Merger monthly

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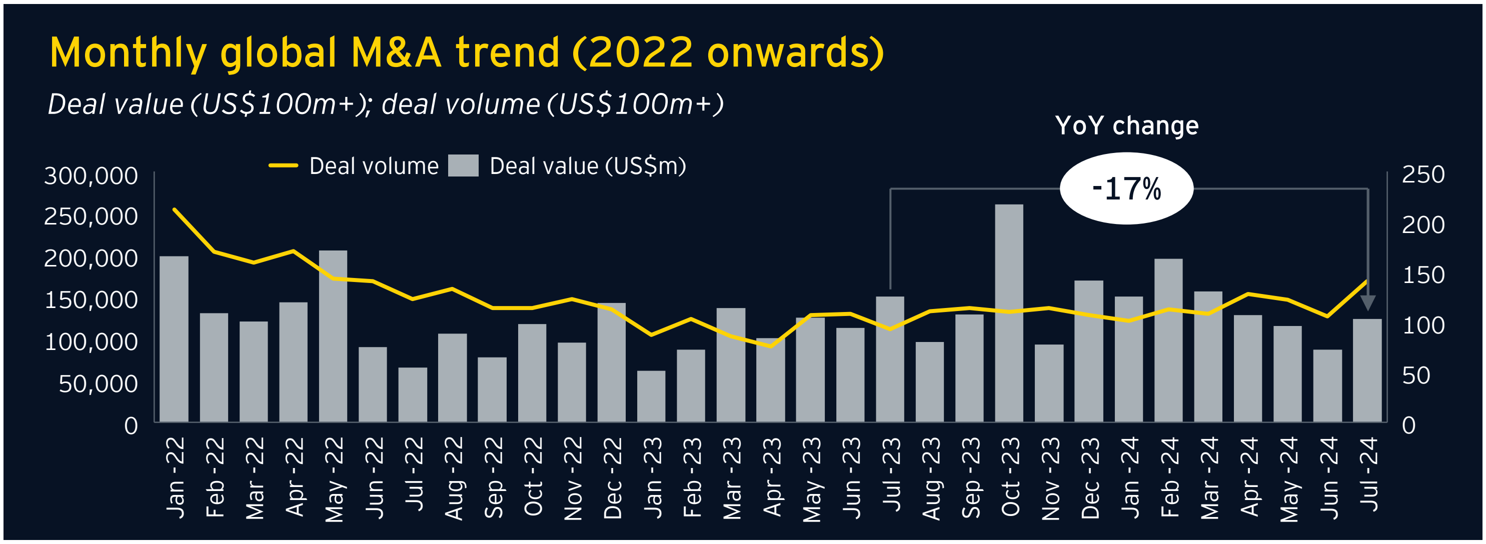
Dealmakers navigate economic uncertainty amidst weakening labor market in the US

The July jobs report signals a significant weakening in the labor market, with the economy adding only 114,000 jobs, mostly in the health care, leisure and government sectors. Wage growth has slowed to 3.6%, and the unemployment rate has risen to 4.3%, its highest since October 2021. This labor market deterioration heightens economic uncertainty, prompting dealmakers to potentially adopt more cautious investment strategies and potentially decelerating M&A activity. The Fed's backward-looking approach exacerbates these challenges, as policymakers now face the difficult task of adjusting monetary policy in response to rapidly changing labor conditions.

Despite the headwinds, M&A activity should remain resilient, mainly due to large deals driven by well-capitalized firms looking to strengthen their market positions and capitalize on favorable acquisition terms. Dealmakers must be prudent to identify opportunities that are strategic and offer long-term value creation. As the public markets react to recessionary fears, the environment may present attractive valuations for businesses seeking consolidation or strategic partnerships.

US M&A activity remains resilient in July, driven by a surge in large deals

The US recorded US$124b in deal value (US$100m+) deals. This is a 42% increase compared to June 2024. The US deal volume was 141 deals (US$100m+), an increase of 33% MoM and 51% YoY as fundamental deal drivers remain intact.



Source: EY Insights analysis and Dealogic

Capital market shifts and specific sector dynamics influence M&A

The M&A landscape is being shaped by several key trends, including the evolving dynamics of capital markets where interest rates and liquidity conditions play a crucial role in influencing dealmaking appetite and valuations. Capital markets traditionally rely on established valuations and patterns to guide investment decisions within a complex environment. However, the current market scenario challenges these norms, making predictions and valuations difficult. Additionally, sector-specific opportunities in technology, energy and life sciences are driving deal activity, buoyed by trends in digital transformation, sustainability and health care innovation. Furthermore, geopolitical tensions and shifts in economic policies present challenges and opportunities, affecting cross-border transactions and shaping investment strategies. Together, these factors create a complex environment for M&A activity, demanding strategic agility and insight from participants.

PE investments continue to increase driven by anticipation of rate cuts, stronger financing markets and moderating valuations

Private equity (PE) investments in the US have seen an increase, driven by anticipation of rate cuts, stronger financing markets and moderating valuations. However, the exit environment remains challenging, with PE exits in 2Q24 declining compared to 1Q24. This decline is more rooted in supply-side issues, as general partners (GPs) focus on optimizing portfolio company performance to present compelling equity stories for potential buyers.

Key deal drivers:

- Artificial intelligence (AI) investment and digital transformation
- Energy transition and sustainability efforts
- Portfolio optimization and strategic realignment
- Geopolitical factors and regulatory changes

US SECTOR BREAKDOWN FOR ALL DEALS — YTD

SECTOR	VOLUME	VOLUME CHANGE	VALUE	VALUE CHANGE
Technology	221	Up 46% YoY	US$237b	Up 63% YoY
Life Sciences	137	Up 12% YoY	US$139b	Down 4% YoY
Oil & Gas	61	Up 7% YoY	US$141b	Up 45% YoY

Additional risks to dealmaking in 2024 include:

- Geopolitical and upcoming elections
- Potential policy missteps by the Fed that could derail broader and relatively robust US growth
- An unseen systemic shock — in financial plumbing, like the repo market, in banks generally (we all forget Silicon Valley Bank), and in the commercial real estate market

Looking ahead to 2H24

- Momentum matters — strong enthusiasm for larger deals can further provide a boost to dealmaking confidence
- The Americas will benefit most from the return of PE acquirers, which we expect to see as 2024 progresses, as it will be from the return of a stronger flow of tech-related M&A
- The Americas has a relatively stronger growth forecast for 2024 and beyond compared to other areas

Fundamental drivers of M&A persist through an uncertain environment

Dealmakers are navigating a complex landscape, with economic and geopolitical uncertainties posing downside risks. Credit tightening, student debt repayments, high leverage in some sectors and global economic weakness are among the concerns. Geopolitical tensions also threaten economic activity and financial market stability. Despite these challenges, the US M&A landscape shows promise, particularly because of the resilience of the American economy. This suggests a positive medium-to-long-term outlook, with the potential for a strong rebound in M&A activity later this year.

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