

A Mid-Year Check on the Secured Finance Market

BY SFNET'S DATA, TECH & AI COMMITTEE

In a period marked by volatile policy shifts, persistent inflationary concerns, and market recalibrations, SFNet's June members-only webinar, "2025 Mid-Year Market Pulse: Navigating the Shifting Economic Landscape," offered much-needed perspective from thought leaders across secured finance, macroeconomics, and credit markets. Drawing from proprietary survey data, sector analyses, and forecasts, the session mapped a complex, but navigable, road ahead for asset-based lenders, factors, and credit professionals.

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Macroeconomic Overview: Strength in the Hard Data, Anxiety in the Soft

Rob Wescott, president of Keybridge LLC, opened the webinar by highlighting the split between robust hard data and increasingly shaky soft indicators. On one hand, the U.S. labor market remains resilient—adding 139,000 jobs

in May—and industrial production is holding above 2024 levels. GDP growth, while volatile, is projected to hover near 1.7% for the year, reflecting moderate expansion despite multiple economic headwinds.

But underneath the surface, economic policy uncertainty has surged to record highs, and the Federal Reserve has repeatedly invoked the specter of stagflation. Political gridlock and foreign trade conflicts continue to muddy the waters. Recent policy actions—including renewed tariffs on Chinese imports—have sent ripples through supply chains, prompting businesses to reassess procurement strategies and pricing models.

Tariffs remain a wildcard. Since January 2025, average U.S. tariffs have spiked sevenfold to over 15%, driving pre-emptive import surges in Q1 and escalating inflation fears. Wescott noted a sharp divergence in consumer behavior: higher-income Americans—buoyed by the stock market and home equity—continue to spend, while lower-income households are increasingly reliant on minimum credit card payments.

The Effective Tariff Rate Will Be Near Its Highest Level in a Century



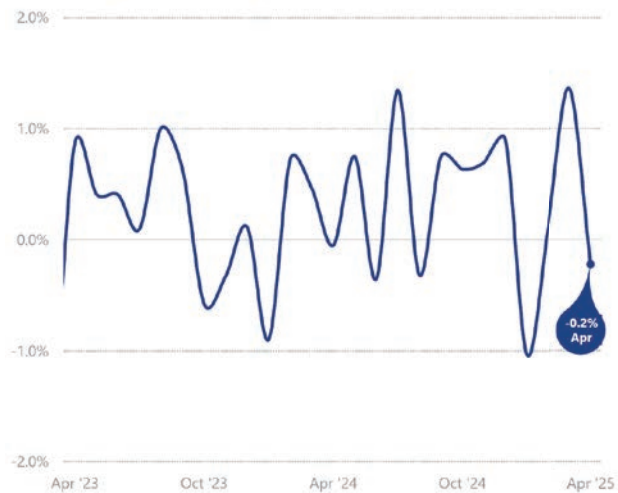
Sector Outlook: A Tale of Two Consumers

Jeff Jensen, also from Keybridge, emphasized the distortion in retail activity. March retail sales surged +1.5% month-over-month as consumers rushed to frontload purchases ahead of tariff implementation. However, April and May reversed sharply, suggesting a pullback in discretionary demand. While restaurant spending has remained stable, categories like electronics and travel have weakened significantly.

This divergence is reflected in consumer confidence metrics. The Conference Board's Consumer Confidence Index dropped for the third straight month in May, highlighting growing concern among middle-income households. Despite this, personal savings

Retail Sales: Retail Trade

M/M % change, seasonally adjusted



rates have remained flat, and delinquencies on revolving credit accounts are inching upward.

Wholesale inventories rose, but sales kept pace, keeping inventory/sales ratios balanced. Producer Price Index (PPI) subcomponents tied to tariff-sensitive goods—steel, metals—are seeing pricing pressures, although broad inflation remains muted for now.

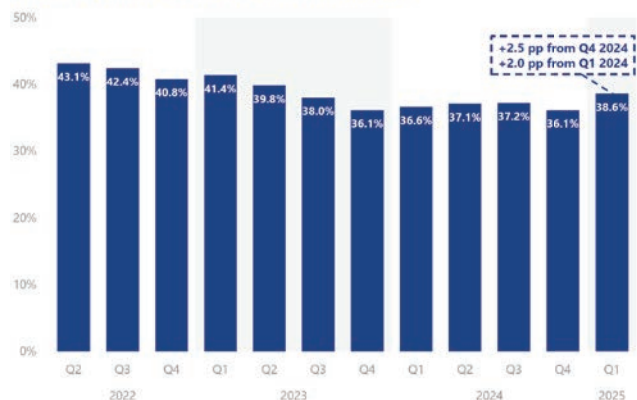
Manufacturing sentiment, as measured by PMI and the National Association of Manufacturers, hovers just below contraction territory, yet actual industrial production remains solid. Employment in the sector, however, continues to experience a slow erosion. Jensen suggested that firms are relying more heavily on productivity gains and automation to offset labor constraints.

Credit Demand: Softening, But Not Collapsing

While banks report diminished C&I loan demand, the broader picture is one of caution, not collapse. SFNet's Q1 2025 ABL survey revealed slightly rising client utilization, potentially reflecting pre-tariff borrowing. The ABL Confidence Index did decline post-“Liberation Day”, a marker that registered sentiment before the U.S. softened its stance on Chinese tariffs.

ABL Credit Line Utilization Rate

Percent, loan outstanding as % of total commitments, quarterly



Commercial lending officers in the Federal Reserve Board's Senior Loan Officer Opinion Survey (SLOOS) echoed this cautious tone. Demand for credit among small- to mid-sized firms has declined modestly, while credit standards remain tight. The result: fewer new originations, but an uptick in utilization of existing lines.

Factoring, interestingly, remains stable. The February 2025 Factoring Confidence Index showed resilience, attributed to small businesses tightening cash cycles and seeking fast access to liquidity. Anecdotal evidence also suggests a mild uptick in receivable aging. Industry insiders report that non-recourse factoring is regaining popularity, as businesses attempt to de-risk their cash flow strategies.

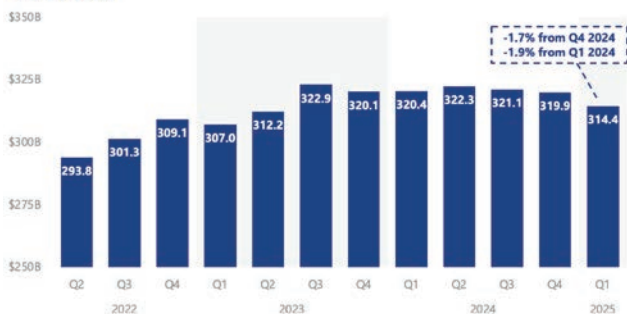
Pricing and Spreads: A Reversal Toward Credit Quality

Spreads are holding firm across most bank portfolios, but there is a flight to quality underway. Ken Yager of Newport Advisors described the current environment as a “tightening strike zone”—where banks still aggressively lend to strong credits, but show reluctance toward edge-case borrowers, especially in tariff-sensitive sectors.

In the ABL market, survey data shows a minor drop in committed credit lines in Q1 2025, though Barry Bobrow of Regions Business Capital believes seasonal effects and data participation rates may account for the dip. Still, spreads are holding up. New deals are often pricing in the TSOFR+175–225 basis point range, depending on collateral quality and borrower size.

Total Committed Credit Lines

Billions of dollars



Meanwhile, smaller lenders and nonbanks are beginning to show more pricing flexibility, offering below-market rates to win high-quality credits—a trend that could compress margins for traditional bank participants in the quarters ahead.

CLO Market at an Inflection Point

The webinar hinted at the broader market's liquidity posture. CLO managers—critical to leveraged loan demand—are facing yield compression from both ends. With spread tightening and uncertain policy direction, many CLOs are extending warehouses or delaying issuance. If Fed cuts materialize in late 2025, it may relieve some pressure, but volatility remains a near-term challenge.

The CLO market, which now exceeds \$1.1 trillion in U.S. AUM,

remains a critical pillar in leveraged finance. However, rising concern over underlying loan quality, especially among B-rated tranches, is prompting some investors to diversify away from primary deals. Increased scrutiny from both internal risk teams and regulatory bodies may slow issuance through Q3.

Treasuries and Fed Watch: The Duration Dilemma

Markets currently price in two 25bp rate cuts by year-end 2025, with the first likely arriving in September. Yet the Fed remains cautious, balancing softening consumer sentiment against persistent inflation in service categories. The internal Fed “dot plot” also reflects a more hawkish stance compared to March.

Jensen underscored that rate movement expectations are more delayed than derailed. With import-driven inflation risks and mixed consumer sentiment, policy normalization will be gradual. The Fed's ability to engineer a soft landing hinges on inflation not reaccelerating from tariff pass-through effects.

For secured lenders, rate uncertainty adds complexity to deal structuring. Lenders are increasingly using shorter tenors and tighter covenants to manage duration risk. Borrowers, meanwhile, are eyeing the potential for refinancing in a lower-rate environment and are eager to lock in flexibility wherever possible.

A Resilient, But Redefined, Market

Portfolio performance remains within historical norms. While charge-offs are rising, they still sit near long-term averages. SFNet's Q1 data showed a jump in non-accruals, though largely driven by a few outliers. Most lenders report stable performance, and interest in deploying capital remains strong—particularly among nonbanks.

Private credit's continued encroachment into bank territory is also reshaping the competitive landscape. Direct lenders are increasingly offering ABL-like structures with looser covenants and faster execution—attracting sponsors and family-owned businesses that might otherwise seek traditional bank funding.

Despite policy headwinds, the webinar consensus suggested that the U.S. secured finance market is navigating the turbulence with a cautious but forward-leaning posture. As Yager aptly summarized, “The banks aren't retreating— they're just throwing to a much narrower strike zone.”

As summer unfolds, all eyes will remain on tariffs, inflation gauges, and capital formation. The data may be noisy, but the directional indicators suggest a market recalibrating around fundamentals, not falling apart. 📊

To participate in SFNet's upcoming ABL and Factoring surveys, contact Aydan Savaser at ASavaser@sfnet.com. Your input ensures stronger data—and a stronger industry.

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