



After a volatile end to 2018, capital markets stabilized during Q1 with U.S. markets having one of the best quarters on record as major indices approached all time highs. While geopolitical and economic worries remain, positive trade headlines, better economic data, and an increasingly dovish fed all contributed to calmer waters.

In March the Federal Reserve indicated that they will be data dependent in determining if further rate hikes are required later in the year, an increasingly dovish stance in contrast to 2018. Many Fed participants also implied that the economic outlook would justify leaving the target rate unchanged throughout 2019, at 2.25-2.50 points. The Central Bank also indicated that its balance sheet reduction program of allowing up to \$50 billion of Treasuries and mortgage-backed securities to roll off its balance sheet each month will cease in September of 2019.

U.S. based M&A during the 1st quarter of 2019 was hot dominated by deals in both the healthcare & technology sectors. Despite trade uncertainties, a government shutdown and slower growth, deal values and transaction multiples remained robust during the quarter. Mega-Bank M&A was also resilient as JPMorgan & Goldman Sachs had strong quarters relative to deal making. New private equity fundraising was soft however, with roughly \$100B capital raised in Q1, down slightly from prior quarters.

Treasury yields continued their retreat throughout the first quarter putting pressure on financial shares. The 10-Year Treasury Yield, which hit 3.25% in November 2018, is now roughly 2.55%. The recent dip in rates however sparked mortgage lending. Freddie Mac is anticipating a gain of 1.5% for total mortgage lending while home purchase lending is expected to reach \$1.2 trillion during 2019, the largest since 2005. The dip in rates also continues to support deal making as debt financing remains attractive. Recent buyout structures tend to include more than 50% debt financing as “cheap money” remains accessible.

Private Equity Influence	More than a third of all M&A activity in 2018 was led by private equity firms, up from an average of 25% from 2010 to 2015. Per Pitchbook, the median LBO size last year was \$140 million.
Secondary Buyouts	Secondary buyout values have nearly doubled since 2015 as private equity portfolio companies have become increasingly attractive to larger private equity firms.
Individual Buyers	The strong economy continues to support interest from individual buyers looking to acquire companies in the manufacturing, services and distribution marketplace.

Average Lower Middle Market Enterprise Value / EBITDA by Industry

