

The State of the Markets: Vital Signs

1st Quarter 2018

Key Takeaways

Economy

- **Consumer sentiment highest since 2004.** Although there is uncertainty caused by the proposed trade tariffs, consumer sentiment remains strong and has increased steadily since early 2018.
- **Inflation pressures continue to build.** CPI increased at an annual rate of 2.4% led by housing and healthcare costs. This, along with rising costs for labor and raw materials will continue to influence the Fed thinking about interest rate hikes.
- **GDP lightly lower, but still strong.** GDP grew at an annual rate of 2.3% in 1Q18, a slight decrease from 4Q17, but still reflects solid growth. Consumer spending is showing signs of weakening.

Capital Markets

- **Stocks in loosing territory.** A market correction driven by concerns over a tariff war with China sent the S&P 500 benchmark to a loss of more than 1% by end of the first quarter.
- **Fed funds rate up 25 bps in March.** The continued rise of interest rates could prompt consumers to borrow in advance of future rate hikes, which along with expected wage growth, likely will support consumer spending for the rest of 2018.

M&A Activity

- **U.S. M&A deal activity declined in 1Q18.** The M&A environment remains seller driven. There is a fair amount of capital on the sidelines, but the lack of quality sell-side targets - particularly in the lower market - continues to dampen deal activity.

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Advising Owners on How to Maximize and Harvest Business Value

| Indicator | Latest Available Data (eop) | Change | | | |
|-------------------------|-----------------------------|----------------------|--------|---------|---------|
| | | Average Last 5 Years | 2017 | YTD | 1Q18 |
| Consumer Sentiment | 101.4 Mar | 5.9% | -2.3% | 5.7% | 5.7% |
| Inflation (CPI) | -0.1% Mar | 1.4% | 2.1% | 0.6% | 0.6% |
| Real GDP Growth | 0.6% Mar | 2.3% | 2.8% | 0.6% | 0.6% |
| Unemployment | 4.1% Mar | -12.4% | -14.6% | 0.0% | 0.0% |
| S&P 500 | 2,641 Mar | 13.8% | 19.4% | -1.2% | -1.2% |
| 10-yr. T-Bond Rates | 2.7% Mar | 8.3% | -0.8% | 14.2% | 14.2% |
| VC - Investments (\$bn) | \$28.2 Mar | 26.0% | 74.1% | 13.67% | 13.67% |
| VC - Exits (\$bn) | \$8.1 Mar | 34.5% | 80.2% | -44.32% | -44.32% |
| VC - Fundraising (\$bn) | \$7.9 Mar | 29.9% | 9.8% | -1.50% | -1.50% |
| U.S. M&A (\$bn) | \$503.5 Mar | 1.6% | -23.0% | -19.9% | -19.9% |
| M&A EBITDA Multiples | 8.3x Mar | -0.1% | -20.4% | 6.4% | 6.4% |