

# The State of the Markets: Vital Signs

## 3rd Quarter 2017

### Key Takeaways

#### Economy

- **Consumer confidence remains strong.** Consumer sentiment has pulled back slightly as a result of weather-related events, but expectations for business conditions and job growth are still high.
- **Inflation remains low, but rising.** Inflation expectations are rising after declining for most of 2017. Wages have grown 3% y-o-y adding to the upward pressure.
- **Slight deceleration in 3Q17 GDP growth.** However, the data still points to relatively strong growth. Manufacturing is growing at its fastest pace in six years and businesses are spending more money.

#### Capital Markets

- **Equities are fully priced by historical measures.** Stocks have risen for the 8th consecutive quarter. Earnings expectations for 2H17 are lower driven by rising interest rates and policy uncertainty.
- **Quantitative Contraction Under Way.** The FED is unwinding its balance sheet while inflationary pressures makes a Dec. rate hike highly probable.
- **VC Investment on Tract to Be Highest in the Past Decade.** Late-stage mega rounds are contributing to the trend while seed and early stage venture funding are still declining.

#### M&A Activity

- **M&A Activity Remains a Seller's Market.** M&A volume decreased 10% in 3Q17 as valuation remain high due to availability of credit and strong amounts of equity capital. The median EBITDA multiple in the middle market decreased to 9.0x.

### Kaizen Consulting Group, LLC

4309 Meredith Creek Drive  
Glen Allen, VA 23060  
804-396-6052  
kcgadvisors.com



*Advising Owners on How to Maximize and Harvest Business Value*

Indicator	Latest Available Data (eop)	Change			
		Average Last 5 Years	2016	YTD	3Q17
Consumer Confidence	95.1 Sep	7.2%	6.0%	-3.2%	-1.8%
Inflation (CPI)	-3.0% Sep	1.3%	2.1%	1.5%	-3.0%
Real GDP Growth	0.7% Sep	2.0%	1.9%	2.0%	0.7%
Unemployment	4.2% Sep	-10.2%	-2.0%	-12.5%	-4.5%
S&P 500	2,419 Sep	12.6%	9.5%	8.1%	-2.1%
10-yr. T-Bond Rates	2.3% Sep	7.9%	15.8%	-3.7%	8.4%
VC - Investments (\$bn)	\$21.5 Sep	10.3%	-15.5%	50.98%	1.29%
VC - Exits (\$bn)	\$11.3 Sep	25.6%	-45.3%	39.51%	7.62%
VC - Fundraising (\$bn)	\$5.3 Sep	15.3%	-37.6%	-27.26%	-53.10%
U.S. M&A (\$bn)	\$368.1 Sep	30.3%	-13.9%	-22.3%	-9.9%
M&A EBITDA Multiples	9.0x Sep	0.3%	-1.0%	-8.2%	-7.2%