



Equity markets continued to march higher during the first half of 2019 as U.S. markets capped off their best June in decades. With equity markets pushing to all time highs, bonds also continued to rally sending the 2-year treasury yield to sub 2.00%. Economic data was mixed during the quarter. Job growth was varied, yet kept unemployment at historic lows (3.7%). Manufacturing data continued to recede; the June ISM PMI further contracted to 51.7%. The ISM cited several survey respondents indicating that tariffs continue to be a challenge, in addition to “contracting backlogs” and “shrinking inventories.”

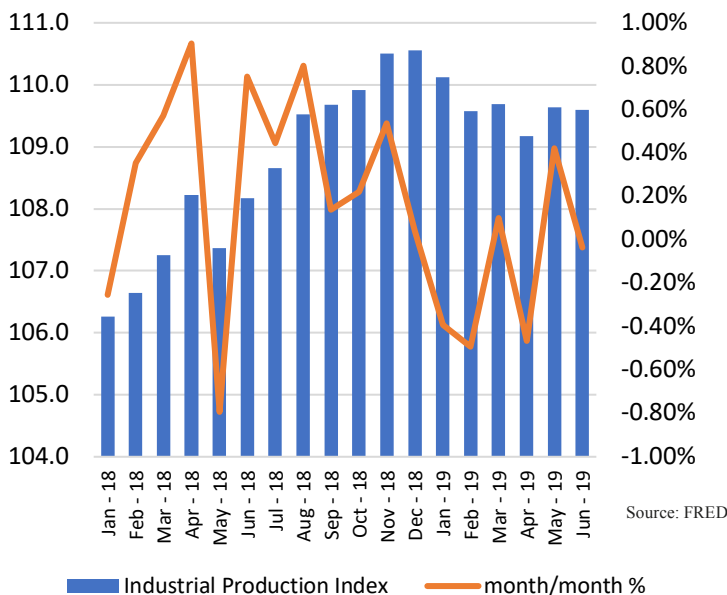
In June the Federal Reserve held interest rates steady at 2.25-2.5% and reiterated their data dependent view. Strong expectations of an easing Fed arose given recent economic “weakness,” however after strong June employment and retail sales data, the odds of a quarter point July rate cut have receded to roughly 75%.

U.S. based M&A remained healthy throughout the first half of 2019 supported by robust equity markets, lending and deal making in the technology and manufacturing marketplace. While global trade uncertainties and concerns of a slowing economy lingered, deal values and transaction multiples remained near historical highs. In our view, these trends will continue throughout 2019 and into 2020 based on the record levels of private capital (more than \$2T of dry powder) and supportive political and monetary policies. Overall, given the expectation of falling interest rates, debt markets will continue to support robust multiples as debt financing remains a key component of capital structures.

Business to business, and business to consumer deals continue to make up roughly 50% of all PE transactions. While multiples remain robust, the median PE transaction size has rocketed in 2019. Per Pitchbook, median U.S. based PE deal size jumped to roughly \$275M from \$190M in 2018. Add-on transactions also continue to be a popular source of growth for both private equity firms and mature companies.

Mega PE Funds	Close to 50% of private equity capital raised between 2016 and 2018 were contributed to funds of \$5B and greater. More than half of this capital remains as dry powder.
Industrial Production	The Industrial Production Index illustrates manufacturing’s decline of 2.2% in the second quarter following a 1.9% decline in the first quarter of 2019.
Buyout Structure	PE buyouts continue to utilize debt to support deal making as debt financing remains attractive. Falling interest rates will continue to support this strategy.

Industrial Production Index



PE Buyout Structure(s) EV/EBITDA

