



What a Crazy Year! 2025 Could Be Crazier

Perhaps no event this year captured the triumph of spectacle over substance in these times more than the Netflix streamed boxing match between Jake Paul and Mike Tyson — pitting an unranked boxer and social media star against a former heavyweight world champion easily old enough to be his father and who recently combatted a serious health issue. Consisting of just eight two-minute rounds (instead of 10 or 12 three-minute rounds) and puffy 14-ounce gloves, the fight was destined to be the dud that it was long before the fighters entered the ring.

For true boxing fans, it was a dreadfully dull match that was neither a skillful display of boxing nor an entertaining event. It was boring and sad and mostly forgotten by viewers the next morning. Nonetheless, Netflix reported that more than 60 million member households tuned in for it — about 20% of its subscriber base — while the live gate of 72,000 spectators grossed nearly \$20 million, the largest gross ever for a boxing match outside of Las Vegas. It also drew a record number of online wagers for a combat sports event. This fight was a perfect symbol of the times. With meme stocks and meme coins still finding plenty of buyers in financial markets, this was a meme sports event, a much-hyped money grab pretending to be something it wasn't and hoping nobody would notice or care. As exhausted Americans yearn for any distraction following a long and grueling presidential campaign season, maybe a phony boxing bout was exactly what we deserved.

Another Election Post-Mortem

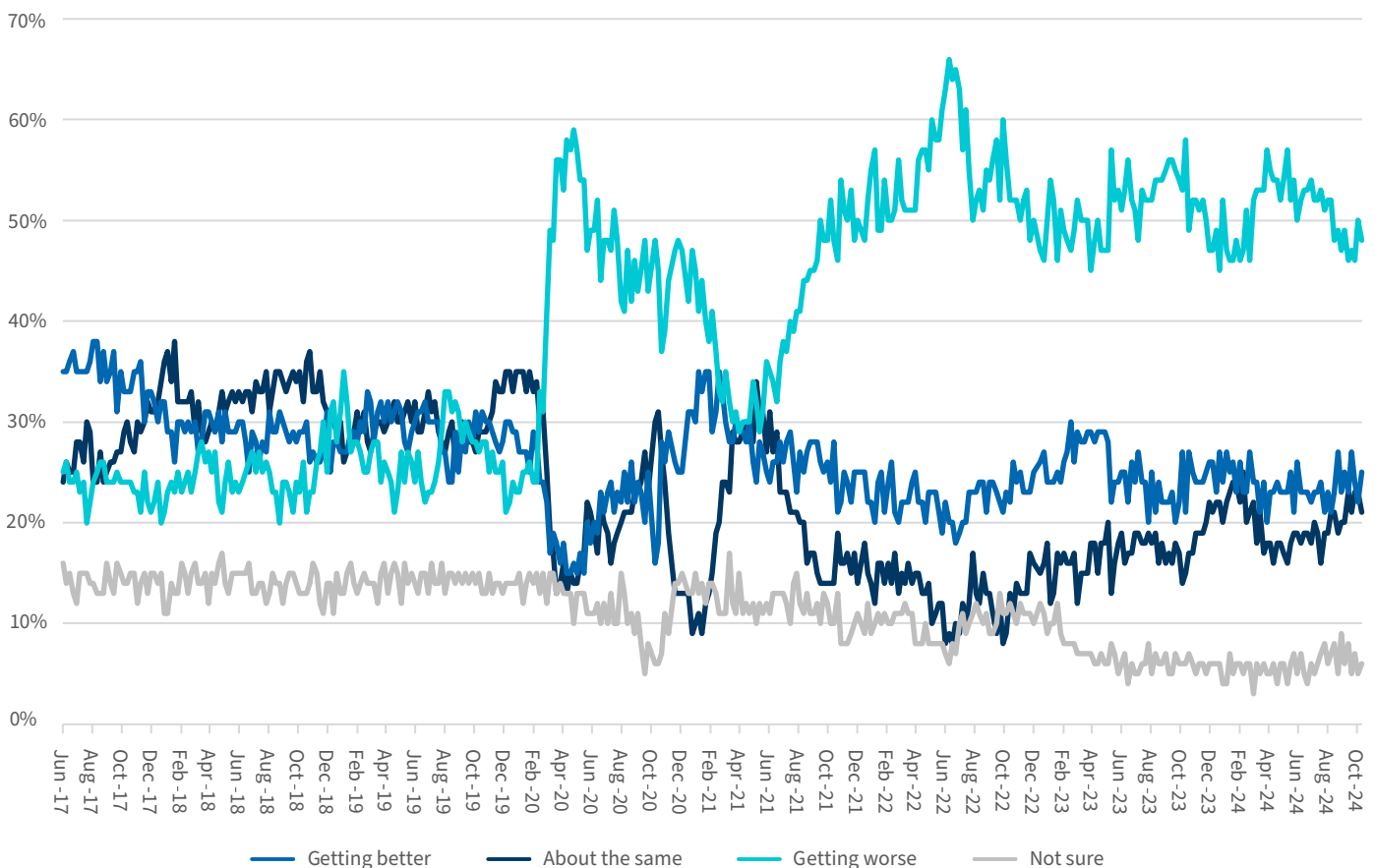
The recent presidential campaign season was also an exhibition of spectacle over substance, as political campaigns usually are. Most Americans never had much patience for policy details behind big campaign promises, so why bother? But this election season was a standout for its brevity on policy specifics from both sides, with huge celebrity appearances and endorsements on the losing side, and a barrage of negativity about the state of our country and ominous messaging from the winning side. Negative campaigning in bareknuckle political fights is nothing new, but the longstanding tradition of respectful civility across party lines was trampled this election cycle, and arguably reflected the national mood.

It turned out that it was “the economy, stupid”, that primarily determined the outcome of this election, but James Carville’s memorable campaign advice in 1992 went unheeded by the Biden/Harris camp, who insisted on touting the Biden record of economic achievement and the strength of the domestic economy even as a near majority of Americans consistently told pollsters since 2022 that they were not seeing its benefits (**Figure 1**). With every talking point mention of our economy being “the envy of the world,” near record low unemployment, all-time highs in financial markets and subsiding inflation, the Biden/Harris campaign effectively downplayed or overlooked the financial hardships of nearly half the electorate, who weren’t having it. The Harris campaign’s theme of “joy” badly misread the mood in much of the country at a time when some more Clintonian “I feel your pain” rhetoric was called for. It was as if the Biden/Harris campaign didn’t fully believe that so many Americans were still struggling economically despite the consistent negativity of polling data on the topic. The notion that many millions of likely voters were just speaking their harsh truth on the economy

was discounted, and the messaging from the Harris campaign never seemed to directly address the entirety of this beleaguered voting bloc, just carefully curated slivers of it, such as union workers. Instead, the campaign preferred to play up its many economic achievements rather than acknowledge its shortcomings. Saying “there’s still more work to do” didn’t cut it with many voters.

What the Harris campaign lost sight of was that both these things can be true: the U.S. economy is performing remarkably well, and virtually all its gains are flowing to only about half the country, with little indication that this distortion will change anytime soon without disruption to the status quo. And you cannot win a presidential election by alienating so many voters who feel fearful, neglected or spoken down to. Huge divides on social and cultural issues certainly impacted the election as well, but some of these issues would have mattered less to voters if more of them were doing better economically.

Figure 1: Is the U.S. Economy Getting Better or Worse?



Source: YouGov.com

There is lots of scattered evidence that a sizeable percentage of households in this country live in poverty, near-poverty, or live from paycheck to paycheck. More than 40% of households carried an unpaid credit card balance at least some of the time (18%) or most/all of the time (23%), according to Fed survey data, implying insufficient income or savings to pay off normal monthly purchases. Moreover, 46% of Americans have insufficient savings/funds to cover three months of expenses in the event of job loss or emergency, according to the same Fed survey, while 67% would be unable to cover these expenses by borrowing money or selling assets. The latest annual Consumer Expenditure Survey from the U.S. Department of Labor indicated that the bottom 50% of households by income deciles spend more than they earn. None of these are recent developments; it has been this way for years, though the recent bout of inflation since 2022 has likely pushed more Americans out of middle-class comfort. Rather, this large contingent mostly has been ignored or taken for granted by the political class for years, and they responded in-kind by becoming politically apathetic, disengaged from politics and voting participation (“low-propensity voters” is the political term) until 2016 when, ironically, Bernie Sanders and Donald Trump both poked the hornets’ nest. In the 2024 election, candidate Trump hit it like a piñata.

President-elect Trump consistently has had a better rapport with this left-behind cohort than traditional Democrats, speaking to them directly, acknowledging their struggles, amping up the pessimism, blaming their woes on “them” (fill in the blank as you please), and promising to “fix it” with few specifics. In the process he has activated many millions of downtrodden Americans who were neglected by the political punditry, getting them to vote, engage in politics and become visible. There are reasons to be skeptical that President-elect Trump’s unconventional economic policies will benefit these MAGA loyalists (or the country overall) or that addressing extreme income and wealth disparity is a high priority to him, but a near majority of voters have decided they are willing to take that chance.

The Trump Impact on the Economy

It is a curiosity why so many working professionals on Wall Street and in Silicon Valley, most of whom have done exceedingly well during the Biden administration years and who know the domestic economy is in much better shape than Republicans claim it is, were willing to jeopardize that continuing prosperity and vote for an unpredictable presidential candidate with unconventional economic

policies in mind. Some of it is personality type-driven, but many just don’t believe President-elect Trump will push for the more extreme policy positions he made on the campaign trail, especially as it pertains to the economy. They look back at his first term and recall various Trump policy ideas that never happened. (Remember the Border-Adjusted Corporate Tax proposal?) The thinking goes that extreme policy ideas, such as punitive tariffs, are just tough talk meant to get counterparties to the bargaining table, or such proposals will get scotched by close advisors watching out for the interests of big business.

We’re not so sure that such confidence in his restraint is warranted. Certain core Trump campaign proposals, namely mass deportation and tariffs, were bedrock promises to his constituents that can’t easily be broken without damaging his credibility with his base. So they likely will happen, but to what extent? Really, it all comes down to that.

When you start turning lots of knobs on a machine that is working, even if sub-optimally, it seems more likely that something will go wrong than right — and that might be the best analogy for the U.S. economy going into 2025. It is breakable with the wrong turn of just a few knobs. Given the range of unconventional policy ideas expressed to date, there seems to be more downside risk than upside potential if they are implemented, and it’s doubtful that those advocating for these ideas have fully considered the second- and third-order effects of these policies:

— **Tariffs:** Tariffs are inflationary by definition. Full stop. Ultimately, the cost of tariffs is borne by U.S. consumers. Whether tariffs are targeted or across the board will matter greatly, and that isn’t clear yet. Tariffs of 60% on all Chinese goods, if serious at all, would be very detrimental to U.S. consumption and economic growth, and those goods could not be replaced by domestic supply. It could be recession-inducing. Much will also depend on whether President-elect Trump can implement tariffs by executive action, which would bypass Congress, speeding up the process and making this a 2025 issue. Moreover, there has been little discussion about the potential for retaliatory tariffs by other nations and their impact on U.S. exports. There is a long history of trade wars ending badly for all involved, and we are not sure why this time would be different. Many believe Trump will go smaller on tariffs than advertised, but there is another consideration: Tariff revenue will be needed to offset federal revenue loss from any new tax cuts and/or from making tax cuts from the 2017 Tax Cuts and Jobs Act permanent, which Trump

said he intends to do. Some careful needle-threading will be required here to avoid tariffs harming the U.S. economy or triggering trade wars in 2025 and beyond while also living up to a core campaign promise.

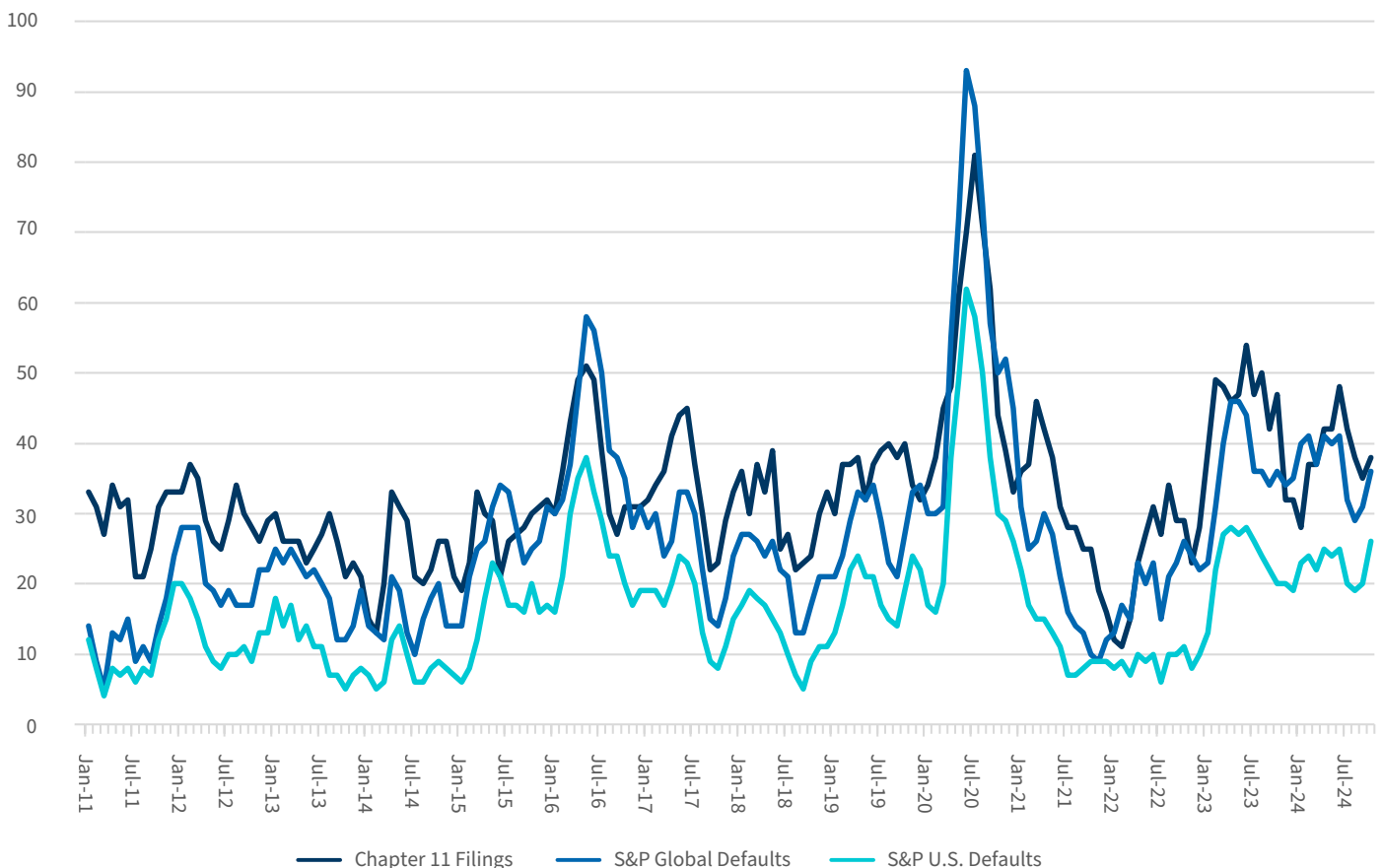
- **Mass Deportation of Illegal Migrants:** The situation at our southern border must be addressed; our immigration system is broken and our asylum system is being abused, but the dirty little secret everybody knows is that illegal migrants do much of the hard work in this country. Anything resembling mass deportations will impact everything from farming to food production, hospitality, and construction. Listen to local politicians and business owners in areas where migrant working populations are sizeable, and most will tell you that migrants aren't taking jobs from others and that most of these jobs previously went unfilled. Should millions of illegal migrants be deported — however one feels about that topic — be assured that large pockets of the economy will be impacted by labor shortages and supply disruptions. For consumers, that ultimately means higher inflation on essential goods and services. Mass deportations cannot occur quickly given the enormity and logistical requirements of such an undertaking, so their disruptive effects on the U.S. economy could endure for several years if this really happens at a number in the millions. The cost of implementing a mass deportation program is enormous, with one estimate at \$88 billion annually to deport one million people and a \$1.7 trillion hit to GDP. Other considerations aside, mass deportations in the millions seem unlikely given its disruptive effect on the economy, but that was another core campaign promise.
- **Budget Deficits:** As we mentioned last month, U.S. budget deficits are poised to widen further in 2025 and beyond, and that is even more true under an incoming Trump administration bent on more tax cuts for corporations and individuals. President Trump never had much regard for taming budget deficits in his first term, with deficits steadily rising each year of his presidency before hitting a then-record \$984 billion in 2019, or 4.6% of GDP in the last pre-COVID year. There is little reason to believe that suddenly it has become a high priority for him. Before anyone gets too excited over the Department of Government Efficiency (DOGE) commission's potential to massively reduce federal spending, it is worth noting that whatever its recommendations may be, most of them would likely require Congressional approval. And the President's ability to unilaterally enact huge spending cuts recommended by a private advisory group via executive action arguably is not constitutionally permissible, circumvents Congress's "power of the purse" charge, and almost certainly would be challenged in court before implementation could happen. Moreover, the amount of discretionary spending that reasonably could be cut without disrupting the normal functioning of the federal government is much less than the DOGE commission's preliminary target — not even close to it. Treasury note yields have ignored 75 bps of rate cuts to Fed Funds since September in anticipation of swelling federal deficits and bloating national debt in the next few years.
- **Interest Rates:** Interest rates on Treasury securities started moving higher since early autumn as financial markets began to anticipate a Trump election win, with the implication being that federal borrowing needs will accelerate under a Trump presidency. It certainly was true the first time around. Should inflation tick higher and the Federal Reserve tap the brakes on expected rate cuts for any reason, there will be a confrontation between Fed Chair Powell and President-elect Trump, who almost certainly wants interest rates to come down pronto regardless of any economic circumstances that would weigh against it. Chair Powell has already said he will serve out his term, which expires in 2026, and will not be pressured to resign. A showdown seems inevitable unless Fed policy yields to the President's whims, which it arguably did in 2019. Many market interest rates, such as mortgage rates and corporate bonds, key off of the 10-year Treasury rate, and the impact already is being felt in the housing market, where mortgage rates again approach 7.0% and make a housing recovery less likely in 2025. Stay tuned.
- **Tax Cuts:** Further reductions in the corporate tax rate to 15% mostly would benefit larger profitable companies and likely will encourage share buybacks or other shareholder-friendly actions, as it did in 2018-2019, rather than meaningfully stimulate hiring and capital investment. That is hardly an elixir for turbocharging economic growth. Making the 2017 Trump tax cuts for individuals permanent will disproportionately benefit high-income earners. These measures will widen federal budget deficits unless offset by other federal revenue (e.g., tariffs) or they "pay for themselves" in the form of stimulated economic growth. That hardly sounds like the tax policy of a populist. Nonetheless, tax cut legislation could come quickly in 2025 and potentially stoke financial markets further in anticipation of improved cash flow for large business, while its negative effects (e.g., wider budget deficits) would become evident later.

What About Restructuring Activity?

We can't recall another year in which there has been so much discussion within the restructuring community as to how to characterize the state of activity. It has been a healthy year for restructurings going strictly by the numbers, with filing and default totals set to finish the year moderately below robust totals for 2023 (**Figure 2**) and showing little sign of flagging late in the year. Considering the strength of leveraged credit markets this year and the number of capital market solutions achieved by distressed companies that would not have had access to these lifelines in 2022 or early 2023, it has been an impressive year for our profession — not a blowout by any means, but we'll take it. The rating agencies all expect default activity to weaken in the year ahead to below "average year" levels, mostly on the strength of leveraged credit market issuance and contracting borrowing spreads, but so far there is little indication that such a downshift in restructuring activity has begun.

However, there is more to the story than just the numbers, as Petition likes to remind us with their frequent references to "sh1tco cases," that is, middle-market filers teed up for an asset sale or creditor equitization at filing that wend their way through the Chapter 11 process rather quickly. It is true that bankruptcies involving a sale of the debtor's business/assets or an equitization of creditors are accounting for a greater share of filings since 2023 than they have historically. These cases tend not to linger in Chapter 11 as long as freefall reorganizations do, but they are not usually 60-day run-throughs either. They are "in-betweeners" and there is a tendency to forget that a fulsome \$363 sales process can be a time-consuming course of action from preparation planning to closing — hardly "sh1tcos" for advisors.

Figure 2: Chapter 11 Filings and S&P Debt Defaults (3-Month Rolling Totals)



Source: The Deal and S&P Global Ratings Credit Research

The other consideration is the preponderance of distressed debt exchanges (DDE) and liability management exercises (LMEs), which overlap to some degree. Slightly more than one-half of default events in 2024 per S&P will be distressed debt exchanges, their highest share of defaults ever. LMEs, which often are not considered debt defaults by the rating agencies, add further to these out-of-court solution totals. The proliferation of DDEs and LMEs tends to favor legal advisors and investment banks (IB) over traditional financial advisors (FA), thereby altering advisors' views of the restructuring landscape. The data supports this premise: the share of financial advisor mandates in 2024 (in-court or out-of-court) has tilted slightly in favor of IBs over traditional FAs according to Debtwire mandate totals through September, a notable reversal of mandate shares from 2023, while the number and share of out-of-court mandates have increased sharply this year compared to 2023. This trend won't change much in 2025; distressed companies will pull all the levers at their disposal before resorting to a filing.

As for 2025, the start of dismantling the federal administrative state under a Trump administration, the disruptive prospect of mass deportations of migrants, the likely undoing of many Biden administration policies and executive actions, and the rewiring of conventional economic policies is exceedingly ambitious and risky. But be assured that many career bureaucrats, technocrats and elitists will be removed from the process and replaced by plutocrats, megadonors and loyalists. What could possibly go wrong? For restructuring activity next year, we'll take the over-line.

Here's hoping for a healing, healthy and Happy New Year to all!

Endnotes

¹ "[Economic Well-Being of U.S. Households in 2023](#)," Board of Governors of the Federal Reserve System (May 2024).

² Ibid.

³ "[Consumer Expenditures—2023](#)," U.S. Bureau of Labor Statistics Consumer Expenditure Surveys (September 25, 2024).

⁴ "[PBS NewsHour highlights the positive impact of migrant workers in Springfield, Ohio](#)," Media Matters (September 10, 2024).

⁵ Cecilia Vega, Camilo Montoya-Galvez, Aliza Chasan, Andy Court, Annabelle Hanflig, "[Mass deportation would come with hefty bill, require more manpower, immigration experts say](#)," CBS News (October 27, 2024).

⁶ Anne Marie Knott, "[Why the Tax Cuts and Jobs Act \(TCJA\) Led to Buybacks Rather Than Investment](#)," Forbes (February 21, 2019).

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