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KEY TAKEAWAYS | THIRD QUARTER 2020

VITAL SIGNS

The State of the Markets

ECONOMY

Consumer sentiment remains high but shows signs of erosion. It is supported by rising wages, especially among middle income households. Concerns over economic uncertainty, both domestic and abroad, are having a negative impact on consumers.

Inflation still in check. The U.S. annual inflation rate was unchanged at 1.7% in September 2019, slightly below market consensus of 1.8%. The core inflation rate, which excludes volatile items such as food and energy, was also flat at one-year high of 2.4%.

Unemployment hits a 50-year low. Job openings continue to exceed new hires. As a result, the unemployment rate hit 3.5% in September. But job gains are slowing down, partly because there are fewer available workers to hire, but also it could be a sign that the economy is cooling down.

Indicator	Latest Available Data (eop)	Change: Average Last 5 Years	Change: YoY	Change: YTD	Change: QoQ
Consumer Sentiment	80.4 Sep	→	↓	↓	↗
Inflation (CPI)	1.4% Sep	↗	→	→	↑
Unemployment	7.9% Sep	↗	↑	↑	↓

CAPITAL MARKETS

A bumpy quarter for stocks. The S&P 500 experienced a roller coaster ride in 3Q19 finishing with a gain of just 3% (19% year to date). Geopolitical factors are now starting to weigh on U.S. manufacturing and other sectors. Add to that an economic slowdown in Europe, especially in Germany and the United Kingdom, and domestic events such as the House impeachment inquiry and the 2020 elections. The end result is increased market volatility as uncertainty prevails among investors.

The Fed lowered interest rates, again. For the second time this year, the Federal Reserve lowered interest rates as it tries to soften the impacts of trade-related uncertainty and slower global economic growth. Against that backdrop, countries around the world also have been cutting borrowing costs. One or more additional rate cuts in the U.S. could be expected this year in line with investor expectations.

VC investments are slowing down, but remain above average. Investment activity is robust but below 2018. Deal value is likely to end above $100B for the second straight year and deal count is likely to exceed 10K for the third straight year. Overall, the VC ecosystems is starting to cool down but there is ample capital in the private markets to invest.

S&P 500	3,366 Sep	↗	↗	↗	↑
10-yr. T-Bond Rates	0.7% Sep	↘	↓	↓	↘
VC - Investments ($bn)	43. 3Q20	→	↑	↗	↑
VC - Exits ($bn)	104.2 3Q20	↗	↑	↑	↑
VC - Fundraising ($bn)	220.8 3Q20	→	↗	↗	↘

M&A ACTIVITY

M&A activity is slightly cooling down. After a slight uptick in July 2019, M&A deals showed declines in both August and September. For the latest 12 months ending in September, the decline in M&A activity is around 28% mainly as a reflection of lower growth expectations in the U.S.

M&A multiples are on the rise. Despite the cooling down in M&A activity, middle market EBITDA multiples continue to rise averaging 10.1x in 3Q19. This is a sign that not only competition is fierce for high quality targets, but also that large capital pools continue to pursue larger targets.

U.S. M&A ($bn)	13.9 3Q20	→	↑	↗	↑
M&A EBITDA Multiples	7.5x 3Q20	↘	↓	↗	→

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