# Tariff Whiplash: What Soaring Uncertainty Means for Commercial Banks

The whirlwind in global trade policy negotiations has created significant economic uncertainty and left businesses struggling to plan their next moves. What is certain is that much is at stake for commercial banks, whose fortunes are tied to their customers and the economy as a whole. In recent earnings calls, banks were divided on their projected impacts of the tariffs, with some reducing their 2025 guidance and others holding steady. With a universal tariff rate of 10% – and the potential for reciprocal tariffs – the fallout will impact all banks and lending sectors to some degree. The latest C&I and CRE risk migration results from the Credit Risk Navigator dashboard reveal that nearly half of the borrowers risk rated High Pass a year earlier have been downgraded, with a large portion of the downgrades moving more than two risk grades. This trend is representative of the pattern typically preceding economic recessions and signals challenges for commercial lenders in the months ahead.

C&I Nonperforming Trend by Selected Industries

### C&I Change in Nonperforming Ratio: Dec 2024 to Mar 2025
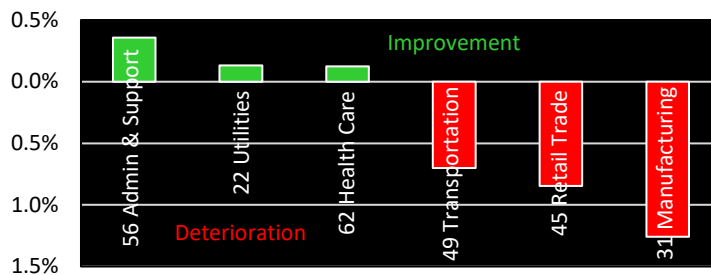
On the left we show the change in the nonperforming ratio (90+ days past due and nonaccruals) for a selected group of industries. The change is calculated by subtracting the nonperforming ratio as of March 2025 from the December 2024 ratio. The industries shown in red are the three industries with the largest negative change, or performance deterioration. The industries shown in green are the three industries with the largest positive change, or performance improvement. The sector with the largest overall change is 31 Manufacturing. Within that sector, we observed increased levels of nonperforming loans for Beverage (soft drinks and distilleries) and Food Manufacturing (frozen foods).

The chart on the right shows the change in nonperforming loans (i.e., December 2024 minus March 2025) but this time for the eight major CRE property types. Office is the property type with the largest overall change, almost 40 bps. This deterioration is surprising given recent conversations with industry experts and full return to office notices from several large corporations, an indication that the decline in office problems had reached their peak. However, it appears that layoffs in both the public and private sectors and the end of some "extend and pretend" provisions are offsetting the smaller trend of full RTO policies. Lodging has also deteriorated as consumer confidence and inflationary pressures are causing some consumers to rethink vacation plans.
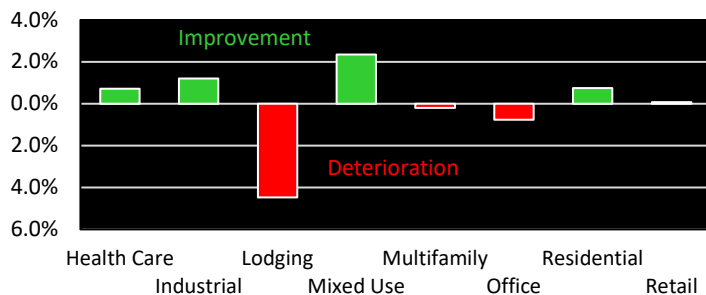
CRE Nonperforming Trend by Major Property Type

CRE Change in Nonperforming Ratio: Dec 2024 to Mar 2025
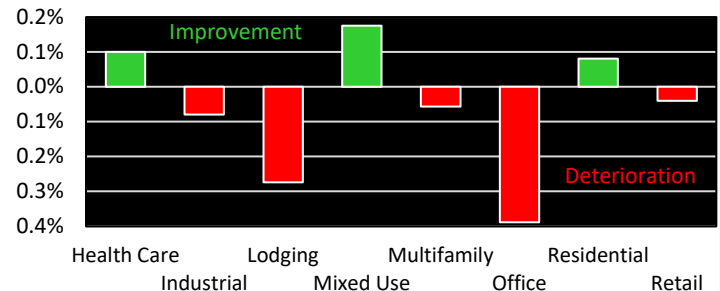
CRE Distressed Trend by Major Property Type

CRE Change in Distressed Ratio: Dec 2024 to Mar 2025

Here, we illustrate the Distressed loan ratios for each of the eight major property types in the CRE portfolio (December 2024 minus March 2025). We combine the balances from borrowers risk rated Low Pass with the balances from borrowers risk rated Criticized to create the Distressed metric. This group exhibits weaker balance sheets and financial prospects, and in an economic downturn are more likely to experience cash flow problems. Similar to what we saw with the CRE nonperforming profiles, the extreme negative profile for Lodging is somewhat surprising as the post-COVID vacancy issues had appeared to be largely behind us.