

The State of the Markets: Vital Signs

1st Quarter 2019

Key Takeaways

Economy

- **Consumer sentiment remains high.** It is supported by rising wages, a stock-market rebound, lower fuel prices and the Federal Reserve's patient approach to raising interest rates.
- **The inflation rate is below forecast.** The softer inflation reading reinforces the Fed argument to wait before price gains firm around their 2% target. It also adds to the expectation of slower growth.
- **The job market is alive and well.** Unemployment remained at 3.8% in March, while wage growth kept its momentum running ahead of inflation.

Capital Markets

- **Best quarter in a decade.** The S&P 500 rose 13.1% in 1Q19 despite concerns that slowing global growth may drag down the U.S. economy. However, market volatility is expected to continue.
- **The Fed funds rate remains unchanged.** Further rate increase projections have been tempered, and broad expectations are now for zero or one further rise this year.
- **The VC trend toward larger deals continues.** In 1Q19 VC investments accelerated (\$33B) while the number of deals continues to shrink. Once a rarity, \$100M VC rounds are now becoming the norm.

M&A Activity

- **M&A multiples continue their descend.** Middle market EBITDA multiples averaged 7.1x in 1Q19 mainly as a result of lower growth expectations in the U.S. and abroad.

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Advising Owners on How to Maximize and Harvest Business Value

Indicator	Latest Available Data (eop)	Change			
		Average Last 5 Years	YoY	YTD	QoQ
Consumer Sentiment	● 98.4 Mar	↗ 4.2%	→ -3.0%	→ 0.1%	→ 0.1%
Inflation (CPI)	● 1.9% Mar	→ 1.5%	↗ 1.9%	↗ 0.6%	↗ 0.6%
Real GDP Growth	● 2.1% 4Q18	↗ 2.4%	↑ 3.0%	↑ 3.0%	↗ 0.5%
Unemployment	● 3.8% Mar	↘ -10.7%	→ -5.0%	↘ -2.6%	↘ -2.6%
S&P 500	● 2,804 Mar	↗ 8.4%	→ 6.2%	↑ 11.9%	↑ 11.9%
10-yr. T-Bond Rates	● 2.6% Mar	→ -1.0%	↘ -9.1%	↘ -8.8%	↘ -8.8%
VC - Investments (\$bn)	● 32.6 1Q19	→ -5.9%	→ 10.9%	↘ -26.2%	↘ -26.16%
VC - Exits (\$bn)	● 46.7 1Q19	→ 3.0%	↗ 67.3%	↗ 16.0%	↗ 16.0%
VC - Fundraising (\$bn)	● 129.3 1Q19	→ -16.2%	↗ 21.4%	↘ -58.6%	↘ -58.6%
U.S. M&A (\$bn)	● 9.6 1Q19	→ 9.8%	→ -37.8%	↗ 31.4%	↗ 31.4%
M&A EBITDA Multiples	● 7.1x 1Q19	→ -5.7%	↘ -14.5%	↘ -27.6%	↘ -27.6%