

Environmental Services Market Update

Industry Specialty Team | Waste & Environmental Services | April 2025

Highlights

- The current administration has indicated notable changes to various federal policies, with an emphasis on global trade and its impact on domestic manufacturing
- Outlook for the U.S. economy remains uncertain, highlighted by declining consumer and business sentiment, and primarily driven by continuous shifts and pauses in regulations
- Infrastructure-related construction has grown rapidly over the last 3 years driven by public and private initiatives to improve aging infrastructure and expand industrial capabilities
- Large environmental services companies are seeing increased interest from sponsors due to the industries relative stability in the industry and growing demand for environmental solutions and related products

2025 Updates on U.S. Policies

Tariffs

- The federal government started 2025 with an emphasis on making changes to U.S. trade policy. While lawmakers have primarily targeted imports from China, the U.S. has now imposed a 10% baseline tariff on imports from most countries. Simultaneously, broader “reciprocal” tariffs were to take effect, however a 90-day pause was announced on April 9th. Beyond country-specific duties, tariffs on various products and commodities have been implemented, with a specific focus on steel and aluminum being especially targeted. With continuous changes in trade policy, further uncertainty persists for the U.S. economy.

Current Trade Actions for Top U.S. Imports⁽¹⁾

- **Global:** 10% baseline on all imports
- **China:** 145% on most imports, exemption for several goods especially electronics and specific machinery
- **Mexico & Canada:** exemption for imports that satisfy USMCA rules⁽²⁾, 25% otherwise
- **Steel and aluminum:** 25% globally

As of April 14th, the current administration has increased tariffs on China and certain commodities, is considering other goods for increased tariffs, and assessing trade policy with several countries. Additional changes are expected as the deadline for the 90-day pause on “reciprocal” tariffs approaches.

| Country | 2024 Imports | % of U.S. Imports |
|---------|--------------|-------------------|
| Mexico | \$505.9B | 15.5% |
| China | \$438.9B | 13.4% |
| Canada | \$412.7B | 12.6% |

Note: Mexico, China, and Canada are the top three U.S. trade partners

Environmental (De)regulation

- On March 12th, the EPA announced plans to deregulate 31 actions (i.e., pollution control incentives, vehicle emission standards, etc.), stating goals to reduce compliance costs and increase economic activity. These actions impact a broad range of industries, specially manufacturing and energy, as rolling back these regulations will require a prolonged process through several government agencies.
- While the federal government pursues deregulation, several states continue to pursue initiatives related to Extended Producer Responsibilities (“EPR”), renewable fuel standards and PFAS⁽³⁾ regulations. State-level guidelines are likely to continue as previously stated, despite shifts in federal programs.

Federal Infrastructure Funding

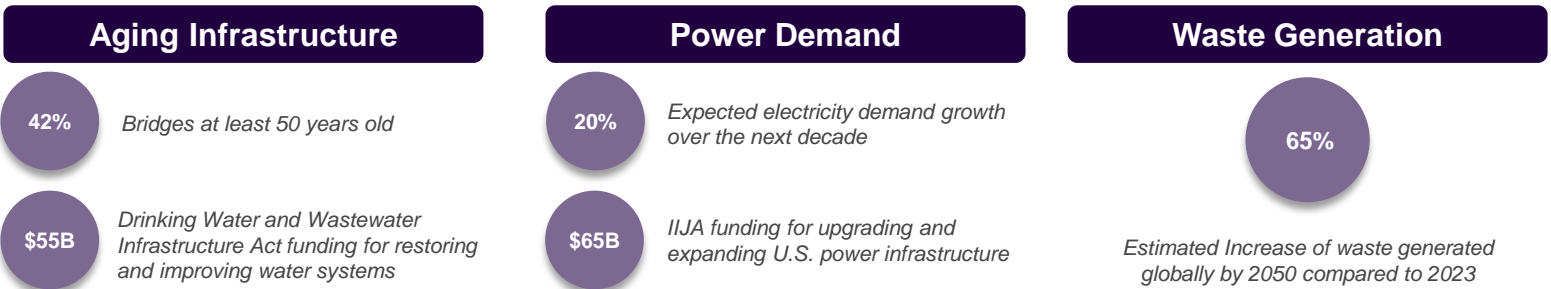
- The “Unleashing American Energy” executive order, mandated on Jan 20th, required an immediate pause and review of funding distribution through the Infrastructure Investments and Jobs Act (“IIJA”) and the Inflation Reduction Act (“IRA”). As of mid-February, several funds have been unfrozen, but a significant portion remain paused as legislators assess funding guidelines.

| IIJA ⁽⁴⁾ (As of Dec 2024) | | | IRA (As of Dec 2024) | | |
|--------------------------------------|-----------|---------|----------------------|-----------|---------|
| \$1.2T | ~60% | ~35% | \$485B | ~80% | ~40% |
| Budget | Allocated | Outlays | Budget | Allocated | Outlays |

- Government officials have indicated plans to reform the IRA, especially around provisions related to tax credits for low-carbon energy generation. Legislators believe these credits are a deterrent for the U.S. to achieve energy independence and an inefficient use of funds. Estimates state energy subsidies will reach a minimum of \$1 trillion over the next 10 years as currently outlined.

Industry Factors & Considerations

Demand for environmental and engineering services has increased in support of growth for essential and proactive infrastructure investments



(1) As of 4/11/2025
(2) Under the current USMCA trade agreement, goods originating in North America can qualify for reduced or zero tariffs, if it's wholly obtained or produced in the region, or if it's produced using non-originating materials that meet specific rules outlined in Annex 4-B
(3) Per- and polyfluoroalkyl substances (PFAS)
(4) Estimates based on publicly disclosed funding reports
Sources: Bloomberg, Capital IQ, London Mercantile Exchange, AISI, Kearney, whitehouse.gov, Census Bureau, USA Trade Online, U.S. Trade Representative, Utility Dive, Waste Dive, IDTechEx, Capstone Partners, USAspending.gov
Data updated as of 4/11/2025

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Key Macroeconomic Factors

| | Latest Date | Current | Previous Month | Previous Year |
|---------------------------|-------------|---------|----------------|---------------|
| Inflation | | | | |
| Core CPI | Mar-2025 | 2.8% | 3.1% | 3.8% |
| Core PCE | Feb-2025 | 2.8% | 2.6% | 2.9% |
| Employment | | | | |
| Unemployment Rate | Mar-2025 | 4.2% | 4.1% | 3.8% |
| Labor Participation | Mar-2025 | 62.5% | 62.4% | 62.7% |
| Consumer Sentiment | | | | |
| UoM Sentiment Index | Apr-2025 | 50.8 | 57.0 | 77.2 |
| Consumer Confidence Index | Mar-2025 | 92.9 | 98.3 | 104.7 |

Core CPI declined in March while Core PCE increased in February. The inflation outlook remains unclear as trade policy shifts

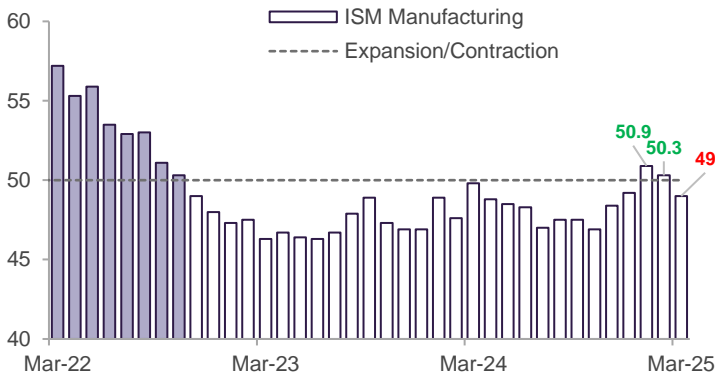
Unemployment rates are rising nominally, but labor participation rates remain below pre-COVID levels and are trending downward

Consumer confidence indicators are rapidly declining, with the Conference Board's Consumer Confidence Index recently falling to a 12-year low

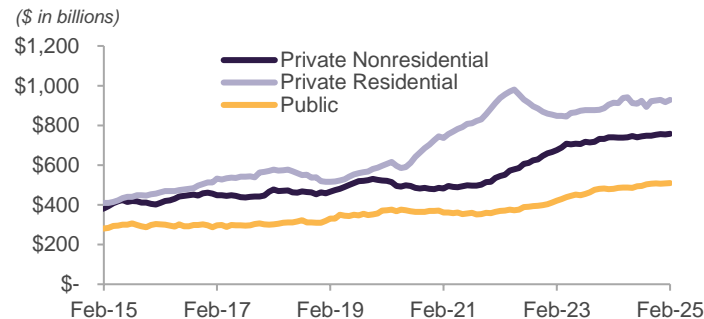
Manufacturing & Infrastructure Activity

- U.S. manufacturing activity appears to have quickly regressed after positive momentum in the first two months of 2025. Ongoing outlook remains uncertain due to volatility in policy changes, particularly with tariffs and federal funding pauses, which have led businesses to reconsider short-term initiatives. The underlying demand to increase domestic manufacturing is favorable and activity should increase once there's clarity on federal policies.
- Private and public investments to improve deteriorating infrastructure, coupled with growth in evolving industries (i.e., data centers and alternative energy), has led to strong growth in infrastructure-related construction spending. Spending on power-related construction has shown a 3-year compounded growth rate of 9%, while water and wastewater construction has increased over 15% over the same time frame.

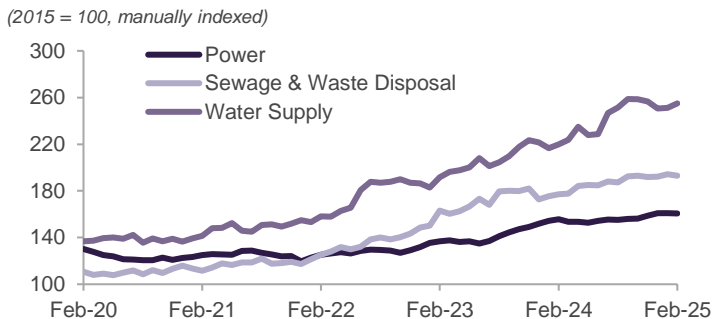
ISM PMI Index



Construction Spending



Infrastructure Construction Spending



Notable Capital Markets Activity In Environmental Services



January 2025

GFL Environmental has agreed to sell a majority stake of its environmental services business to funds managed by Apollo and BC Partners for \$8.0B. \$3.75B of the proceeds will be used to pay down existing debt. The asset generated slightly above \$340MM EBITDA in 2024.



March 2025

Toyota's, Toyota Tsusho ("TTC"), has announced the acquisition of metals recycler, Radius Recycling, for ~\$900MM. TTC has noted increasing focus on using recycled material in production, while the deal coincides with continued uncertainty for tariffs on metals. The transaction is expected to close in 3Q.

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Sources: Bloomberg, Capital IQ, London Mercantile Exchange, AISI, Kearney, whitehouse.gov, Census Bureau, USA Trade Online, Utility Dive, Waste Dive, IDTechEx, Capstone Partners, U.S. Department of the Treasury Office of Tax Analysis, CATO Institute, The Tax Foundation

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