LAZEAR

2024

Banking Insight

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Insight From Our

BANKING PARTNERS

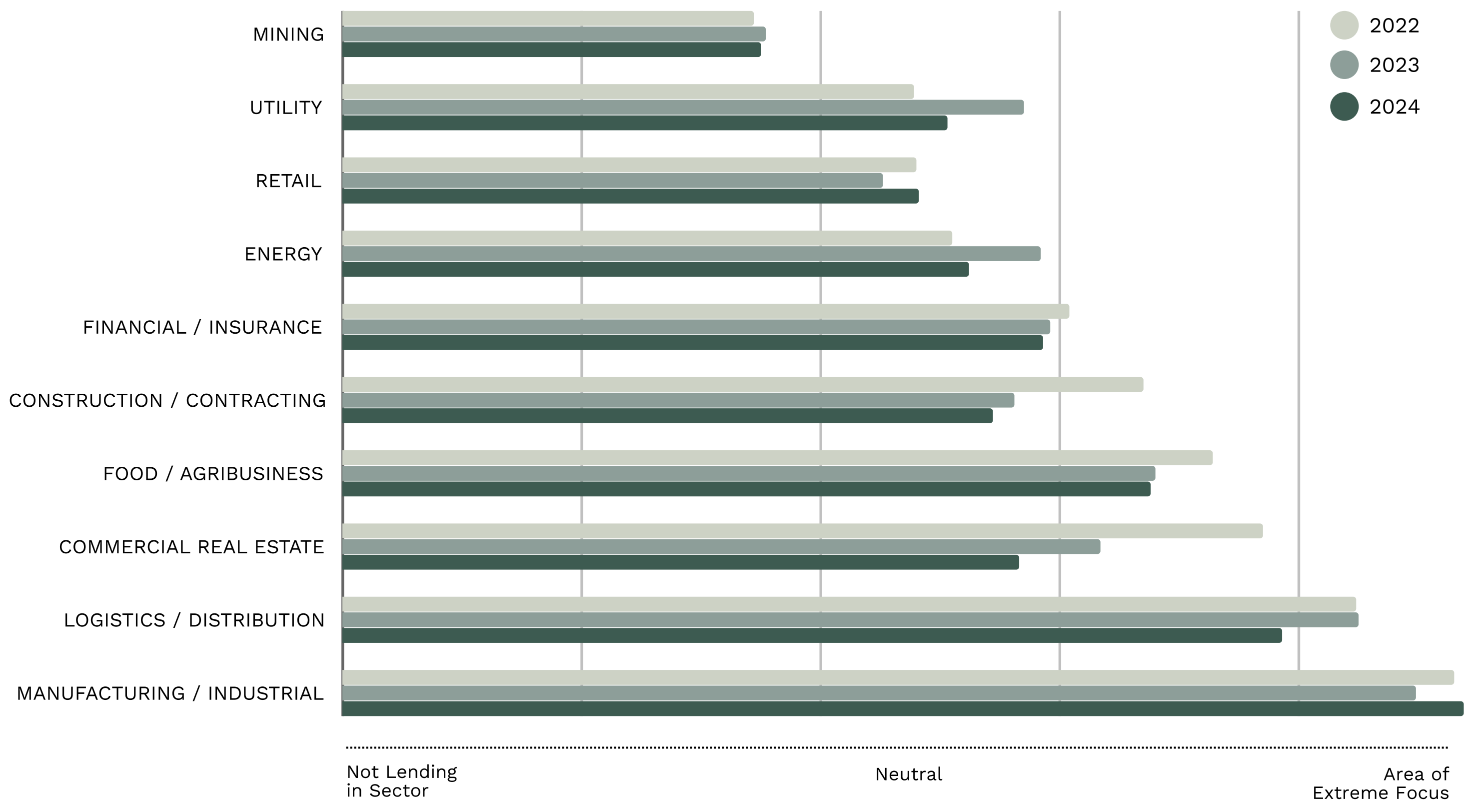
The consensus outlook from commercial lenders for 2024 is significantly more optimistic compared to 2023. Most respondents in 2023 were neutral (67%) or adverse (29%), with just 4% responding favorably. By contrast, 30% responded favorably in 2024, while just 10% had an adverse outlook.

90%

expect neutral to favorable growth in the coming year.

Lender Sentiment by Industry

Banks ranked their sentiment on industries from zero to four, with four being an area of “extreme focus” and one being an area where they will not lend. The graph below shows the average sentiment score for each industry.



Lender Focus & Outlook

Areas of Focus for Commercial Banks:
Bankers were asked to rank their top priorities for 2024 from one to four. The chart reflects the weighted average ranking for each category. While 2022 saw an intense focus on new funded asset growth, 2024 closely tracked the 2023 trend of most institutions employing a more diverse mix of strategies, with credit risk management and deepening existing client relationships sharing near equal weighting with overall asset growth.

Senior Leverage Multiples:
For Middle Market Clients, Banks expressed an overall comfort level of 2.0x-2.50x (Funded Sr. Debt/EBITDA), with a heavier skew toward the 2.0x. Some still noted comfort at 3.0x or higher. This has changed very little from 2023, but does point to a very modest pullback in desired leverage profile for bank clients.

Areas of Concern:
Going into 2023, the most common concerns transitioned from labor and supply chain issues to macro-level threats stemming from increasing interest rates and anticipated recessionary pressure.

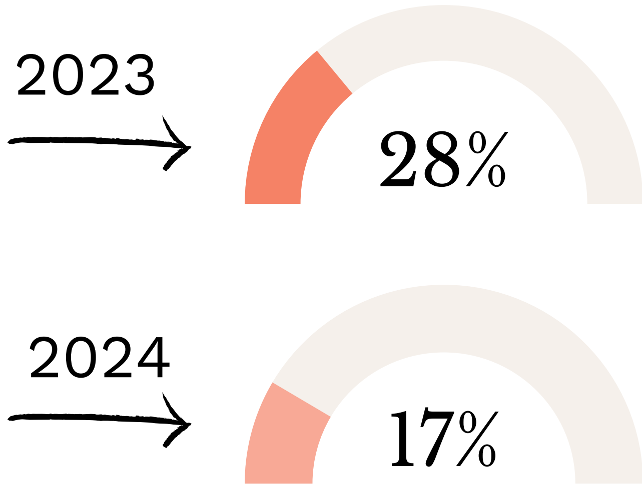
While the chief concerns for 2023 have largely abated, the most common concerns for 2024 center on increased bank competition for quality loans, including increased pressure from larger institutions competing downstream, the election year, elevated debt service stemming from heightened interest rates, and certain industries such as automotive.

The Bottom Line:
Desire to establish or deepen business with high-credit-quality clients remains extremely high, but lingering questions over sector-specific challenges, sustained higher debt costs, and continued focus on bank balance sheet strength have caused increased competition among banks for premier borrowers.

While there are numerous wildcard elements that could impact the lending landscape in 2024, there is less uncertainty and apprehension around the macroeconomic outlook.

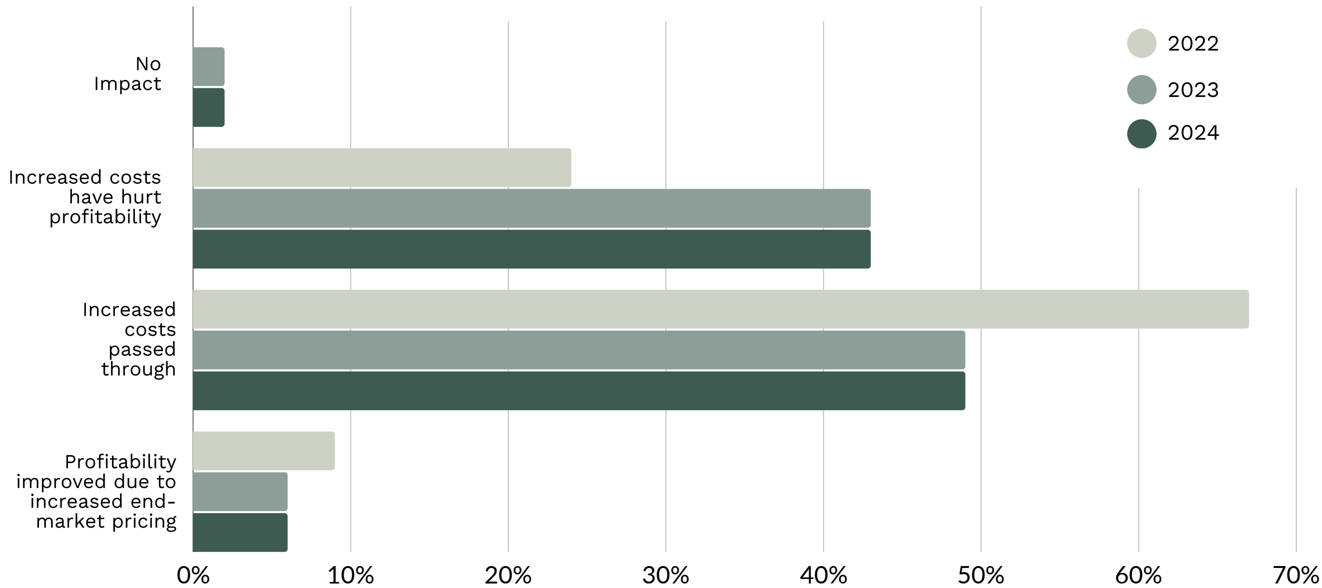
LABOR & SUPPLY CHAIN IMPACT

Impacts from supply chain and labor issues continue to affect businesses and remain a concern when looking ahead into 2024. While the vast majority of businesses are being affected, the **instances of severe delays/shortages are down year-over-year from 28% to 17%, while the number of unaffected businesses appears to be climbing in turn.**



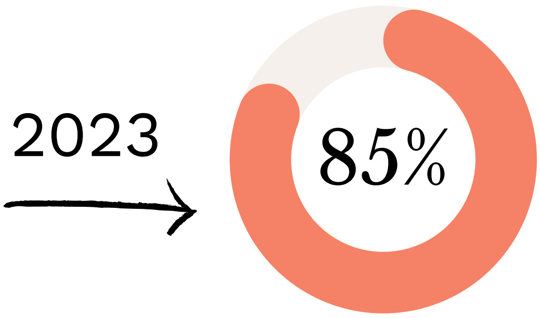
INFLATION IMPACT

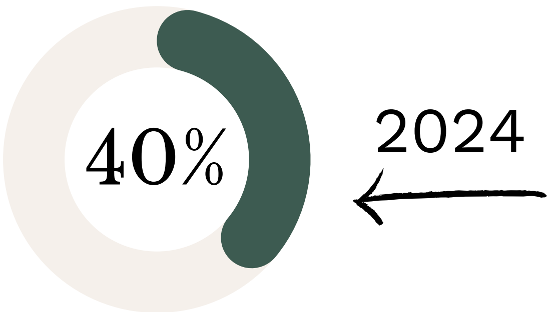
The effects of inflation continue to be felt across the board. Most middle-market businesses managed to pass through increased costs at first, however, sustained upward cost pressure has resulted in a much higher percentage of businesses seeing reduced profit margins as the ability to pass through added costs has diminished. **Very little has changed in this respect from 2023 to 2024.** It will be interesting to see how inflation data impacts the position of the Fed over the next twelve months.



RECESSION MINDSET SHIFTS

With recent inflation at multi-decade highs, the Federal Reserve has been aggressive in its attempts to fight back. This has led to the fastest pace of rate increases in decades, causing many economists to predict a recession or question the Fed's ability to create a soft landing.





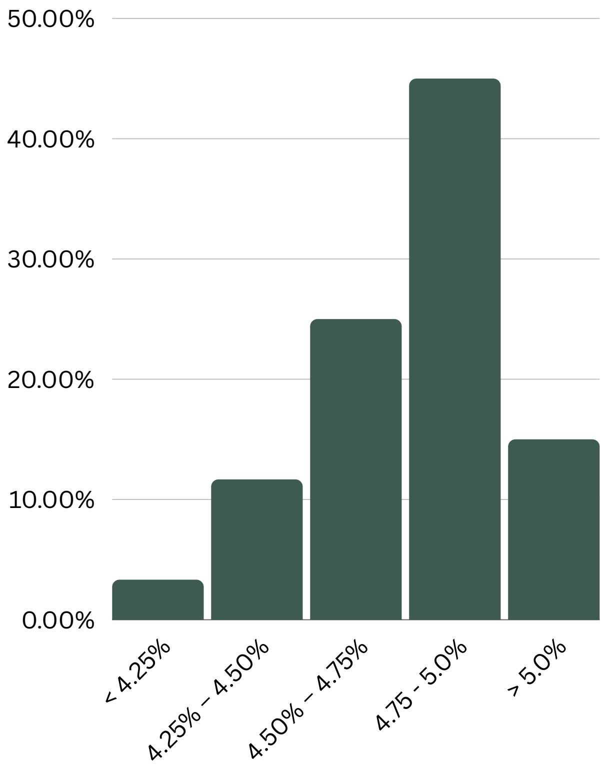
In 2023, 85% of respondents noted that their institution was preparing for a recession, impacting certain segments, with some noting a decline in loan appetite across the board.

Meanwhile, a minority of institutions were looking to actively grow assets, indicating either a contrarian viewpoint on 2023 economic conditions or an opportunity to pick up market share and momentum.

That sentiment has shifted considerably in 2024, with 40% of respondents noting that their institution was preparing for a recession, and 60% noting a desire to grow assets, compared to just 10% in 2023.

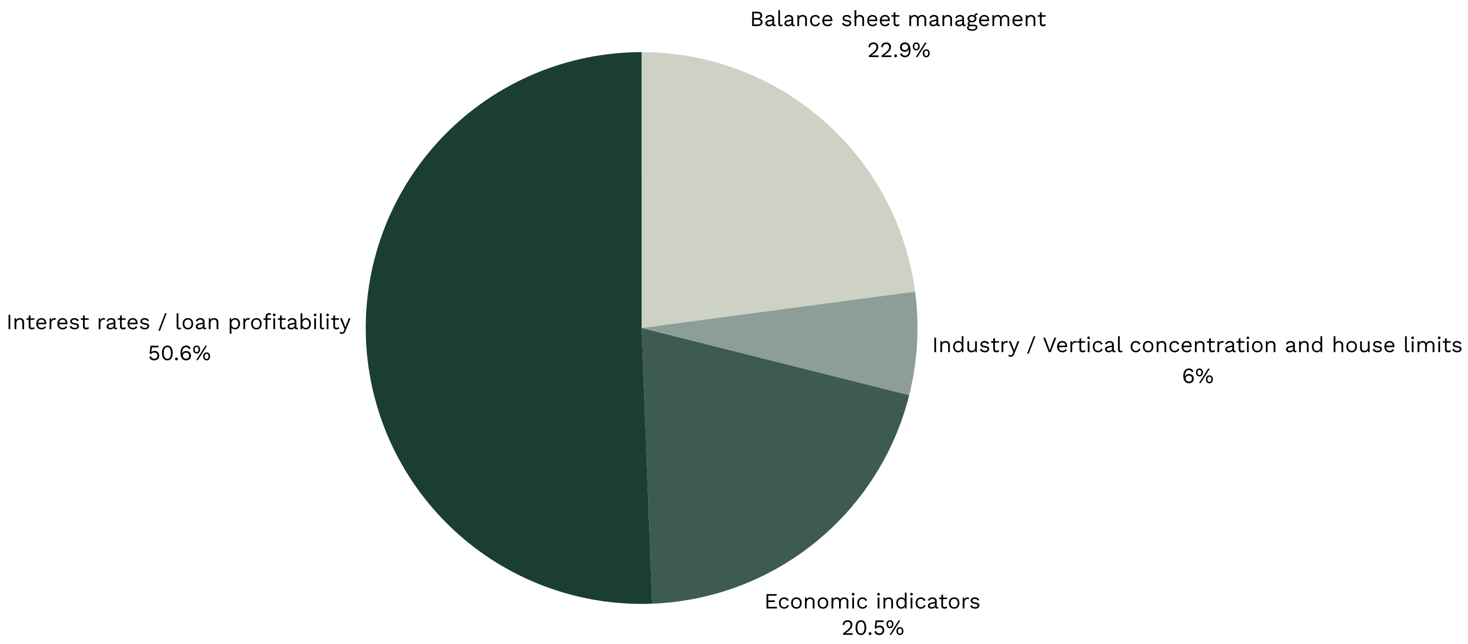
INTEREST RATE EXPECTATIONS

End of year Fed Funds Rate expectations range from 4.5% – 5.0%, reflecting anticipation of multiple rate cuts by respondents. This anticipation, in conjunction with recent positive economic indicators, likely plays a large part in their respective 2024 outlooks.
While industry participants think rates have peaked and will generally decline in the coming year, consensus indicates that benchmark rates will remain elevated overall. 60% of responses expect rates to remain at or above 4.75% through the year. At the start of 2023, most respondents expected rate cuts beginning in early 2024, but that has not yet come to fruition.



LENDING DECISIONS IN 2024

Interest rates and loan profitability along with balance sheet management are expected to have the most significant impact on lending decisions in 2024.



We look forward to connecting with you soon.

ABOUT US

Lazear is a leading middle-market investment bank specializing in ESOP advisory and sell-side engagements nationwide.

CONTACT US

Have a question or want to connect? Email info@lazearcapital.com.

We'd love to hear from you!

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