

The State of the Markets: Vital Signs

4th Quarter 2017

Key Takeaways

Economy

- **Consumer sentiment remains strong, but not growing.** Two opposing forces are driving this trend: rising income expectations from a strong job market and expectations of rising inflation.
- **Inflation pressures are building.** In 2017, the CPI increased 2.1%, the largest increase since 2014. Price pressures are likely to remain fueled by rising wages, infrastructure spending and tax reforms.
- **Unemployment at 17 year low.** The U.S. economy added 2m jobs in 2017 following 87 months of continued gains. But the number of jobs being added every year is slowing, making it likely for companies to raise wages to compete for workers.

Capital Markets

- **Stocks are priced for perfection.** Equities continue their advance aided by strong fundamentals and newly enacted tax reforms. Investors' optimism could be challenged when market volatility returns as expected in 2018.
- **VC investments highest since the Dot-Com era.** Investors deployed \$84b in 7.7k companies in 2017. While more capital is being invested, fewer deals are taking place and the median age of companies receiving funding continues to increase.

M&A Activity

- **M&A deal activity falls for second year in a row.** U.S. M&A spending decreased by 10% in 2017 to \$1.76tn. In the lower middle market (sub \$100m), the number of deals increased 114% compared to 2016 while M&A spending increased 5%.

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Advising Owners on How to Maximize and Harvest Business Value

Indicator	Latest Available Data (econ)	Change			
		Average Last 5 Years	2016	YTD	4Q17
Consumer Sentiment	95.9 Dec	7.2%	6.0%	-2.3%	0.8%
Inflation (CPI)	0.1% Dec	1.3%	2.1%	2.1%	0.6%
Real GDP Growth	0.6% Dec	2.0%	1.9%	2.7%	0.6%
Unemployment	4.1% Dec	-10.2%	-2.0%	-14.6%	-2.4%
S&P 500	2,674 Dec	12.6%	9.5%	19.4%	10.5%
10-yr. T-Bond Rates	2.4% Dec	7.9%	15.8%	-0.8%	3.0%
VC - Investments (\$bn)	\$24.8 Dec	10.3%	-15.5%	74.14%	15.34%
VC - Exits (\$bn)	\$14.6 Dec	25.6%	-45.3%	80.25%	29.20%
VC - Fundraising (\$bn)	\$8.0 Dec	15.3%	-37.6%	9.79%	50.94%
U.S. M&A (\$bn)	\$628.2 Dec	30.3%	-13.9%	-5.5%	56.5%
M&A EBITDA Multiples	7.8x Dec	0.3%	-1.0%	-20.4%	-13.3%