Phoenix Management Services

"Lending Climate in America"
4th Quarter 2024
Survey Results

(Survey results were tabulated on November 6, 2024)

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

Respondents were asked, over the next six months, which two factors had the strongest potential to affect the economy. The stability of the stock market took a backseat to policy in Q4 as the presidential election and expectation for continued interest rate reductions were seen as the most influential factors for the near-term economy. Interestingly, it is unclear if lenders feel the impact from the 2024 election will be positive or negative. Stock market stability and fears of a recession are no longer a concern for lenders, after being identified as a source of concern by over a quarter of lenders over the past year.

Factors Affecting Near-Term Economy	3Q 2024	4Q 2024
2024 Election / Political Uncertainty	70.6%	62.1%
Policy Risk (Interest Rates)	29.4%	41.4%
Constrained Liquidity in Capital Markets	5.9%	27.6%
Stability of Stock Market	29.4%	6.9%
US Budget Deficit	5.9%	6.9%
US Recession	23.5%	6.9%
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 three industries. Hot topic items related to the presidential election were heavily connected to the industries that were expected to experience the most volatility in the Q4 survey. Increases to volatility expectations in the consumer products, manufacturing, and transportation / warehousing industries dovetail with the uncertain impact of potential tariffs, and industries that heavily rely on federal reserve decisions (real estate) continued to be amongst the most volatile. The energy and power industry had an expected volatility leap of 133%, piggybacking on the policy uncertainty created by potential US governmental change.

Industries Experiencing Most Volatility	3Q 2024	4Q 2024
Retail Trade	60.0%	62.8%
Real Estate & Rental / Leasing	36.0%	48.8%
Consumer Products & Services	30.0%	41.9%
Energy & Power	12.0%	27.9%
Manufacturing	12.0%	20.9%
Finance & Insurance	36.0%	20.9%
Transportation & Warehousing	6.0%	20.9%
Accommodation & Food Service	6.0%	20.9%
Tech, Media, & Telecom	30.0%	7.0%
Healthcare & Social Assistance	18.0%	7.0%
Construction	12.0%	7.0%
Educational Services	12.0%	0.0%
Cannabis	12.0%	0.0%
Other Services	12.0%	0.0%

3. Customers' Plans in the Next Six to 12 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.

Customers' Plans	3Q 2024	4Q 2024
Raising Additional Capital	71%	67%
Entering New Markets	18%	47%
Making an Acquisition	29%	33%
Hiring New Employees	35%	27%
Capital Improvements	35%	27%
Introducing New Products or Services	24%	20%
"Other" Initiatives	6%	7%

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 are much more optimistic about the short-term economy, in part due to the stability of having the elections in the rearview mirror, and the expected continuation of interest rate reductions. Lenders believe that the odds of a US economic crash and / or recession have greatly declined. Before the September 2024 prime rate cut, sentiment was that the US was teetering on recession. That cut bumped near-term views on the economy up from the prior quarter by well over half a grade point to 2.40, a grade not seen since Q2 2021.

Grade	3Q/2024	4Q/2024
A	0%	0%
B	12%	47%
C	65%	47%
D	12%	7%
F	12%	0%
Weighted Average Grade	1.76	2.40

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. Aligning with the expected 0.5% or more drop in the prime rate comes an expected increase in long-term economic outlook. The multiple-cut expectation from lenders increased the long-term outlook in a similar fashion to the short-term outlook, jumping by about half a grade point. Over the past 6 months, the long-term sentiment increased by a full grade from 1.83 to 2.93, which is the highest grade since Q3 2023.

Grade	3Q/2024	4Q/2024
A	12%	20%
B	53%	53%
C	12%	27%

D	18%	0%
F	6%	0%
Weighted Average Grade	2.47	2.93

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 (71%) plan to maintain their current loan structure. In Q4 2024, while a minority (24%) of lenders plan to tighten their loan structure and 5% plan to relax their loan structure, which is exactly the same percentage distribution as we saw in Q3.

	3Q/2024			4Q/2024		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	7%	80%	13%	14%	86%	0%
$15 – 25 million	13%	87%	0%	13%	87%	0%
$5-15 million	31%	63%	6%	33%	60%	7%
Under $5 million	44%	56%	0%	33%	53%	13%
Overall Average	24%	71%	5%	24%	71%	5%

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. One year ago, in Q4 2023, lenders believed that the current US economic status pointed to rate increases from the Federal Reserve (needed increases in unemployment, inflation beyond the 2% benchmark, etc.). Fed activity in 2024 paired with a need for a level of economic stimulus that the country had not seen since the COVID-19 shutdown has shifted this view. Despite the 75 basis point reduction in rates in the past few months, 87% of lenders believe the Fed will reduce rates by at least an additional 50 basis points in the coming six months.

Bps Change	3Q/2024	4Q/2024
+ 1/2 point or more	0%	0%
+ 1/4 point	0%	0%
Unchanged	24%	7%
- 1/4 point	6%	7%
- 1/2 point or more	71%	87%
Weighted Average	-0.44bps	-0.54bps