In November, we attended ACG New York's Middle Market Week Breakfast Program. Here are five of our top takeaways from the Introductory Keynote by Peter Coy, the Economics Editor for Bloomberg Businessweek.
Prepared by TresVista Financial Services

5 THINGS YOU MISSED –

1 **A Strong Year for M&A, Challenging Period for Private Equity:** Bloomberg reported global transactions reaching c.$3bn in Q3 2018, highlighting volumes approaching peak levels even before the commencement of Q4, which traditionally is considered to be the strongest quarter for M&A. Some high-level activity that took place across the United States in 2018 includes: IBM's $34bn acquisition of Red Hat, Dell's plan to return to the public markets, and Conagra's purchase of Pinnacle Foods. Despite such growth in M&A, private equity firms are still sitting on huge amounts of dry powder—leading to higher asset valuations (almost as high as pre-crisis levels). At the same time, strategic investors are proving to be tough competition for the best assets in the market.

2 **2019 Economic Outlook:** The IMF, in its October World Economic Outlook, pegged the GDP growth for 2019 at 3.7%, which was the same as the forecast for 2018. This indicates that despite the volatility in the markets, the global economy is expected to continue to grow at a healthy and stable rate. According to Peter Coy, the world economy should squeeze out another good year, though growth will be more imbalanced (with the U.S. to pick up the slack while Germany and Japan expected to slow down), while rising interest rates and tariffs in the U.S. could make for trouble.

3 **More on the U.S:** There are possible side-effects to this U.S. performance. The Fed's tightening policy could suck money into the economy, potentially affecting developing economies (like Turkey and Argentina) as they are in turn forced to raise interest rates to protect capital outflows. Further intervention by the U.S. in terms of tariffs and related measures could also lead to uncertainty and face-offs in certain situations, thereby affecting global growth.

4 **Stock Market Overview:** Stock markets have become more volatile than before. In Coy's view, the market will exhibit a higher level of volatility in the future, which can be frightening for investors. This year, crude oil was down ~30% in the fourth quarter, and both the global and U.S. purchasing manager indices (PMI) were down substantially, adding to bearish concerns. On the other hand, earnings grew substantially and on average was up ~25% YoY in Q3, which is by far the best performance for any quarter since 2010. As per Bloomberg's indicator for recession, the expectation of a recession in the next 12 months in the U.S. is around 8%.

5 **Closing Thoughts:** Coy believes that Jerome Powell would not raise interest rates to a level that would seriously hurt the economy. A decision to raise interest rates is not likely to be dictated by results from an abstract economic model (overtightening of interest rates is least likely to happen), with Powell's professional experience (formerly as a Partner at Carlyle) likely to weigh on his thinking. Coy also said that while the journalists and investors place a lot of emphasis on short-term factors and headlines, it is the slow, steady movement of the work people do, making new products and doing deals, that are the factors that really matter. Essentially–*"Take a long view, and keep your eyes on the prize."*

Sponsored By

plante moran

audit • tax • consulting • wealth management