

The State of the Markets: Vital Signs

4th Quarter 2018

Key Takeaways

Economy

- **Consumer confidence remains strong.** Although still high by historical standards, it is beginning to decline with back to back drops suggesting the expectation of an economic slowdown for 2019.
- **Inflation is stabilizing.** The inflation rate is around the Fed's 2% goal as prices get support from the recent pickup in wages and higher materials costs amid the tariff war with China.
- **Unemployment slightly up.** Unemployment rose to 3.9% in 4Q18 as participation increased with U.S. employers adding the most workers in 10 months indicating a still robust job market.

Capital Markets

- **Equities retraced.** In 4Q18, U.S. equities showed the worst quarterly performance in a decade. For the year, the S&P500 dropped 6%. The catalysts included the U.S.-China trade tensions and a fourth rate hike by the Federal Reserve.
- **VC Investment surpassed \$100B.** In 2018, VC investments rose a level not seen since the dot-com era. The main drivers were the record levels of capital raised in recent years and the sustained interest from nontraditional investors. Large round sizes and high valuations continue to dominate.

M&A Activity

- **LMM M&A activity softens.** In 2018, the lower middle market M&A activity has been slightly softer compared to 2017. Leverage multiples are roughly constant at 50% of EV as buyers have been a bit more cautious.

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Indicator	Latest Available Data (eop)	Change			
		Average Last 5 Years	2017	YTD	4Q18
Consumer Sentiment	98.3 Dec	5.9%	-2.3%	2.5%	-1.8%
Inflation (CPI)	-0.1% Dec	1.4%	2.1%	1.9%	0.3%
Real GDP Growth	0.9% Sep	2.3%	2.4%	2.5%	n/a
Unemployment	3.9% Dec	-12.4%	-14.6%	-4.9%	5.4%
S&P 500	2,507 Dec	13.8%	19.4%	-6.2%	-14.0%
10-yr. T-Bond Rates	2.8% Dec	8.3%	-0.8%	17.9%	-7.2%
VC - Investments (\$bn)	\$41.8 Dec	19.3%	39.9%	104.06%	32.98%
VC - Exits (\$bn)	\$37.2 Dec	42.8%	165.6%	30.90%	52.01%
VC - Fundraising (\$bn)	\$23.1 Dec	29.9%	9.8%	188.88%	89.12%
U.S. M&A (\$bn)	\$388.0 Dec	1.6%	-23.0%	-11.3%	-3.7%
M&A EBITDA Multiples	9.8x Dec	-0.1%	-20.4%	25.6%	14.0%