December 2023

# *Views From CoView*

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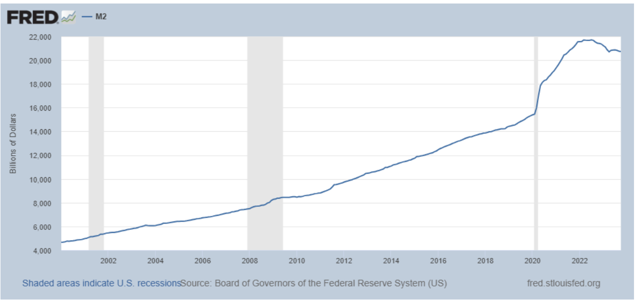
**Greetings**

The US economy expanded in 2023 with GDP rising 5.2% on an annual basis through the third quarter, even as the Federal Reserve ratcheted up interest rates and drained liquidity from the system. Overnight rates were left up at 5.5%, the highest level in 22 years and the central bank's balance sheet contracted as $90 billion worth of government bonds and mortgages rolled off its books every month. After insisting for most of 2023 that rates would stay higher for longer, at year end, the Fed pivoted toward cutting rates in 2024. Buoyed by a dot plot of multiple future rate cuts, the stock market soared, even as investors were left guessing when, precisely, the first blessed event might occur in the new year.

Looking at the current state of the economy, real gross domestic product (GDP) increased through the third quarter largely on continued strength in consumer spending and growth in inventories. The unemployment rate in November dropped to 3.7%, and, although the labor market remains tight, there appears to be some loosening in demand. A decline in oil prices from a high of over $90/bbl in September to $72/bbl also supports economic growth, assuming lower prices hold. The University of Michigan's consumer confidence index surged in mid-December to 69.4 points from 61.3 points at the end of November. New car sales in 2023 are estimated to increase to 15.3 million vehicles from 13.8 million in 2022 and US housing starts rose 14.8% to a 1.56 million annualized rate in November, leading to an upward revision in economists' US fourth quarter GDP forecasts.

Moderating inflation data provided the spark that ignited the year end rush into US equities. Using the Fed's preferred inflation metric, the core personal consumption expenditures (PCE) price index declined in November to 3.5% on a year over year basis. The more widely followed core CPI was steady at 4.0% y/y, the slowest rate of inflation since September 2021. The Fed estimated that by year end 2024, the PCE index will decline to 2.4% and the Fed Funds rate will by that time have settled back into a lower range of 4.5% to 4.75%. Whether the drop in inflation and lower rates will be justified in the face of what appears to be a strong economy, remains to be seen.

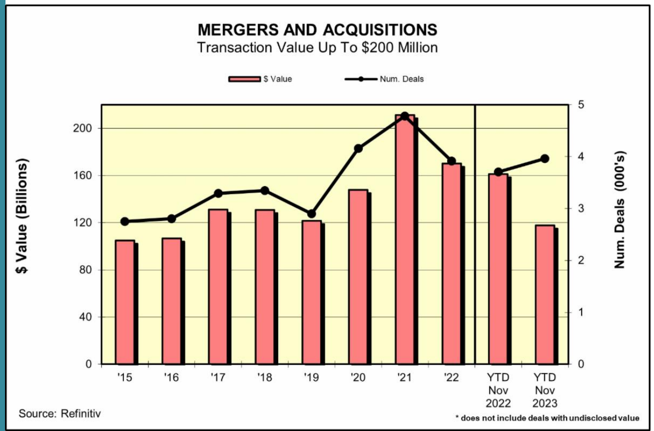
## Money Supply Continues To Level Off




As seen on the graph at left, the money supply continued to level off in 2023, dropping by $1 trillion from July 2022 through October 2023.

Notwithstanding the decline in M2, as of mid-December, some $5.7 trillion in investor funds were parked in money market accounts, leaving much dry powder should investors wish to employ capital.

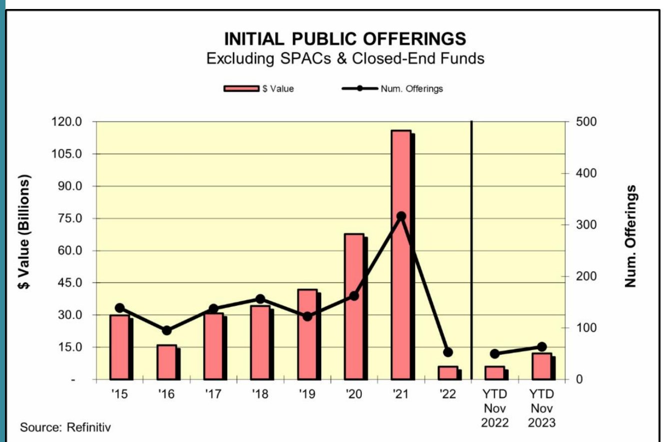
## M&A Market Activity




As 2023 comes to a close, the aggregate value of middle-market M&A transactions decreased by some 26% relative to the strong market experienced in 2022.

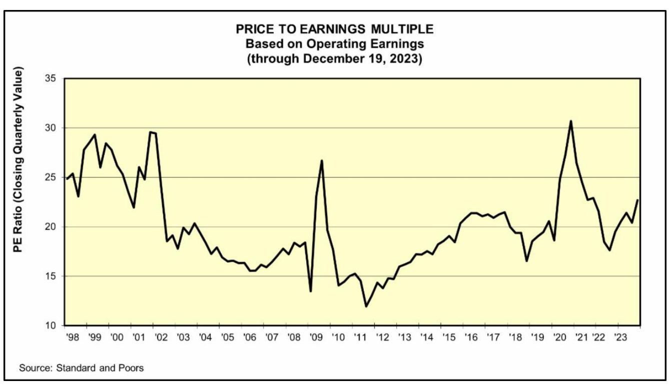
CoView's anecdotal gauge of the market indicates that there has certainly been no decline in buyers seeking to make acquisitions. Rather, sellers are staying on the sidelines as 2023 profits may have been hurt by inflation and high interest rates.

## IPO Activity




IPO activity in the first 11 months of 2023 ticked up from 2022 levels but remained considerably below the historical trend as investor appetite for new issues cooled in light of the high valuations expected by issuers and economic uncertainty due to high interest rates.

## Valuation Perspective: PE Ratios




The chart on the left shows historical P/E ratios ticking up in 2023 as investors anticipated the Fed ending its interest rate tightening and possibly reducing rates by mid-2024. Current operating P/E ratios are in the neighborhood of 22x, slightly above the 30-year average of 19.x.

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