

SRS ACQUIOM BAROMETER™

Rising Interest Rates and the War in Ukraine: *What is the Impact on Commercial Loans?*

Survey Results

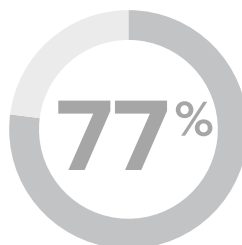
Interest rates are rising, and more increases are anticipated from the U.S. Federal Reserve—all occurring in the context of fast-moving geopolitical events surrounding the Russian incursion into Ukraine.

- What will happen with commercial loan activity and distressed debt?
- Is the war in Ukraine posing any risk to demand for leveraged loans?
- Is there a U.S. recession looming?
- What are the leading indicators?

Between April 12 and 22, 2022, SRS Acquiom surveyed loan professionals from various organizations—including investment banks, law firms, bank lenders, and non-bank lenders—for their views.

Commercial Loan Impact

Nearly two-thirds (62%) of respondents to this survey foresee an impact from anticipated rate increases from the Federal Reserve and more than three-fourths (77%) of respondents believe that there will be an increase in distressed debt activity linked to interest rate increases. Nearly two-thirds (65%) of respondents also indicate that pricing will become **more difficult** because of the rate increases.

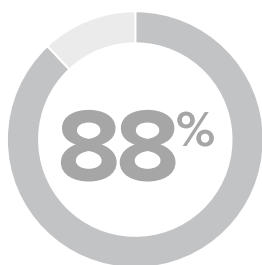


Most respondents believe that distressed debt activity will increase as a direct result of rising interest rates (77%).

Respondents are more diverse in their views concerning the impact of interest rate increases on demand for leveraged loans. 29% of respondents predict a market glut of collateralized debt and that fewer investors are willing to invest in— even at face value. Some respondents believe that leveraged loan purchases will not be impacted (21%), and one-third of respondents (33%) share that they do not know the impact to demand for leveraged loan purchases.

Ukraine War Impacts

When we turn our attention to the war in Ukraine, a large majority (88%) believe that the war will make it more challenging to price risk. More than half (52%) of respondents think it will be more difficult to price risk overall, while 36% believe it will be more difficult only in the short term (1-3 months). Respondents indicate that it is difficult to predict the demand for leveraged loan purchases in the context of the war in Ukraine. 40% of respondents believe that leveraged loan purchases will not be impacted, with nearly one-third of respondents not knowing the impact on leveraged loan purchases (32%). Some respondents believe that fewer will be willing to invest in leveraged loan purchases due to the war (20%).



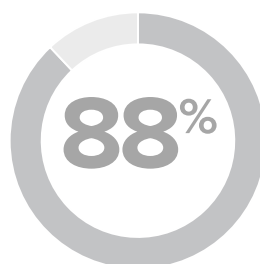
A large majority of respondents (88%) believe that it will be more difficult to price risk in the context of the war in Ukraine.

Investment Strategies

For U.S. leveraged loan investors removing cash from loan purchases, we asked respondents for their thoughts on where the money is going. Respondents were divided, with nearly one-third (32%) indicating that the money isn't going anywhere: investors are sitting on their cash reserves during this time of geopolitical uncertainty. 28% of respondents shared that they don't know, and 28% also indicated that investors are purchasing "safer" investments like treasuries or gold. Some respondents (12%) believe that it presents an opportunity to buy credit in the short term.

Inflation Impacts

Overwhelmingly, 88% of respondents believe that a U.S. recession is looming. Respondents are monitoring the lasting effects of inflation (91%), decreasing consumer spending (73%), market responses to volatility (64%), a slowing world economy (55%), and an inverted yield curve (50%) as leading indicators. 46% of respondents also watch the price of oil as a factor contributing to a likely recession.



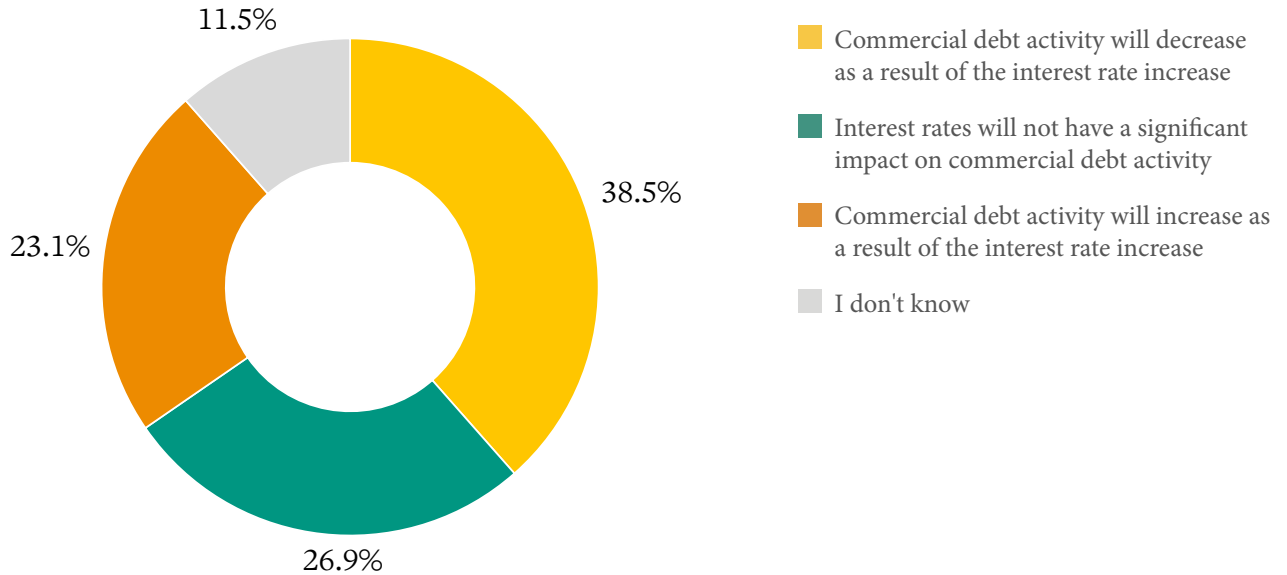
A U.S. recession is on the horizon according to 88% of respondents. Most are watching the lasting effects of inflation as a leading indicator (91%).

See next page for complete survey results →

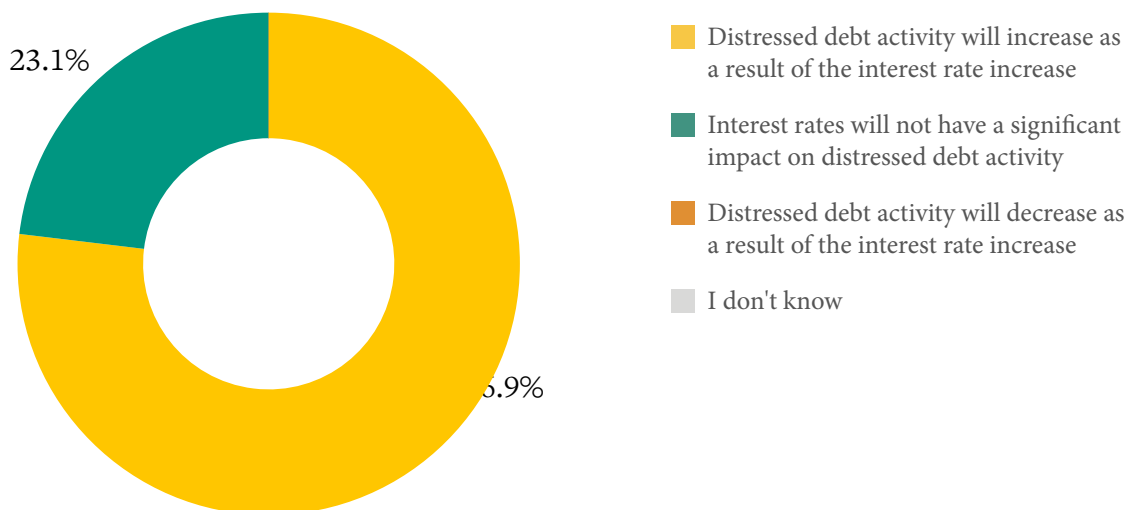
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The SRS Acquiom Barometer™ survey has a sample size of 26 respondents representing direct lenders, investment bankers, advisors, and attorneys and was fielded April 12–22, 2022. Results should be viewed as qualitative and directional.

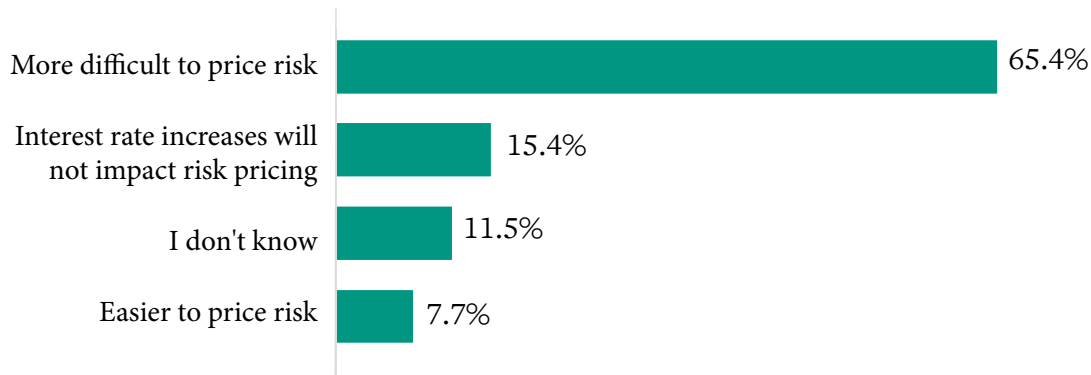
1) What impact, if any, will the Federal Reserve’s anticipated rate increases have on commercial debt activity in general in 2022?



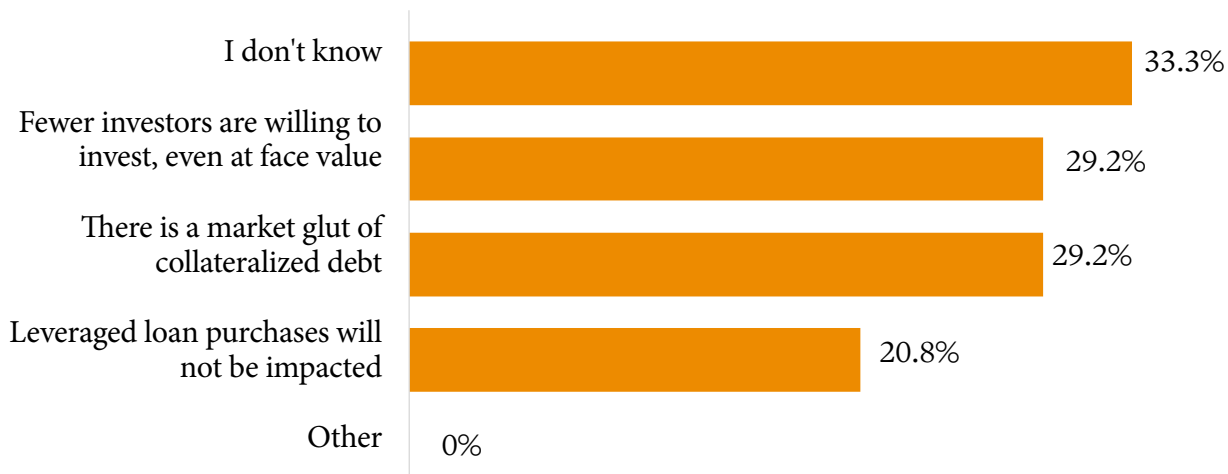
2) What impact, if any, will the Federal Reserve’s anticipated rate increases have on distressed debt activity in 2022?



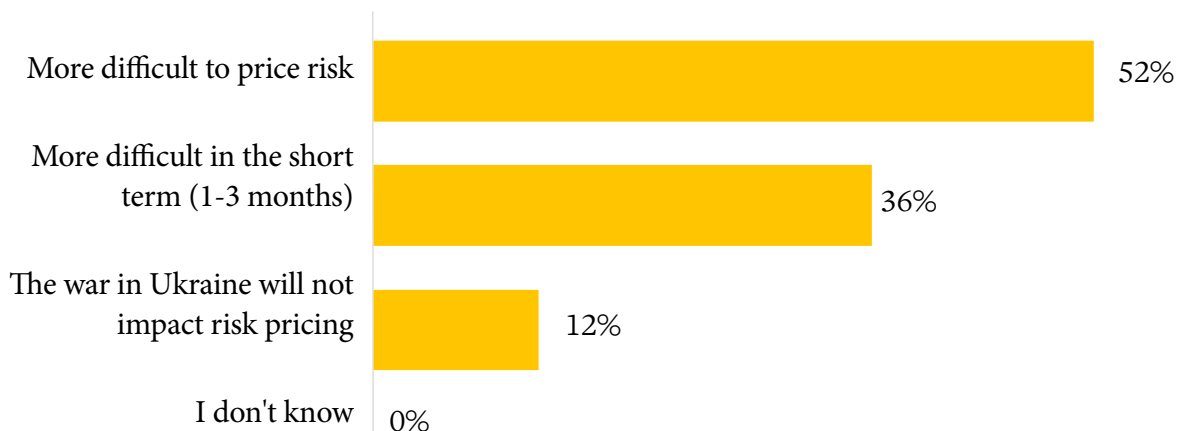
3) How will the Federal Reserve’s anticipated rate increases impact the pricing of risk?



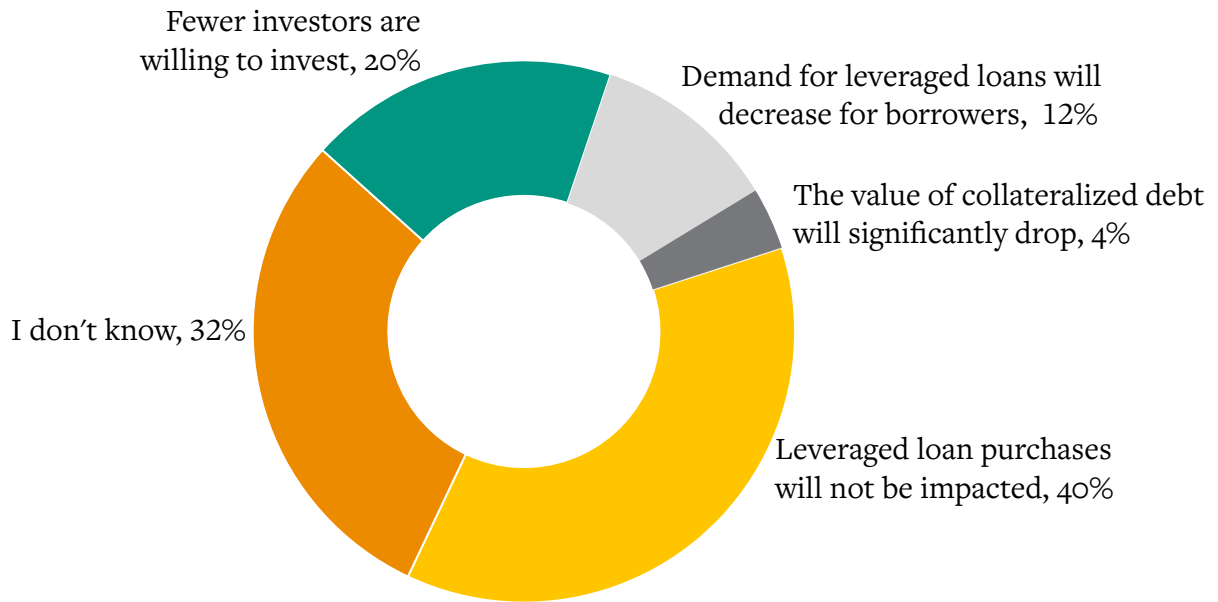
4) How will the Federal Reserve’s anticipated rate increases impact demand for leveraged loan purchases?



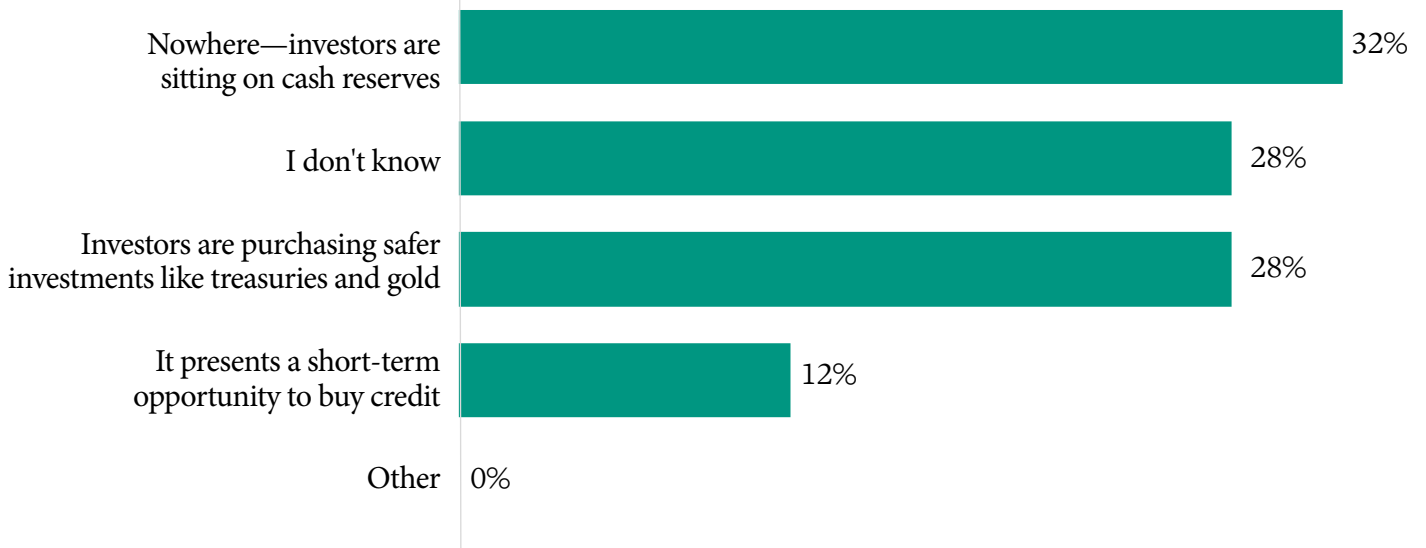
5) How will the war in Ukraine impact the pricing of risk?



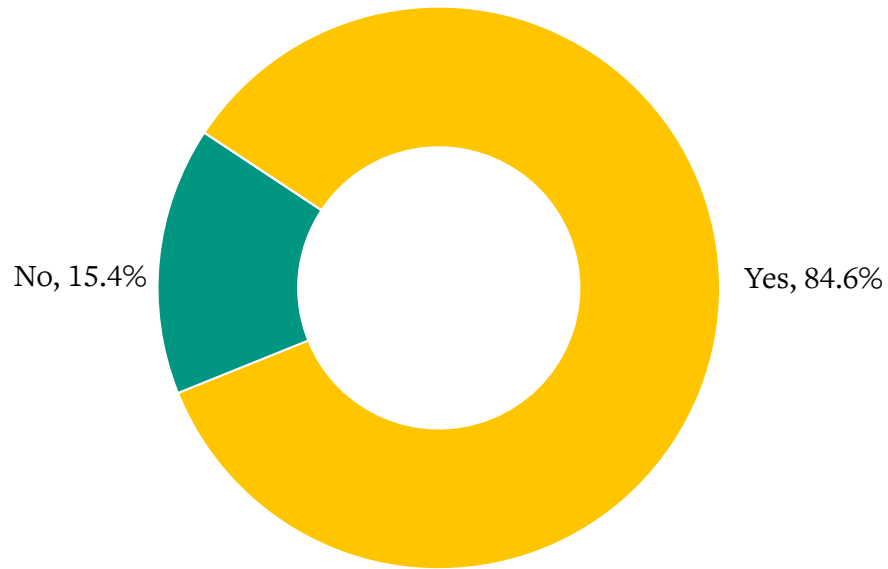
6) How will the war in Ukraine affect demand for leveraged loan purchases?



7) With U.S. leveraged loan investors removing cash from risky debt purchases, where is the money going?



8) Do you believe that a U.S. recession is on the horizon?



9) What factors are you watching that would suggest a U.S. recession?

