

The State of the Markets: Vital Signs

3rd Quarter 2018

Key Takeaways

Economy

- **Consumer confidence near the all-time high reached in 2000.** This will continue to support healthy consumer spending going into the holidays.
- **Inflation bumping against threshold.** At 2.3% is still higher than many would like, so it's likely that Fed will continue its recent policy of raising interest rates in December and through 2019.
- **Near full employment.** The U.S. unemployment rate in September fell to 3.7%, its lowest level since December 1969. Wage growth remains subdued at 2.8% y-o-y compared to previous cycles.

Capital Markets

- **Equity market remain strong despite volatility.** The S&P 500 Index generated 7.7% total return in 3Q18 as investors remained focused on a robust U.S. economy.
- **Treasury are yields rising.** The 10-year Treasury yield is currently near its highest level since 2011. For investors, it means that new government bonds offer a better return (yield).
- **The concentration of VC capital into fewer, larger investments continues.** The number of \$50M+ ytd is 29% higher than the full 2017. Non-traditional VC investors are primarily driving this increase.

M&A Activity

- **Middle market M&A deal flow remains flat** despite record levels of private equity capital and leverage multiples. PE-backed secondary sales dominated as opposed to retiring baby boomers.

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 | 2017 | YTD | 3Q18 |
| Consumer Sentiment | 100.1 Sep | ↑ 5.9% | → -2.3% | ↑ 4.4% | ↑ 1.9% |
| Inflation (CPI) | 0.1% Sep | ↑ 1.4% | ↑ 2.1% | ↑ 1.6% | ↑ 0.5% |
| Real GDP Growth | 0.9% Sep | ↑ 2.3% | ↑ 2.4% | ↑ 2.5% | ↑ 0.9% |
| Unemployment | 3.7% Sep | → -12.4% | ↓ -14.6% | → -9.8% | ↓ -7.5% |
| S&P 500 | 2,914 Sep | ↑ 13.8% | ↑ 19.4% | → 9.0% | ↑ 7.2% |
| 10-yr. T-Bond Rates | 3.1% Sep | → 8.3% | → -0.8% | ↑ 27.1% | ↑ 7.0% |
| VC - Investments (\$bn) | \$27.9 Sep | ↑ 19.3% | ↑ 39.9% | ↑ 35.88% | → 0.94% |
| VC - Exits (\$bn) | \$20.9 Sep | → 42.8% | ↑ 165.6% | → -26.52% | ↓ -34.48% |
| VC - Fundraising (\$bn) | \$12.2 Sep | → 29.9% | → 9.8% | ↑ 52.75% | → -0.49% |
| U.S. M&A (\$bn) | \$403.0 Sep | → 1.6% | ↓ -23.0% | ↓ -13.8% | ↓ -33.2% |
| M&A EBITDA Multiples | 8.6x Sep | → -0.1% | ↓ -20.4% | ↑ 10.3% | ↓ -7.5% |