PBMares Capital Markets

KEY TAKEAWAYS | SECOND QUARTER 2022

VITAL SIGNS

The State of the Markets

ECONOMY

Consumer sentiment hits a record low. About 79% of consumers expect bad times for business conditions in the year, the highest since 2009. Rising inflation and record gas prices continue to frustrate consumers. Another contributing factor is the volatility in the broader economy caused by a lingering pandemic and Russia's invasion of Ukraine.

Inflation is running hotter than at any point since 1981. U.S. consumer prices increased 9.1% in June from the prior year exceeding expectations of an 8.8% gain. The increase was driven primarily by the surge in the prices of energy and food. Most likely, this inflation outcome will lead to a rate hike by the FED of at least 75 basis points at its next meeting later this July.

The jobs picture remains bright. The June jobs report showed that U.S. employers added 372K jobs, topping expectations of 250K. Also, the portion of the workforce who is self-employed hit its highest level since 2008 accounting for 33% of the total increase in the labor force in the last two years. Because the labor market is not slowing down, the Fed is likely to continue with hefty rate increases to tame inflation.

Indicator	Latest Available Data (eop)	Change			
		Average Last 5 Years	YoY	YTD	QoQ
Consumer Sentiment	50. Jun	↘	↓	↓	↓
Inflation (CPI)	9.1% Jun	↑	↑	↑	↑
Unemployment	3.6% Jun	→	↓	↘	→

CAPITAL MARKETS

The stock market posted negative returns, again. The S&P 500 index continued to decline in the second quarter, falling 17%-the lowest level since December 2020. On a sector level, all 11 S&P 500 sectors finished the second quarter with negative returns. High inflation, sharp increases in interest rates, rising recession risks, and ongoing geopolitical unrest contributed to pressure stocks and other assets. Until investors get relief from these headwinds, markets are expected to remain volatile.

Interest rates are rising and their climb is expected to continue. Interest rates have surged this year rapidly changing the conditions in capital markets and slowing down business activity. With inflation running at a 40-year high, the Federal Reserve is likely to increase its benchmark interest rate by at least 75 basis points at the next meeting in July. Additionally, the 2-year Treasury yield, which is more sensitive to monetary policy changes than its longer term counterparts, rose above the 10-year Treasury yield. Yield curve inversions are generally viewed by market participants as harbingers of recession.

Venture Capital the 10-year Treasury yield. Yield curve inversions are generally viewed by market participants as harbingers of recession. Early-stage VC investing shows resilience. In 2022, deal counts have stayed relatively high across all stages, with seed-stage investments pushing toward previous record highs. On the other hand, deal value have decreased significantly, largely as a result of a drop in large deals and late-stage investments. Looking forward, the pace of VC activity across all stages is likely to slow in the second half of 2022 as the threshold for closing deals rises and pricing uncertainty extends to early-stage investments.

S&P 500	3,899 Jun	↗	↘	↓	↓
10-yr. T-Bond Rates	3.1% Jun	→	↑	↑	↑
VC - Investments ($bn)	73.5 2Q22	→	→	↘	→
VC - Exits ($bn)	17.2 2Q22	→	↘	↓	↘
VC - Fundraising ($bn)	47.7 2Q22	→	↗	↗	↘

M&A ACTIVITY

U.S. M&A experiencing strong headwinds. Although deal making in the U.S. dropped just 2% from the previous quarter, the decline was 32% relative to the same period a year ago. Most of the impact was felt on opposite ends of the market, namely, $1B+ deals and those below $10M. Meanwhile, middle-market M&A remains strong increasing 20% year-over-year.

Middle M&A multiples their reversed trend. EBITDA multiples in the middle market increased from 6.8x in 1Q22 to 8.9x at the end of the second quarter. This increase reflects the fierce competition for middle market companies with strong cash flows that can be acquired without significant amounts of debt.

U.S. M&A ($bn)	68.8 Jun	↗	↘	↘	↘
M&A EBITDA Multiples	8.9x 2Q22	→	→	→	↑

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