The State of the Markets: Vital Signs

2nd Quarter 2017

Key Takeaways

Economy

- **Consumer confidence holding to post-election bounce**. There is optimism about the labor market, but concerns are growing about the likelihood of tax and healthcare reforms.
- **Inflation remains subdued**. Weakness in the core inflation trend is due to apparel, transportation and medical care. Next rate hike likely to move to Dec.
- **More work, same wages**. The unemployed are finding new jobs at the fastest rate in nine years. But more employment is not fueling wage growth.

Capital Markets

- **Equity market maintains uptrend**. Stock volatility remains at lowest levels in 20 years while stocks continue to hit all-time highs (S&P is up 8% y-t-d).
- **Gradual shift to higher interest rates continues**. Borrowing costs remain very low and international trade is still favorable as the US dollar has declined by about 10% versus other key currencies this year.
- **Early stage venture funding still correcting**. VC investing continues to self-correct with first-time funding seeing the deepest decline and valuations reverting to more moderate levels. Fundraising in 2017 is on pace to equal the 2016 record.

M&A Activity

- **Buyers remain selective amid high valuations and policy concerns**. M&A activity increased 17% in 2Q17 driven by large deals while deal count fell 11%. Median M&A multiples still high at 9.7x, but decreasing from the 10.3x on 1Q17.

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Indicator	Latest Available Data (eop)	Change: Average Last 5 Years	2016	YTD	Jun
Consumer Confidence	95.1 Jun	7.2%	6.0%	-3.2%	-2.1%
Inflation (CPI)	0.0% Jun	1.3%	2.1%	0.4%	0.0%
Real GDP Growth	0.8% Jun	2.0%	1.9%	1.2%	0.8%
Unemployment	4.4% Jun	-10.2%	-2.0%	-8.3%	2.3%
S&P 500	2,423 Jun	12.6%	9.5%	8.2%	0.5%
10-yr. T-Bond Rates	2.3% Jun	7.9%	15.8%	-4.5%	4.5%
VC - Investments ($bn)	$21.3 Jun	10.3%	-15.5%	49.05%	28.49%
VC - Exits ($bn)	$10.5 Jun	25.6%	-45.3%	29.63%	-28.08%
VC - Fundraising ($bn)	$11.3 Jun	15.3%	-37.6%	55.09%	44.87%
U.S. M&A ($bn)	$408.6 Jun	30.3%	-13.9%	-27.9%	17.1%
M&A EBITDA Multiples	9.7x Jun	0.3%	-1.0%	-1.0%	-4.9%