

RESTRUCTURING QUARTERLY

Predicting the next recession

Since 2009, our economy has experienced significant restructuring of the automobile, oil and gas, and retail industries. The automobile industry was devastated by a combination of mismanagement and economic conditions, whereas oil/gas and retail were more or less the result of market conditions and change within the industries.

Our economy has gone more than 100 months without a recession, mainly due to monetary policy employed by the Fed. So, when will the next recession begin? A paper recently presented at an economic conference at the University of Chicago's Booth School of Business asserted that bond-buying has had little economic benefit to our economy. The authors of the paper said, "Our conclusion is that the most important and reliable instrument of monetary policy is the short term interest rate."

Given there have been six interest rate hikes since the Fed relaxed their monetary policy, perhaps the next recession is right around the corner. In a recent study by KKR¹, they predicted the likelihood of a US recession in the next 12 months is very low, but in the next 24 months it is 100%. Consistent with the KKR report is a study conducted by Guggenheim² that points to a recession in late 2019 or early 2020.

Business owners and managers know that a downturn is coming and within certain industries indices are already showing a slowing of growth.

But on a macro level, what are a few trends that can we monitor which will provide us with a clearer picture of an oncoming recession? Here are three:

- **The Fed moves lead to rates becoming more restrictive.** If rates continue on the current path, this could slow corporate borrowing and consumer spending.
- **Growth in hours worked and productivity begins to decline.** Historically, the number of hours worked declines in the months before a recession due to companies reducing the workforce based on a shrinking need.
- **The Labor market becomes tight.** Unemployment is heading to 3.5 percent, which would be consistent with the pre-recession behavior of the unemployment gap in past cycles.

Business owners and managers should monitor these trends, as well as the trends within their industry that will provide guideposts to managing their businesses. Utilizing a simple monitoring process can help a business avoid unintended consequences once a recession comes.

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¹ KKR Global Institute Insights Global Macro Trends, January 2018

² Guggenheim Forecasting the Next Recession, November 2017

Amherst Partners 2018 Lender Outlook Survey shows increasingly competitive lending landscape

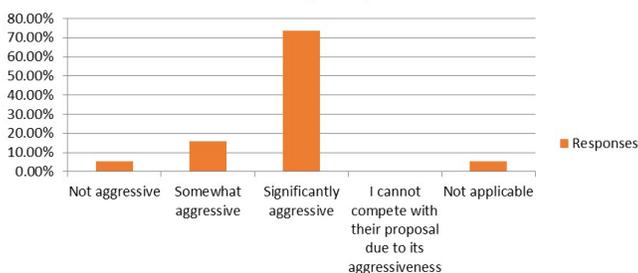
In early 2018, Amherst Partners launched the inaugural edition of what is planned to be an annual survey process to help identify emerging trends our lending partners are seeing in their portfolios.

The brief, 15-question poll was designed to capture information across several key metrics, including the amount of stress in the lenders' individual and institutional portfolios, as well as the amount of competition they are currently experiencing.

While the survey respondents indicated that they expected the level of stress and distress to remain fairly consistent in the next 12-months, there was a high amount of competition within the industry.

In fact, fully two-thirds of the respondents characterized competition as either "somewhat aggressive" or "significantly aggressive."

How would you generally describe your competition when you compete for new business with a prospective client?



Source: Amherst Partners 2018 Lender Outlook Survey

Notably, many of them also feel this will have a measurable negative impact on their business over the next year.

Given your answer to the above, how do you think this will affect your ability to win business in 2018?



Source: Amherst Partners 2018 Lender Outlook Survey

The downstream ramifications of this could be significant if lenders are feeling pressured to take increased risks in order to keep existing clients or land new business.

Amherst Partners sponsors *Current Trends in Bankruptcy* networking event and panel on May 15 in Chicago

Amherst Partners is pleased to host a distinguished panel of experts for a special evening event exploring "Current Trends in Bankruptcy."

The panel will be moderated by **James Sprayregen**, Partner at Kirkland & Ellis, and will feature insights from **Jennifer Sucher**, Partner at Quarles & Brady; **Christopher O'Brien**, Managing Partner at Wynnchurch Capital; **Robert Shanahan**, President of Business Credit at Wintrust Bank; as well as Amherst Partners' own Restructuring Leader **Sheldon Stone**.

For more information, or to register, go to: www.amherstpartners.com/chicago-bankruptcy-panel/

If you missed either of our Spring 2018 webinars, check out the archives and subscribe to get updates via email

Amherst Partners kicked off our 2018 Knowledge Series with two webinars exploring important business topics.

Interim CFO: Going Beyond the Financial Statements

An interim CFO can be a powerful tool. More than just a resource for temporary financial management, a seasoned expert can help stabilize a business through a period of stress or support a company through a transition in ownership.

www.amherstpartners.com/interim-cfo-webinar/

Exploring the Basics of Due Diligence

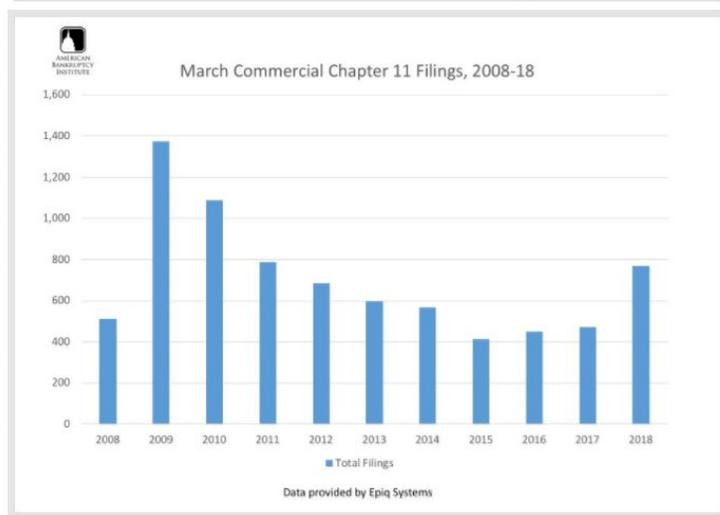
Due-diligence plays an important role in many aspects of business, whether it is initiated by a business owner prior to a sale, by a prospective buyer as part of an acquisition, or as part of a lender's review of an underperforming credit.

www.amherstpartners.com/due-diligence-webinar/

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www.amherstpartners.com/news/publications/

March Commercial Chapter 11 Filings, 2008-18



Monday, April 9, 2018

Other news from Amherst Partners:

- Partner and Co-Founder **Scott Eisenberg** will be speaking at the Detroit CFO Leadership Council panel on May 16 and the MICPA Buying & Selling a Business Workshop on June 13. Read more at: www.amherstpartners.com/news/blog
- Our recurring industry-specific M&A and capital markets updates have been expanded to include the healthcare industry. Read more at: www.amherstpartners.com/news/publications

About Amherst

Founded in 1994, Amherst Partners is a leading financial advisory firm, specializing in restructuring advisory, corporate finance, and capital raising services.

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