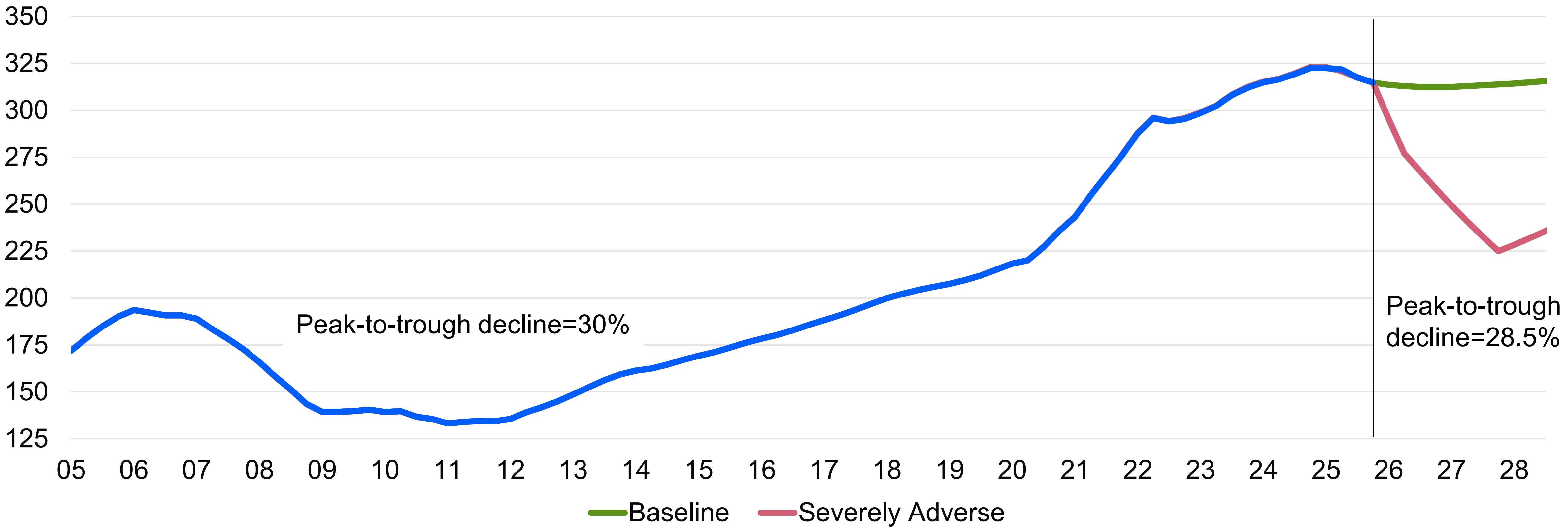
Severely Adverse scenario



Sources: SIX Financial Information, Intercontinental Exchange, S&P, Federal Reserve, Moody's Analytics

House Prices Slide…

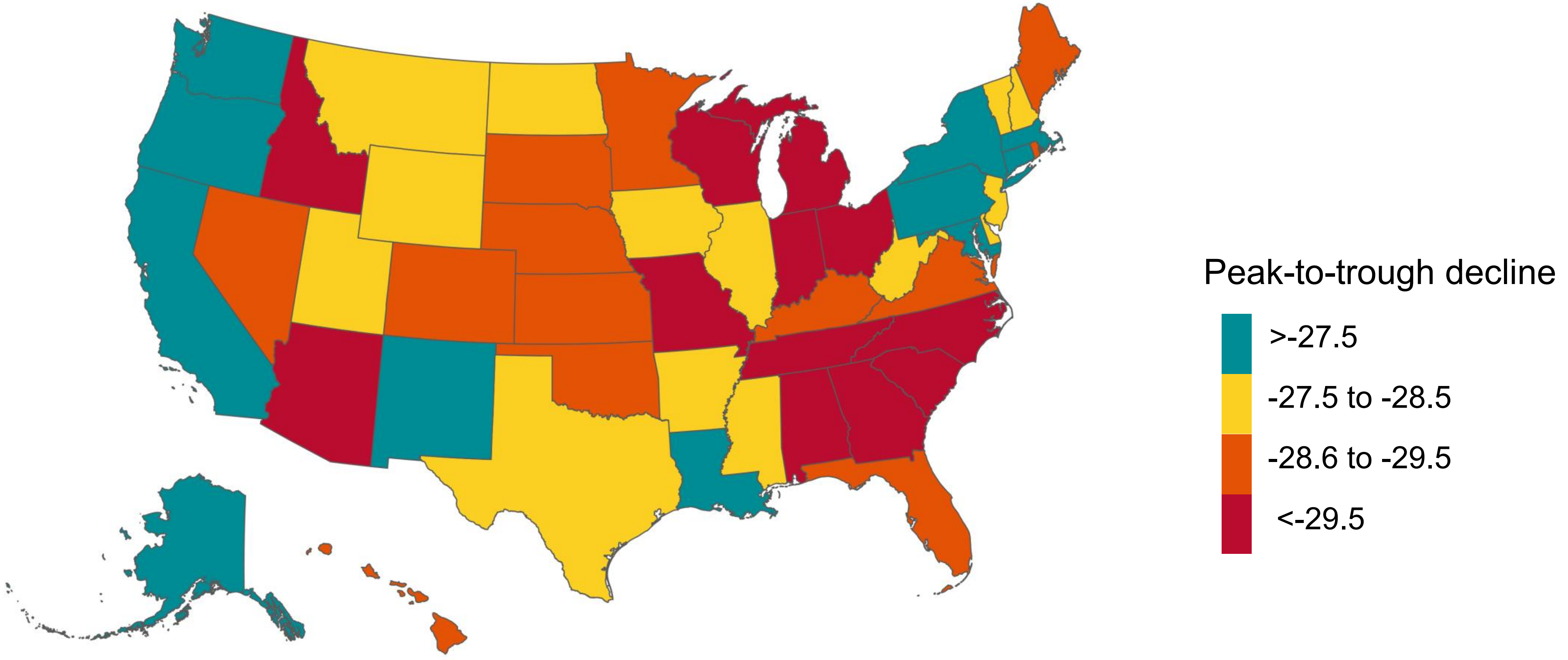
National House Price Index, Jan 2000=100, SA



Sources: Federal Reserve, Moody's Analytics

…Most Sharply in Overvalued Markets

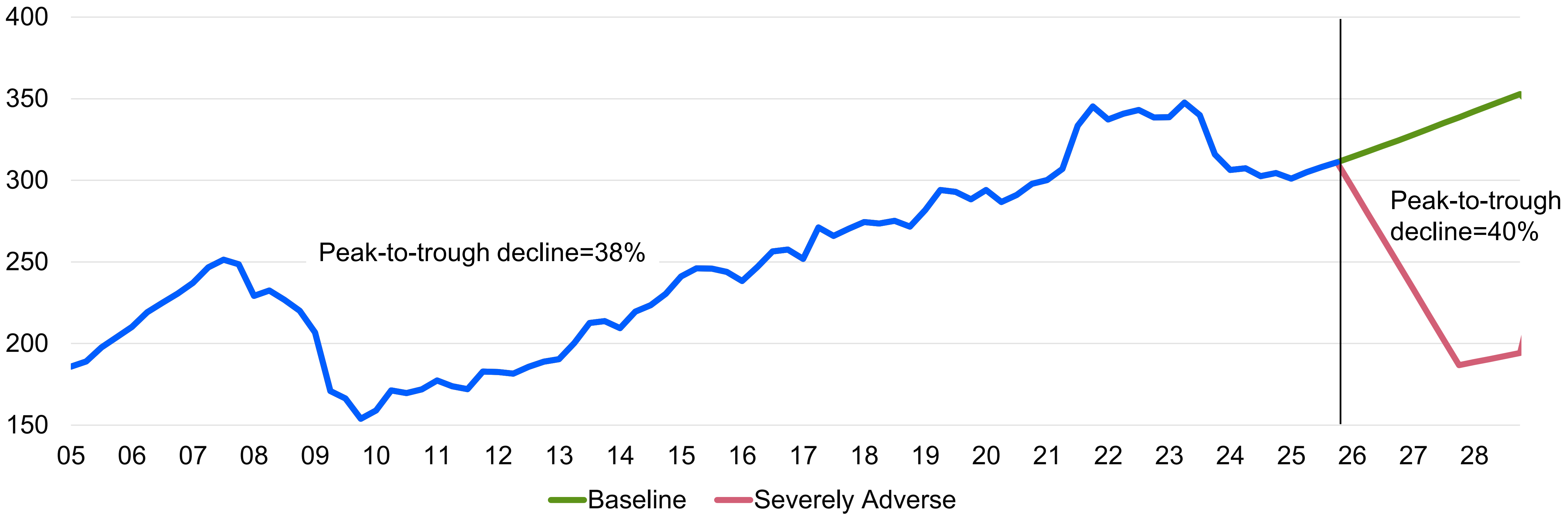
FHFA Purchase-Only HPI, % change, 2025Q4 to 2027Q4



Sources: FHFA, Moody's Analytics

Commercial Real Estate Prices Fall Back to GFC Levels

Commercial real estate price index

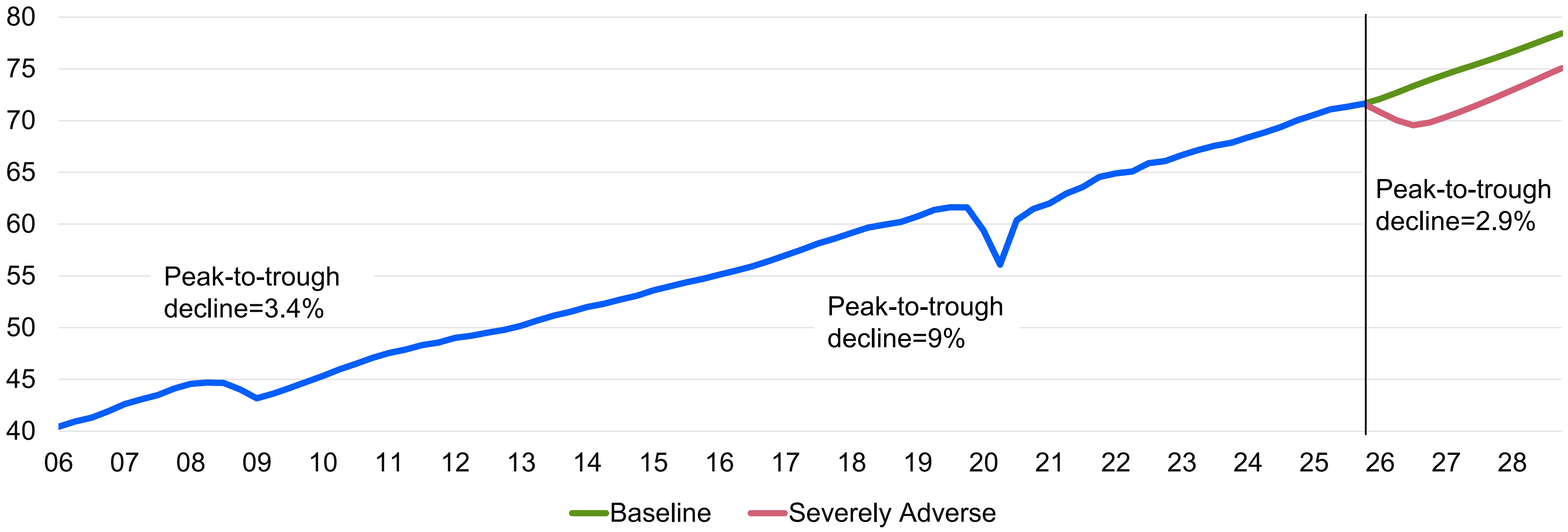


Sources: Federal Reserve, Moody's Analytics

4 | Global Scenario

A Severe Global Downturn…

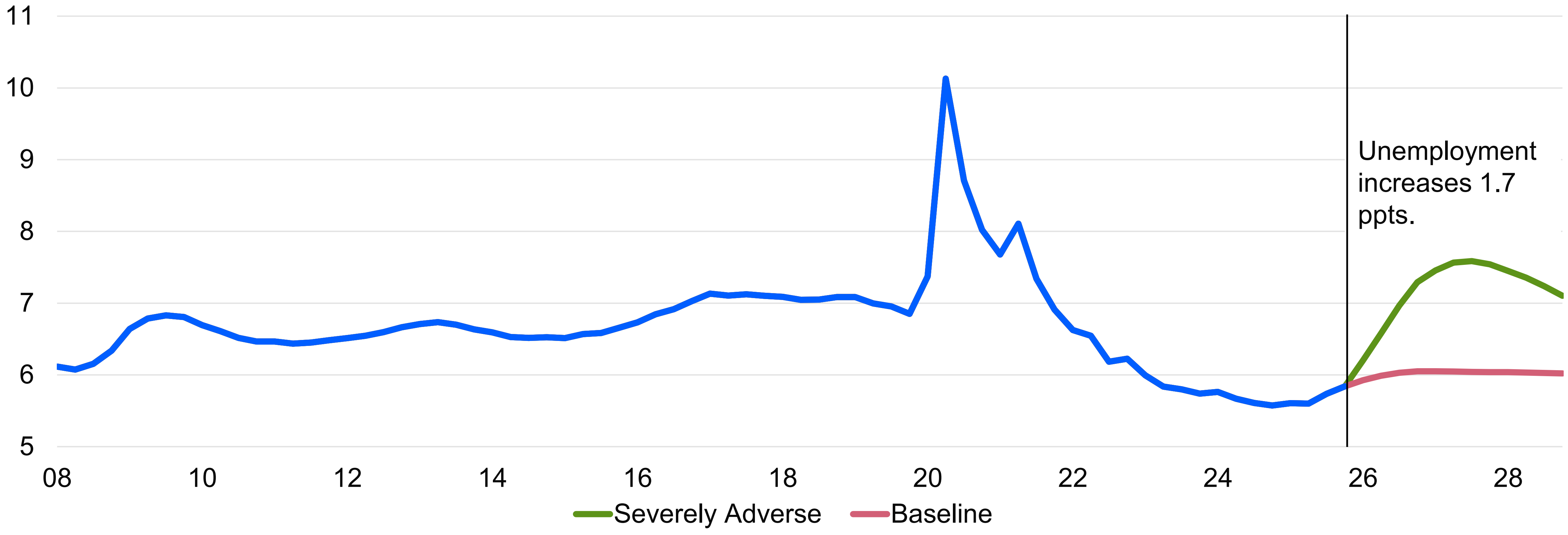
Global (ex the U.S.) real GDP, 2017$ bil



Sources: National statistical offices, Moody's Analytics

…With Persistently High Unemployment

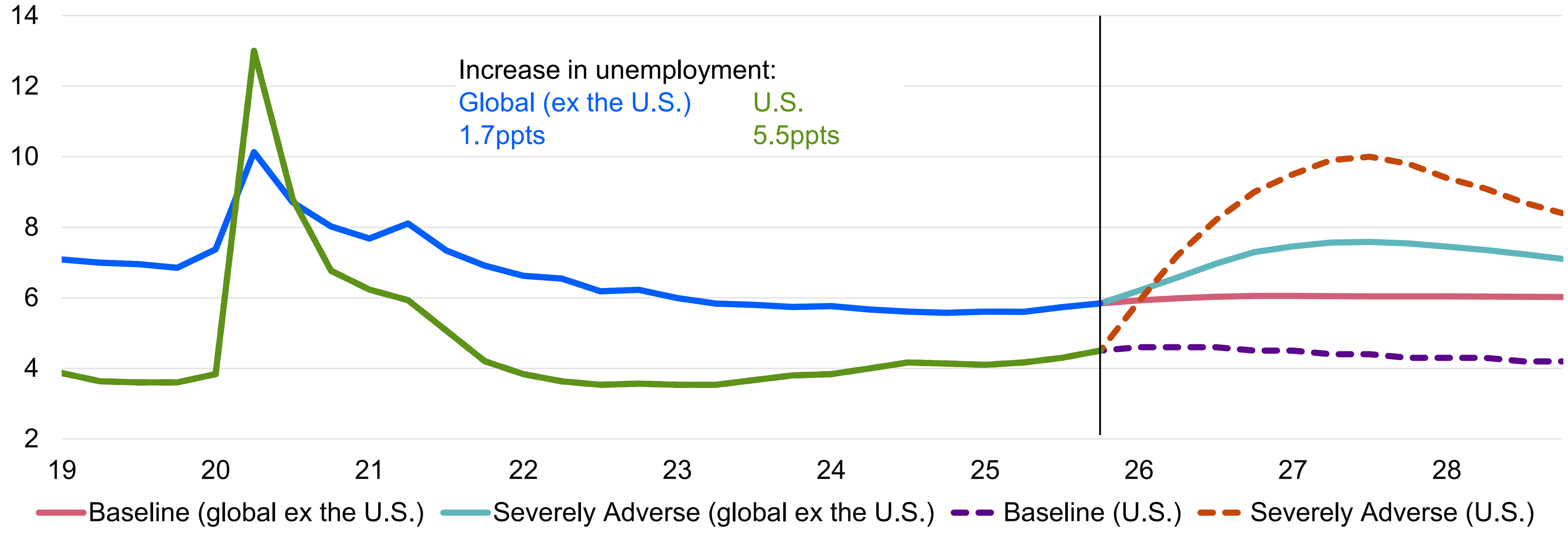
Global (ex the U.S.) unemployment rate, %



Sources: National statistical offices, Moody's Analytics

Unemployment Increases More in the U.S. in the Severely Adverse Scenario

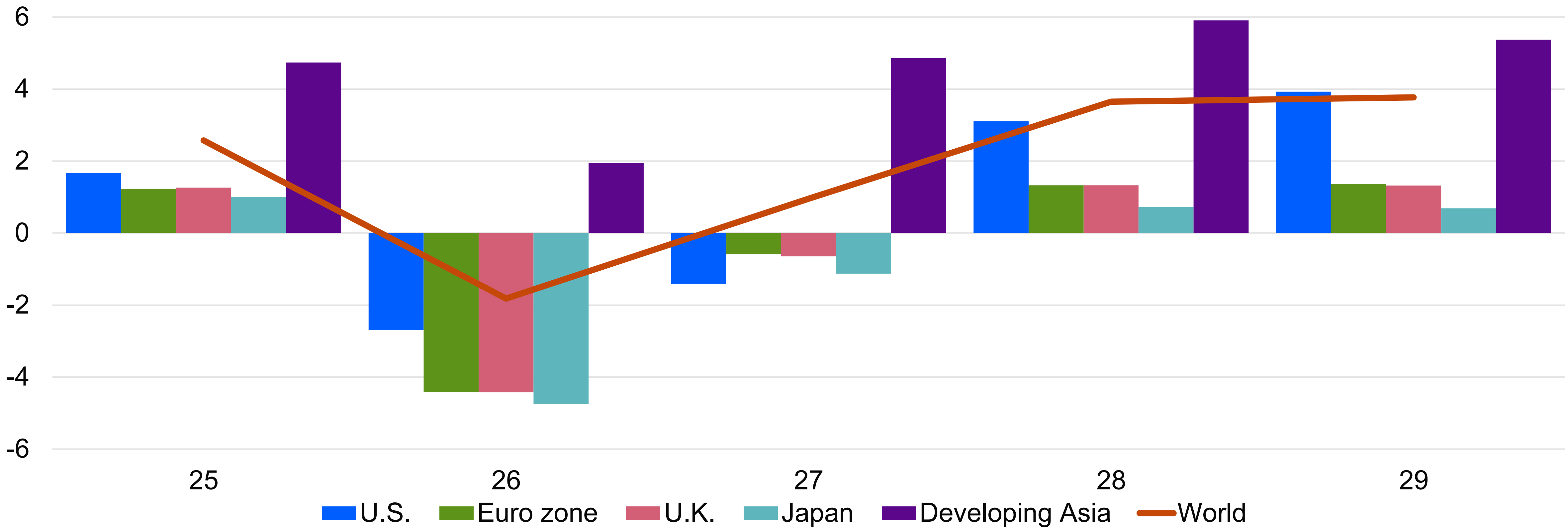
Unemployment rate, %



Sources: BLS, National statistical offices, Moody's Analytics

GDP Declines Across Much of the World…

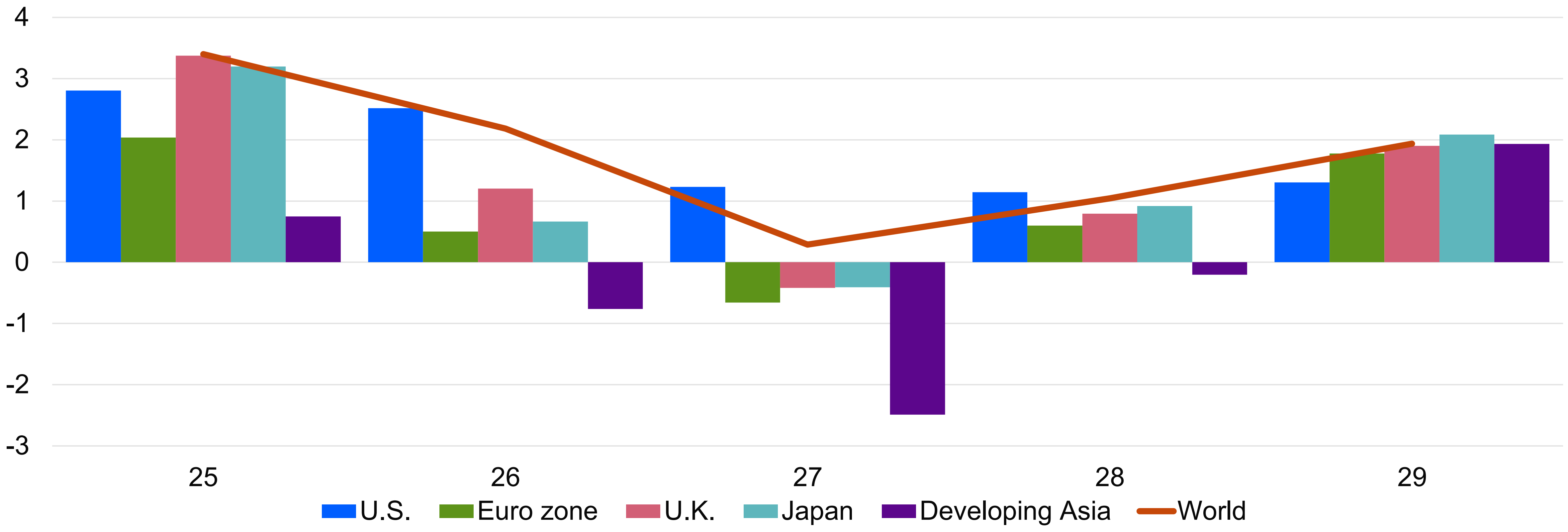
Real GDP in the Severely Adverse scenario, % change yr ago



Sources: National statistical offices, Moody's Analytics

…And Inflation Moderates, With Deflation in Much of the World

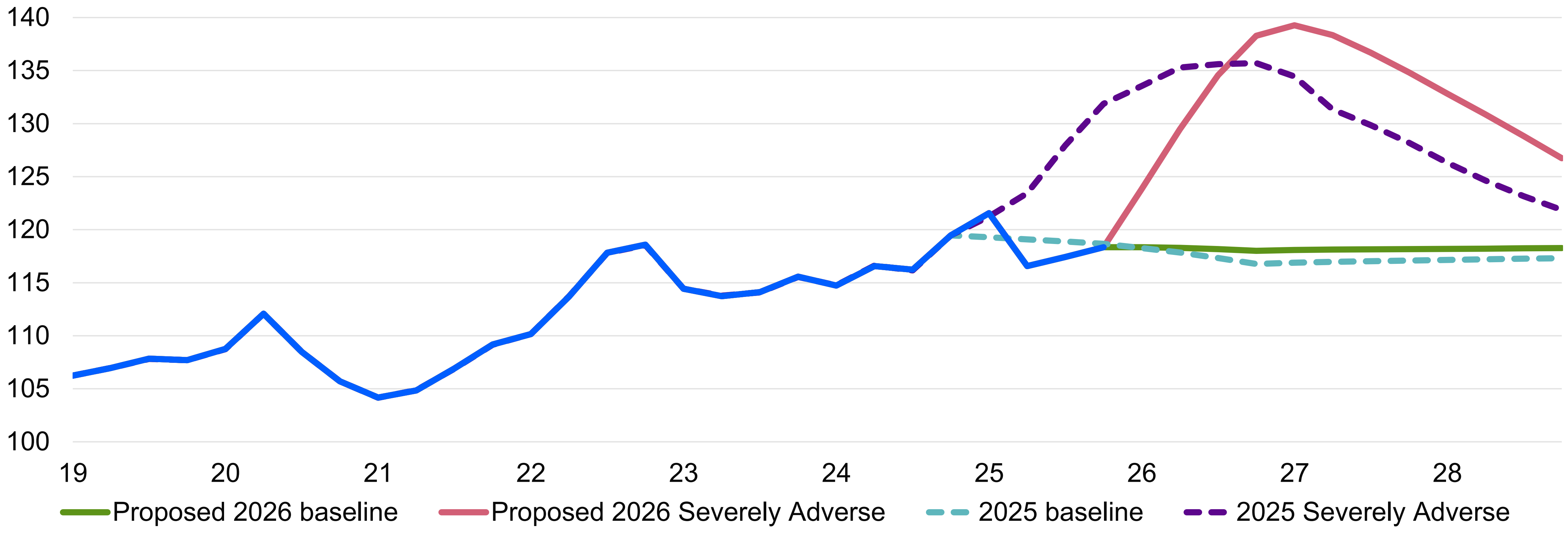
CPI in the Severely Adverse scenario, % change yr ago



Sources: National statistical offices, Moody's Analytics

U.S. Dollar Retains Its Safe-Haven Status in Severely Adverse Scenario

U.S. real broad trade-weighted $



Sources: Federal Reserve, Moody's Analytics

5 | The Fed's Model–Summary

New for 2026: Increased Transparency

- Documenting and simplifying key models
- Expanded rules of thumb for scenario variables
- Handling of data updates
- Changes to supervisory models and guidance on loss projections

MOODY'S

- **First Time Publishing a Macroeconomic Model for Stress-Testing**

→ A new small-scale model used to generate scenario guidance.

→ Based on three well-known empirical relationships, used to solve for GDP, inflation, and fed funds rates *given the unemployment rate*.

→ Unemployment follows an AR(2) process after the initial stress.

- **Other changes**

→ BBB spread, CRE prices, S&P, VIX now have formula-based guidance for peak/trough stress values.

→ The Fed has also published methodology papers for Global Market Shock, Operational Risk, and PPNR models.

→ Fed has explained how scenarios will be updated to reflect new data between October and February.

How Does the Fed's Macro Model Compare With Ours?

Models Are Tools, so Design Depends on the Context of Use

The New Fed Model for Stress-Testing

- A simple, lightweight model for generating multiple time paths consistently.
- A reduced form model, based on familiar "empirical relationships" such as Okun's law, the Phillips curve, and the Taylor rule for central bank policy rates.
- A correlation-based model to provide prediction and enforce consistency across concepts, but not necessarily a transparent or realistic explanation as to why.

→ Okun's law is used to **predict** GDP from a given unemployment rate.

→ Model shocks are introduced into the unemployment rate AR(2) process and propagate through to other variables in a **recursive** fashion.

→ Equation coefficients estimated on data up to 2019 or assigned based on long-run averages.

- The model is easy for anybody to code up (for example, Python) and use for simulations.

The Moody's Analytics Global Model

- A large-scale model of the global economy in great detail.
- A structural model, with equations describing the behavior of firms, households & policymakers based on standard economic theory.
- Causality treated carefully, defensibility of economic logic is paramount, because the "why" is as important as the "what."

→ Okun's law is used to **explain** unemployment based on GDP, reflecting a standard firm labor demand curve.

→ Model shocks can be introduced many places, go many places, and even feed back again, due to extensive **simultaneity** across forecasts.

→ Almost all equation coefficients estimated with recent data since the pandemic, with individual care to capture econometric considerations in time series data.

- The model is costly to update, run and simulate, requiring specialized modeling software (for example Scenario Studio).

Further Questions:

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Thank you

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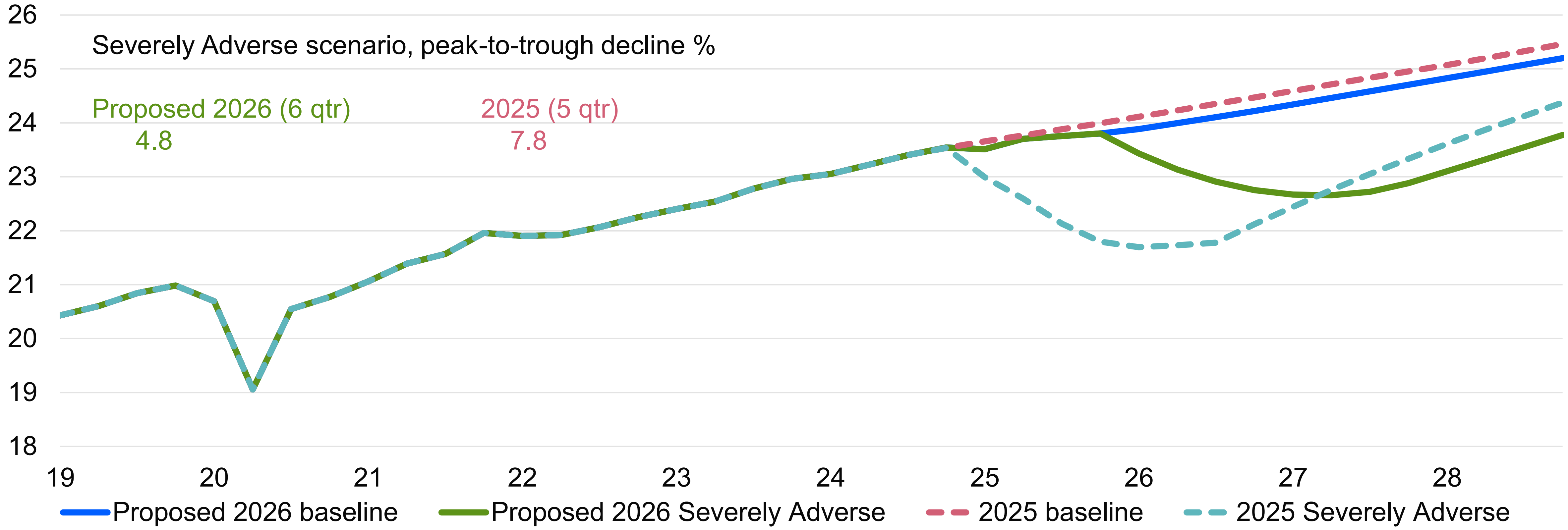
A | Appendix: Additional Indicators Historical Review

GDP Declines Less Than in the 2025 Stress Scenarios…

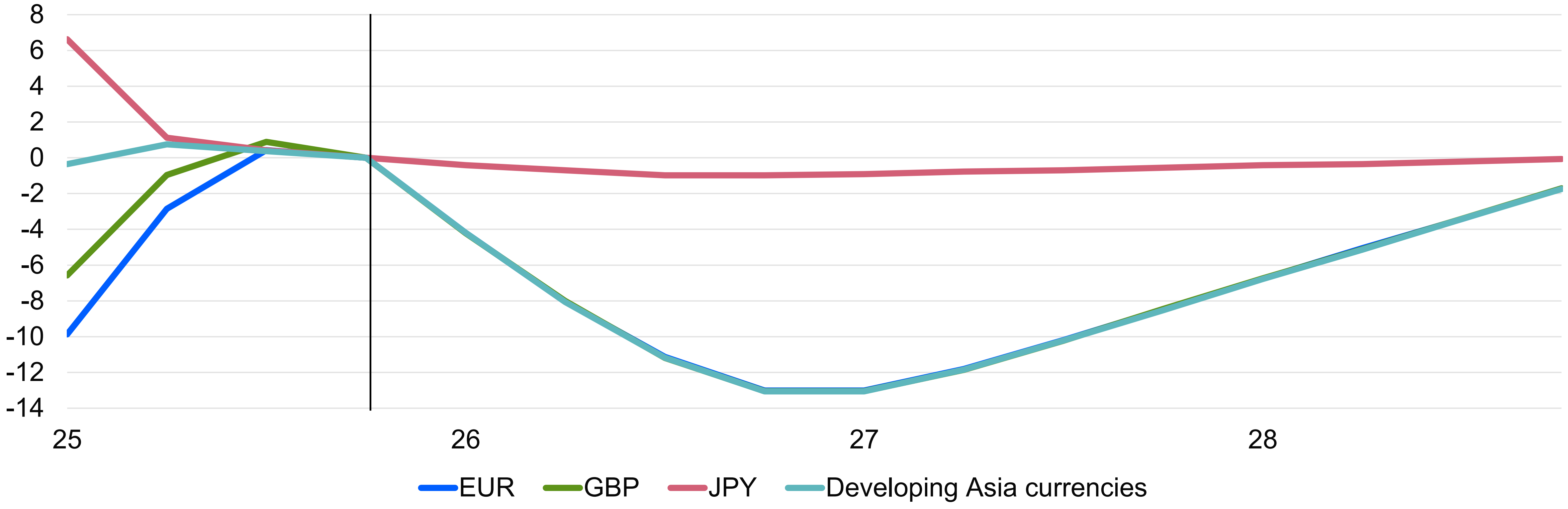
Real GDP, 2017$ bil



Sources: BEA, Federal Reserve, Moody’s Analytics

USD and JPY Are Safe-Haven Currencies

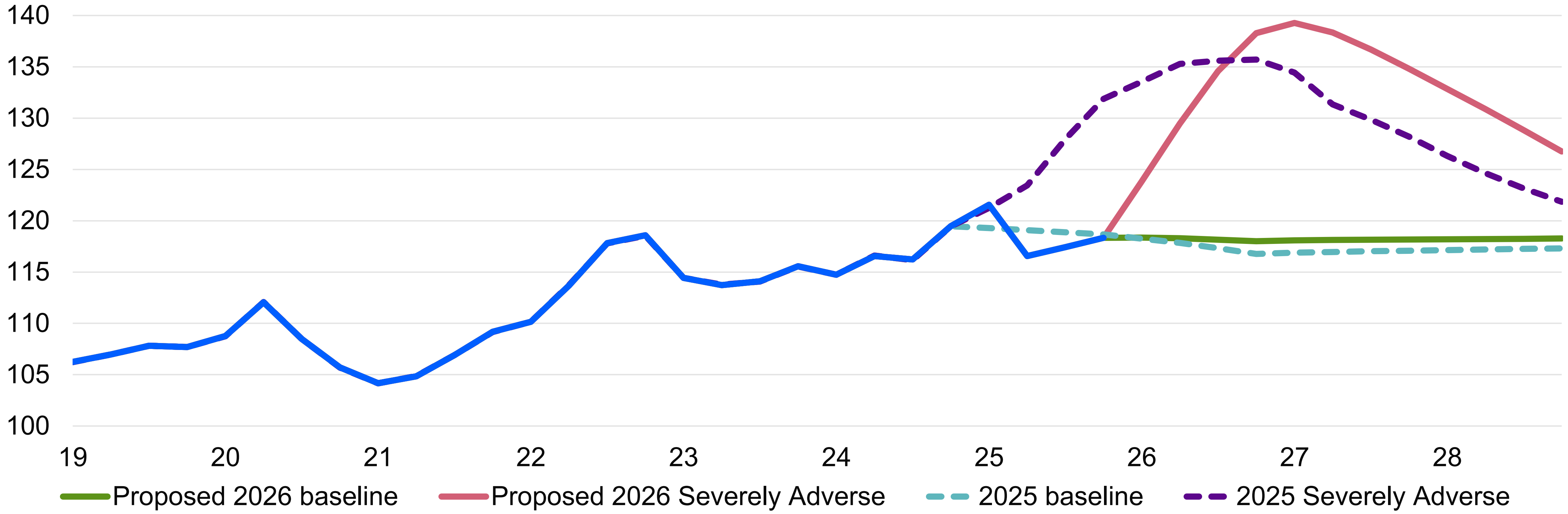
% change since 2025Q4 vis-à-vis USD in the Severely Adverse scenario



Sources: Federal Reserve, Moody's Analytics

USD Is Still Strong in Proposed 2026 Stress Scenarios

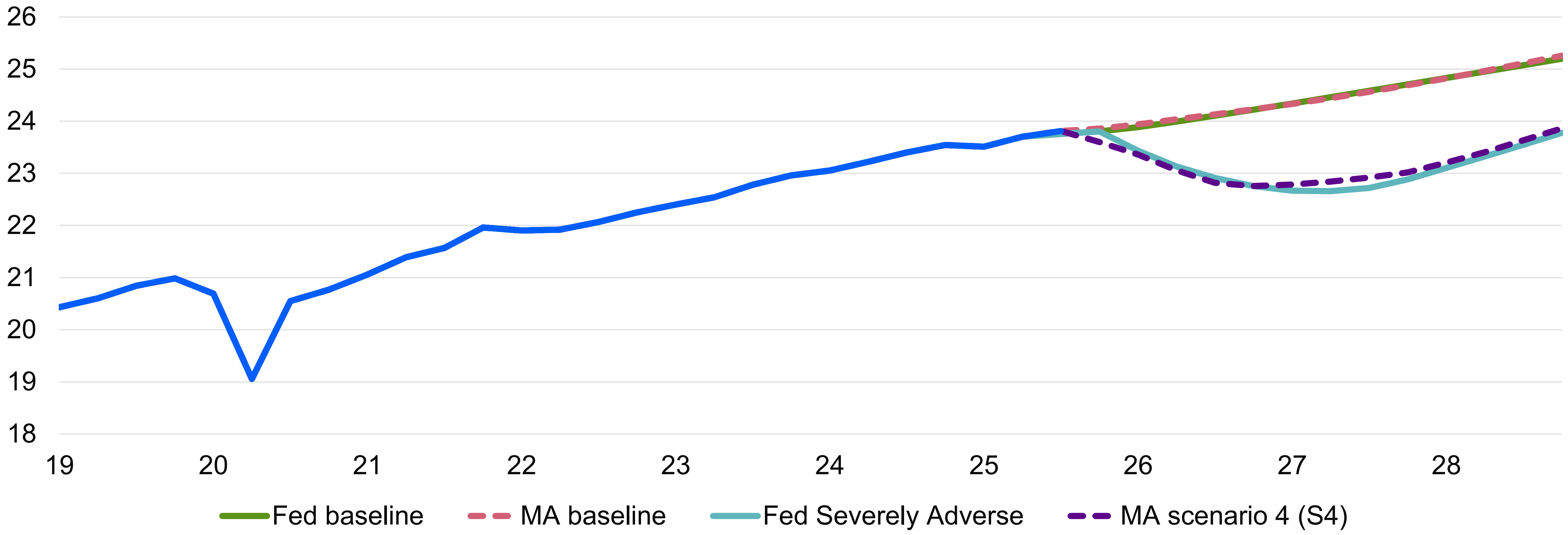
U.S. real broad trade-weighted $



Sources: Federal Reserve, Moody's Analytics

Severely Adverse Scenario Is More Severe Than Our S4…

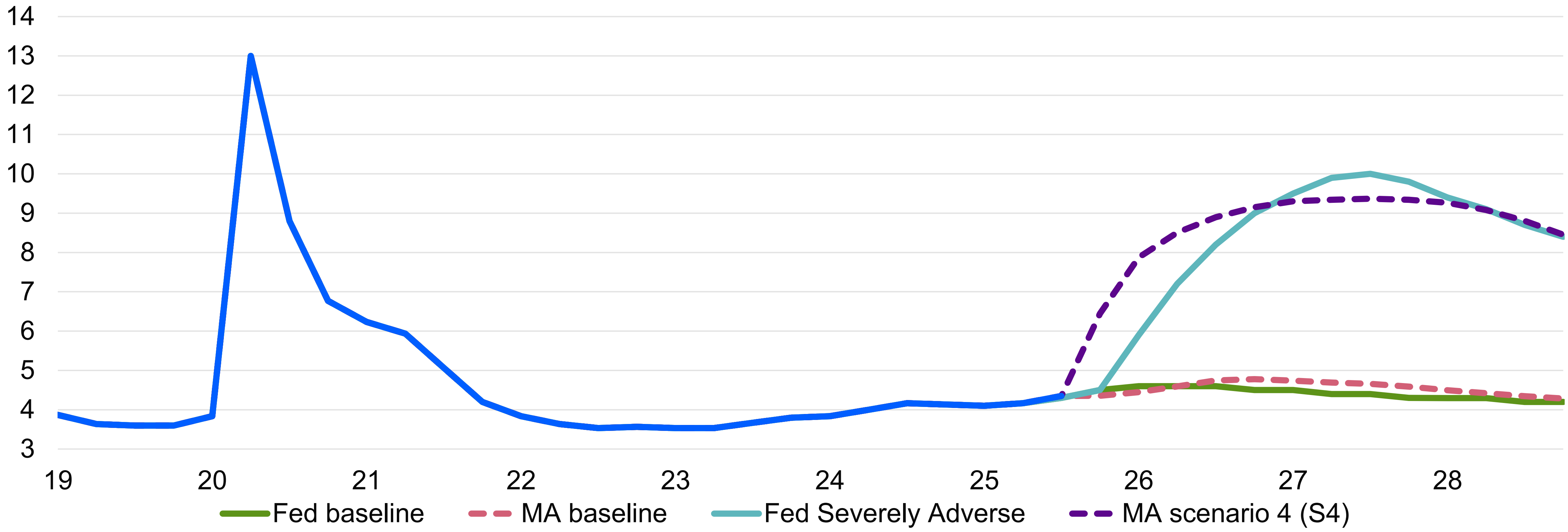
Real GDP, 2017$ bil



Sources: BEA, Federal Reserve, Moody's Analytics

…But Not by Much

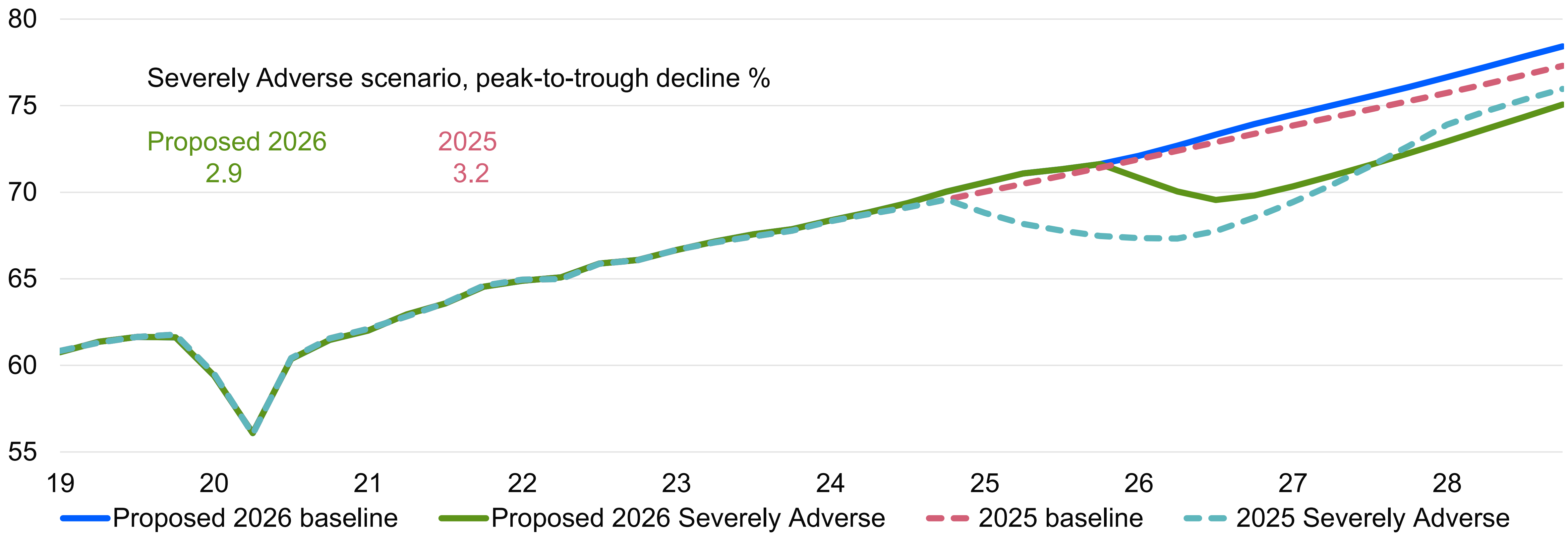
Unemployment rate, %



Sources: BLS, Federal Reserve, Moody's Analytics

Global GDP Also Declines Less Than in the 2025 Stress Scenarios

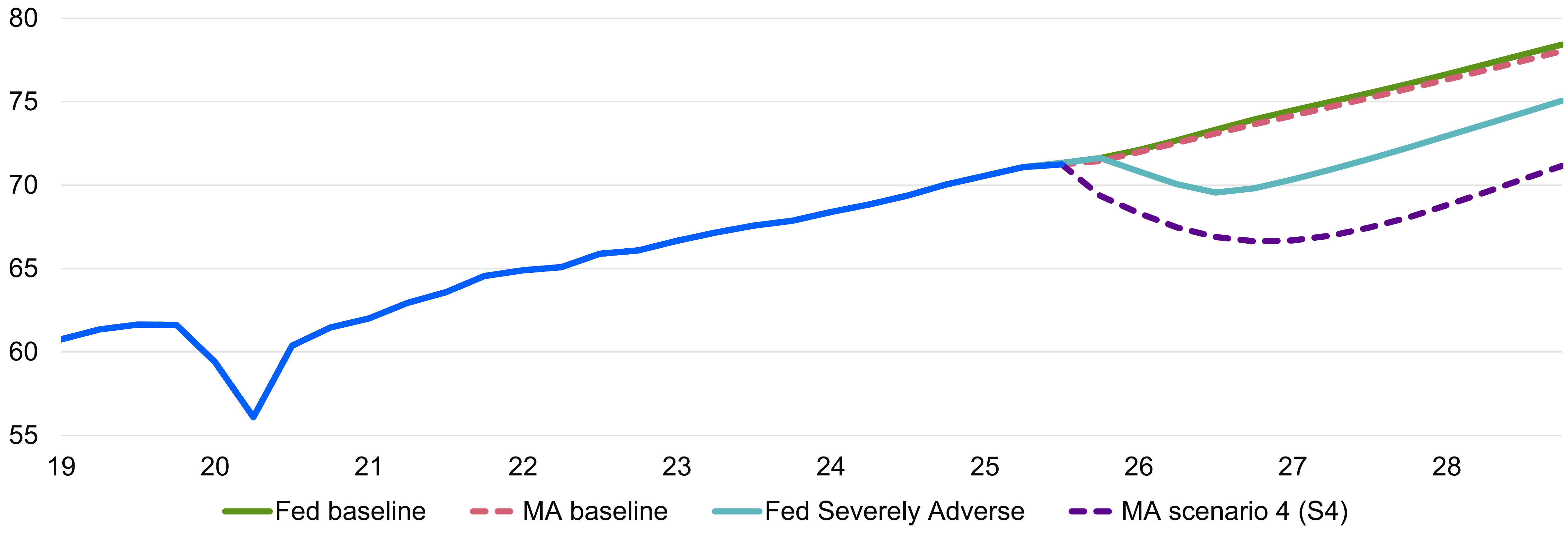
Global (ex the U.S.) real GDP, 2017$ bil



Sources: National Accounts, Moody's Analytics

The Severely Adverse Scenario Is Less Severe Than Our S4…

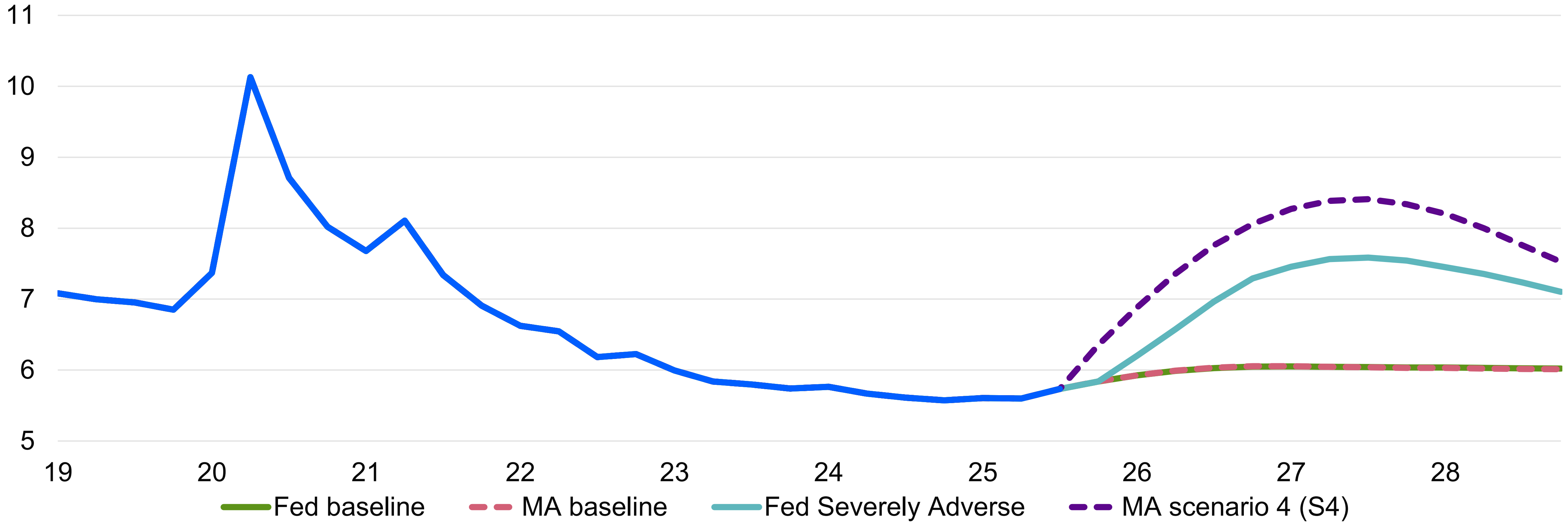
Global (ex the U.S.) real GDP, 2017$ bil



Sources: National Accounts, Moody's Analytics

…By a Wide Margin

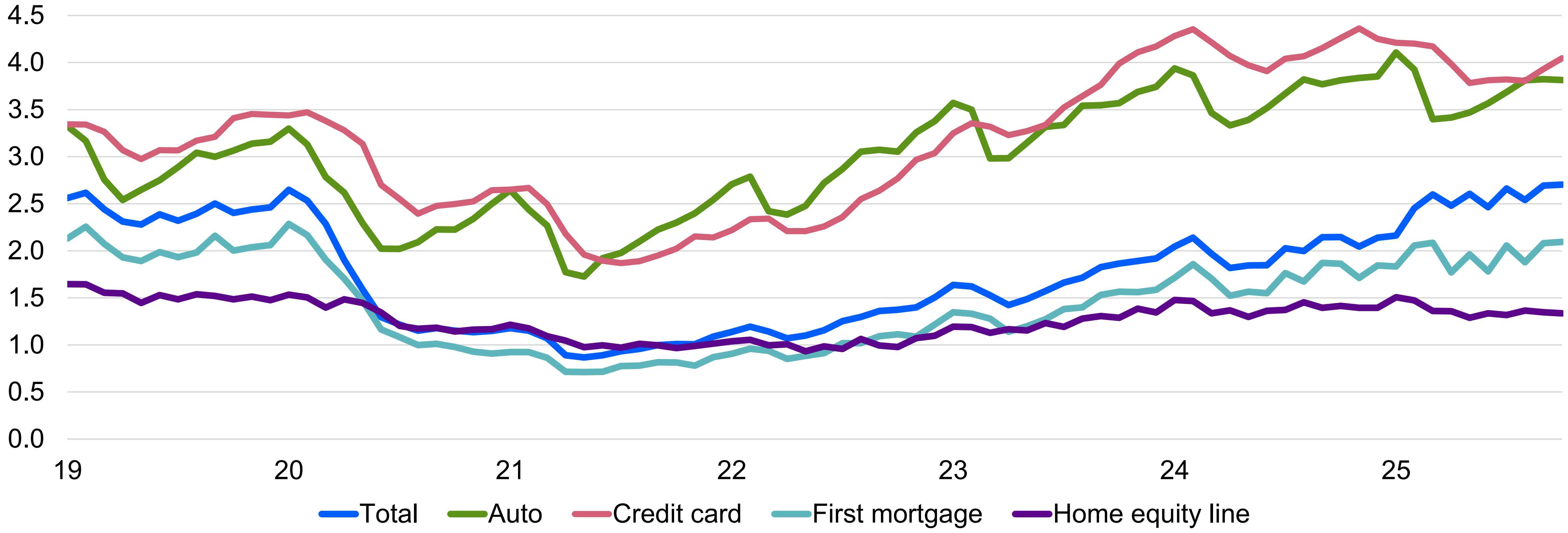
Unemployment rate, %



Sources: National statistical offices, Moody’s Analytics

Pristine Residential Mortgage Quality…Consumer Delinquency Rolls Over

Delinquency rate, % of $ outstanding



Sources: Equifax, Moody's Analytics