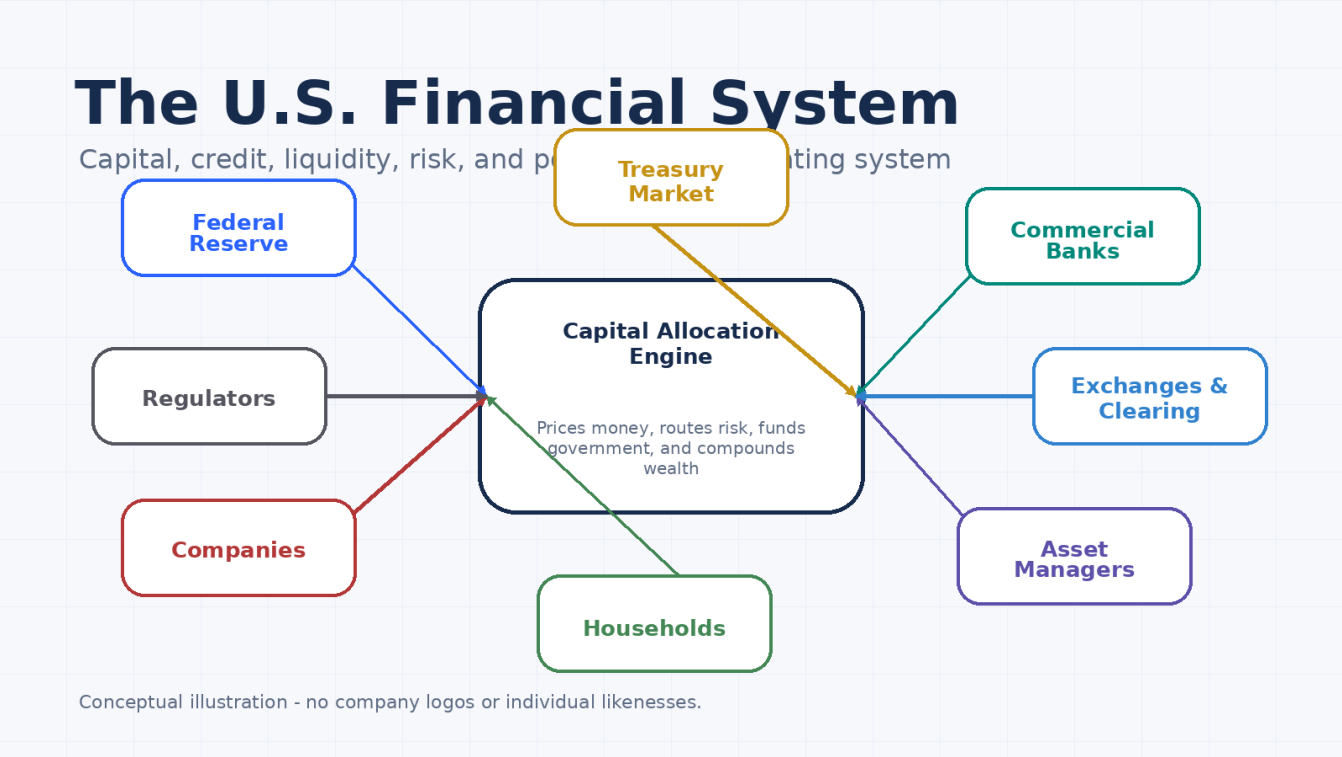
The U.S. Financial System

How Wall Street, banking, the Federal Reserve, the Treasury market, and non-bank capital allocate money, risk, and power



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Prepared as a structured educational and analytical report for investors, financial professionals, policy analysts, and advanced beginners.

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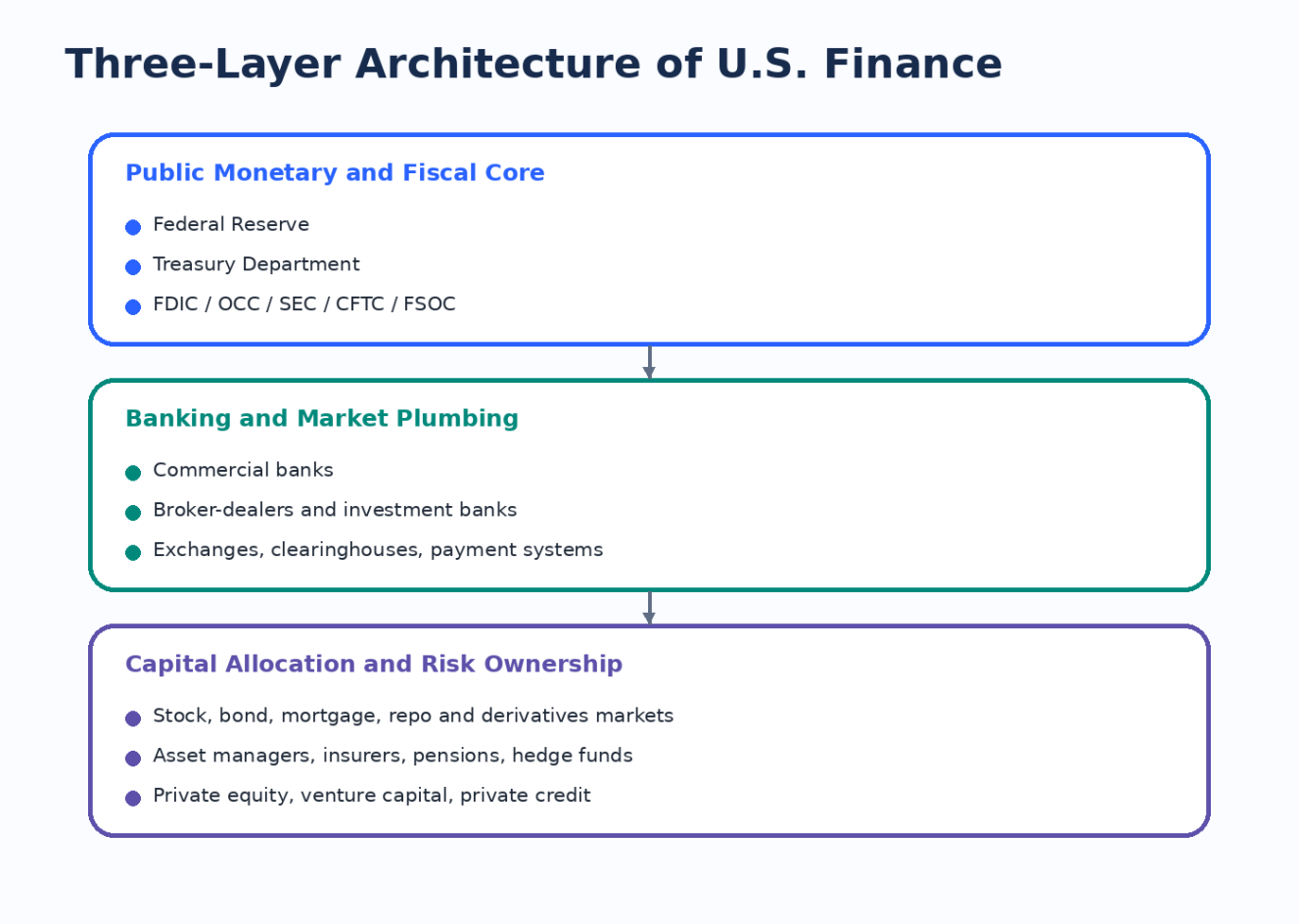

Figure 1. U.S. finance is best understood as a layered operating system, not just a collection of banks and exchanges.

1. Executive Thesis

The U.S. financial system is the operating system of American capitalism. It converts household savings, institutional capital, bank balance sheets, public debt, and global dollar demand into credit, securities, asset prices, corporate growth, government financing, and household wealth. Banks matter, but the distinctive feature of the United States is that banking is only one part of a much larger market-based financial architecture.

A simple way to understand the system is to separate it into three layers. First, the public core: the Federal Reserve supplies central-bank money, sets monetary conditions, and acts as lender of last resort; the Treasury raises money for the federal government and issues the safe collateral of the global financial system. Second, the plumbing: commercial banks, broker-dealers, investment banks, payment systems, exchanges, and clearinghouses move money and settle risk. Third, the capital owners and allocators: households, pensions, insurance companies, mutual funds, ETFs, hedge funds, private equity, venture capital, and private credit funds decide where risk-bearing capital goes.

The system creates money mainly through bank lending, but it allocates capital mainly through securities markets. This distinction is crucial. Commercial banks create deposits when they make loans; capital markets create investable claims when companies, governments, and households borrow or sell ownership interests. The Treasury market then sits at the center as the benchmark risk-free asset, the primary collateral for secured funding, and the anchor for dollar dominance. As of June 2026, the Federal Reserve was operating with an abundant-reserves framework, with total Federal Reserve assets around $6.7 trillion and a federal funds target range of 3.50% to 3.75% in the latest official FOMC information reviewed. [1][2]

The system is powerful because it is deep, liquid, innovative, and globally trusted. It can raise capital at enormous scale for technology companies, homebuyers, municipalities, private equity sponsors, and the U.S. government. It is fragile because the same depth also creates leverage, maturity transformation, asset-price dependence, and complex links between banks and non-bank financial institutions. The core American trade-off is clear: the system distributes risk widely, but when confidence breaks, risk can rapidly become systemic.

Selected size markers

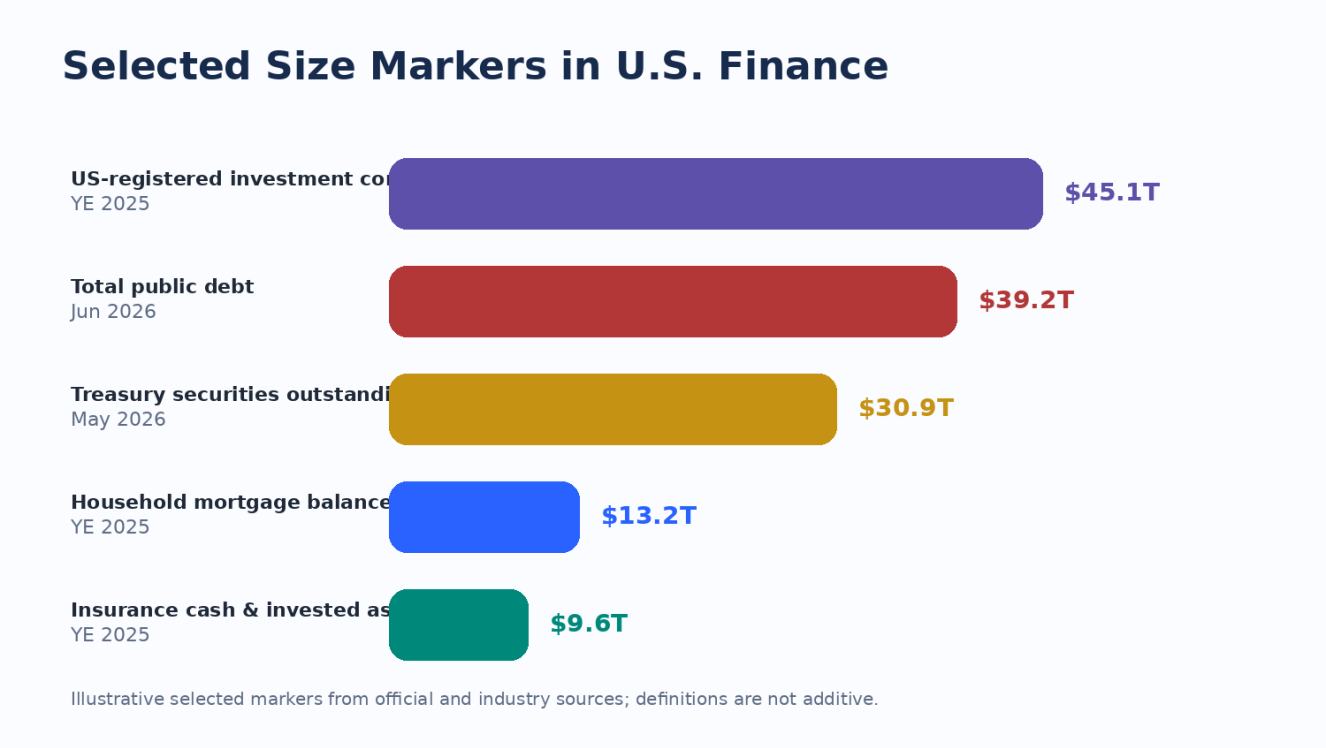

Figure 2. Selected size markers. These numbers define different categories and should not be added together.

2. The Broad Structure of U.S. Finance

The system is not bank-centered; it is market-centered

In many economies, banks dominate credit creation and corporate finance. In the United States, securities markets play a larger role. Public companies raise equity, corporations issue bonds, households borrow through securitized mortgage channels, municipalities issue bonds, and asset managers direct trillions of dollars through mutual funds, ETFs, pensions, insurance portfolios, and private funds. This market-centered structure gives the United States unusually deep capital-raising capacity and global investor reach.

SIFMA data show the scale of the market architecture: Treasury securities outstanding were about $30.9 trillion as of May 2026, while U.S. fixed-income securities outstanding excluding MBS and ABS were $49.6 trillion as of 2025 Q4. U.S. equity markets also continue to function as a major capital-formation channel, with year-to-date 2026 equity issuance rising sharply in SIFMA statistics. [3][4]

The four core functions

- Money and payment: deposits, reserves, currency, payment networks, Fedwire, ACH, card systems, and now instant-payment systems move claims across the economy.
- Credit and capital: banks, bond markets, securitization, private credit, and venture capital fund households, companies, real estate, and government.
- Risk transfer: insurance, derivatives, securitization, clearinghouses, and diversified funds move risk from those who cannot bear it to those willing to price it.
- Information and discipline: market prices, disclosures, audits, ratings, analyst research, short selling, covenants, and regulation create feedback loops.

The power structure

The system influences power because it determines who gets funded, at what price, and under what conditions. The Fed shapes the price of money; the Treasury supplies the safest debt instrument; Wall Street intermediaries bring issuers and investors together; asset managers control large pools of savings; private equity and venture capital influence corporate control; rating agencies influence borrowing costs; and regulators define the rules of permissible risk.

3. Role Map of Core Institutions

The following map distinguishes the main institutional actors. The roles overlap in practice, but the conceptual separation is essential for understanding crises and policy debates.

Institution	Main role	Power source	Key risk
Federal Reserve	Central bank; sets monetary policy; supplies reserves; supervises important banks; acts as lender of last resort.	Control over short-term rates, reserve supply, liquidity facilities, bank supervision, and crisis tools.	Policy mistakes, inflation credibility loss, market dependence on liquidity, emergency moral hazard.
Treasury Department	Fiscal-finance arm of the government; raises funds, manages federal cash, issues Treasury securities.	Ability to issue the benchmark safe asset and manage federal debt at scale.	Debt sustainability, rollover risk, political brinkmanship, market absorption of issuance.
Commercial banks	Take deposits, make loans, create deposit money, process payments, provide credit lines and custody.	Charters, deposit franchise, access to Fed settlement, regulated leverage.	Credit losses, runs, interest-rate risk, liquidity mismatch, operational risk.

Institution	Main role	Power source	Key risk
Investment banks / broker-dealers	Underwrite securities, advise on M&A;, make markets, finance securities inventories and client trades.	Client networks, market-making balance sheets, underwriting reputation, research and distribution.	Leverage, counterparty risk, funding stress, conflicts of interest.
Securities markets	Public trading venues and OTC networks where stocks, bonds, funds, derivatives, and structured products are priced.	Price discovery, liquidity, transparency, network effects.	Volatility, manipulation, flash crashes, concentration, liquidity illusion.
Treasury and bond markets	Price government debt, corporate credit, mortgages, municipalities, and asset-backed claims.	Benchmark interest-rate curve and collateral base.	Rate shocks, term-premium shocks, forced selling, dealer capacity limits.
Insurance companies	Pool mortality, property, casualty, health, and annuity risk; invest premiums in long-duration assets.	Long-term liabilities and massive investment portfolios.	Underpriced risk, climate losses, asset-liability mismatch, opaque private assets.
Pension funds	Convert worker and employer contributions into retirement claims.	Long-term capital, actuarial assumptions, tax-favored structures.	Underfunding, longevity risk, return assumptions, political constraints.
Asset managers	Allocate household and institutional savings through mutual funds, ETFs, separate accounts, and mandates.	Scale, distribution, index construction, fiduciary mandates, voting power.	Herding, liquidity mismatch, index concentration, governance conflicts.
Hedge funds	Trade relative value, macro, equity, credit, event, quant, and volatility strategies.	Flexible mandates, leverage, shorting, derivatives, specialized skill.	Crowded trades, leverage, funding runs, opacity, basis-trade stress.
Private equity	Buy or control companies, restructure operations and capital structure, exit through sale or IPO.	Control rights, leverage, operational intervention, sponsor networks.	Debt burden, valuation opacity, fee conflicts, labor and governance controversies.
Venture capital	Fund early-stage technology and high-growth companies.	Access to founders, network effects, staged financing, power-law returns.	Bubble cycles, failed companies, valuation resets, limited liquidity.
Private credit	Non-bank direct lending to companies, often sponsor-backed or asset-based.	Investor capital, negotiated covenants, speed, customization.	Opacity, valuation lag, borrower leverage, liquidity mismatch, bank/insurer links.
Credit rating agencies	Evaluate credit risk for bonds, structured products, insurers, and sometimes private assets.	Regulatory recognition, investor reliance, standardized credit language.	Conflicts of interest, rating inflation, model failures.
Exchanges and clearinghouses	Match trades, disseminate prices, manage margin, net exposures, and guarantee settlement in cleared markets.	Network effects, central clearing, rulebooks, margin models.	Operational failure, margin spirals, concentration of systemic utility risk.
Regulatory agencies	SEC, CFTC, FDIC, OCC, Fed, CFPB, FINRA, NCUA, state insurance regulators, FSOC and others supervise different slices.	Legal authority, examinations, enforcement, disclosure rules, capital/liquidity requirements.	Regulatory gaps, capture, fragmented mandates, slow adaptation to innovation.

4. How the System Creates Money

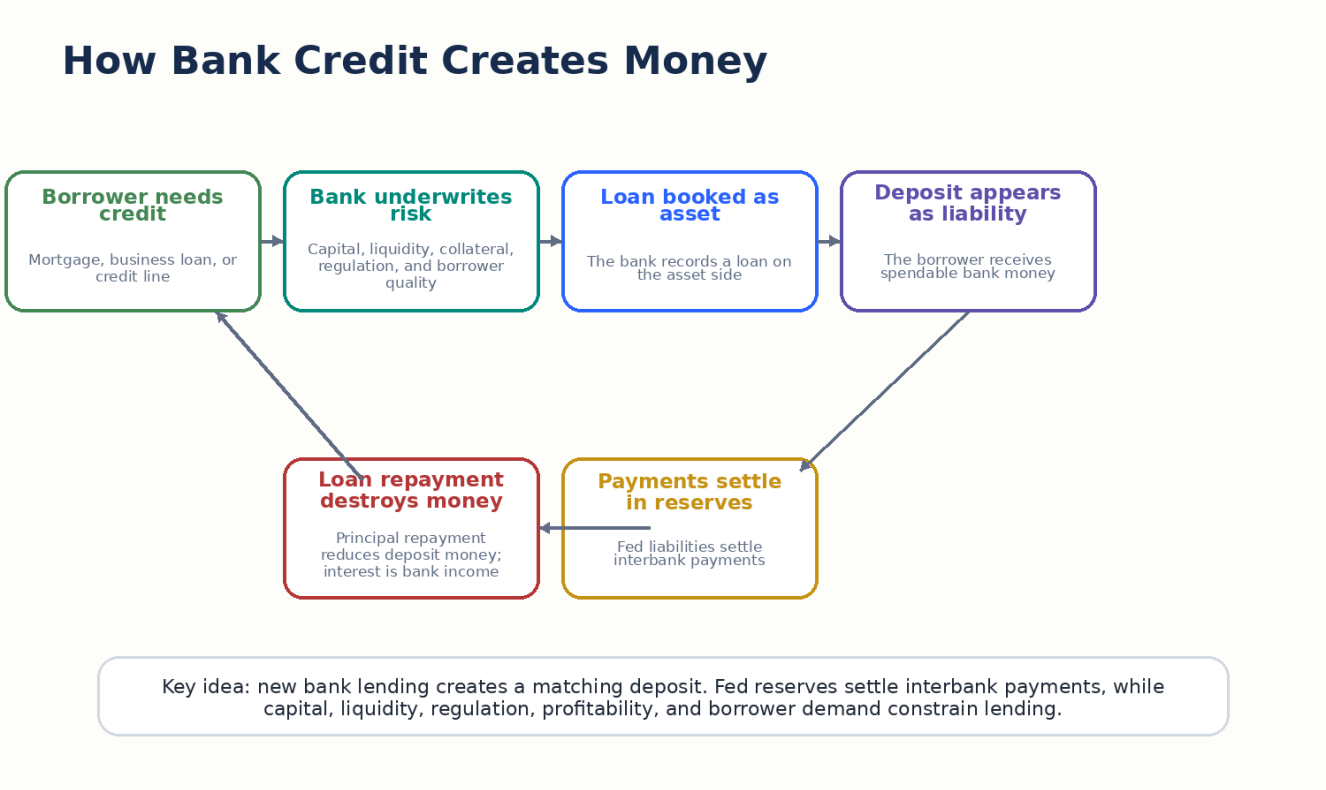

Figure 3. The simplified bank-credit money creation loop.

Bank money versus central-bank money

Most money used by households and businesses is bank money: deposits at commercial banks. Central-bank money consists mainly of physical currency and bank reserves held at the Federal Reserve. The two are linked but not identical. You use bank deposits for daily transactions; banks use reserves to settle with one another and with the Federal Reserve.

When a bank makes a loan, it records an asset - the loan - and a liability - the borrower deposit. New purchasing power appears in the borrower account. The process is constrained by bank capital, liquidity rules, funding costs, loan demand, underwriting standards, interest-rate expectations, and supervisory pressure. The Philadelphia Fed describes this liquidity creation through lending and emphasizes that deposits can arise from banks own lending activity. [5]

Why deposits matter

Deposits are both money for the customer and funding for the bank. A stable deposit base lets banks hold loans and securities without relying excessively on wholesale funding. But deposits are also runnable. If depositors lose confidence or can earn much higher yields elsewhere, they may move money quickly. The SVB episode showed that digital banking, concentrated uninsured deposits, and social-media-driven coordination can accelerate old-fashioned bank-run dynamics.

The role of reserves

Reserves are not the same as household money. They are settlement balances in the banking system. In the current abundant-reserves framework, the Fed controls short-term rates mainly through administered rates such as interest on reserve balances and the overnight reverse repo rate, rather than by tightly rationing reserve quantities. The Fed balance sheet stood near $6.7 trillion in the H.4.1 release for June 10, 2026, reflecting the still-large footprint left by post-crisis and post-COVID asset purchases. [1][2]

The hierarchy of money

- Top layer: Federal Reserve liabilities - reserves and currency.
- Core private layer: commercial bank deposits, insured or uninsured.
- Market-money layer: Treasury bills, repo, money market funds, commercial paper, stablecoins, and other cash-like claims.
- Credit layer: loans, bonds, securitized assets, private credit, and derivatives exposures.

5. How the System Allocates Capital

From savings to investment

Capital allocation means deciding which households, companies, governments, and projects receive funding. In the U.S. system, savings flow through banks, asset managers, pensions, insurers, hedge funds, private equity, venture capital, private credit, and foreign investors. The allocation occurs through prices: loan rates, bond yields, credit spreads, equity valuations, cap rates, option-implied volatility, and exchange rates.

Corporate growth channels

- Bank loans: working capital, revolvers, commercial real estate, leveraged loans, and relationship lending.
- Stock market: IPOs, follow-ons, employee stock compensation, secondary liquidity, valuation currency for acquisitions.
- Corporate bond market: investment-grade and high-yield debt for acquisitions, refinancing, buybacks, capex, and balance-sheet optimization.
- Private equity: control transactions, leveraged buyouts, operational restructuring, roll-ups, and private exits.
- Venture capital: early-stage risk capital for startups, especially technology and biotech.
- Private credit: direct lending outside traditional syndicated loan and bond markets, often faster and more customized but less transparent.

Why markets can grow companies faster than banks alone

A bank can lend against cash flow and collateral, but public markets can fund intangible growth stories, network effects, and long-duration technology bets. Equity does not require contractual repayment, so it can finance riskier innovation than bank debt. Venture capital and public equity markets together create a ladder: seed capital, Series A/B/C rounds, late-stage private financing, IPO, follow-on offerings, convertible debt, and secondary liquidity for employees and founders.

The information function

The financial system also produces information. Market prices signal the cost of capital; ratings translate credit risk into standardized language; analysts and investors pressure management; covenants impose discipline; short sellers challenge overvaluation; regulators force disclosure. These functions are imperfect, but without them, capital would flow through political relationships and bank balance sheets much more than through competitive risk pricing.

6. Treasury Market, Dollar Dominance, and Public Debt

Why the Treasury market is the center

U.S. Treasury securities are more than government borrowing instruments. They are the benchmark risk-free curve, the dominant high-quality collateral in repo and derivatives markets, a reserve asset for central banks, a balance-sheet asset for banks and insurers, and the reference rate for pricing mortgages, corporate bonds, and equities. Treasury debt absorbs government deficits, but it also supplies the safe asset that private finance uses as collateral and liquidity.

The Treasury Department states that its primary debt-management goal is to finance the government at the lowest cost over time, with regular and predictable issuance and transparent auction processes. As of June 2026, Treasury Fiscal Data reported total public debt above $39 trillion, while SIFMA reported Treasury securities outstanding of about $30.9 trillion as of May 2026. [3][6]

How the system absorbs government debt

Treasury debt is absorbed by a broad investor base: domestic banks, money market funds, mutual funds, pension funds, insurance companies, households, foreign central banks, sovereign wealth funds, hedge funds, broker-dealers, and the Federal Reserve. In normal conditions, auctions distribute new debt into portfolios and secondary markets reprice it continuously. In stress, dealers, repo markets, and the Fed become central because liquidity demand can exceed private balance-sheet capacity.

Dollar dominance

Dollar dominance is not only about trade invoicing. It rests on a stack of advantages: a large U.S. economy, deep Treasury markets, credible legal infrastructure, global dollar funding markets, military and geopolitical reach, U.S. payment networks, and network effects. The dollar is the unit in which many global commodities, reserves, loans, bonds, and derivatives are priced. That gives the United States lower funding costs and sanctions power, but it also creates global demand for safe dollar assets and exposes the U.S. system to foreign capital-flow shocks.

The vulnerability of abundance

The same Treasury market that gives the United States extraordinary funding capacity can become a source of systemic pressure. Rising debt, higher interest costs, heavy bill issuance, dealer balance-sheet limits, and volatility in long-term yields can tighten financial conditions even if banks are healthy. In a market-based system, public-debt management and monetary policy are inseparable from private liquidity.

7. Household Wealth, Mortgages, Pensions, and Asset Management

The household balance sheet is financialized

American household wealth formation is deeply tied to asset prices. Home equity, stocks, retirement accounts, mutual funds, ETFs, private pensions, annuities, and small-business ownership all connect household welfare to financial markets. This generates wealth when asset values rise, but it also widens inequality because ownership is uneven.

The Federal Reserve Distributional Financial Accounts provide quarterly estimates of the distribution of U.S. household wealth, and the Financial Accounts report household and nonprofit net worth and sector balance sheets. The data reinforce a core reality: the U.S. financial system compounds wealth most effectively for those who already own appreciating financial and housing assets. [7]

Mortgages and securitization

The mortgage market connects households to capital markets. A mortgage may be originated by a bank or non-bank lender, sold to an agency or securitizer, pooled into mortgage-backed securities, guaranteed or credit-enhanced, and held by investors such as the Fed, banks, asset managers, insurers, pensions, and foreign buyers. Mortgage rates therefore depend not only on bank lending conditions but also on Treasury yields, MBS spreads, prepayment risk, Fed policy, and investor demand.

New York Fed household debt data showed mortgage balances of about $13.17 trillion at the end of 2025. Commercial and multifamily mortgage debt outstanding was close to $5.0 trillion at year-end 2025 according to industry data. [8][9]

Pensions, insurance, and asset management as capital engines

Pension funds and insurers are long-duration capital pools. They buy bonds, equities, real estate, alternatives, and private credit because they must fund claims many years into the future. Asset managers then become the transmission belt between household savings and capital markets. ICI reported that total net assets in U.S.-registered investment companies reached $45.1 trillion at year-end 2025, while NAIC reported U.S. insurers cash and invested assets of about $9.6 trillion at year-end 2025. [10][11]

The inequality channel

Asset-price appreciation is not neutral. When stocks, homes, private company valuations, and alternative assets rise, households with ownership benefit disproportionately. Monetary easing can support employment and reduce crisis damage, but it also raises asset values. Tightening can restrain inflation, but it can also reduce home affordability and pressure borrowers. The U.S. financial system therefore produces both opportunity and stratification.

8. Monetary Policy, Rates, Inflation, and Liquidity

Figure 4. Fed policy affects finance through a chain of rates, spreads, asset prices, borrowing, and expectations.

The Fed does not control every rate, but it anchors the curve

The Federal Reserve directly targets short-term money-market conditions, not every mortgage or corporate bond rate. But once the short end moves, the entire system reprices through expectations. A higher federal funds target raises cash yields, increases bank funding costs, supports the dollar, pressures equity valuations, widens or narrows spreads depending on risk sentiment, and changes mortgage affordability. A lower target tends to do the opposite.

Inflation versus financial stability

The Fed has a dual mandate - maximum employment and stable prices - but financial stability is always in the background. Inflation requires tighter policy; tighter policy can expose hidden duration risk and leverage. That is the central post-COVID lesson. The rapid shift from near-zero rates and quantitative easing to higher policy rates changed the value of long-duration assets, increased debt-service burdens, shifted deposits into money market funds, and exposed banks and non-banks with poor interest-rate risk management.

Liquidity is not the same as solvency

A solvent institution can fail if it cannot meet cash outflows. A highly liquid market can become illiquid if all participants try to sell at once. The Fed can provide liquidity against collateral, but it cannot make bad assets good without crossing into fiscal policy. This is why crisis management often requires a Fed-Treasury-FDIC-regulatory combination: liquidity, guarantees, capital injections, receivership, and public backstops play different roles.

Post-COVID liquidity expansion

The COVID shock produced fiscal transfers, emergency lending facilities, Treasury issuance, quantitative easing, and extremely low rates. That stabilized the economy and markets but also pushed investors into

duration, growth equities, housing, crypto, venture capital, and private assets. The later inflation and rate-hike regime reversed the logic: liquidity became more expensive, duration lost value, and fragile funding models were exposed.

9. Crises and Regime Changes: 2008 to AI Finance

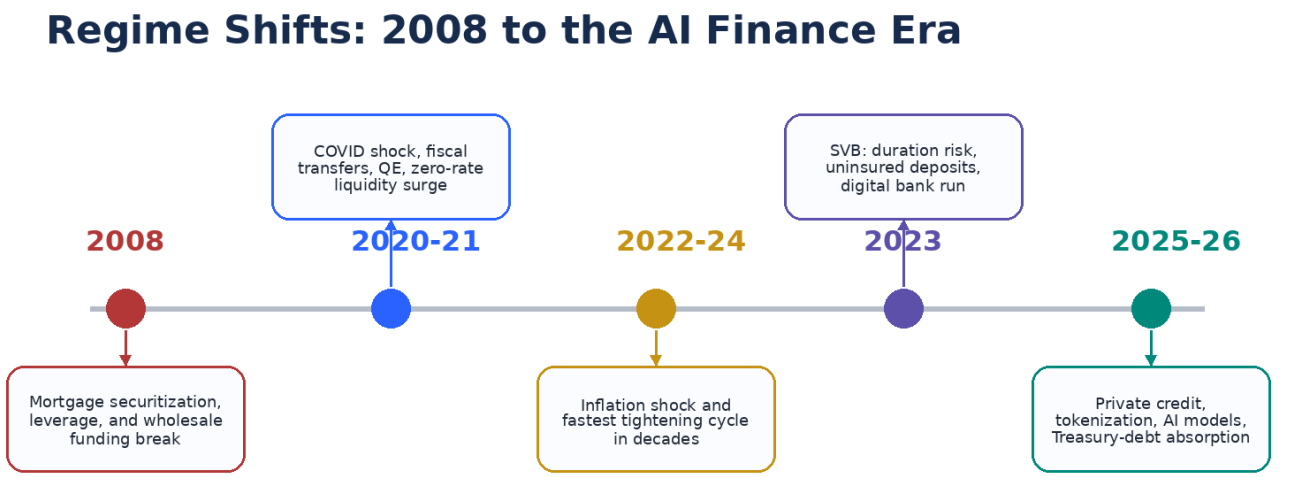

Figure 5. The system evolves through crisis, regulatory response, market innovation, and new risk migration.

2008: securitization, leverage, and trust collapse

The 2008 crisis was not simply a housing downturn. It was a failure of the mortgage-credit machine: weak underwriting, complex securitization, ratings failure, repo-funded leverage, derivatives opacity, and insufficient capital and liquidity. When mortgage losses rose, the system could not identify who held the risk, so funding markets froze. The lesson was that risk distribution can become risk obscurity.

Regulatory response

The response included higher bank capital, liquidity requirements, stress testing, central clearing for many derivatives, the creation of FSOC, resolution planning, consumer protection reforms, and stricter supervision of systemically important firms. These reforms made large banks more resilient, but they also encouraged some risk to migrate into non-bank channels such as private credit, asset management vehicles, mortgage companies, and fintech structures.

Post-COVID: liquidity abundance and inflation

The 2020 shock forced massive stabilization. The result was a system saved by liquidity and fiscal capacity, followed by inflation pressure and rate normalization. The financial lesson is that liquidity can prevent depression but can also create asset inflation, leverage, and later duration stress when policy turns.

SVB: a 21st-century bank run

Silicon Valley Bank showed that a bank can fail without classic credit losses. The key ingredients were concentrated uninsured deposits, a client base connected through venture networks, large unrealized losses on long-duration securities after rate increases, and rapid digital withdrawal capacity. FDIC materials and later staff work focused on deposit flight at SVB, Signature Bank, and First Republic in spring 2023. [12]

Private credit: the new shadow banking frontier

Private credit has expanded because banks face tighter capital rules, borrowers want speed and certainty, private equity sponsors need financing, and investors want yield. It can be useful: lending can be customized and held by long-term investors. It can also hide stress because loans are private, valuations are periodic, borrower leverage can be high, and fund liquidity terms may not match asset liquidity. The Financial Stability Board warned in 2026 that private credit complexity, leverage, opacity, and interconnections could amplify stress in adverse scenarios. [13]

Fintech, stablecoins, and crypto assets

Fintech improves distribution, payments, underwriting, wealth access, compliance automation, and consumer experience. But it often sits on bank charters, sponsor banks, cloud vendors, APIs, and data brokers. Stablecoins and tokenization are especially important because they try to move dollar claims onto blockchain rails. The strategic question is not whether crypto replaces finance; it is which parts of payment, collateral, settlement, custody, and compliance get rebuilt around programmable dollar instruments.

AI in finance

AI is moving from back-office tool to decision engine. It affects fraud detection, sanctions screening, credit underwriting, client service, portfolio construction, trading, legal review, compliance surveillance, and risk modeling. The opportunity is scale and precision. The risk is model opacity, crowded strategies, hallucinated analysis, vendor concentration, cybersecurity, deepfake fraud, and automation that magnifies mistakes at market speed. Federal Reserve materials and recent supervisory attention identify AI as both an efficiency source and a financial-stability risk frontier. [14]

10. Balanced Assessment: Strengths and Weaknesses

Strengths

Capital-raising capacity

The United States can fund startups, public companies, private equity deals, municipalities, mortgages, and the federal government at extraordinary scale.

Market depth and liquidity

Treasuries, equities, corporate bonds, agency MBS, repo, derivatives, and ETFs give investors many ways to price and transfer risk.

Dollar status

The dollar gives the U.S. lower funding costs, global demand for safe assets, and geopolitical financial leverage.

Innovation

Venture capital, securitization, ETFs, electronic trading, fintech, private credit, tokenization, and AI show repeated financial invention.

Risk-distribution capacity

Risk can move from banks to investors, insurers, pensions, hedge funds, and global buyers, preventing any single channel from carrying all exposure.

Transparency in public markets

Disclosure, analyst coverage, exchange data, ratings, audited statements, and enforcement create information infrastructure.

Weaknesses

Financial-crisis risk

Leverage, maturity transformation, collateral chains, derivatives, and confidence-sensitive funding can turn localized losses into systemic stress.

Debt dependence

Households, companies, private equity sponsors, and the federal government rely heavily on refinancing and market access.

Asset-driven inequality

Those who own stocks, homes, businesses, and private assets benefit most from asset inflation and long-run compounding.

Wall Street-real economy gap

Market valuations can rise while wages, affordability, regional economies, and small businesses remain under pressure.

Regulatory capture and complexity

Large financial firms can shape rules, exploit gaps, and move activities across bank, securities, insurance, and private-fund boundaries.

Systemic risk in non-banks

Asset managers, private credit funds, hedge funds, insurers, clearinghouses, and fintech-bank partnerships can create bank-like risk outside bank-like supervision.

The core trade-off

The U.S. system is not simply good or bad. It is a high-powered machine. It grows faster because it allows leverage, securitization, market pricing, innovation, and risk-taking. It crashes harder because the same mechanisms can generate feedback loops. A conservative bank-only system may be safer but less dynamic. The American system is dynamic but crisis-prone.

11. Where the Current System Is Heading

1. More market-based finance, not less

Capital is continuing to migrate into securities markets, private funds, ETFs, private credit, separately managed accounts, and insurance-affiliated asset managers. Banks will remain central to deposits, payments, and credit lines, but more risk will be originated, distributed, warehoused, or financed through

non-bank balance sheets.

2. The Treasury market becomes even more strategic

As federal debt grows, the Treasury market must absorb larger issuance while remaining the benchmark safe asset. This will increase attention to dealer balance sheets, central clearing of Treasuries, repo resilience, money-market-fund regulation, foreign demand, and the interaction between fiscal policy and Fed operations.

3. Private credit moves from niche to systemically relevant

Private credit is becoming a mainstream corporate-finance channel. Its future depends on performance through a downturn. If losses are contained, it will mature into a permanent asset class. If valuations, fund liquidity, or insurer/pension exposures break under stress, regulators will treat it more like a systemic shadow-banking sector.

4. AI changes the speed of finance

AI will compress research, underwriting, portfolio construction, compliance, client service, and fraud detection. The winning institutions will be those that combine proprietary data, strong controls, human judgment, and regulatory credibility. The danger is automation without accountability: a system where many firms use similar models, similar data, and similar exit signals.

5. Crypto becomes infrastructure or remains speculation

The future of crypto in U.S. finance will likely be less about speculative tokens and more about stablecoins, tokenized funds, tokenized Treasuries, custody, real-time settlement, programmable compliance, and cross-border payments. The decisive issue is whether digital assets become regulated financial plumbing or remain largely speculative parallel finance.

6. Wealth formation remains tied to ownership

The U.S. system will continue to reward ownership of appreciating assets: equities, homes, private businesses, intellectual property, and alternative assets. Policy debates over retirement access, housing affordability, tax treatment, financial advice, and public investment will therefore become wealth-distribution debates, not merely finance debates.

Strategic conclusion

The next U.S. financial system will be more digital, more data-driven, more private-market-oriented, more collateral-sensitive, and more dependent on the credibility of the Treasury market and the Federal Reserve. The central question is whether regulation and market discipline can keep pace with risk migration from banks to non-banks, from public markets to private assets, and from human decision-making to automated models.

12. Beginner Glossary

Asset	Something owned that has economic value, such as a loan, bond, stock, house, or cash.
Liability	A financial obligation, such as a deposit owed by a bank or debt owed by a borrower.
Liquidity	The ability to raise cash or sell an asset quickly without a major price discount.
Solvency	Whether assets are worth more than liabilities over time.
Duration	Sensitivity of a bond or loan to changes in interest rates.
Spread	The extra yield a risky borrower pays over a safer benchmark such as Treasuries.

Repo	A secured short-term loan, usually using Treasuries or other securities as collateral.
Securitization	Pooling loans and issuing securities backed by their cash flows.
Maturity transformation	Borrowing short-term while investing or lending long-term.
Leverage	Using debt or derivatives to increase exposure relative to equity capital.
Clearinghouse	A central institution that stands between buyers and sellers to reduce counterparty risk.
Private credit	Non-bank lending, often by private funds, to companies outside public bond markets.
Systemic risk	Risk that distress in one part of finance spreads widely enough to damage the broader economy.

Source Notes

The report uses stable background knowledge plus current public sources checked for the 2026-facing facts. The source list below prioritizes official sources and major market data providers. URLs are included for verification.

[1] Federal Reserve, H.4.1 Factors Affecting Reserve Balances, June 11, 2026
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