Phoenix Management Services
"Lending Climate in America"
1st Quarter 2025
Survey Results
(Survey results were tabulated on February 11, 2025)

1.   Factors with Strongest Potential to Affect Near-Term Economy

Respondents were asked, over the next six months, which <u>two</u> factors had the strongest potential to affect the economy. Even though the 2024 election is in the rear view mirror, lenders remain very concerned about political uncertainty and the impact policy changes from the new administration will have in the US and globally, as seen by a slight increase from the prior quarter. Lenders did not lose sight of interest rates, as that remains a top 3 factor. This policy uncertainty is also seen in slight upticks in factors such as the possibility of a US recession and the climbing budget deficit.

Factors Affecting Near-Term Economy	4Q 2024	1Q 2025
Political Uncertainty	62.1%	66.7%
Stability of Stock Market	6.9%	33.3%
Policy Risk (Interest Rates)	41.4%	33.3%
US Recession	6.9%	11.1%
US Budget Deficit	6.9%	11.1%
Constrained Liquidity in Capital Markets	27.6%	0.0%
Unstable Energy Prices	0.0%	0.0%

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 <u>three</u> industries. Even with the policy worry dictated above, there is a heavy decrease (50%) in the expected volatility of both retail trade and consumer products / services industries. This dramatic reduction from 4Q 2024 is surprising in light of the continued uncertainty of tariffs during the survey period. Energy / Power also saw a drastic decrease in expected volatility, dropping from 28% to 0%. These decreases are offset by an increase in expected volatility in both the healthcare and cannabis industries (24% and 31%, respectively).

Industries Experiencing Most Volatility	4Q 2024	1Q 2025
Real Estate & Rental / Leasing	48.80%	41.40%
Retail Trade	62.80%	31.00%
Healthcare & Social Assistance	7.00%	31.00%
Cannabis	0.00%	31.00%
Finance & Insurance	20.90%	20.70%
Consumer Products & Services	41.90%	20.70%
Manufacturing	20.90%	20.70%
Construction	7.00%	10.30%
Transportation & Warehousing	20.90%	10.30%
Accommodation & Food Service	20.90%	10.30%
Tech, Media & Telecom	7.00%	10.30%
Educational Services	0.00%	0.00%

Energy & Power		27.90%	0.00%
Other Services		0.00%	0.00%

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 12 months. Lenders were asked to designate all potential customer actions that applied. It is interesting to see capital expenditures and hiring new employees as the most likely / popular actions. This may be an indication that the pre-election caution exhibited by many businesses is now behind us.

Customers' Plans	4Q 2024	1Q 2025
Hiring New Employees	27%	56%
Introducing New Products or Services	20%	11%
Raising Additional Capital	67%	44%
Capital Improvements	27%	67%
Making an Acquisition	33%	22%
Entering New Markets	47%	11%
"Other" Initiatives	7%	11%

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. Lenders have the same amount of confidence about the short-term economy quarter-to-quarter. Lenders believe that the odds of a US economic crash and / or recession are unlikely compared to other factors. While the economic performance expectation decreased, it was the lowest quarter-to-quarter change since H2 2023. It is interesting to note the higher variability in grades in 1Q, with an increase in both the higher B-grade and lower D-grade.

Grade	4Q / 2024	1Q / 2025
A	0%	0%
B	47%	56%
C	47%	22%
D	7%	22%
F	0%	0%
Weighted Average Grade	2.40	2.33

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. The modest decrease in short-term performance expectations is accompanied by a large decrease in expected long-term economic performance. No lenders in Q4 2024 expected long-term US economic performance to be at a D-level (while about a quarter expected a C-level performance), yet both grade expectations garnered 33% of the votes by lenders in Q1 2025,

which resulted in a 0.82 point (28%) decrease in overall expected performance. Lenders are clearly more concerned about the longer term impact of potential policy changes from the new administration.

Grade	4Q / 2024	1Q / 2025
A	20%	11%
B	53%	22%
C	27%	33%
D	0%	33%
F	0%	0%
Weighted Average Grade	2.93	2.11

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 majority of the surveyed lenders (64%) plan to maintain their current loan structure. In Q1 2025, a minority (33%) of lenders plan to tighten their loan structure and 3% plan to relax their loan structure, which is a slight overall shift towards tightening loan structures. Lenders have been relatively cautious the past 12-18 months and the slight increase in the "Tighten" vote indicates continued caution, particularly with smaller loans.

	4Q / 2024			1Q / 2025		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	14%	86%	0%	22%	78%	0%
$15 – $25 million	13%	87%	0%	22%	78%	0%
$5-$15 million	33%	60%	7%	44%	56%	0%
Under $5 million	33%	53%	13%	44%	44%	11%
Overall Average	24%	71%	5%	33%	64%	3%

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. Despite a 100 basis point reduction in rates over the past two quarters and no change from the most recent FOMC meeting, 77% of lenders believe the Fed will reduce rates in the coming six months (44% believing a 25 basis point decrease, 33% a 50+ basis point decrease). As with other survey results, the high variability in the responses (including 11% who believe the Fed will increase rates by more than 50 basis points) indicates a lack of consensus among lenders regarding future interest rate changes.

Bps Change	4Q / 2024	1Q / 2025
+ 1/2 point or more	0%	11%

+ 1/4 point	0%	0%
Unchanged	7%	11%
- 1/4 point	7%	44%
- 1/2 point or more	87%	33%
Weighted Average	-0.54bps	-0.19bps