

The State of the Markets: Vital Signs

April 2017

Key Takeaways

Economy

- **Low inflation expectations.** Unless the oil price spikes again, inflation is unlikely to push higher for the foreseeable future.
- **Solid consumer spending.** Current level is being supported by strong job and income growth.
- **Lowest unemployment in a decade.** Low jobs growth in March (98K), but unemployment rate falls to lowest level in nearly a decade (4.5%).

Capital Markets

- **Equity markets extend upward trend.** The S&P 500 added 5.5% in 1Q17 based on strong revenues and earnings growth (expected to be 6%-9% in 1Q17).
- **Treasury yield curve is flattening.** Federal Reserve likely to increase the Fed Funds rate by a total 75 bps this year. The Treasury yield curve is flattening by an increase in short-term rates.
- **Venture investing returning to normal levels.** After peaking for the past few years, the industry is reverting to the 2012-2013 levels with more disciplined investing and support for existing portfolio companies.

M&A Activity

- **Lower volume, higher valuation.** Buyers and investors remain very selective as a result of regulatory and corporate tax reform uncertainties.
- M&A deal multiples remain high. Low interest rates, aggressive lending and deal competition continue to reinforce high valuations.

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Advising Owners on How to Maximize and Harvest Business Value

Indicator	Latest Available Data (eop)	Change			
		Average Last 5 Years	2016	YTD	Mar
Consumer Confidence	96.9 Mar	7.2%	6.0%	-1.3%	0.62%
Inflation (CPI)	-0.3% Mar	1.3%	2.1%	0.4%	-0.29%
Real GDP Growth	0.5% Dec	2.0%	1.9%	--	--
Unemployment	4.5% Mar	-10.2%	-2.0%	-6.3%	-6.3%
S&P 500	2,363 Mar	12.6%	9.5%	5.5%	0.0%
10-yr. T-Bond Rates	2.4% Mar	7.9%	15.8%	-0.8%	-2.4%
VC - Investments (\$bn)	\$16.6 Mar	10.3%	-15.5%	16.00%	16.00%
VC - Exits (\$bn)	\$14.9 Mar	25.6%	-45.3%	83.95%	83.95%
VC - Fundraising (\$bn)	\$7.8 Mar	15.3%	-37.6%	7.05%	7.05%
U.S. M&A (\$bn)	\$355.2 Mar	37.4%	14.9%	-54.8%	-54.8%
M&A EBITDA Multiples	10.2x Mar	0.3%	-1.0%	4.1%	4.1%