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KEY TAKEAWAYS | FOURTH QUARTER 2019

VITAL SIGNS

The State of the Markets

ECONOMY

Consumer sentiment topped 2018, but not by much - The reading of consumer sentiment in December improved the prior year's reading by 1%. Overall, it points to continued economic expansion, but not much of an improvement given the 3.5% unemployment rate that is near historic lows.

Inflation ends 2019 on a high note: In 2019, inflation rose 2.3% compared to 1.9% in 2018 and 2.1% in 2017 and 2016. Much of the increase in 2019 was caused by a sharp rebound in energy costs and increases in medical care commodities and services. With the prospects of a tariff war abating, a more moderated inflation is expected in 2020.

Unemployment steady at 3.5%. Underlying this trend, however, are sluggish wage gains which points to a job market that is less hot than the unemployment rate would suggest. Nevertheless, at 3.5% the unemployment rate is still at a 50-year low. Moreover, with labor force participation rates in the U.S. trailing many of its advanced economy peers, there is room to make further gains in the year ahead.

Indicator	Latest Available Data (eop)	Change			
		Average Last 5 Years	YoY	YTD	QoQ
Consumer Sentiment	99.3 Dec	→	→	↑	↑
Inflation (CPI)	2.3% Dec	↗	↗	↗	↑
Real GDP Growth	2.1% 3Q19	↗	↗	↗	↗
Unemployment	3.5% Dec	↘	↘	↘	→

CAPITAL MARKETS

The S&P 500 delivered 28% in 2019. A hot technology sector and easy money from the Fed repeatedly sent markets to all-time highs. This impressive performance, the best since 2013, took place despite a backdrop dominated by fears that never materialized including a global economic slowdown, disruptive trade wars and potential missteps from Federal Reserve policy.

The Fed is holding steady, for now. The relatively muted inflation reading suggests that the Fed can continue to hold the line on interest rates. At their most recent meeting, the monetary policy makers held rates constant and signaled that they will continue to do so until the economic outlook and data warrant other actions.

VC investment activity maintained its 2018 record level. Much of this was driven by persistent trends, most notably that larger deals closed at every stage and in almost every sector. In fact, mega rounds ($100M+) and mega funds ($500M+) have become the new norm fueled by the large amounts of dry powder in the industry. VC exit value reached a record-breaking value of over $250B, nearly 80% of which came from VC-backed IPOs. Nevertheless, the impact on exits next year caused by the volatile post-IPO performance of these companies remains to be seen.

S&P 500	3,231 Dec	↗	↑	↑	↗
10-yr. T-Bond Rates	1.8% Jan	→	↓	↗	↗
VC - Investments ($bn)	39.8 4Q19	→	↘	↗	↑
VC - Exits ($bn)	29. 4Q19	→	→	↗	↘
VC - Fundraising ($bn)	139. 4Q19	→	→	↗	↑

M&A ACTIVITY

M&A activity in the U.S. surpassed $2T in 2019. Although 2019 figures fell behind 2018's record levels, they remained high compared to previous years. Similar to the situation with VCs, large deals lifted the activity from select sectors despite the macroeconomic headwinds. At the same time, companies staying private longer has led to increased acquisitions of VC-backed companies and a simultaneous decrease in acquisitions of public companies.

M&A multiples still rising. EBITDA multiples also ticked up in 2019 due to larger deal sizes, fierce competition for high quality targets and low interest rates, among other factors. As of the end of December, the median EV/EBITDA multiple reached 10.1X.

U.S. M&A ($bn)	16.7 4Q19	→	↗	↗	↑
M&A EBITDA Multiples	10.3x 4Q19	→	→	↗	→

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