

The State of the Markets: Vital Signs

2nd Quarter 2018

Key Takeaways

Economy

- **Consumer sentiment remains strong due to favorable job and income prospects.** But concerns are rising about the potential negative impact of tariff on the domestic economy.
- **CPI hits six-year high.** Most of the gain is due to increases in fuel prices. However, the monthly pace have slowed from earlier this year, so Core CPI in 2H18 is expected to remain mostly unchanged.
- **GDP growth best in 4 years.** Strong consumer and business spending as well as a surge in exports ahead of retaliatory tariffs from China helped drive economic growth.

Capital Markets

- **Fed funds rate up another 25 bps.** The Federal Reserve raised interest rates once again at its June meeting, and it is expected to hike rates at least once more by the end of the year.
- **VC investments exceed six of past 10 years.** Deals continue to grow in size as capital concentrates in larger deals. Median size for angel & seed deals this year are \$830K and \$2.1M respectively, each a new decade-high figure. record.

M&A Activity

- **Robust M&A Activity.** M&A remains strong but buyers are selective paying high multiples for targets that demonstrate strong fundamentals.
- **Valuations remain high.** Increased buyer earnings, a healthy economy and scarcity of quality assets continue to strengthen deals multiples.

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Advising Owners on How to Maximize and Harvest Business Value

Indicator	Latest Available Data (econ)	Change			
		Average Last 5 Years	2017	YTD	2Q18
Consumer Sentiment	98.2 Jun	5.9%	-2.3%	2.4%	-3.2%
Inflation (CPI)	0.1% Jun	1.4%	2.1%	1.2%	0.6%
Real GDP Growth	1.0% Jun	2.3%	2.8%	1.5%	1.0%
Unemployment	4.0% Jun	-12.4%	-14.6%	-2.4%	-2.4%
S&P 500	2,718 Jun	13.8%	19.4%	1.7%	2.9%
10-yr. T-Bond Rates	2.9% Jun	8.3%	-0.8%	18.8%	4.0%
VC - Investments (\$bn)	\$27.3 Jun	19.3%	39.9%	33.04%	-9.75%
VC - Exits (\$bn)	\$12.9 Jun	29.7%	37.0%	0.07%	-17.70%
VC - Fundraising (\$bn)	\$12.3 Jun	29.9%	9.8%	53.50%	55.84%
U.S. M&A (\$bn)	\$725.3 Jun	1.6%	-23.0%	7.5%	36.5%
M&A EBITDA Multiples	9.3x Jun	-0.1%	-20.4%	19.2%	12.0%