Hilco Global Asset Smarter Q3/Q4 Market Outlook

By The Experts at Hilco Global

Insights for Asset-Based Lenders

The second half of 2026 presents a combination of pressures that simply did not exist two years ago. What makes this cycle distinctly different is not a single shock but three converging forces that are simultaneously distorting collateral values, compressing borrower margins, and accelerating distress across the supply chains that lender portfolios serve.

The practical consequence for lenders is consistent across all three of these forces. The familiar signals that have historically flagged borrower stress are arriving later, or not at all, while the underlying exposure builds quietly. That dynamic is highly pronounced and consequential across the specific group of industries and sectors we examine below.

First, tariffs are no longer a just a negotiating tactic. Instead, they have become a permanent feature of the trade landscape. Twenty-five percent duties on steel and aluminum, sustained tariffs on Chinese manufactured goods, and retaliatory measures from Canada have baked a new cost basis into the inventories underpinning millions of Borrowing Base Certificates. The problem for lenders can best be described as asymmetric: tariff-elevated costs push eligible collateral values higher on paper, but Net Orderly Liquidation Values (NOLV) do not move in lockstep. The result is over-advancement that will not surface in many covenant-light facilities until a field exam forces the conversation.

Second, the Iran conflict has introduced the most significant global oil supply disruption in history. The near-total closure of the Strait of Hormuz, a chokepoint for approximately 20 percent of worldwide seaborne crude trade, has sent Brent crude surging well above pre-conflict forecasts, cascading into fertilizer, freight, and petrochemical feedstock costs. This is not a quarterly event. Energy infrastructure recovery timelines are measured in years, not quarters. Lenders with exposure to food, agriculture, grocery, automotive, and chemical borrowers should treat this as a multi-year margin compression, not a transient spike.

Third, the bankruptcy wave that crested through retail has migrated. Corporate filings hit a 14-year high in 2024, according to S&P Global Market Intelligence, and the distress that characterized consumer discretionary sectors through 2024 and 2025 has now taken root in industrials and specialty manufacturing. Importantly, this is an elevated but targeted correction rather than a systemic one. Targeted corrections, however, can still produce real losses in real portfolios.

Macro Pressure: The Forces Reshaping Collateral

<u>Tariffs and The Borrowing Base Certificate Inflation Trap</u>

Since March 2025, the United States has imposed a 25 percent tariff on all steel and aluminum imports, removing the exemptions that had previously shielded Canada, Mexico, the EU, and other key trading partners. According to Norton Rose Fulbright, these measures apply to a broader range of derivative products than earlier tariff regimes, capturing further-processed and manufactured goods containing steel and aluminum. Canada responded in kind, matching the 25 percent duty on $29.8 billion in U.S. imports. And as of mid-2026, Canada's counter-tariffs on steel, aluminum, and automobiles remain in force, with the Canadian government signaling that a near-term resolution is unlikely prior to the USMCA review cycle.

For asset-based lenders, the core risk is not the tariff itself, it is the distortion it creates in borrowing base certificates. When tariffs inflate the landed cost of imported inventory, they push up the eligible collateral value on the BBC. But liquidation values – the NOLVs that govern what a lender actually recovers in a distressed scenario – do not rise with cost. The result is a growing gap between what a BBC says a lender can advance and what that inventory would actually yield at auction. Covenant-light facilities are most exposed because they lack the field exam frequency and covenant triggers that would surface the divergence before a real credit event.

Lenders serving retail, manufacturing, chemicals, and metals borrowers should treat every BBC submitted in 2026 as a document that requires active scrutiny of the cost-to-NOLV ratio — not passive acceptance.

The Iran Conflict: A Multi-Year Commodity Shock

in late February and March 2026, U.S. and Israeli military operations against Iran, combined with Iranian retaliatory strikes on shipping and Gulf energy infrastructure, produced what the International Energy Agency described as the largest oil supply disruption in the history of global markets. According to the World Bank's April 2026 Commodity Markets Outlook, global oil supply fell by approximately 10.1 million barrels per day in March as attacks on energy infrastructure and restrictions on Strait of Hormuz tanker traffic took effect. Brent crude, which was expected to hover around $60 per barrel entering 2026 based on pre-conflict forecasts from Morgan Stanley, surged past $100 per barrel by mid-March before a temporary ceasefire provided modest relief.

Morgan Stanley Research now forecasts Brent to average $80 to $90 per barrel in 2026, and the World Bank's April baseline projects Brent in a range of $95 to $115 per barrel depending on how quickly the Strait normalizes. These are roughly 10 to 35 percent above pre-conflict levels. Critically, even an early diplomatic resolution carries a multi-year tail: as Morgan Stanley's Head of Commodity Research noted, production normalization lags logistics normalization by months to years.

The downstream effects are broad. Fertilizer, which is petrochemical-derived, has seen input costs surge alongside crude oil. Freight rates on routes that previously transited the Gulf have been rerouted or repriced. For food, agriculture, and grocery borrowers, the Iran conflict has compressed farm margins to near-zero in many commodity categories. Equipment purchases are being deferred. Input costs that were already elevated from post-pandemic supply chain stress have now received a second shock that will not self-correct in a single fiscal year.

Many ABL portfolios now carry a hidden Hormuz-related exposure, because they have indirect sensitivity to the energy shock that won't show up when a lender simply sorts their portfolio by industry code. A food distributor, a fertilizer-dependent farmer, and a plastics manufacturer may all carry meaningful oil price risk in their cost structures, even though none of them would be flagged under a standard energy sector review."

The Migrating Bankruptcy Cycle

Corporate bankruptcy filings reached a 14-year high in 2024, with 694 filings recorded by S&P Global Market Intelligence, surpassing both the 635 filings in 2023 and the 638 during the pandemic-year peak of 2020. Consumer discretionary and industrial sector companies together accounted for 28 percent of all filings in 2024. The trend has accelerated: according to the American Bankruptcy Institute, commercial Chapter 11 filings surged 67 percent year-over-year in February 2026 alone.

The nature of the distress has shifted. Through 2024, the failure pattern was concentrated in retail — specialty formats, casual dining, and consumer brands caught between inflation-battered shoppers and their own elevated fixed-cost structures. In the twelve months ending June 30, 2025, manufacturing had become the highest-share sector for bankruptcy filings, accounting for 30 percent of all filings, according to research cited by The D&O Diary. Among mega-bankruptcy filers in that period, tariff impacts were among the most commonly cited drivers of distress — with auto parts suppliers and retailers explicitly referencing trade policy in their filings.

A 2025 roundup from the restructuring and bankruptcy practice at Mintz Law confirms the pattern, citing persistent high interest rates and increased debt servicing costs. At the same time evolving tariff policies raised expenses and disrupted supply chains, especially for industrial firms reliant on imported components. While not a systemic collapse, the current bankruptcy environment is a targeted, migrating correction that is now fully established in the industrial and specialty manufacturing sectors that define a large share of ABL collateral.

Sector Intelligence: Seven Industries, Real Data

The assessments that follow reflect intelligence gained through recent Hilco Global industry and sector appraisal and transaction work. Each assessment has earned its place here because the risk profile it presents to lenders and their borrowers is not just elevated but actively evolving in ways that warrant closer attention heading into Q3 and Q4. These are areas where the intelligence gap between what a borrowing base certificate may show and what the underlying collateral would actually yield continues to widen, and where proactive lender engagement in the months ahead can make a measurable difference in determining portfolio outcomes.

1. AUTOMOTIVE

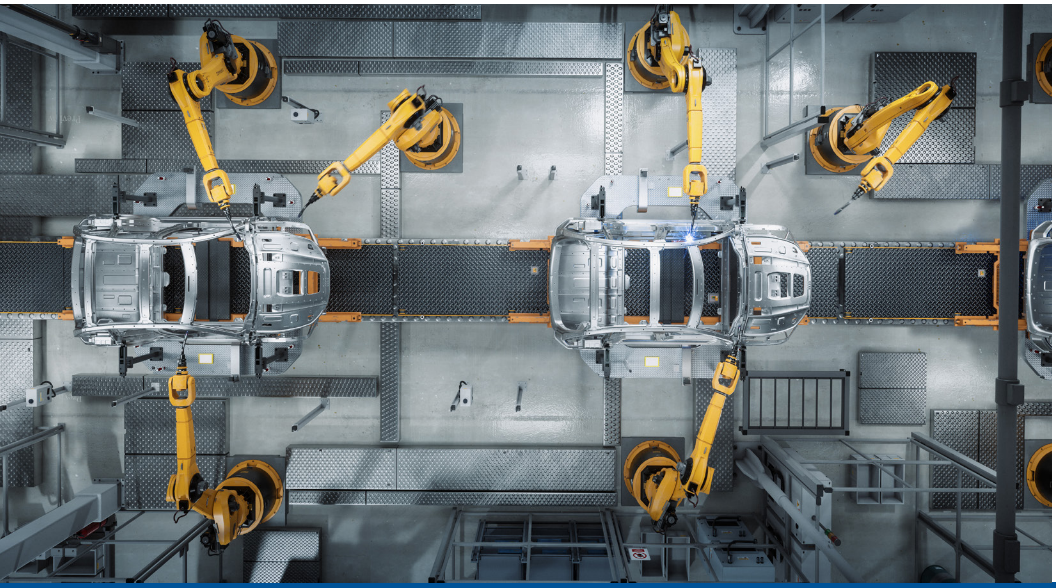
RISK LEVEL: ELEVATED

The U.S. new-vehicle market entered 2026 under meaningful pressure. Cox Automotive estimated the Q1 2026 annualized selling pace at approximately

15.5 million units; well below the 16-plus million SAAR the industry achieved in both 2024 and 2025. Cox is maintaining a full-year 2026 forecast of approximately 15.8 million units, representing roughly a 2.6 percent decline from 2025, with the loss of federal EV tax credits, elevated interest rates, and geopolitical-driven fuel cost uncertainty cited as the primary headwinds. J.D. Power and GlobalData pegged the March 2026 SAAR at 16.0 million. This is slightly above Cox's read for the month, but both organizations agree the market is operating below the prior year's inflated pace.

The Iran-driven fuel price surge adds a scenario variable that the market has not yet fully priced. Cox Automotive noted in its Q1 review that while higher fuel prices have historically accelerated EV consideration, rapid price increases can simultaneously suppress overall vehicle demand if affordability is already the dominant challenge; which it is in 2026. Despite rapidly increasing fuel prices, EV sales are forecast to be lower by 28 percent year-over-year in Q1, with hybrid demand from Toyota and Honda partially offsetting the decline. The net effect on dealer floor plan portfolios and OEM supplier receivables is directionally negative.

Lenders with dealer floor plan, OEM supplier, or EV-adjacent collateral should require updated NOLV guidance on all new credits and trigger reviews in existing facilities where inventory age or turn velocity shows deterioration.



2. RETAIL & CONSUMER PRODUCTS

RISK LEVEL: HIGH

Retail carries the highest BBC distortion risk of any sector in the current environment. Tariff-elevated cost basis could create artificial borrowing base headroom that is not correlated to realizable value. A borrower importing goods from China or sourcing through tariff-affected supply chains is booking landed costs that could be 25 to 50 percent higher than pre-tariff baselines. That cost inflation flows directly into the eligible inventory calculation on the BBC, assuming the BBC NOLV is calculated using landed cost. NOLV does not move in lockstep, however. Lenders who are not actively reconciling cost basis to current liquidation data are, in effect, advancing against headroom that does not exist in a stress scenario.

Discretionary and specialty formats remain most vulnerable. The pattern established in late 2024 and continuing into 2025 – when Party City, Joann, Forever 21, and Claire's each filed for bankruptcy protection – has not reversed. Consumer spending on non-essential goods remains under pressure from cumulative inflation, depleted savings, and elevated borrowing costs. Resale, off-price, and value retail continue to outperform as consumers trade down, making these formats a relative bright spot within the sector.

For every retail facility in a lender's portfolio, the core question is whether the BBC assumption set has been updated to account for these headwinds, and whether the most recent appraisal was conducted against current market conditions or pre-tariff inventory valuations.

3. CHEMICALS

RISK LEVEL: ELEVATED TO HIGH

The chemicals sector is navigating a rare and punishing combination: structural overcapacity entering a rationalization cycle at the same moment that tariff-driven feedstock cost volatility is compressing operating margins. Petrochemical-derived inputs such as resins, solvents, and specialty compounds, are exposed to the Iran conflict's commodity shock through both natural gas and crude oil price linkages. The fertilizer subset of the chemicals industry is particularly exposed, with nitrogen-based fertilizer costs directly tied to natural gas pricing, which has moved sharply with the broader energy shock.

Lenders with chemicals borrowers should stress-test cash flows under multiple tariff and demand scenarios rather than relying on a single base case. The rationalization cycle in segments facing Chinese overcapacity, where state-subsidized production has created a structural cost floor below what domestic producers can match, suggests that certain product categories face multi-year margin compression independent of the cyclical energy cost shock.

Covenant compliance triggers and liquidity ratios deserve close monitoring in this sector.

4. METALS & INDUSTRIALS

RISK LEVEL: ELEVATED

Aluminum and steel landed costs are well above long-term averages, and the cross-border tariff structure has become genuinely complex. The U.S. 25 percent Section 232 tariff on aluminum and steel, now applied universally with no country exemptions as of March 2025, has been met with Canada's reciprocal 25 percent duties on $29.8 billion of U.S. goods, including steel, aluminum, and automobiles. As Canada's government has made clear, those retaliatory tariffs on metals and autos remain in force with no near-term resolution in sight.

For lenders, the practical implication is that aluminum cost basis embedded in inventory positions reflects a significant premium to historical norms, and that premium is not reflected in liquidation values. A distributor or fabricator who purchased aluminum at post-tariff pricing is sitting on inventory that will yield less at NOLV than the BBC suggests. Hilco suggests lenders in this sector model both scenarios explicitly: what does this facility look like if tariffs remain sustained through the end of 2027, and what does it look like if a trade resolution materially lowers aluminum and steel input costs? Both outcomes carry risk: the former through margin compression, the latter potentially through inventory write-downs.

5. FOOD, AGRICULTURE & GROCERY

RISK LEVEL: ELEVATED TO HIGH
This sector sits at the direct intersection of all three macro forces described in Section I. Fertilizer costs, driven by petrochemical feedstock pricing linked to the Iran conflict's natural gas and crude oil shock, have surged. Fuel costs for farm equipment and food distribution logistics have risen sharply. Freight rates on import-dependent food supply chains are elevated. The cumulative effect is farm-level margin compression to near-zero in many commodity categories.

The behavioral signal that most concerns Hilco's appraisal teams is the deferral of equipment purchases. When farmers delay replacing or upgrading equipment, it is a leading indicator of cash flow stress, and it creates emerging weakness in equipment finance portfolios that may not yet be visible in standard portfolio reviews. U.S. total farm tractor sales for May 2026 fell 21.6 percent year-over-year and were down 12.4 percent on a year-to-date basis. Lenders serving agricultural equipment finance, farm operating credit, or food distribution should specifically review how much of their portfolio's underlying cash flow assumes input cost normalization that will not arrive within the projection horizon.

Grocery borrowers face a different but related pressure: consumer staples inflation has moderated from peak levels but remains structurally above pre-pandemic norms, and the Iran-driven energy shock is now flowing into food production costs in ways that will take multiple growing seasons to fully transmit through to retail shelf prices. Margin compression at the processor and distributor level is the near-term risk for ABL lenders in this space.

6. PULP, PAPER & FORESTRY

RISK LEVEL: MODERATE TO ELEVATED
Pulp, paper, and forestry occupy a different risk profile from the other sectors in this outlook — the primary pressure here is secular rather than cyclical. Digital substitution has been permanently reducing demand for certain paper grades, particularly uncoated freesheet used in office and commercial printing, for over a decade. That structural demand destruction does not reverse in an economic recovery.

The practical implication for lenders is that collateral assessment in this sector requires granular understanding of which product grades are being evaluated. Packaging and specialty papers continue to perform; commodity printing papers face structural headwinds. Equipment liquidation values in a paper mill reflect the specific machines and their alignment to current market demand, not a sector-level average. Lenders should ensure that their appraisal guidance distinguishes between secular and cyclical pressure at the product grade level, and that equipment valuations are current enough to reflect actual market conditions for specific asset types.

Canadian softwood lumber tariffs, which now stand at 10 percent, are in addition to the roughly 35% countervailing/antidumping duties. This brings the total tariff/duty rate to nearly 45% on shipments of softwood lumber from Canada to the U.S., adding an input cost dimension for forestry-linked borrowers with North American supply chains

7. Higher Education

RISK LEVEL: ELEVATED TO HIGH
The higher education sector has been under enrollment and financial stress for years, but 2026 is producing signal events that lenders with campus-adjacent exposure should not ignore. In April 2026, Hampshire College, a private liberal arts institution in Amherst, Massachusetts, announced it will close permanently at the end of the fall 2026 semester. According to Inside Higher Ed and multiple subsequent reports, the closure followed enrollment declining to 747 students in fall 2025 from 842 the prior year, the collapse of a planned land sale, and the school's inability to refinance $21 million in bond debt. Hampshire's endowment had fallen to approximately $24 to $25 million by fiscal 2025, down from $54 million in 2019.

Hampshire is not an isolated case. In 2026, at least eight schools, including Hampshire, have announced plans to close. Seven private nonprofit colleges closed in 2025, following 17 in 2024. Broader research from the sector suggests the "fundamentals facing higher ed are challenging" even as 2026's closure count remains relatively moderate so far. The financial pressures are real and structural: declining enrollment, particularly at small liberal arts and religiously-affiliated colleges is not primarily cyclical. Moreover, many of these schools have often had to defer maintenance of their facilities which will negatively impact disposition value.

The credit risk for ABL lenders is indirect but material. Commercial real estate lenders with campus property as collateral, student housing lenders, and ABL facilities secured by campus-adjacent retail or mixed-use assets should treat major institutional tenants, including universities, as anchor credit risks requiring active monitoring. An institution that loses accreditation or announces closure does not provide a graceful exit for a lender secured against the CRE that institution's presence was sustaining.

Two Added Threats Lenders Should Not Ignore

<u>Cybersecurity: Now a Direct Credit Risk</u>

Ransomware is now as much a credit problem as it is an IT issue. A ransomware attack on a borrower can impair receivables collection, freeze inventory processing systems, and interrupt debt service within hours. According to Verizon's 2025 Data Breach Investigations Report, ransomware appeared in 44 percent of all corporate breaches, with 88 percent of breaches at small and mid-sized businesses involving ransomware. GuidePoint Security reported a roughly 58 percent surge in claimed ransomware victims in 2025, with over 7,500 organizations listed on leak sites.

For ABL lenders, the specific vectors of damage are directly aligned with collateral structures. Ransomware attacks can freeze accounts receivable systems, preventing collection of the receivables that underpin a borrowing base. They can shut down warehouse management systems, making inventory impossible to ship or count. They can disable payment processing, interrupting both inflows from customers and debt service to lenders. In a covenant-light facility with a large revolver, the window between attack and a material credit impairment can be measured in days.

For facilities above material size thresholds, lenders should consider requiring borrowers to provide cyber hygiene attestations, incident response plans, and current cyber insurance confirmation as part of the annual review. For new facilities in high-exposure sectors such as retail, distribution and manufacturing, a cyber posture assessment should be required as part of pre-close diligence. Hilco Global Cyber Advisors can provide independent borrower cyber posture assessments as part of a comprehensive diligence package.

<u>Geopolitical Volatility: Ongoing Portfolio Monitoring</u>

Beyond the Iran conflict's direct impact on energy prices, three geopolitical dimensions warrant active portfolio consideration through the second half of 2026. The first is indirect portfolio exposure to the conflict in Iran via the second and third order effects of increasing energy crises and supply shocks. Sectors impacted include food distribution, agriculture, transportation and more. Roughly 40% of global urea trade and significant volumes of ammonia, sulfur, and phosphate move through the Strait, directly pressuring input costs for agricultural borrowers ahead of the Northern Hemisphere planting season. War-risk insurance premiums have risen from roughly 0.2% of ship value to as much as 1%, with some insurers withdrawing coverage altogether, meaning elevated freight costs represent a sustained margin pressure for any freight-dependent borrower in the portfolio.

The second dimension is the Canada-U.S. tariff standoff on metals and automobiles. The Canadian government has explicitly signaled that its retaliatory tariffs on steel, aluminum, and automobiles are long-term tools that will remain in place as the trade relationship is renegotiated through the USMCA review process. Lenders with metals and automotive supply chain borrowers who have Canada-origin supply dependencies should model sustained-tariff scenarios through at least mid-2027.

The third is China supply chain concentration risk across manufacturing borrowers. The shift of some production from China to Vietnam, Bangladesh, and other low-cost manufacturing countries has been underway for several years, but the speed of that transition varies enormously by product category and borrower sophistication. Many of these alternative manufacturing hubs remain within China's sphere of influence and are dependent on the nation for intermediate goods, machinery and raw materials. For example, more than 70% of Chinese exports to Vietnam consist of intermediate goods, and Vietnam's imports from China have continued to rise throughout implementation of "China +1" policies, meaning supply chain risk has often shifted geographically without being materially reduced. Lenders should assess concentration risk not just at the borrower level but across clusters of borrowers in

> “Being Asset Smarter in this environment means not accepting BBC at face value - it means understanding what the collateral behind it would actually yield in the market today.”

the same supply chain who may share common supplier dependencies.

Practical Considerations for Lenders

Tier Your Portfolio

Not every borrower in your portfolio requires the same level of engagement in the current environment. A disciplined portfolio triage based on sector exposure, BBC construction, and collateral type should produce three buckets:

- Green (Healthy): Maintain standard appraisal cadence. Proactively share sector intelligence with borrowers. These are relationships to deepen through demonstrated value-add, not relationships to manage for minimum compliance.
- Yellow (Watchlist): Increase appraisal frequency. Review BBC assumptions against current cost-to-NOLV ratios. Engage borrowers on contingency planning — not as a threat, but as a collaborative exercise that surfaces issues before they become defaults. Semi-annual appraisals should be the minimum for stressed retailers, chemicals companies, and metals borrowers.
- Red (Stressed/Distressed): Trigger immediate field exam. Require updated NOLV on any material change in inventory composition, cost basis, or market conditions. Consider covenant amendments proactively. For distressed credits, Hilco Turnaround Consulting, Investment Banking, and Capital Solutions can be engaged as a coordinated response.

Ask Your Borrowers the Right Questions

The value of these questions is what the answers reveal about how closely a management team is tracking the exposures that matter most to you as a lender:

- To retailers: How has tariff-inflated cost basis changed your cost-to-NOLV ratio on current inventory positions? When was your most recent third-party NOLV appraisal conducted?
- To automotive suppliers: What share of revenue is tied to OEMs with direct or indirect exposure to Iran oil price sensitivity? Have you modeled margin impact under $90-per-barrel and $110-per-barrel oil scenarios?
- To chemical companies: Do your customer contracts allow tariff pass-through? What percentage of your feedstock input costs are directly linked to petrochemical pricing?
- To food and agriculture borrowers: Can you sustain current operations if input cost pressure – fertilizer, fuel, freight – persists at current levels for 12 to 24 months? What is your equipment replacement cycle, and have you deferred any planned purchases?
- To metals borrowers: Have you modeled both tariff-relief and sustained-tariff cost scenarios? What is your current inventory turn velocity versus the same period last year, and what does that imply about your BBC exposure?

Appraisal Cadence Adjustments

The current environment makes appraisal frequency a risk management tool, not an administrative requirement. Hilco Global suggests the following cadence guidelines for the second half of 2026:

- Stressed retailers, chemical, and metals borrowers: semi-annual full appraisals at minimum. The tariff-driven cost basis shift is not static — it requires periodic revalidation against current market data.
- Distressed credits: quarterly field exams with NOLV updates triggered by any material change in inventory composition, pricing, or market conditions. The window between BBC distortion and a real credit event is narrower than it has been in years.
- New credits in tariff-exposed sectors: require a current appraisal — conducted after the applicable tariff regime took effect — as a condition of closing. A pre-close estimate based on pre-tariff data is not an appropriate substitute.

For lenders that do not currently have a systematic process for distinguishing between current and pre-tariff appraisal vintages in their portfolio, that process should be implemented before Q3 borrowing base reporting begins.

Closing Thoughts: The Intelligence Advantage

The second half of 2026 will reward lenders who treat their portfolios as active intelligence problems rather than passive collateral management exercises. The three forces described in this outlook (tariffs, the Iran commodity shock, and the migrating bankruptcy cycle) are not temporary. They are structural features of the operating environment for the foreseeable future. The lenders who perform best will be those who get ahead of the BBC distortion, identify the hidden Hormuz exposure in their non-energy portfolios, recognize that the bankruptcy wave has migrated sectors, and use the current period of relative stability before a distressed event forces action, to update their appraisal vintages and have the hard conversations with their borrowers.

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