Merger Monthly series

M&A activity insights

November 2024

M&A activity remains, but deal volume likely to pick up in 2025

Interest rate cuts, pent-up demand and results of the US elections are setting the stage for increased M&A. The US economy grew at an annualized rate of 2.8% in the third quarter, on the strength of consumer spending despite lingering inflation pressures. And the overall data confirms the strength of the US economy, which has repeatedly defied expectations of a recession despite the Federal Reserve (the Fed) holding interest rates high to cool down inflation.

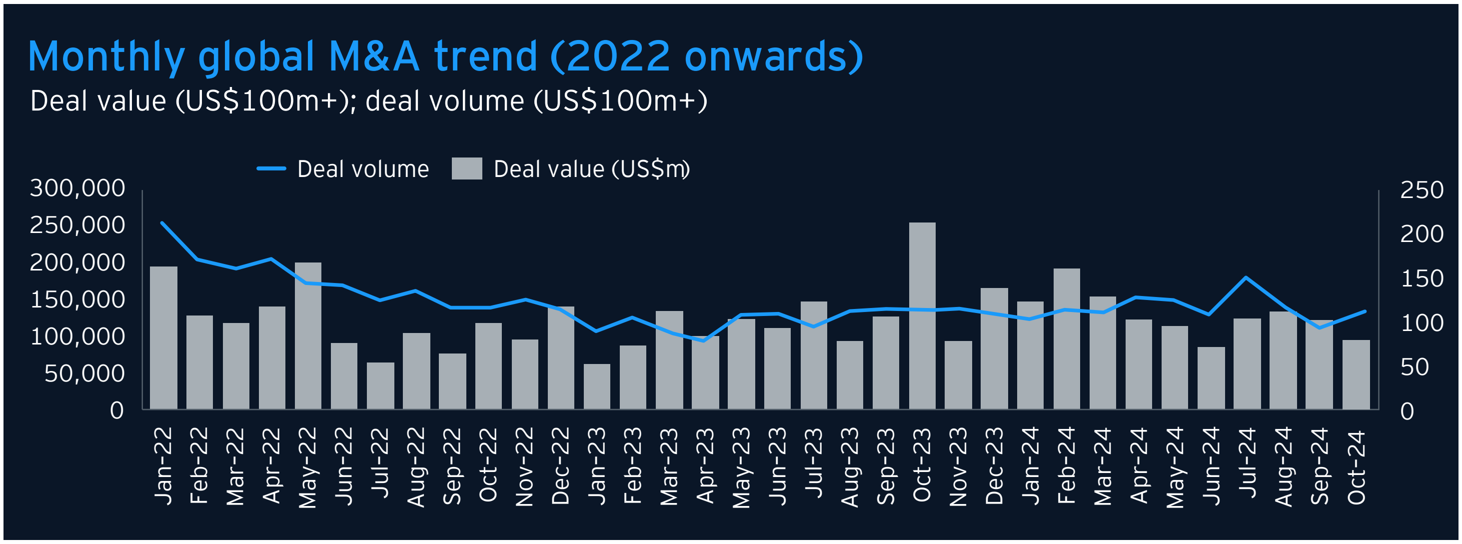
The latest Personal Consumption Expenditures Price Index (the Fed's preferred inflation measure) dropped to 2.1%, close to its goal of a 2% annual rate and in line with readings in 2018, well before prices began surging after the pandemic recession. The signs of cooling inflation have led the Fed to cut interest rates by a quarter point, the second reduction this year. Fed Chair Jerome Powell said that, in the near term, the outcome of this year's election "will have no effects on our policy decisions," which is a likely nod to a widely expected rate cut next month.

While more cuts are expected in 2025, Donald Trump's presidential victory could lead the Fed to adopt a more cautious approach to the question of when and how much more to cut as it assesses how Trump's economic proposals may turn into actual policies.

The labor market continues to slow gradually, with employers adding just 12,000 jobs in October. However, the October data was distorted by the impact of two destructive hurricanes in the Southeast and a major strike at Boeing. In fact, the unemployment rate held steady at 4.1%, and average hourly earnings grew at a 4% annual rate. These are signs of what Fed officials hope is a job market returning to a sustainable equilibrium.

A slowdown for M&A during the election cycle

While the overall US economy is robust, the elevated uncertainty around the US presidential election relatively slowed the momentum of the M&A market. October deal value was down 26% month over month (m/m) and 63% year over year (y/y). October deal volume was almost on par y/y and 7% higher m/m.



Source: EY Insights analysis and Dealogic

This is likely to be a temporary slowdown as firms postponed engaging in big deals ahead of the US elections. As for M&A deals greater than US$1B, October saw only 25 deals and 26 for September, compared to the previous busy months of August and July 2024, which saw 33 deals and 38 deals, respectively.

M&A outlook positive as deal fundamentals remain strong

M&A activity is expected to increase, driven by stable financing costs, reduced recession risk and, most importantly, intensified strategic imperatives of companies amid a transaction slowdown.

Fed rate cuts will likely be a strong tailwind for sponsors and for the M&A markets more broadly — not only by lowering PE's cost of capital and making it easier to underwrite investments but also by making transactors more confident about the macro environment and target valuations. This perspective aligns with the EY CEO Outlook survey, which points to CEOs and institutional investors having a positive outlook for corporate M&A and private equity (PE) activity in 2025.

Moreover, dealmakers are expecting some relief from regulatory activism and rising protectionism with the new administration coming up. However, it remains to be seen if corporate M&A activity will really look much different in Trump's second term.

PE firms poised for heightened M&A activity

PE is likely to drive deal activity driven by interest rate cuts, stabilized financing markets and narrow valuation disconnect. PE firms in the US continue to have record levels of committed but uninvested capital, which could fuel more investment deals. As illustrated in our latest EY PE Pulse survey, rising sentiment is translating more directly into deal activity, while the valuation disconnect — one of the primary market impediments — is beginning to narrow enough that an increasing proportion of transactions is reaching the finish line. Still, exits continue to seek the more fulsome recovery evident on the buy side.

In the latest PE Pulse survey, 74% of general partners expect that deployment activity will increase over the next six months, up from 63% at the beginning of the year. Survey respondents also cited an increased volume of assets coming to market as the most critical factor needed to jump-start additional deployment activity, ahead of financing issues, fundraising concerns and even valuations.

Key deal drivers

- Improved conditions in the financing market
- Reduced economic uncertainty and better clarity around policy dynamics
- Better economic prospects and subsiding recession fears
- Attractive M&A valuations driven by reduced cost of debt
- Companies' continued transition to the cloud, growth in the Internet of Things (IoT) space and rapidly growing data needs from artificial intelligence (AI) adoption

US sector breakdown for US$100m+ deals — YTD

Sector	Volume	Volume change	Value	Value change
Technology	324	Up 33% y/y	US$321b	Up 44% y/y
Life sciences	185	Up 7% y/y	US$169b	Down 18% y/y
Oil and Gas	85	Up 5% y/y	US$166b	Down 36% y/y
Power and utilities	47	Down 11% y/y	US$83b	Up 109% y/y

Additional risks to dealmaking in 4Q24

- Impact of new trade and economic policies under the Trump administration
- Changes to existing industrial policies, such as the climate policy (i.e., Inflation Reduction Act) under, the Trump administration
- Continued regulatory scrutiny
- Economic concerns, such as a weak job market and reacceleration of inflation if the Fed shifts its focus away from its inflation target

Looking ahead to 2025

M&A activity is likely to firm up in 2025 , given the robust deal fundamentals and the improved deal appetite of both corporates and PE firms. Moreover, factors such as stabilized inflation, healthy debt markets, improved financing conditions and better M&A valuations are likely to stimulate M&A, amid a favorable backdrop in the coming months.

The US is likely to benefit most from the return of PE acquirers whose debt-fueled buyouts were hit hard by the Fed's aggressive rate hikes in the aftermath of the pandemic to combat inflation. The Fed reducing interest rates, further rate cuts in the pipeline and the convergence of seller and buyer valuation expectations have created a conducive environment for PE dealmaking.

With Trump having secured a decisive victory, investors will be weighing the impact his proposed economic and regulatory policies could have. Determining the deal momentum in the longer term will likely depend on how much of Trump's tax, energy, trade and regulatory agenda is enacted.

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multidisciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

About EY-Parthenon

EY-Parthenon teams work with clients to navigate complexity by helping them to reimagine their ecosystems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY-Parthenon teams focus on Strategy Realized – helping CEOs design and deliver strategies to better manage challenges while maximizing opportunities as they look to transform their businesses. From idea to implementation, EY-Parthenon teams help organizations to build a better working world by fostering long-term value. EY-Parthenon is a brand under which a number of EY member firms across the globe provide strategy consulting services. For more information, please visit ey.com/parthenon.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

US Score no. 25311-241US
2411-10619-CS
ED None

ey.com