

1. FACTORS WITH STRONGEST POTENTIAL TO AFFECT NEAR-TERM ECONOMY

Respondents were asked which two factors they believe are most likely to affect the economy over the next six months. Overall, responses were largely consistent with Q3 2025 and Q4 2025, suggesting a relatively stable view of near-term economic risks. That said, there was a notable increase in the number of respondents citing stock market stability and the US budget deficit as key factors with the potential to impact economic conditions.

In addition, a meaningful portion of lenders pointed to volatile energy prices as a contributor to near-term economic uncertainty, reflecting broader concerns around inflationary pressures and input cost volatility. By contrast, compared to Q3 2025 and Q4 2025, respondents viewed political uncertainty as a less significant economic risk, indicating that lenders may be placing greater emphasis on market-driven and fiscal factors rather than headline political developments.

Factors Affecting Near-Term Economy	Q3'2025	Q4'2025	Q1'2026
Geopolitical Risk/War	44.2%	41.0%	46.2%
Stability of the Stock Market	18.2%	15.4%	31.7%
Policy Risk (Interest Rates)	36.4%	28.2%	31.3%
Constrained Liquidity in Capital Markets	13.0%	17.9%	26.4%
US Recession	23.4%	20.5%	23.1%
Political Uncertainty	39.0%	46.2%	22.6%
US Budget Deficit	10.4%	10.3%	21.2%
Unstable Energy Prices	2.6%	0.0%	13.9%

2. INDUSTRIES EXPECTED TO EXPERIENCE GREATEST VOLATILITY

Respondents were asked, over the next six months, which industries will experience the most volatility (i.e., Chapter 11 filings, mergers and acquisitions, declining profits, etc.). Respondents were asked to select the top three industries.

Compared to the prior two quarters, respondents showed a sharp increase in identifying the Finance & Insurance and Energy & Power sectors as likely to experience near-term volatility. In Finance & Insurance, pressures are being compounded by higher interest rates and inflation, which have increased reserving uncertainty, litigation exposure, and sensitivity to capital adequacy—especially for carriers and non-bank financial firms with weaker underwriting performance or legacy exposures. In the Energy & Power sector, volatility expectations appear driven by a surge in deal values across oil & gas, power generation, and transmission assets, as companies pursue consolidation for scale, balance-sheet optimization, and critical infrastructure investment.

Industries Experiencing Most Volatility	Q3'2025	Q4'2025	Q1'2026
Finance & Insurance	10.5%	25.4%	63.0%
Energy & Power	13.2%	10.2%	34.6%
Tech, Media, & Telecom	15.8%	7.6%	26.0%
Consumer Products & Services	23.7%	35.6%	22.6%
Construction	28.9%	10.2%	19.2%
Healthcare & Social Assistance	26.3%	38.1%	18.3%
Real Estate & Rental/Leasing	39.5%	25.4%	15.9%
Public Administration	21.1%	12.7%	14.9%
Retail Trade	55.3%	43.2%	12.5%
Educational Services	12.2%	7.6%	11.1%
Accommodation & Food Service	5.3%	12.7%	11.1%
Manufacturing	15.8%	5.1%	10.1%
Cannabis	7.9%	7.6%	8.2%
Transportation & Warehousing	5.3%	12.7%	4.3%

3. CUSTOMERS' PLANS IN THE NEXT SIX TO TWELVE MONTHS

Respondents were asked which of the following actions their customers planned in the next six to twelve months. Lenders were asked to designate all potential customer actions that applied. Customer plans over the next six to twelve months indicate a shift away from defensive balance-sheet actions toward growth-oriented initiatives in Q1 2026. After prioritizing capital raises in Q3 and Q4 2025, the percentage of customers planning to raise additional capital declined sharply in Q1 2026, suggesting either improved liquidity positions or reduced appetite for external financing amid higher rates. At the same time, intentions around capital improvements, hiring, and introducing new products or services increased meaningfully, pointing to renewed investment in operations and organic growth. Overall, the data suggests customers are becoming more selective—favoring internal investment and measured expansion over leverage-driven growth—consistent with a cautious economic outlook.

Customers' Plans	Q3'2025	Q4'2025	Q1'2026
Capital Improvements	24.0%	18.0%	48.6%
Introducing New Products or Services	34.0%	31.0%	45.7%
Hiring New Employees	21.0%	10.0%	43.3%
Raising Additional Capital	58.0%	64.0%	37.5%
Entering New Markets	18.0%	21.0%	34.6%
Making an Acquisition	34.0%	33.0%	21.2%
"Other" Initiatives	13.0%	13.0%	1.4%

4. US ECONOMY GRADE – NEXT SIX MONTHS

Respondents were asked how they expected the US economy to perform during the next six months on a grading scale of A through F. Expectations for the US economy have become more dispersed over the past three quarters. After sentiment weakened in Q4 2025, there was a partial rebound in optimism in Q1 2026, as evidenced by the return of "A" ratings (17.8%). However, this improvement was offset by a sharp decline in "B" grades and a notable increase in lower grades, including a rise in "D" and the first appearance of "F" responses. Overall, the broader dispersion across grades suggests respondents are increasingly less aligned around a single economic outlook, pointing to elevated uncertainty rather than a clear improvement in near-term economic expectations.

Grade	Q3'2025	Q4'2025	Q1'2026
A	8.0%	0.0%	17.8%
B	53.0%	49.0%	24.0%
C	29.0%	41.0%	33.7%
D	11.0%	10.0%	18.3%
F	0.0%	0.0%	6.3%
Weighted Average	2.58	2.38	2.29

5. US ECONOMY GRADE – BEYOND THE NEXT SIX MONTHS

Respondents were asked how they expected the US economy to perform beyond the next six months on a grading scale of A through F. Longer-term expectations for the US economy have steadily weakened and become more cautious. While sentiment was relatively optimistic in 3Q 2025, views deteriorated sharply by Q4 2025 and remained subdued in Q1 2026. Although “A” grades rebounded in Q1 2026, this improvement was offset by a continued shift toward lower grades, including the emergence of “F” responses, resulting in a largely flat weighted average. Overall, respondents appear increasingly cautious about the economy beyond the next six months, with downside risks more prominent than in earlier periods.

Grade	Q3'2025	Q4'2025	Q1'2026
A	13.0%	3.0%	18.3%
B	53.0%	54.0%	32.7%
C	26.0%	31.0%	29.8%
D	8.0%	13.0%	14.4%
F	0.0%	0.0%	4.8%
Weighted Average	2.71	2.46	2.45

6. LOAN STRUCTURE

Respondents were asked whether their financial institutions planned to **tighten, relax, or maintain their loan structures (collateral requirements, guarantees, advance rates, loan covenants, etc.) in each of four different-sized loan categories**. A little more than half of the surveyed lenders (55%) plan to maintain their current loan structure. Similar to the last two quarters, approximately a quarter (26%) of lenders plan to tighten their loan structure. There was a significant shift increase amongst lenders who appear to have shifted from maintaining their loan structure to relaxing the structure (19%).

	Q3 2025			Q4 2025			Q1 2026		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans > \$25 million	24%	74%	3%	15%	85%	0%	37%	49%	15%
\$15 – 25 million	26%	71%	3%	13%	85%	3%	30%	58%	12%
\$5-15 million	21%	76%	3%	23%	69%	8%	18%	60%	22%
Under \$5 million	32%	58%	11%	31%	59%	10%	20%	55%	25%
Overall Average	26%	70%	4%	21%	74%	4%	26%	55%	19%

7. THE FED AND INTEREST RATES

Respondents were asked in what direction they thought the Fed would move interest rates and by how much in the coming six months. Expectations for Federal Reserve policy have shifted meaningfully over the past three quarters. In Q3 & Q4 2025, respondents overwhelmingly anticipated rate cuts, with the weighted average indicating expectations for material easing. By contrast, sentiment reversed in Q1 2026, with a majority of respondents now expecting rate increases or no change, driving the weighted average into positive territory. This shift suggests a reassessment of the inflation and growth outlook, with markets increasingly pricing in tighter or more persistent monetary policy rather than near-term easing.

Bps Change	Q3'2025	Q4'2025	Q1'2026
+ 1/2 point or more	0%	0%	26.0%
+ 1/4 point	0%	0%	22.6%
Unchanged	16%	3%	24.5%
- 1/4 point	29%	21%	11.1%
- 1/2 point or more	55%	77%	15.9%
Weighted Average	-0.46 bps	-0.58 bps	+0.12 bps