Transatlantic restructuring trends and what to expect in 2025

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McDermott Will & Emery partners **Felicia Perlman** in Chicago, **Aymen Mahmoud** and **Mark Fennessy** in London, **Timothée Gagnepain** in Paris and **Björn Biehl** in Munich discuss restructurings trends that have emerged around the world in 2024 and predict a challenging landscape for 2025.

In 2024, mature Western economies, with some regional differences, finally appeared to be emerging from the inflationary, high-interest-rate environment that has characterised the last three years. Economies benefitted from a gradual reduction in interest rates and a low-growth environment. Fears of a recession and the risk of a sharp increase in restructurings caused by a “wall of debt” largely abated. While there is hope this will continue into 2025, there have been some contraindicators. The possibility of a trade war over tariffs is likely to drive up global input costs. Policies aimed at the workforce are thought to be inflationary, though interest rate cuts tend to track unemployment data closely. Weaker economies may struggle to compete as access to markets in both the United States and the Peoples Republic of China (PRC) decreases. In the United Kingdom, growth may be impacted by a sharp taxation increase to meet public investment, particularly affecting employers. Germany continues to suffer from high energy costs and an automotive industry plagued by sector-specific issues. Market confidence remains generally fragile thanks to geopolitical concerns driven by conflicts in Ukraine and the Middle East, as well as wider political uncertainty in several EU Member States.

All of this takes place in the context of ongoing technology innovation and its impact on workplace practices, which, together with environmental regulation, is having a material impact on the demand for retail and office space. Meanwhile, credit markets continue to evolve with the growth of private credit funds and the availability of covenant-lite or loose terms in leveraged finance.

Most major legislative changes in the restructuring sector have occurred in the European Union and the UK, with implementation in 2020/2021 of the EU Directive on Restructuring and Insolvency (EUR 2019/1023). Comparable processes have been introduced in emerging markets with similar timelines. They place a greater emphasis on compositions, moratoria, and debtor-in-possession processes or, in the context of liquidation, greater efficiency. The increasing use of such procedures during the past year has provided practice, precedent, and jurisprudence, which we consider below in the context of the US, German, French, and UK economies.

The US economy has been plagued by geopolitical uncertainty and sluggish global demand, in addition to domestic concerns around inflation and the political climate. Restructuring activity, both in- and out-of-court, has remained active during 2024, with a significant increase in year-over-year Chapter 11 filings. The trend is expected to continue into 2025. Earlier interest rate hikes have slowed the economy and, while the Federal Reserve lowered interest rates in 2024, it recently said it does not see a need to cut rates more at this time. While there are challenges across the US economy, certain industries are expected to face particular stress in 2025. Commercial real estate will continue to be impacted by higher interest rates, increasing the cost of borrowing, along with lower valuations, resulting, in part, from the increase in remote work following the covid-19 pandemic. The healthcare industry will continue to face solvency challenges as a result of increases in supply and labour costs and the failure of reimbursements to keep up with these costs. The automotive industry also continues to face challenges resulting from supply chain disruption, along with a shift to electric vehicles and the resulting changes to the production process. On a positive note, US consumer spending slowed moderately in 2024 but is expected to be strong in 2025, which may relieve some of the stress on the economy. Further, while there are still inflationary concerns, the rate of inflation seems to have slowed.

The German economy has remained sluggish in 2024, with projected negative growth. The automotive industry and manufacturing in general have faced pressures from Germany's stagnating economy, political uncertainties, and international political crises, as well as potential trade tariffs between the EU, the PRC, and the US. Companies are being forced to reconsider production processes and business models as they deal with disrupted supply chains, high inflation (e.g. high interest rates and energy costs), and the transition to electric vehicles. Key restructuring measures include company sales, production relocations, and workforce reductions.

There is continued, if modest, use of the relatively new Law on the Stabilization and Restructuring of Companies (StaRUG), which provides companies with a preventive solution to avoid insolvency. Introduced in 2021, it allows businesses to independently restructure early – under creditor protection – without formal insolvency proceedings. The procedure is particularly relevant for small- and medium-sized enterprises, offering a discreet way to address financial issues.

Restructuring cases are expected to increase in 2025, particularly driven by high energy costs that will affect chemicals, steel, and other heavy industries first but will have knock-on effects for the automotive industry. Political uncertainty in Germany ahead of the 2025 federal elections is likely to push companies to implement restructuring measures early to mitigate regulatory and tax risks. The results of the 2024 US presidential election may also impact global trade, especially the German automotive industry. Restructuring in Germany will continue to be shaped by economic, geopolitical, and technological challenges. Therefore, companies will increasingly turn to preventive solutions like the StaRUG as they adapt to ongoing uncertainty.

In France, restructuring activities are in full swing amid a turbulent economic and geopolitical climate. The stress factors remain largely unchanged from 2023: rampant inflation, high interest rates, sluggish access to financing, and ongoing geopolitical conflicts. However, these challenges are now compounded by a new, multifaceted crisis – often described as a VUCA (volatility, uncertainty, complexity, ambiguity) environment – that is expected to persist for the foreseeable future. France's unique economic conditions add another layer of complexity. In addition to the inflationary pressures experienced over the past three years, there has been a marked slowdown in demand. While interest rates are gradually easing, the pace remains slow and insufficient. There is an increase in corporate bankruptcies, particularly among companies struggling to repay state-guaranteed loans since March 2022. The stagnation of the French economy, characterised by reduced household consumption and an uncertain business climate, has fuelled concerns about a resurgence of restructuring activities. The social impact, especially the rise in workforce reduction plans, now tops the list of restructuring measures. The weight of debt, combined with adverse market conditions, is accelerating the need for strategic changes within companies.

Predicting the landscape for 2025 is challenging in such a volatile and uncertain context. However, certain sectors will likely face a disproportionate number of restructuring cases, including pharmaceuticals, senior healthcare, and emerging sectors such as tech and real estate. On the other hand, sectors like life sciences, which continue to experience growth, and tourism/travel, which underwent significant restructuring during covid-19, have been relatively resilient. Consumer goods companies, while initially able to pass on inflation costs to customers, are now facing additional pressure from the recent political reshuffle and the upcoming tax reforms that are expected to further impact the industry.

The UK economy, following a short recession in the second half of 2023, returned to slow growth in 2024. With the election of a new government in July, there has been a significant increase in taxes on businesses and changes in the fiscal rules relating to public borrowing to enable greater investment in public services and infrastructure, which may spur economic growth, at least in the short term. As with the US, the corporate lending landscape has continued to evolve during 2024, characterised by a growth of private credit that is likely to continue. The drivers include continued demand for credit oversupply, fewer regulatory constraints than on bank lending, and the continued growth of private equity. Default rates on private credit facilities are small. A combination of private credit and a widespread use of term B loans and covenant-lite transactions in leveraged finance, as well as the prevalence of collateralised loan obligations, have contributed to a reluctance to use formal restructuring procedures except where business failure is unavoidable or there is a clear pathway to a financial restructuring that necessitates it. Nevertheless, the use of restructuring plans, including by non-UK companies (with English law finance or another nexus) continues, sometimes in competition with the possibility of proceedings in other jurisdictions, with the boundaries being tested around the absence of an equivalent of the absolute priority rule in the US Bankruptcy Code.

In conclusion, while there are grounds for optimism, particularly with continued technological innovation, the global economy still has several critical challenges in the form of regional conflicts, potential trade wars, and sectorial decline, which may undermine the prospects for growth in the coming year.

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