



AMERICAN  
BANKRUPTCY  
INSTITUTE

# Southeast Bankruptcy Workshop

## Economic Update

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Highland Global Advisors, LLC | Washington, D.C.

# Economic Outlook

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Founder and CEO



## Agenda

01 Growth, Inflation and the Fed

04 Credit Quality and Economic Sectors

02 Impact of One Big Beautiful Bill Act

05 Highland Global's Take

03 Impact of Tariffs

## Highland Global Advisors

Expertise and Strategic Advice to Navigate Economic Change

- Highland Global Advisors is a premium regulatory consulting firm based in Washington, DC.
- Highland provides strategic advice on the impact of geoeconomics, financial regulation, and global policy changes
- Highland's clients include asset managers, hedge funds, financial advisors, banks, fintech, and professional organizations.
- Led by Michael Pedroni, a Washington and Brussels policy veteran and expert in financial services.

Economic Uncertainty is Running High!



A Good Time  
to be a  
Bankruptcy  
Lawyer?

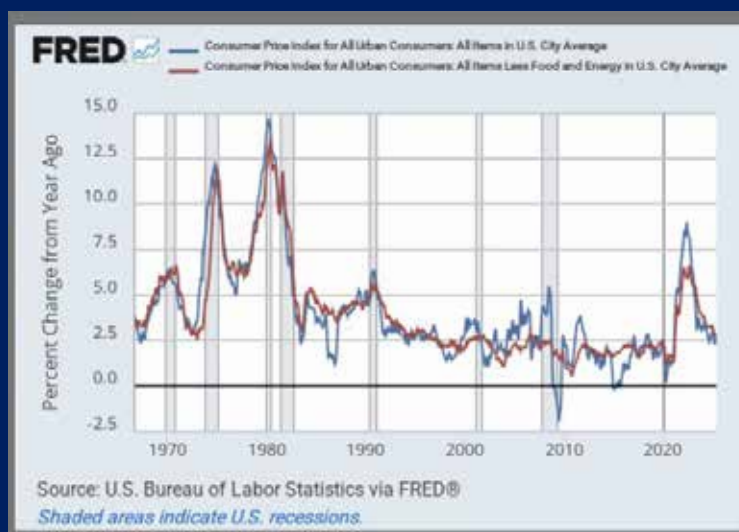
## US GDP Growth Forecasts : 2025-2026

Source	2025	2026
Bloomberg Economists' Consensus	2.0%	0.5%-1.5%
Citi (annual average)	2.4%	–
Federal Reserve FOMC. Median (Q4/Q4)	1.4%	1.6%
Goldman Sachs (Q4/Q4)	1.7%	–
IMF (annual average)	1.8%	1.7%
Morgan Stanley (Q4/Q4)	1.5%	1.2%

## Inflation Still Elevated and Could Increase

**Key Takeaways:**

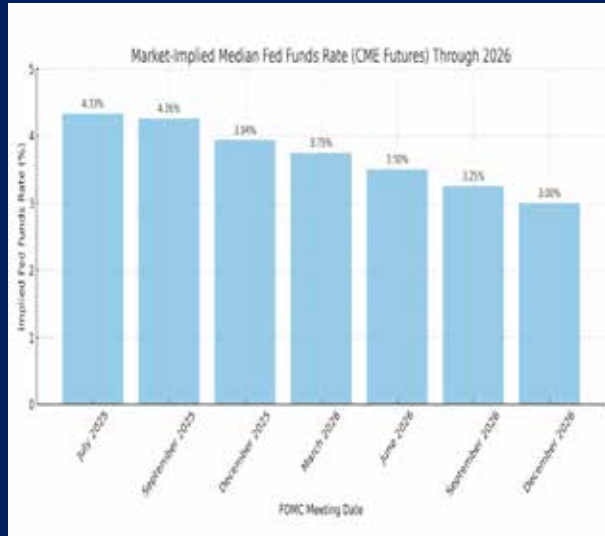
- Prices remain somewhat elevated
- Tariffs expected to add to price pressure -- unless consumption slows sharply or substitution effects dominate
- Fed target is 2% inflation



## Will the Fed Ease?



- Fed will likely delay interest rate cuts
- Futures contracts are pricing in only modest easing



## Impact of the Big Beautiful Bill on U.S. Fiscal Outlook

- Congressional Budget Office estimates it will add \$3.9 trillion by 2034
- That includes \$690 billion increase in interest payments
- Tariff revenue may offset some of the deterioration
- Distributional effects of BBB + Tariffs will be a drag on lower end of income spectrum

**Figure 5. Publicly Held Debt**

Percent of GDP, Difference from Baseline

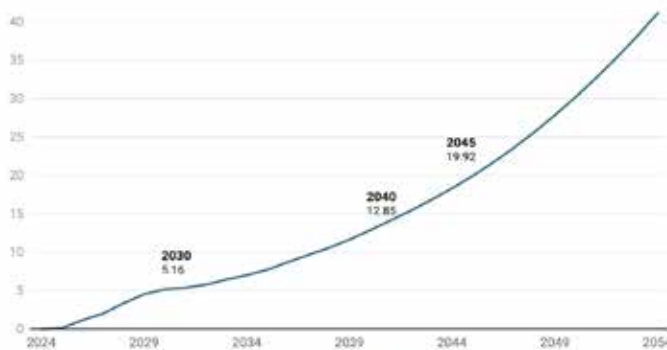


Chart: The Budget Lab • Source: The Budget Lab • Created with Datawrapper

## Sectoral Winners and Losers Under the Big Beautiful Bill

### Winners

- **Manufacturing & Industrials**
  - Full-expensing & cap-ex incentives
- **Defense & Aerospace**
  - \$150B in Pentagon spending
- **Finance & Private Equity**
  - Carried-interest loophole retained
- **High-Income Households**
  - Tax cuts, estate, pass-through relief
- **Fossil Fuels (Oil/Coal)**
  - Coal rebates & favorable regulations

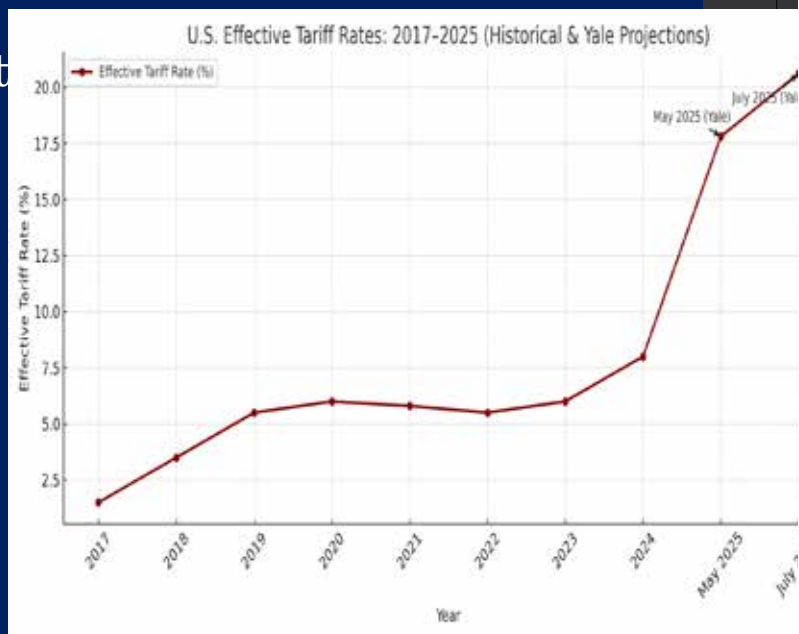
### Losers

- **Clean Energy & EVs**
  - Expiration of subsidies & tax credits
- **Healthcare & Hospitals**
  - Medicaid cuts, insurance losses, SNAP reductions
- **Retail & Consumer Staples**
  - SNAP cuts also impact grocery producers
- **Tech & AI?**
  - The bill opens them up to new state-level AI regulations

## Effective Tariff Rates

### Key Takeaways:

- Effective tariff rate has ballooned since Trump entered office – huge degree of uncertainty about where they will settle and their impact
- As of June, CBO estimates that tariffs could raise \$2.8 trillion by 2034

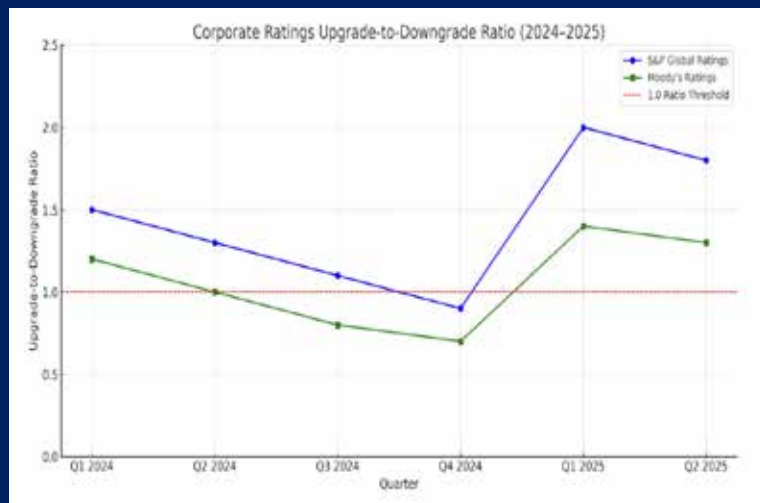


## Sectors Vulnerable to Tariff Impacts

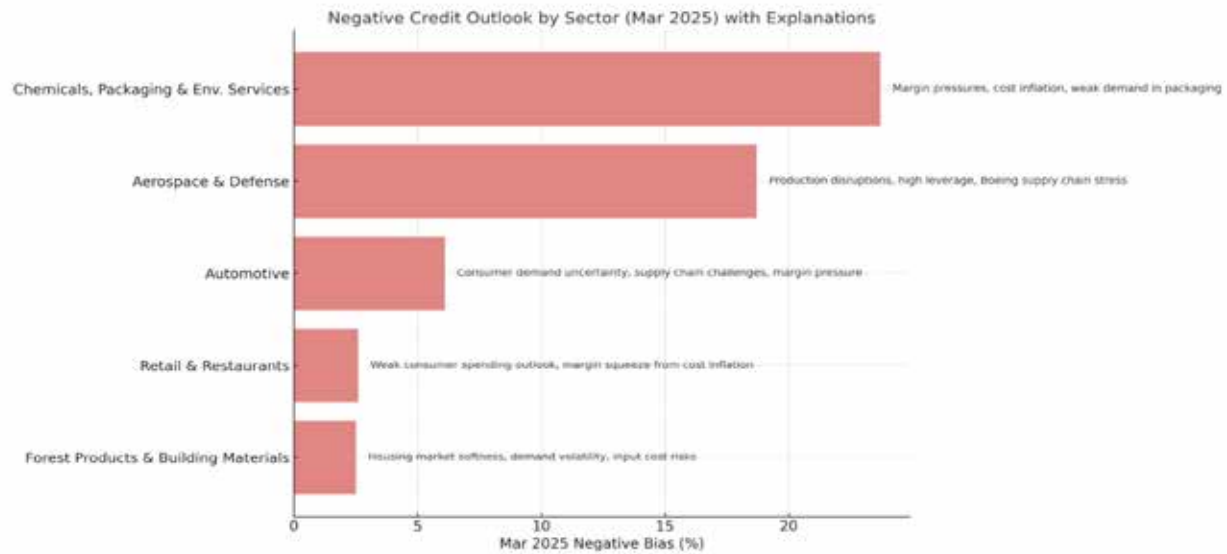
Sector	Vulnerability Summary
Chemicals & Plastics	Facing EU/retaliatory tariffs
Electronics & Semiconductors	Subject to potential chip tariffs; high exposure via imported components
Pharmaceuticals	Threatened by phased-in import tariffs (rising gradually to as much as 200%)
Minerals & Metals (Copper, Steel, Aluminum)	Critical input sectors facing 50%+ tariffs, raising costs and investment risks
Automotive & Parts	Auto supply chain heavily sensitive to NA/CAN/Mexico tariffs, with parts flows disrupted
Agriculture	Exposed via food processing tariffs; also hit by retaliatory actions
Consumer Durables / Retail & Apparel	Higher import costs passed to consumers, especially for clothing and household goods (+17% price hikes seen)

## Corporate Credit Upgrades are Outpacing Downgrades

- Traditional economic credit cycle analysis less relevant amid the Trump reordering of the economy – tariffs and tax cut & spending policies more relevant
- Still, on the whole credit quality is holding up
- But... corporates on negative watch are elevated

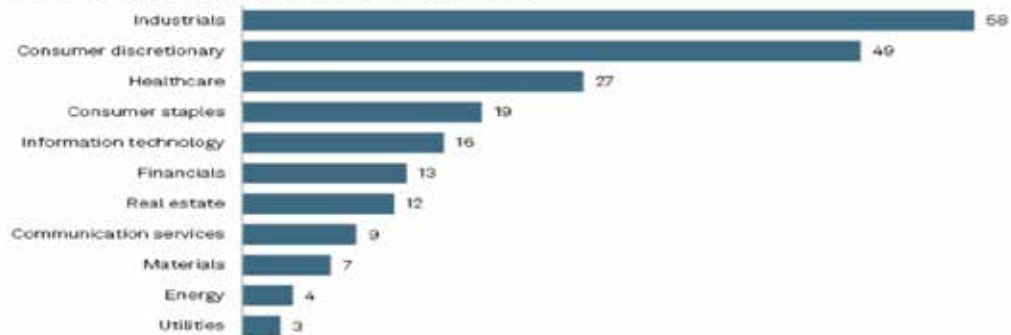


## Sectors at Risk of Downgrade



## Bankruptcy Filings by Sector, year-to-date (S&P Data)

### 2025 bankruptcy filings by primary sector



Data compiled July 1, 2025.

Includes S&P Global Market Intelligence-covered US companies that announced a bankruptcy between Jan. 1, 2025, and June 30, 2025.

S&P Global Market Intelligence's bankruptcy coverage is limited to public companies or private companies with public debt where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to \$2 million, or private companies where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to \$10 million. Involuntary bankruptcy filings are also included.

Primary sector not available for 154 bankruptcies filed in 2025.

Source: S&P Global Market Intelligence.

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## Confused? Let's Tie it Altogether



### Key Takeaways:

1. Impact of BBB and tariffs “trump” traditional cyclical analysis
2. BBB will lead to huge expansion of debt but tariffs could offset effects
3. Net impact of BBB + tariffs likely to be challenging for consumer discretionary goods, retail consumption, travel, automobiles – anything that families at the lower end of the income spectrum purchase on an optional basis
4. BBB + tariffs likely to be stimulative for financial assets and wealth... net positives for financial advisors, large corporates, private asset markets... and Alaska

Get in touch!



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# Faculty

**Michael Pedroni** is founder and CEO of Highland Global Advisors, LLC in Washington, D.C., and has nearly 30 years of experience in financial policymaking, regulatory advocacy and economic leadership. He has served four U.S. Treasury Secretaries, working in the Senior Executive Service under Presidents Bush, Obama and Trump. At Treasury, Mr. Pedroni established and led the Markets Room in 2008 at the height of the global financial crisis, closely liaising with Wall Street and briefing multiple Presidents and Treasury Secretaries. From 2013-16, he was the U.S. Treasury's most senior representative in Europe, serving as financial attaché to the European Union in Brussels. Upon his return to Washington, Mr. Pedroni led inter-agency economic and financial policy coordination at the White House, including the U.S. economic response to Brexit and Russia sanctions reviews, as well as preparing policy transition memos for the first Trump administration. Most recently, he held C-Suite roles at the Investment Company Institute (ICI) and Managed Funds Association (MFA), industry lobby organizations for mutual funds, ETFs, hedge funds and private credit managers. He led ICI's global advocacy, reforming and dramatically expanding its efforts. Mr. Pedroni has also worked as a markets expert and bank supervisor at the Federal Reserve Bank of New York and as an economist at the International Monetary Fund. He currently serves as independent chair of the Mutual Funds Advisory Committee and European Mutual Funds Advisory Committee, sponsored by Broadridge. Mr. Pedroni received his undergraduate degree in history from Yale University and his Master's degree in international economic policy and finance from Columbia University. He was a Fulbright Scholar in Germany and speaks German, Italian and conversational French. He also designed and taught "Managing International Financial Crises," a popular class in the economics department of The George Washington University.