Dodd-Frank Act Stress Test (DFAST) Baseline and Severely Adverse Scenarios

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Brief Description of the Scenarios

In the baseline scenario for the United States, real gross domestic product (GDP) growth rises from 1 percent at the end of 2025 to 2.1 percent by the first quarter of 2027 and hovers around that rate for the rest of the scenario. The unemployment rate moves up to 4.6 percent in the first quarter of 2026, and stays at that level through the third quarter of 2026, before gradually declining to 4.2 percent by the end of the scenario. Consumer price index (CPI) inflation gradually declines from 2.8 percent at the end of 2025 to 2.2 percent in the first quarter of 2028, where it remains through the end of the scenario. The 3-month Treasury rate decreases from 3.7 percent at the end of 2025 to 3.1 percent in the fourth quarter of 2026, and hovers around that level through the remainder of the scenario. The 10-year Treasury yield hovers around 4.1 percent, its value in the fourth quarter of 2025, for the duration of the scenario. Equity prices increase between about 4 and 5 percent per year throughout the scenario. Equity market volatility, as measured by the U.S. Market Volatility Index (VIX), declines from 26 percent in the fourth quarter of 2025 to 22 percent in the second quarter of 2026, after which it gradually increases to 25 percent by the end of the scenario. Nominal house prices increase gradually for the duration of the scenario, while commercial real estate prices increase between about 4 and 5 percent per year.

The baseline scenario for international economic activity features accelerating growth in all regions roughly through the third quarter of 2026, moderating somewhat in the following quarters and then remaining steady through the end of the scenario. Inflation rates rise in the euro area and developing Asia, holding at higher levels over the course of the scenario. Inflation in Japan, however, declines until 2026 and then remains steady until the end of the scenario. The United Kingdom also experiences an initial decrease in inflation rates from initial levels through the end of 2026, at which point inflation then hovers at lower levels over the remainder of the scenario.

The severely adverse scenario is characterized by a hypothetical severe global recession triggered by an abrupt decline in risk appetite that causes substantial declines in the prices of risky assets, declines in risk-free interest rates and high levels of financial market volatility. Equity prices fall about 58 percent in the first three quarters of the scenario while the VIX spikes and reaches a peak of 72 percent in the second quarter of the scenario. Those conditions also lead to a widening in corporate bond spreads to a level of 5.7 per-centage points. The ensuing disruptions depress demand for goods and services from households and prompt businesses to dramatically reduce employment and investment, conditions from which the economy and asset prices are slow to recover. The U.S. unemployment rate rises 5.5 per-centage points from the scenario's jump-off point of 4.5 percent in the fourth quarter of 2025 to its peak of 10 percent in the third quarter of 2027. The sharp decline in economic activity leads to a collapse in real estate prices, including a 30 percent decline in nominal house prices and a 39 percent decline in commercial real estate prices. The international portion of the scenario features recessions in three countries or country blocs and a sharp slowdown in developing Asia, and declines in inflation, with all countries or country blocs experiencing deflation. The value of the

U.S. dollar appreciates against all countries and country blocs' currencies, except for the Japanese yen.

It is important to recognize that these scenarios are not forecasts. Rather, they are designed to assess the strength and resilience of covered institutions in varying economic environments.

Introduction

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (DFA),[1] as implemented in the stress testing rule issued by the Office of the Comptroller of the Currency (OCC), requires certain national banks and federal savings associations to conduct periodic stress tests using scenarios provided by the OCC.[2] This note provides a narrative on the two scenarios to be used for the 2026 stress test. The OCC developed these scenarios in coordination with the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation.[3]

Supervisory Scenarios

Scenario timing and variables: The scenarios start in the first quarter of 2026 and extend through the first quarter of 2029. Each scenario includes 28 variables; the set of variables for the 2026 supervisory stress test is the same as the set provided in last year's supervisory scenarios. The variables describing economic developments within the United States include:

- **Six measures of economic activity and prices:** quarterly percent changes (at an annualized rate) in real and nominal GDP, real and nominal disposable personal income, the CPI, and the level of the unemployment rate of the civilian non-institutional population aged 16 years and over;
- **Four aggregate measures of asset prices or financial conditions:** indexes of house prices, commercial real estate prices, equity prices, and stock market volatility; and,
- **Six measures of interest rates:** the rate on 3-month Treasury securities; the yield on 5-year Treasury securities; the yield on 10-year Treasury securities; the yield on 10-year BBB-rated corporate securities; the interest rate associated with conforming, conventional, 30-year fixed-rate mortgages; and the prime rate.

The variables describing international economic conditions in each scenario include three variables in four countries or country blocs:

- **The three variables for each country or country bloc:** quarterly percent changes (at an annual rate) in real GDP and in consumer price indexes or local equivalent, and the level of the U.S. dollar exchange rate.
- **Four countries or country blocs:** the euro area (the 20 European Union member states that have adopted the euro as their common currency prior to 2026); the United Kingdom; developing Asia (the nominal GDP-weighted aggregate of China, India, South Korea, Hong Kong Special Administrative Region, and Taiwan); and Japan.

[1] Public Law 111-203, 124 Stat. 1376 (2010), codified at 12 USC 5365, as amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act, Pub. L. 115-174, 132 Stat. 1296-1368 (2018).
[2] 12 CFR 46. See also 77 Fed. Reg. 195 (Oct. 9, 2012); 84 Fed. Reg. 54472 (Oct. 10, 2019).
[3] See 78 Fed. Reg. 64153 (October 28, 2013) (Policy Statement on the Principles for Development and Distribution of Annual Stress Test Scenarios).

Baseline and Severely Adverse Scenarios

The following sections describe the baseline and severely adverse scenarios. The specific values for all variables included in the scenarios are provided as an Excel spreadsheet on the OCC's website. Further, this document provides a qualitative summary of the global market shock component that certain banks with significant trading activity are required to apply to their trading and counterparty positions as of October 17, 2025.

Baseline Scenario

The baseline outlook for U.S. real activity, inflation, and interest rates is similar to the October 2025 and January 2026 consensus projections from *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*.[4] This scenario does not represent a forecast of the OCC.

The baseline scenario for the United States features moderate economic growth. The unemployment rate moves up to 4.6 percent in the first quarter of 2026, and stays at that level through the third quarter of 2026, before gradually declining to 4.2 percent by the end of the scenario. Real GDP growth rises from 1 percent in the fourth quarter of 2025 to 2.1 percent by the first quarter of 2027 and hovers around that rate for the rest of the scenario. Inflation, measured as the quarterly change in the CPI and reported as an annualized rate, gradually declines from 2.8 percent at the end of 2025 to 2.2 percent in the first quarter of 2028, where it remains through the end of the scenario. The 3-month Treasury rate decreases from 3.7 percent at the end of 2025 to 3.1 percent in the fourth quarter of 2026, and hovers around that level through the remainder of the scenario. The 10-year Treasury yield hovers around 4.1 percent, its value in the fourth quarter of 2025, for the duration of the scenario. The prime rate follows a path similar to short-term interest rates, but sits at a level 3 percentage points higher, reflecting the typical spread between the prime rate and the top of the federal funds target range. Mortgage rates decline gradually from 6.2 percent at the end of 2025 to 5.7 percent by the third quarter of 2028 where they remain for the rest of the scenario. Yields on BBB-rated corporate bonds rise gradually from 5.1 percent in the fourth quarter of 2025 to 5.6 percent in the fourth quarter of 2027 and remain at that level through the end of the scenario. The spread between yields on BBB-rated bonds and yields on 10-year Treasury securities increases gradually from 1 percentage point in the fourth quarter of 2025 to a level of 1.5 percentage points by the first quarter of 2028 where it remains through the rest of the scenario.

Equity prices increase between about 4 and 5 percent per year throughout the scenario. Equity market volatility, as measured by the VIX, declines from 26 percent in the fourth quarter of 2025 to 22 percent in the second quarter of 2026, after which it gradually increases to 25 percent by the end of the scenario. Nominal house prices increase gradually for the duration of the scenario, while commercial real estate prices increase between about 4 and 5 percent per year.

The baseline paths for the international variables are similar to the trajectories reported in the January 2026 *Blue Chip Economic Indicators* and the International Monetary Fund's October

[4] The near-term forecast is similar to the January 2026 release, while the long-range forecast is similar to the October 2025 release. See Wolters Kluwer Legal and Regulatory Solutions, *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*.

2025 *World Economic Outlook*.[5] In the baseline scenario, real GDP growth in developing Asia increases from 3.7 percent at the end of 2025 to 5.2 percent in the third quarter of 2026, after which it gradually declines to 3.9 percent in the second quarter of 2027. It then fluctuates between 3.9 percent and 4.6 percent through the end of the scenario. Real GDP growth in the euro area increases from 0.5 percent at the end of 2025 to 1.7 percent by the third quarter of 2026. It then declines gradually to 1.3 percent in the third quarter of 2027 and hovers around that level through the end of the scenario. Real GDP growth in the United Kingdom increases from 0.7 percent at the end of 2025 to 1.4 percent by the third quarter of 2026. It then declines to 1.3 percent in the first quarter of 2028 and remains at that level through the end of the scenario. GDP growth in Japan increases from 0.6 percent in the fourth quarter of 2025 to 0.9 percent in the second quarter of 2026. It then gradually declines to 0.6 percent by the second quarter of 2028 and hovers around that level through the end of the scenario.

Consumer price inflation in the euro area increases from 1.6 percent in the fourth quarter of 2025 to 2 percent in the second quarter of 2027 and then hovers around that level for the rest of the scenario. Consumer price inflation in the United Kingdom declines from 2.8 percent in the fourth quarter of 2025 to 2 percent in the fourth quarter of 2026 and then hovers around that level through the end of the scenario. Inflation in Japan decreases from 2.1 percent in the fourth quarter of 2025 to 1.8 percent in the second quarter of 2026, and hovers around that level for the remainder of the scenario. The inflation rate in developing Asia increases gradually from 1 percent in the fourth quarter of 2025 to 2.1 percent by the third quarter of 2028 and remains there for the rest of the scenario.

Severely Adverse Scenario

This scenario is characterized by a severe global recession triggered by an abrupt decline in risk appetite that causes substantial declines in risky asset prices and declines in risk-free interest rates. At times during the first months of this scenario, financial market functioning is impaired, leading to substantial additional volatility. Those disruptions spill over into large reductions in household demand for goods and services and significantly reduce employment and business investment. The low levels of risk appetite and the declines in income and wealth persist for some time and lead to a protracted recession in the United States and abroad. This is a hypothetical scenario designed to assess the strength and resilience of banks and does not represent a forecast of the OCC.

Under the severely adverse scenario the U.S. unemployment rate climbs to a peak of 10 percent in the third quarter of 2027, an increase of a 5.5 percentage points from its fourth-quarter 2025 level. Real GDP declines 4.6 percent from the fourth quarter of 2025 to its trough in the second quarter of 2027, before recovering to the level at the beginning of the scenario. The rising unemployment rate and the rapid decline in aggregate demand for goods and services significantly reduce inflationary pressures. Inflation, measured as the quarterly change in the CPI and reported as an annualized rate, falls from 2.8 percent at the end of 2025 to 1 percent in the fourth quarter of 2026 and then gradually increases to 1.3 percent by the end of the

[5] See International Monetary Fund, World Economic Outlook, October 2025: Global Economy in Flux, Prospects Remain Dim (imf.org). The January 2026 update to the World Economic Outlook was released after the finalization of the scenarios.

scenario.

Short-term interest rates, as measured by the 3-month Treasury rate, fall significantly to 0.1 percent by the second quarter of 2026 and remain there for the remainder of the scenario. Long-term interest rates, as measured by the 10-year Treasury yield, fall 1.8 percentage points to 2.3 percent by the fourth quarter of 2026.

Conditions in corporate bond markets deteriorate markedly, as the scenario specifies a sudden decline in risk appetite and worsening business conditions. The spread between yields on BBB-rated bonds and yields on 10-year Treasury securities increases 4.7 percentage points by the third quarter of 2026, reaching a level of 5.7 percentage points. The spread between mortgage rates and 10-year Treasury yields widens 1.3 percentage points to reach a level of 3.4 percentage points by the third quarter of 2026 before narrowing to a level of about 2.4 percentage points at the end of the severely adverse scenario.

Asset prices drop sharply in the severely adverse scenario. Equity prices fall 58 percent from the fourth quarter of 2025 through the fourth quarter of 2026. The VIX, measured as the highest daily closing value per quarter, reaches a peak of 72 percent in the second quarter of 2026. House prices and commercial real estate prices also experience large declines. House prices fall steadily through the fourth quarter of 2027, reaching a trough that is about 30 percent below their level in the fourth quarter of 2025. Commercial real estate prices reach a trough in the fourth quarter of 2027 that is 39 percent below their level at the end of 2025.

The international component of the severely adverse scenario involves a sharp decline in foreign economic activity. In the euro area, the United Kingdom, and Japan, real GDP declines about 7.5 percent relative to its value in the baseline scenario by the end of 2026, while in developing Asia, real GDP grows at a slower pace and runs about 3 percent below baseline by the end of 2026. Inflation declines significantly in all four countries or country blocs, falling about 3 percentage points below baseline in the advanced economies and 5 percentage points below baseline in developing Asia by the end of 2026. The value of the U.S. dollar appreciates about 15 percent against the euro and the British pound, while it depreciates mildly against the Japanese yen by 1 percent.

Comparison of the Current Severely Adverse Scenario and the 2025 Severely Adverse Scenario

Differences in the current severely adverse scenario from last year reflect changes arising from different jump-off levels, and for certain variables, choices about the appropriate level of scenario severity. The current severely adverse scenario features a somewhat smaller increase in the unemployment rate in the United States as compared to the 2025 severely adverse scenario, reflecting the higher jump-off level.

The 3-month Treasury rate reaches the same trough level as last year's scenario but declines somewhat less, due to slightly lower jump-off level in this year's scenario. Long-term Treasury yields decline somewhat less in response to the hypothetical drop in economic activity and inflation and reach their troughs somewhat later than in last year's scenario. The current severely adverse scenario also features somewhat smaller declines in house prices, in line with the lower ratio of nominal house prices to per capita disposable income.

The potential for spillover effects in asset markets and sharp changes in investor sentiment are captured by a decline in equity prices and an increase in corporate bond spreads, with these changes being more severe relative to last year's scenario. The international component of the current severely adverse scenario shows a recessionary episode that, relative to last year's severely adverse scenario, is somewhat less severe for Japan and developing Asia and is somewhat more severe for the euro area and the United Kingdom. This is consistent with the 2007–2009 financial crisis.

Global Market Shock Component for the Severely Adverse Scenario

The OCC will provide to certain banks a global market shock component for the severely adverse scenario to be used in the current stress test.[6] Under the DFA stress testing rules, large, complex institutions with significant trading activity must apply this component to their trading and counterparty exposures as of a specific date (October 17, 2025,[7] for the current stress testing cycle) to project mark-to-market losses.[8]

The global market shock component for the severely adverse scenario (global market shock) is a set of hypothetical shocks to a large set of risk factors reflecting general market distress and heightened uncertainty. Banks with significant trading activity must consider the global market shock as part of the supervisory severely adverse scenario in their company-run stress test. The losses associated with the global market shock are recognized in the first quarter of the projection horizon. In addition, certain large and highly interconnected firms must apply the same global market shock to project losses under the counterparty default scenario component. The global market shock is applied to positions held by the banks on a given as-of date, which is October 17, 2025. These shocks do not represent a forecast of the OCC.

The design and specifications of the global market shock differ from the macroeconomic scenarios for several reasons. First, profits and losses from trading and counterparty credit are measured in mark-to-market terms, while revenues and losses from traditional banking are generally measured using the accrual method. Another key difference is the timing of loss recognition. The global market shock affects the mark-to-market value of trading positions and counterparty credit losses in the first quarter of the severely adverse scenario. This timing is based on the observation that market dislocations can happen rapidly and unpredictably at any time under stressed conditions. Applying the global market shock in the first quarter ensures that potential losses from trading and counterparty exposures are incorporated into banks' capital ratios in each quarter of the severely adverse scenario.

The global market shock is specified by a large set of risk factors that include, but are not limited

[6] The global market shock component consists of hypothetical shocks to a large set of risk factors that include a wide range of financial market variables that affect asset prices, such as credit spread or the yield on a bond, and also include, in some cases, shocks to the value of a position itself (for example, the market value of private equity positions). See 12 CFR 46.5(c).

[7] A bank may use data as of the date that corresponds to its weekly internal risk reporting cycle as long as it falls during the business week of the as-of date for the global market shock (i.e., October 13-17, 2025). Losses from the global market shock will be assumed to occur in the first quarter of the projection horizon.

[8] Currently, four national banks are subject to global market shocks: Bank of America, N.A.; Citibank, N.A.; JPMorgan Chase Bank, N.A.; and Wells Fargo Bank, N.A.

to:

- Public equity returns from key advanced economies and from developing and emerging market economies, along with selected points along term structures of equity option-implied volatilities;

- Foreign exchange rates of most major and some minor currencies, along with selected points along term structures of option-implied volatilities;

- Selected-maturity government yields (e.g., for 10-year U.S. Treasuries), swap rates, and other important interest rates for key developed economies and developing and emerging market economies;

- Selected maturities and expiries of implied volatilities that are key inputs to the pricing of interest rate derivatives;

- Selected expiries of futures prices for commodity products such as energy, oil, metals, and agricultural products; and

- Credit spreads or prices for selected credit-sensitive products, including corporate bonds, credit default swaps (CDS), securitized products, sovereign debt, and municipal bonds

Please note:

- The global market shock is a separate and additional component of the scenario applied only to the largest banks with complex trading portfolios.
- Changes to risk factors comprising the global market shock are assumed to occur instantaneously, while the macroeconomic scenario describes the evolution of variables over time.[9]

Global Market Shock – 2026 Severely Adverse Scenario

The 2026 global market shock is characterized by heightened market expectations of persistently high inflation, higher commodity prices, and a global recession. The scenario has certain elements in common with prior episodes of market reactions to periods of expected high inflation combined with low growth, such as the oil crisis of the 1970s. That period was also characterized by commodity price increases.

Both short-term and long-term Treasury rates rise sharply driven by higher inflation expectations. Heightened inflation expectations drive commodity prices upward.

The expected fall in economic activity leads to notable equity price declines across global markets. Concerns about corporate credit defaults in light of the economic slowdown leads to

[9] The global market shock is a component of the macroeconomic scenario but is not necessarily directionally consistent with the macroeconomic scenario.

wider credit spreads. The U.S. dollar strengthens, exhibiting large gains against the euro and moderate gains against the Japanese yen driven by higher yields in the U.S.

Counterparty Default Component for the Supervisory Severely Adverse Scenario

For DFAST 2026, the four banks that are completing the global market shock component must incorporate a counterparty default scenario component in the severely adverse scenario.[10] The counterparty default scenario component involves the unexpected default of the bank's largest counterparty.[11]

In connection with the counterparty default scenario component, these banks will be required to estimate and report the potential losses and related effects on capital associated with the unexpected default of the counterparty that would generate the largest losses across their derivatives and securities financing transactions, including securities lending or borrowing and repurchase or reverse repurchase agreement activities. The counterparty default scenario component is an add-on to the severely adverse scenario.

The largest counterparty of each bank will be determined by net stressed losses. Net stressed losses are estimated by applying the global market shock to revalue securities financing transactions and derivatives, including collateral posted or received. The as-of date for the counterparty default scenario component is October 17, 2025 — the same date as the global market shock component.[12]

[10] These are the same national banks that are subject to the global market shocks. See footnote 8.

[11] In selecting its largest counterparty, a bank will not consider the United States and sovereign entities with a rating equivalent to "AA-" or higher based on the firm's internal credit rating system, certain multilateral development banks and supranational entities (International Bank for Reconstruction and Development, International Monetary Fund, Bank for International Settlements, European Commission, and European Central Bank), or qualifying central counterparties (QCCPs). See the definition of a QCCP at 12 CFR 217.2.

Please note that although the International Bank for Reconstruction and Development is excluded, the other subsidiaries of World Bank Group (including the International Development Association, International Finance Corporation, Multilateral Investment Guarantee Agency, and International Centre for Settlement of Investment Disputes) must be considered when selecting the firm's largest counterparty.

U.S. IHCs are not required to include any affiliate as a counterparty. An affiliate of a company includes a parent of the company, as well as any other firm that is consolidated with the company under applicable accounting standards, including U.S. generally accepted accounting principles or International Financial Reporting Standards. See 12 CFR 252.171(b) & (f).

[12] As with the global market shock component, a bank subject to the counterparty default scenario component may use data as of the date that corresponds to its weekly internal risk reporting cycle as long as it falls during the business week of the as-of date for the counterparty default scenario component (i.e., October 13-17, 2025). Losses will be assumed to occur in the first quarter of the projection horizon.