

Franklin Place Capital

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Capital Markets

The US economy remained strong despite political & global economic uncertainty during the third quarter. U.S. markets were robust during the quarter led by tech & consumer names. Major U.S. indices made new highs, however volatility came soaring back in October. Primary concerns remain to be tariffs & trade tensions, slowing global growth, rising interest rates, and the Federal Reserve. As of October 24th, the S&P 500 is now flat on the year.

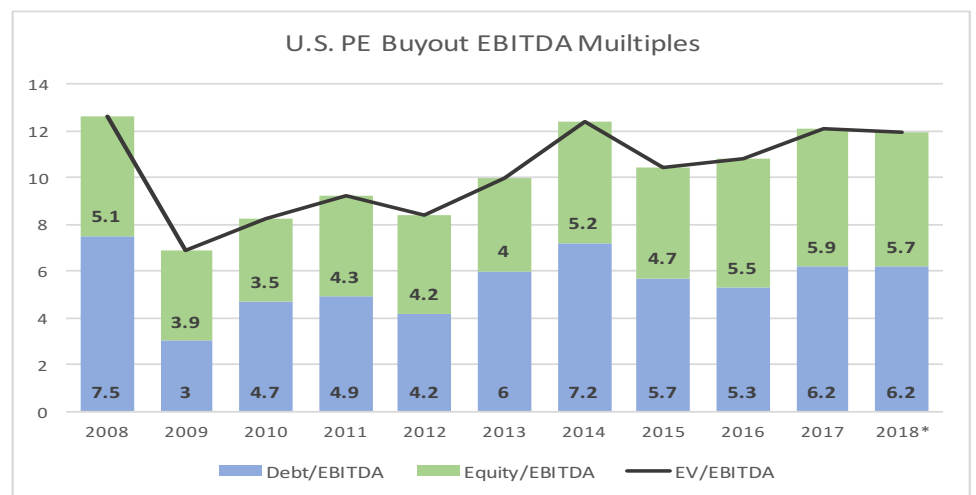
In recent weeks, The Federal Reserve began to spook investors as they raised the federal funds rate for a third time this year to 2.25%. The Fed continues to justify the rhetoric of hiking rates an additional time in December, followed by 2-3 hikes in 2019. Fed funds futures indicate more than a 77% probability of a fourth rate hike in December 2018.

Treasury yields began to jump during September and into October after a modest summer. The 10-Year Treasury Yield recently hit 3.25% reigniting concerns related to higher borrowing costs. The current 2Y/10Y spread sits at roughly 30 basis points, up from its low of nearly 18 basis points in late August. Record government debt and budget deficits also continue to support higher rates as the U.S. Treasury gears up to auction \$276 billion in treasuries at the end of October.

M&A Highlights

M&A activity continued to be robust in 2018 as global deal activity surpassed \$3.25 trillion year-to-date, a record high. Some analysts are concerned that geopolitical and trade uncertainty will slow deal-making, however the core elements of a strong M&A field remain. Ample amounts of cash and buyers hungry for quality assets remain ready to execute on attractive deals.

Strategic Deals	Strategic M&A accounted for more than 80% of transactions during the third quarter. Companies remain flush with cash as a result of the 2018 tax cuts and a strong domestic economy.
Foreign Investment	Despite geopolitical tensions, foreign investment into the U.S. remains intact. Through the 3rd quarter, foreign investment totaled more than \$110 billion, on track for a strong year.
Transaction Valuations	Add-Ons are expected to account for nearly 70% of US PE deals in 2018 as buyout multiples remain elevated. Debt/EBITDA multiples continue at 6.2X EBITDA per transaction on average.



Data Source: PitchBook 3Q 2018 US PE Breakdown, 9/30/18

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