



Global Insolvency: 2025 Reflections and 2026 Projections

United States



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Restructuring 2026 outlook

Out-of-court options remain popular as overall restructuring activity rises

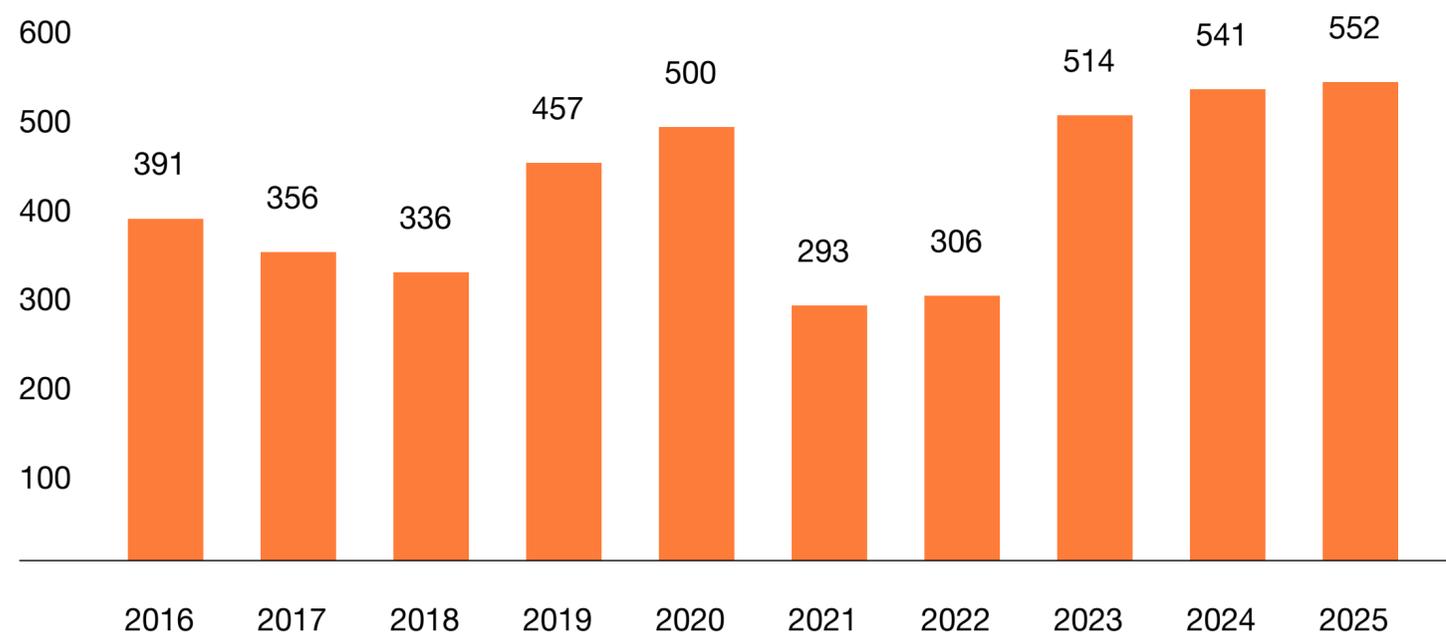
The number of Chapter 11 bankruptcies hit a decade-long high in 2025 and activity is primed to continue into 2026. Several trends that drove a measured uptick in restructuring last year will likely continue in the New Year. These include higher input costs—driven by inflation and trade disruptions—and a K-shaped economy, where spending by lower- and middle-income consumers is increasingly strained.

In our view, these trends combined with the overall growth of the economy are likely to generate another modest increase in bankruptcy filings in 2026. Executives at companies facing financial stress should emphasize scenario planning that helps identify possible problems as early as possible while mapping out potential operating remedies or increasingly popular out-of-court liability management transactions. Being proactive before a potential bankruptcy trigger (debt maturity, breached credit covenant, sustained losses, etc.) gives companies more flexibility and options in how they respond while also limiting the length and costs of an in-court restructuring.

On the rise

Bankruptcy filings increased for the fourth year in a row in 2025.

Court of US Filings by Year



Chapter 11 filings with liabilities equal to or greater than \$10 million

Source: Octus

2025 at a glance

Chapter 11 bankruptcy filings reached a 10-year high in 2025. While elevated relative to historical levels, filings saw just a modest bump compared to activity levels in recent years. The past three years have included a step change in the level of commercial real estate activity due to relatively higher interest rates and disruptions caused by work-from-home trends. Excluding real estate bankruptcies, which primarily relate to smaller single asset filings, restructuring activity trended slightly higher than in recent years.

Loan defaults, including distressed exchanges, averaged about 4.3% of all issuers, unchanged from 2024 but higher than pre-pandemic averages in the 2–3% range. Out-of-court restructuring has become increasingly popular over the past several years because it can significantly lower restructuring costs.

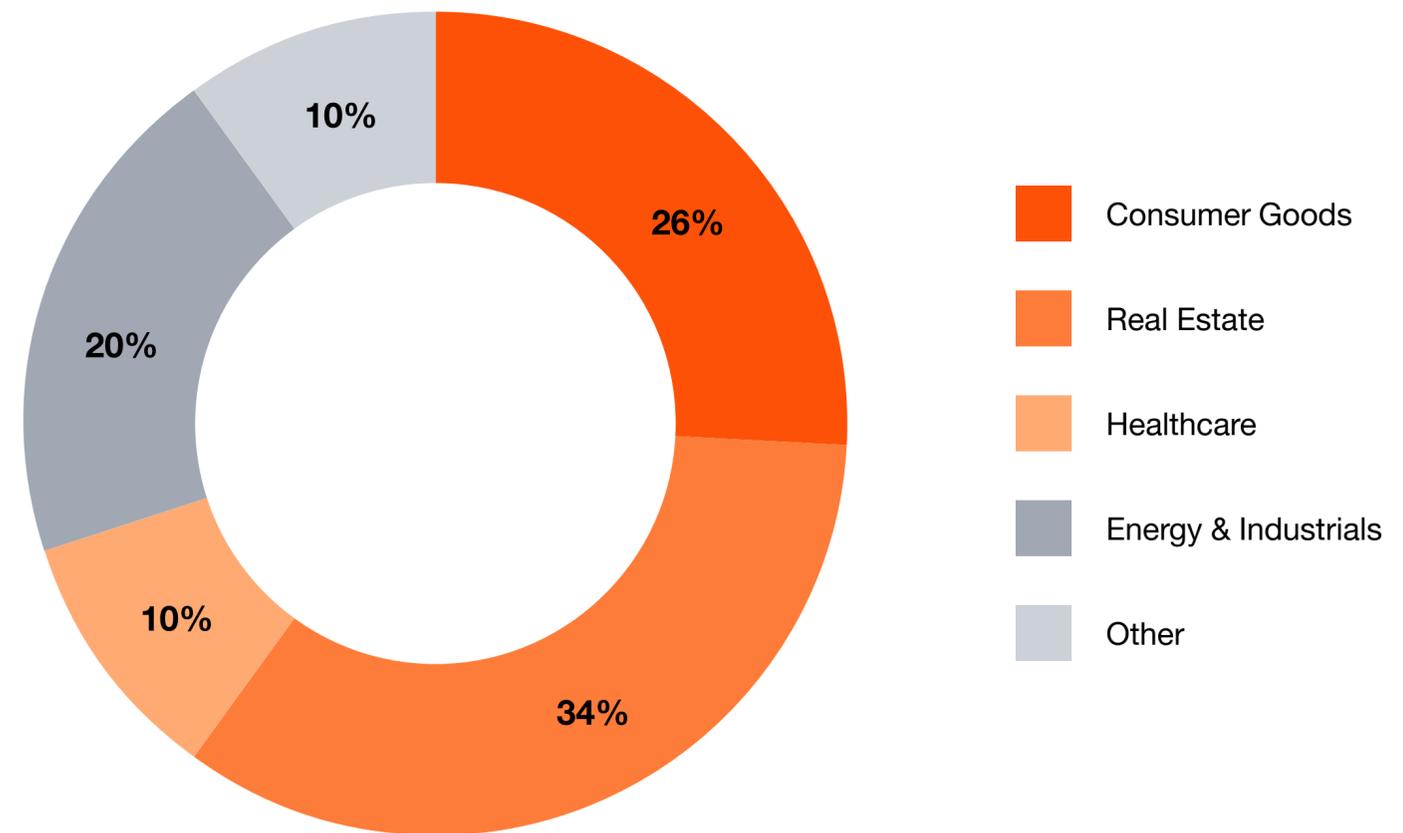
Real estate, consumer goods, and energy/industrial companies dominated 2025 activity, combining for 80% of all Chapter 11 filings. While industry-specific issues played a role, the large number of filings is primarily a result of those sectors' overall size rather than widespread problems in them.

The big three

The real estate, consumer goods and energy/industrial sectors combined for 80% of Chapter 11 filings.

2025 Sector Activity

Leaders: RE, Consumer Goods, Energy/Industrial, Healthcare



Source: © 2026 Octus Intelligence

Looking ahead: Trends to watch in 2026

The Federal Reserve has adopted a measured easing cycle with policymakers trimming rates to support a softening labor market while keeping an eye on persistent inflation. Despite multiple cuts in 2025, borrowing costs remain relatively high and Fed members have emphasized a meeting-to-meeting approach that limits rate cut forecasts. Continuing this approach could lead to a modest improvement in financing conditions, but it's unlikely to significantly help overleveraged borrowers whose capital structures were built in a much lower-rate environment.

Borrowers that need more substantial help are increasingly turning to options like liability management exercises (LMEs). These out-of-court restructurings can lower process cost and shorten timelines, but they should also be paired with operational transformation to address business performance challenges. Without addressing underlying operational problems, balance sheet engineering will only delay and complicate a more disruptive restructuring later down the line.

Tariffs

Tariff policy remains a disruptive variable in 2026. High rates on imports from key trading partners have weighed on input costs and disrupted global supply chains, with consumer products and industrials among the hardest-hit sectors. While some companies may see selective relief under new trade reviews, the uncertainty surrounding tariffs continues to pressure margins and complicate planning. Consumers aren't likely to see any relief for months because retailers, for example, often buy their goods six to nine months in advance and are still trying to sell products purchased at a higher cost.

Softening consumer demand

The divergence of consumer spending across income categories remains a focus point throughout the coming year. High-income households continue to sustain overall spending, but middle- and lower-income consumers are showing increased strain amid elevated prices and rising delinquencies. Retail sales have remained positive, yet consumer confidence data points to a cautious and value-conscious consumer. Persistent inflation and labor market uncertainty are expected to dampen discretionary demand and can lead to more financial stress for consumer-oriented companies—and ultimately more restructuring activity in the sector.

Private credit

Private credit is a permanent part of the corporate financing landscape, with direct lending being the leading credit channel. We believe there will likely be a rebalancing in credit marketshare, however, with banks going on the offensive amid a lighter regulatory touch and shrinking corporate bond spreads over Treasuries. The battle for credit underwriting assignments and the increasing number of new entrants in private credit is creating competition for deals, which can mean looser credit underwriting criteria. When we reach the end of this credit cycle, we'll be closely monitoring the level of defaults and recoveries across this channel to see if there are, as some fear, elevated losses relative to other credit markets.

Sectors to watch in 2026



Consumer products and services, including retail and restaurants

Consumer behavior continues to diverge—not just by income and generations, but also by channel and the influence of AI. While [holiday spending](#) was strong, rising 6.4% YoY, growth came unevenly: affluent shoppers sustained spending, while Gen Z consumers leaned into AI-powered discovery and promotions. Middle- and lower-income households showed rising financial strain, yet remained engaged, spending less often but more intentionally. As consumers become even more value conscious, retailers may find it harder to pass higher input costs on to customers. Instead, to sustain and grow revenue, companies should focus on:

- Using technology not just to cut costs, but to help [anticipate behaviors](#), especially related to agentic commerce, and uncover new efficiencies
- Adjusting product and pricing strategies to reflect target consumer demographics
- Evolving marketing to prioritize resonance overreach, where emotional cues, social signals, and community trust drive conversion

- Rebuilding digital and in-store assortments with the algorithm in mind, not just the aisle

Restaurants face many of the same pressures. Large chains, with scale and operational muscle, are holding the line. But smaller players, caught between rising costs and price-sensitive diners, may find the margin for error, and for profitability, growing dangerously thin.



Automotive

In 2025, financial distress among suppliers did not increase as significantly as expected, as many are just starting to see the delayed effects of tariffs impact their reported financials. Restructuring activity experienced a modest uptick this year after last year's all-time lows, though M&A was still low relative to the last decade. EV market penetration has stagnated in the United States and Europe and, as a result, regulatory trends are shifting. The EU, UK, and potentially the US plan to relax emissions targets, creating additional challenges for EV manufacturers, suppliers and critical mineral producers. These dynamics are prompting OEMs and suppliers to reassess investment pacing, product strategies, and tighten capital deployment amid ongoing uncertainty. Automakers and suppliers continue to navigate this complex landscape, with targeted restructuring activity anticipated as the risk of distress continues to rise in 2026.



Healthcare

Healthcare players enter 2026 facing financial, regulatory, labor, and capital pressures. Federal budget realignments, tighter Medicaid funding, and the expiration of enhanced ACA subsidies threaten coverage stability and increase uncompensated care exposure, particularly for safety-net, rural, and high-Medicaid providers. Medicaid redeterminations are worsening payer mix, while Medicare Advantage continues to erode provider leverage through risk-adjustment reforms and utilization controls. Providers also face rising labor costs, staffing mandates, and reimbursement constraints. Pharma, biotech, and MedTech companies encounter pricing scrutiny, value-based contracting demands, PBM transparency rules, and IRA-driven pricing pressures. Capital remains scarce for early- and mid-stage biotech, pushing many toward structured financings or restructuring. Across the sector, we expect that deteriorating payer mix, regulatory tightening, and constrained liquidity will drive elevated restructuring and distressed M&A activity in 2026.

What you can do next

Leadership at companies facing financial stress should keep these mitigation strategies in mind.

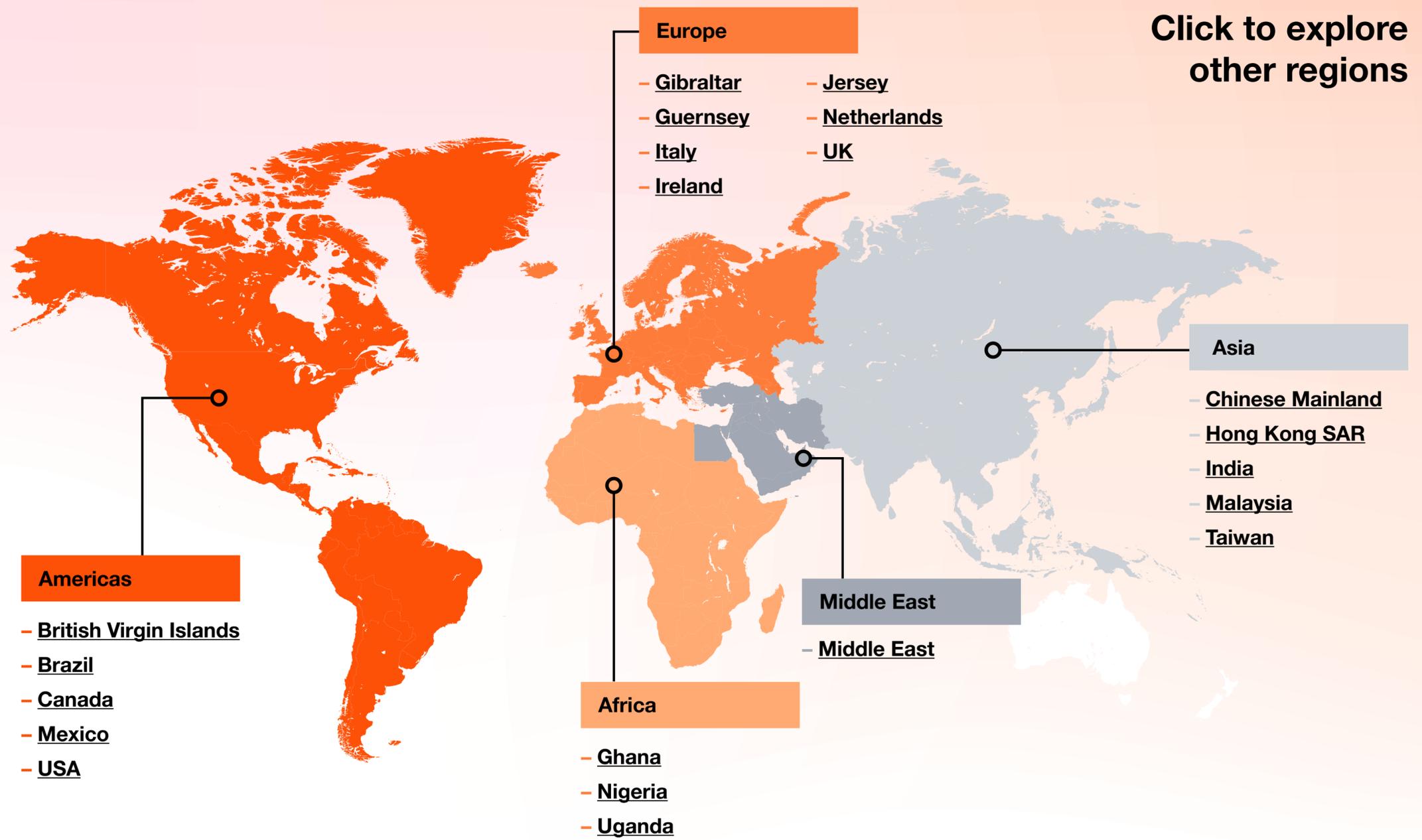
- **Start early with scenario planning:** Assess your company's financial health and monitor key financial benchmarks to identify downside risks. Recognizing early warning signs, like approaching debt maturities or liquidity issues, allows for more optionality, timely decision-making and strategic planning before problems escalate.
- **Evaluate your sector's risk for restructuring activity:** Macroeconomic forces and policy trends can vary greatly across sectors and subsectors. Consumer markets leaders, for instance, should focus on understanding the diverging consumer spending patterns across income groups. Stressed healthcare companies should closely monitor changes in federal and Medicaid funding. Automotive companies should prepare for financial distress among suppliers by reassessing capital deployment and investment strategies amid tariff volatility and uneven EV adoption.
- **Evaluate restructuring options:** Familiarize yourself with the full range of restructuring options including out-of-court liability management exercises (LMEs). Understand the pros and cons, including cost, speed, and impact, so you can choose the approach that is better suited for your company's situation and goals.

- **Address operational challenges:** LMEs focus on financial and balance sheet issues, not operational problems. It's imperative to identify and help address underlying business challenges causing financial stress. Without fixing these root causes, restructuring may only offer temporary relief. Preparing both financially and operationally can help prevent a more complicated and costly bankruptcy in the future.
- **Communicate with key stakeholders:** Keep lenders, creditors, employees, and other stakeholders informed throughout the process. Transparent communication builds credibility, facilitates negotiations, and can reduce uncertainty and resistance, helping your company manage the restructuring more smoothly.
- **Plan for post-restructuring success:** Anticipate the post-bankruptcy operational and financial environment. Develop strategies for quick recovery, including restoring creditworthiness and operational effectiveness so your company can emerge stronger and position itself competitively for the future.

The bottom line

Looking ahead, stressed companies should expect economic pressures like inflation, high input costs, and uneven consumer spending to persist. While traditional bankruptcies may increase, many will likely turn to faster, less costly out-of-court financial restructurings. Success depends on early planning, addressing both financial and operational challenges, and engaging promptly with key stakeholders. Key sectors such as consumer markets, healthcare, and automotive face unique hurdles requiring targeted strategies. Ultimately, companies that act early will have more options and better chances to overcome financial stress and emerge stronger.





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Territory lead



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