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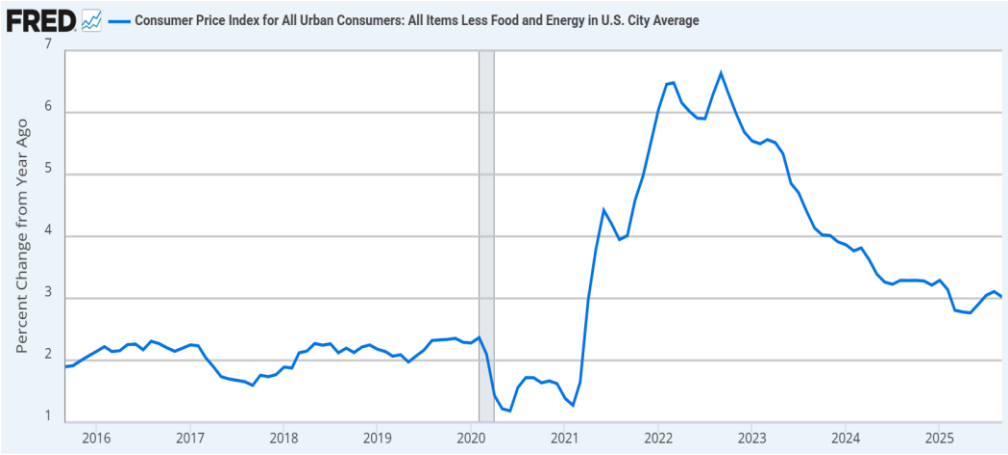
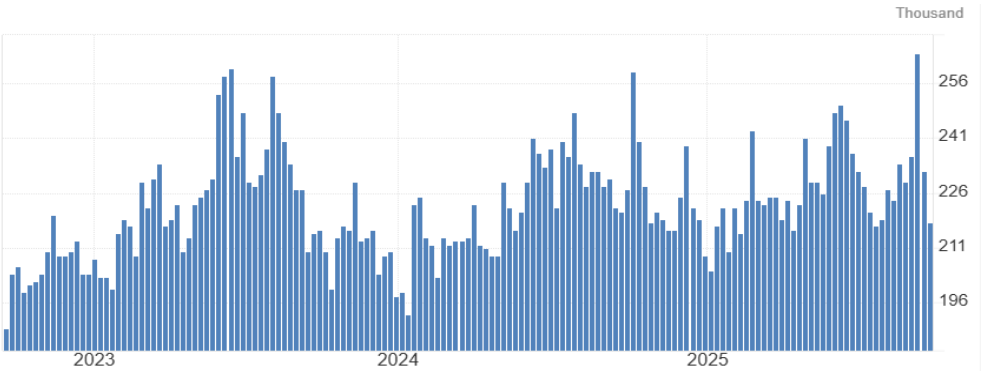
MFA Economic Outlook For 2026

Inflation has continued to decline closer to “normal” levels. The Consumer Price Index (CPI) has declined to 3.00%, as indicated in the graph below.

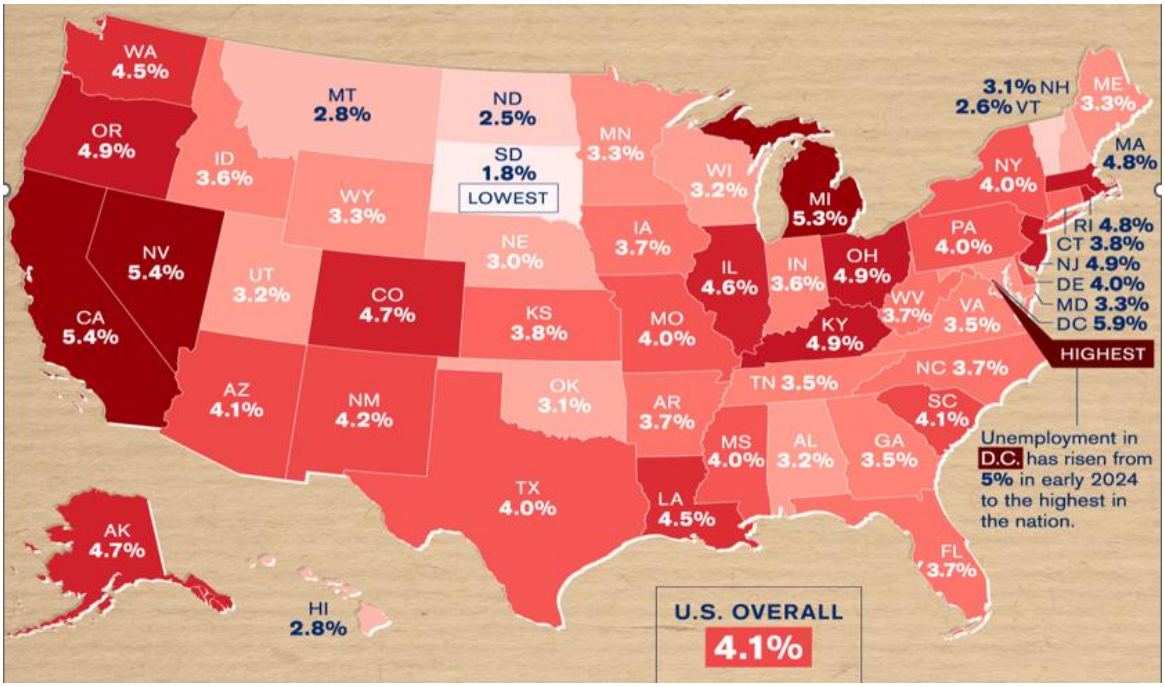


Inflation is becoming less of the focus as the unemployment level is increasing. Additionally, AI has the potential to significantly increase unemployment on a global scale. See the initial jobless claims below:



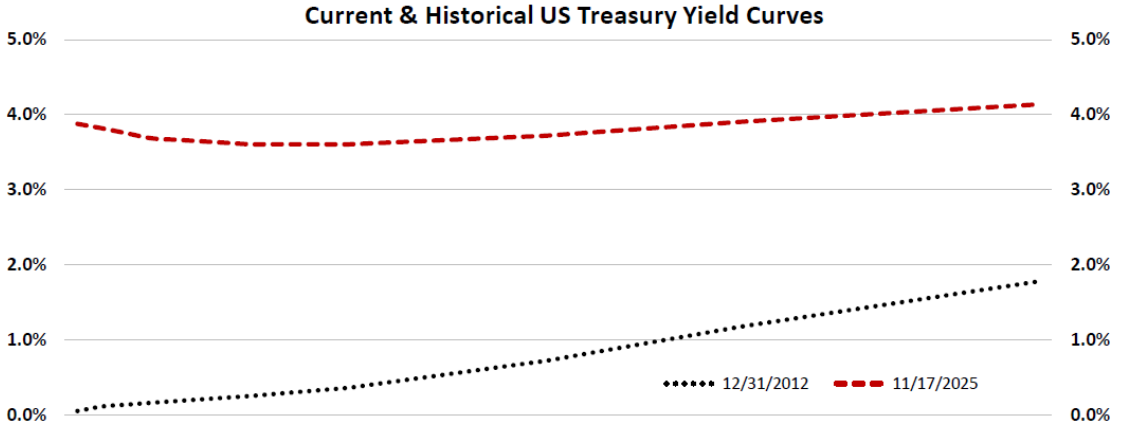
The Federal Reserve (FED) is actively working to maintain price stability and maintain full employment. This is a difficult balance.

Achieving price stability may require some trade-offs in terms of employment. The result of higher interest rates should lead to higher unemployment.



"Inflation is projected to decline closer to the 2% target"

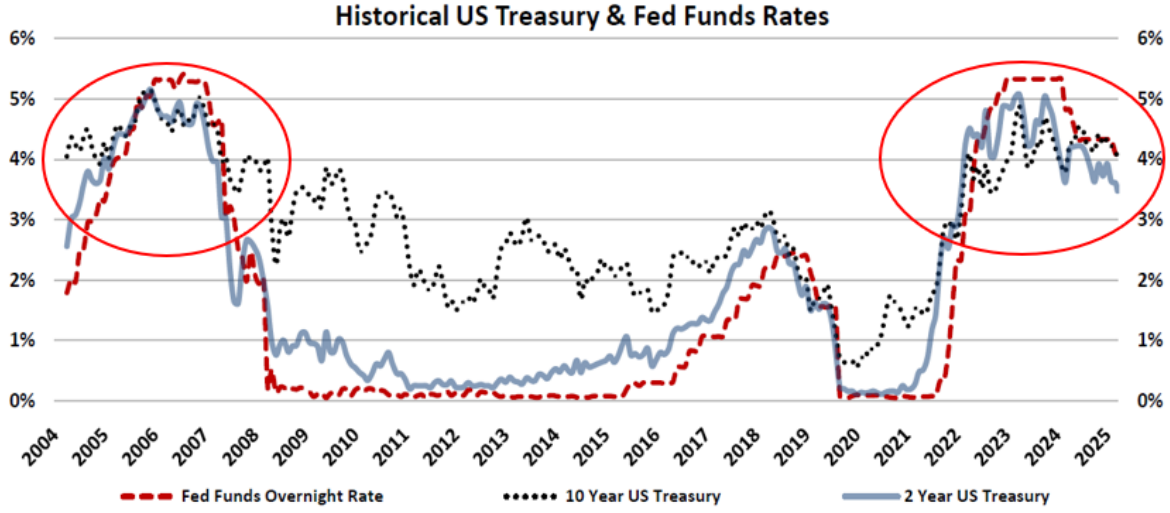
The yield curve continues to steepen as the FOMC actively lowers the Federal Funds rate. The curve predicts that they will continue to lower rates further.



	3 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr
11/17/2025	3.88%	3.69%	3.61%	3.61%	3.72%	3.91%	4.14%
12/31/2012	0.05%	0.16%	0.25%	0.36%	0.72%	1.18%	1.78%
Change	3.83%	3.53%	3.36%	3.25%	3.00%	2.73%	

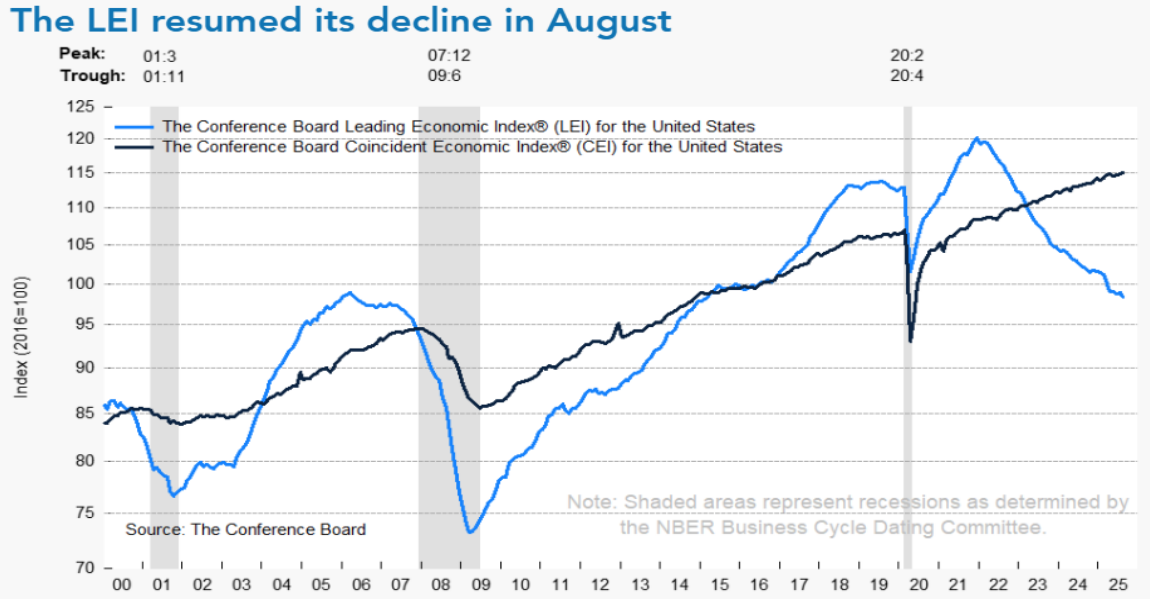
"Interest rates will continue to decline."

By looking at the yield curve in a 20-year view (graph below) we can see the pattern that the FOMC has followed in the past. First, they increase rates. Second, rates top out. Third, they lower rates to stimulate the economy. It appears that we are in the middle of the second stage.



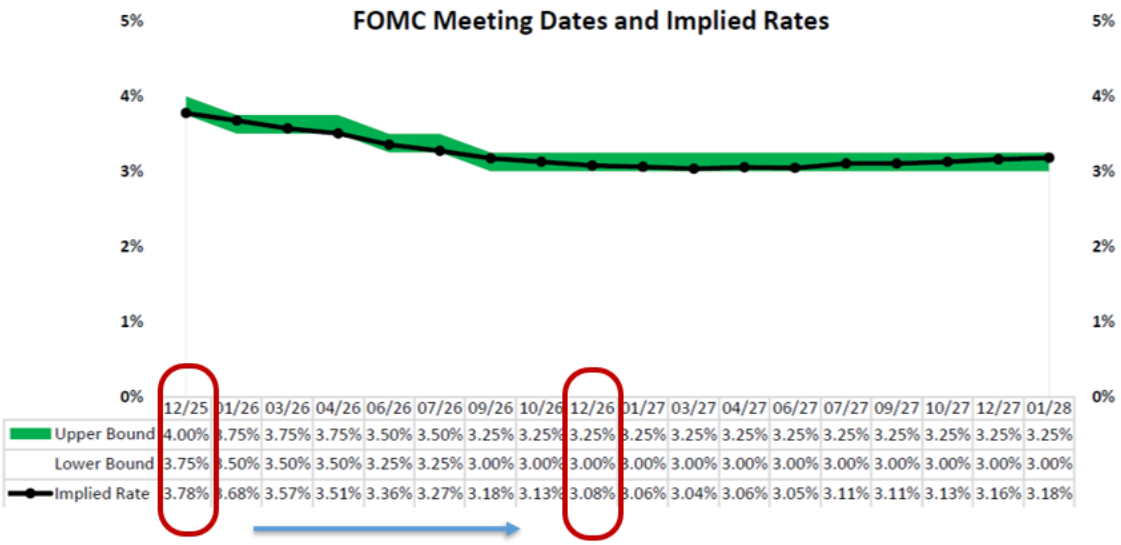
The stock market is showing a high value with many participants calling it "bubble" territory. Although most public companies are reporting earnings growth (over 80%) and value creation.

The Leading Economic indicators continue to show signs of significant weakness in the forward economy.



The graph below reflects Federal Funds Rate projections implied by the federal funds futures market. This also shows the FOMC continuing to lower rates into 2026.

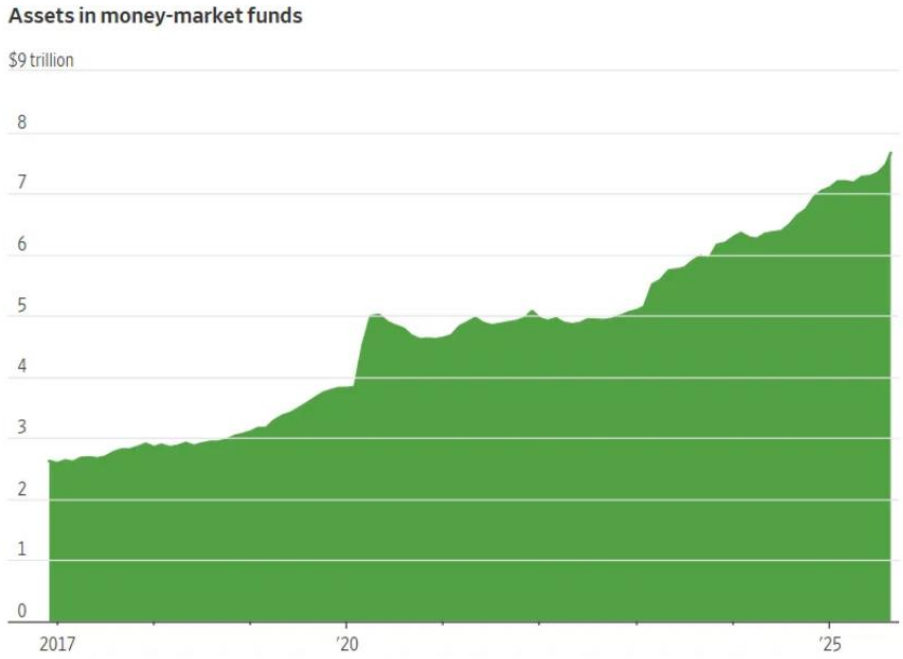
"The FOMC is continuing to lower rates in 2026."

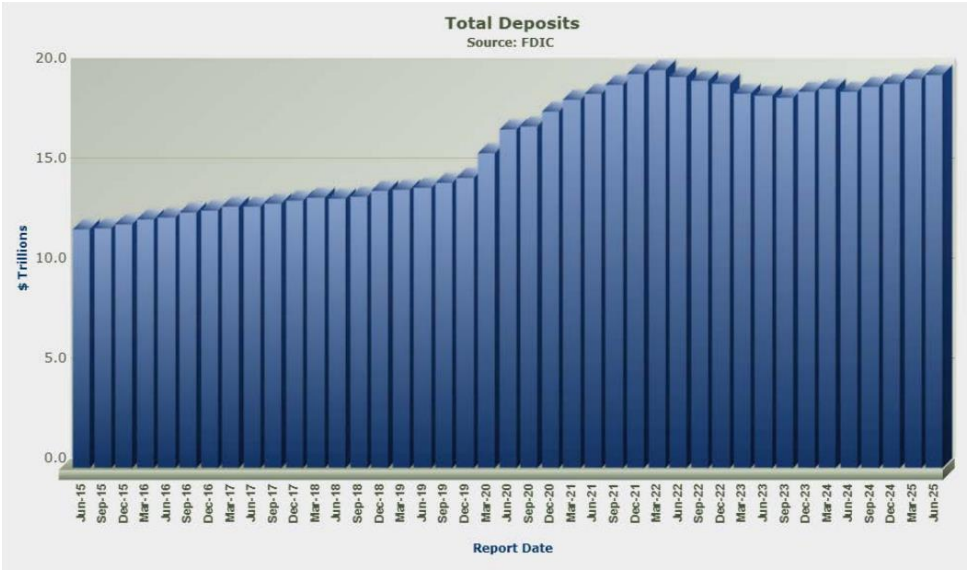


Money market deposits growth at brokerage firms has been robust with the government stimulus and stock market growth.

We expect that deposits will increase by 2% to 6% in 2026. Growth will be primarily in non-maturity deposits.

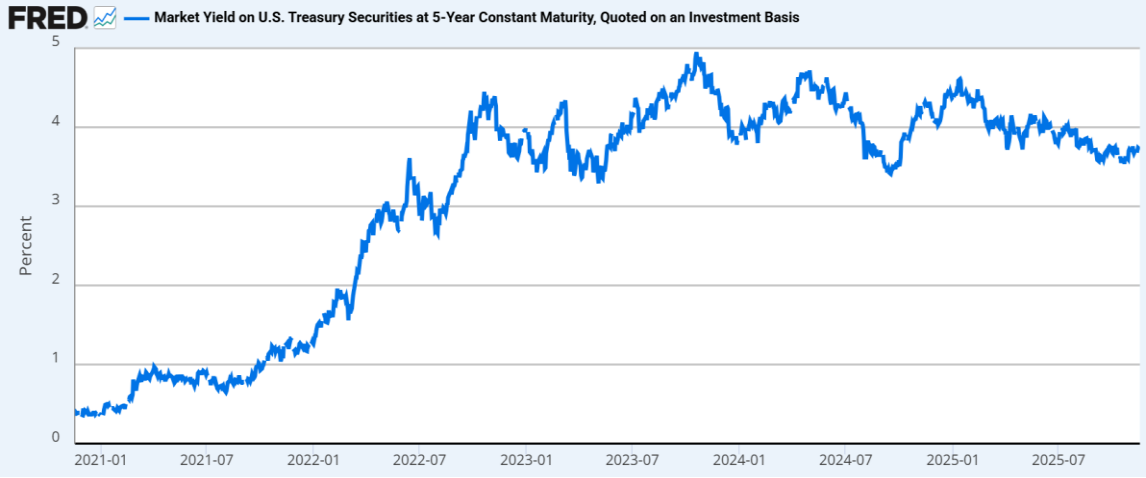
"We expect deposits to grow 2% to 6% in 2026."



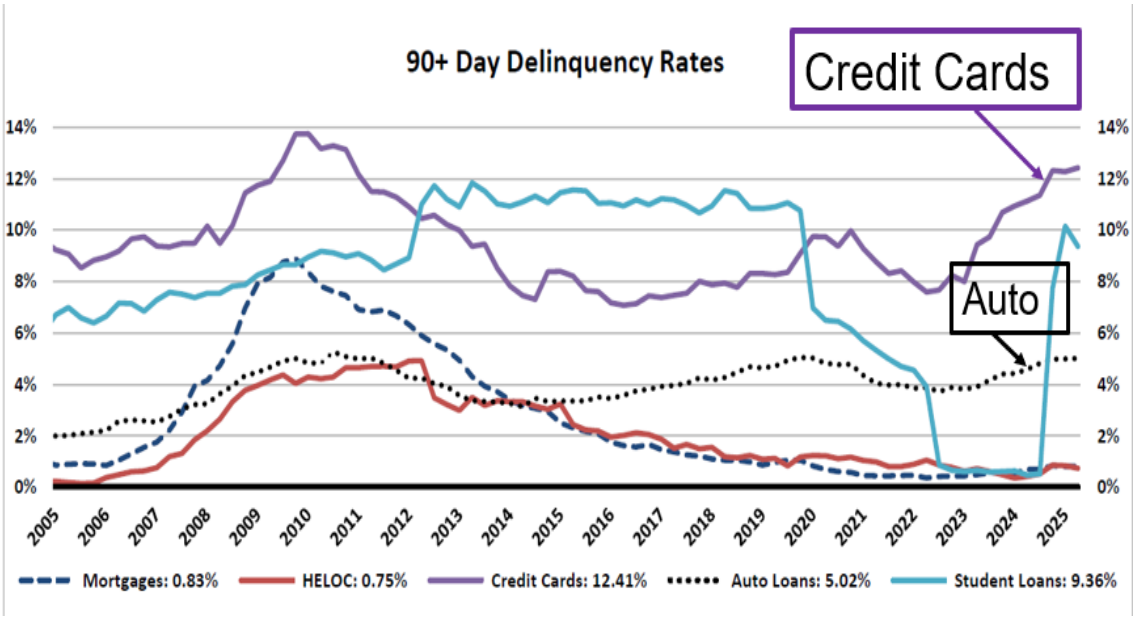


Investment portfolio management will be a significant conversation in 2026. As yields continue to trend lower and cash balances grow. Continued investment into longer-term securities without negative convexity will be key. In 2026, you should expect investment portfolios to grow between 2% and 10% depending on your loan volume.

"Focus on securities without negative convexity."



Loan growth will be harder to achieve in 2026 than in previous years. This is a combination of a higher unemployment rate and a less affordable situation for most borrowers. Additionally, delinquency continues to rise. This results in fewer borrowers. We expect between -4% and +4% growth in loans in 2026.



"Prepare for potentially increasing loan losses".

As we look forward to 2026, we see the following high-level areas to take into account and manage:

1. Lower-interest rates for 2026
2. The FOMC continues to lower rates throughout the year
3. Unemployment will grow as the economy slows and AI reduces employee demand
4. Loan growth will decline as consumers are unable to afford new purchases
5. Deposit costs will increase, and rates will decline with the FOMC's actions
6. Investment portfolios will increase as loan growth stalls
7. CECL reserves will increase with a higher unemployment rate

Focus on keeping loans on the books, taking advantage of higher yields, and preparing for potentially increasing loan losses and delinquencies in 2026. Careful credit analysis is paramount, making it a favorable time to build your investment portfolio.

Margin and equity growth will be a key focus in 2026.

Our predictions for 2026:

Loan Growth	-4% to 4%
Investment Growth	2% to 10%
Deposit Growth	2% to 6%

	Actual	Projected			
	11/3/2025	Dec-2025	Mar-2026	June-2026	Sept-2026
Federal Funds Rate	4.00	3.75	3.50	3.25	3.00
SOFR	4.04	3.80	3.55	3.30	3.05
Prime Rate	7.00	6.75	6.50	6.25	6.00
2-Year Treasury	3.60	3.45	3.35	3.20	3.10
5-Year Treasury	3.72	3.55	3.40	3.30	3.20
10-Year Treasury	4.11	4.00	3.90	3.80	3.70
GDP - Annualized	3.80	3.00	2.00	2.00	2.50
CPI-X-YPY	3.11	2.50	2.30	2.20	2.00