PBMares Capital Markets

KEY TAKEAWAYS | THIRD QUARTER 2022

VITAL SIGNS

The State of the Markets

ECONOMY

Consumer sentiment rebounded in 3Q22. Consumer sentiment has improved since hitting an all-time low in June as record-high gas prices weighed heavily on Americans' finances. Despite the bounce back, sentiment levels are still comparable to those seen during the Great Recession, as consumers feel the financial pressures caused by rising prices of food, housing, energy, and other essentials

Inflation remains high. The consumer price index rose 8.2% in September compared to the same month last year. The main causes of the increase were rising costs for housing, food, and healthcare. "Core" inflation, which excludes the cost of food and energy, increased to its highest level since 1982, suggesting inflation is broad-based.

The unemployment rate decreased to 3.5% in September. Although a lower unemployment rate is generally an encouraging sign, the decrease was attributed in large part to more people leaving the workforce, an indicator of coming economic trouble. Additionally, when firms struggle to attract and retain workers, they are forced to raise salaries, which exacerbates inflationary pressures.

Indicator	Latest Available Data (eop)	Change: Average Last 5 Years	Change: YoY	Change: YTD	Change: QoQ
Consumer Sentiment	58.6 Sep	↘	↓	↓	↑
Inflation (CPI)	8.2% Sep	↑	↑	↑	↗
Unemployment	3.5% Sep	→	↓	↘	↘

CAPITAL MARKETS

Investor uncertainty persists in the stock market. In 3Q22, the S&P 500 index had a loss of about 5%, bringing its annual decline to 24%. The equities market experienced significant volatility in the third quarter of 2022, and after a dip in September, it finally finished lower overall. The drop in the S&P 500 index occurred following stubbornly high inflation data and particularly pessimistic comments by the Federal Reserve that further tightening policy was deemed necessary.

The Fed continues the work toward reducing inflation. In September, the Federal Open Market Committee raised interest rates by three-quarters of a percentage point, marking the third consecutive increase of that size. As a result, the federal funds rate is now at 3.25%, the highest level since 2008. In lifting rates above 2.5%, which is considered to be a "neutral rate," the FOMC is assuming that the economy is strong enough to endure some restrictions without sliding into a recession.

VC investment levels are down. In Q3, VC activity was below the historic heights of 2021 and early 2022. So far, in 2022 exits are down almost 50% against historical norms, with public listings at record lows. On the positive side, prospects for the VC industry are encouraging. Recently enacted federal legislation (Inflation Reduction Act and the CHIPS and Science Act) promises to make more funding available for managers and founders.

Indicator	Latest Available Data (eop)	Change: Average Last 5 Years	Change: YoY	Change: YTD	Change: QoQ
S&P 500	3,851 Sep	→	↘	↓	→
10-yr. T-Bond Rates	3.5% Sep	→	↑	↑	↗
VC - Investments ($bn)	50.7 3Q22	→	↓	↓	↓
VC - Exits ($bn)	14.6 3Q22	→	↓	↓	→
VC - Fundraising ($bn)	29.4 3Q22	→	→	↘	↘

M&A ACTIVITY

U.S. M&A is facing significant headwinds. Deal activity during the third quarter declined 69% from the previous quarter and 78% from a year ago. Geopolitical instability, spiking inflation, supply chain issues, skittish capital markets, regulatory changes—all these factors, and more, are fueling uncertainty. With these conditions, getting the fundamentals of deal execution right is more important than ever.

M&A multiples remain resilient in 3Q22. Despite a drop in M&A activity, pricing multiples rose from 8.9x to 9.8x. The increase in pricing multiples is a reflection of deal makers' pursuit of larger acquisitions amid uncertainties involving transactions in smaller companies.

Indicator	Latest Available Data (eop)	Change: Average Last 5 Years	Change: YoY	Change: YTD	Change: QoQ
U.S. M&A ($bn)	11.4 Sep	↘	↓	↓	↓
M&A EBITDA Multiples	9.8x 3Q22	→	→	→	↗

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