September 2024

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US economic metrics became more volatile when the Federal Reserve began applying the brakes to combat inflation in 2022. The Fed raised overnight interest rates to the highest level in 22 years, a range of 5.25% to 5.50%, in order to combat rising prices. Despite such high rates, GDP rose by 3.0% in Q2 2024 compared to Q2 2023 as consumer spending remained robust. GDP output is expected to remain steady in Q3 but drop in Q4 2024. The Fed's recent 50 basis point rate reduction is meant to keep the US economy steady and avoid a recession.

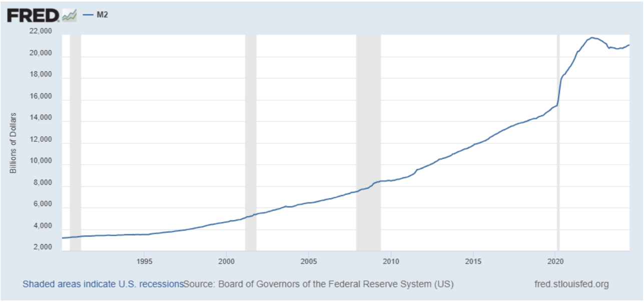
Housing Market: High mortgage rates and persistent affordability issues continue to slow housing demand. The average 30-year mortgage rate is around 6.31%. Despite this, home prices are expected to rise by 3% in 2024, driven by limited inventory. Mortgage rates are expected to decline, offering some relief to buyers in the near term although July housing starts were 6.8% below June 2024 and 16% below July 2023, and home sales in August were 4.2% lower than in August of 2023.

Labor Market: The labor market is softening, though it remains relatively resilient. The unemployment rate in August was 4.2%, up from 3.8% in August of 2023. Slower economic growth is expected through 2024, leading to weaker job gains. However, unemployment remains historically low, helping to sustain consumer spending.

Auto Sales: Sales of light vehicles in August were at a seasonally adjusted annual rate (SAAR) of 15.2 million units, a moderate reading and down from the 15.8 rate registered in July. Auto sales have generally remained stable despite rising interest rates. Electric vehicles now command approximately 8.1% of the US market for new vehicles. Major auto manufacturers have slowed spending on EV programs.

Mortgage Rates: After peaking earlier in the year, mortgage rates have recently declined, with the national average for a 30-year fixed mortgage at 6.20% as of early September. Rates are expected to continue falling as inflation cools and the Federal Reserve cuts rates. Overall, while there are signs of cooling in some areas, especially housing and labor, the U.S. economy is expected to avoid a recession, maintaining slow growth through 2024.

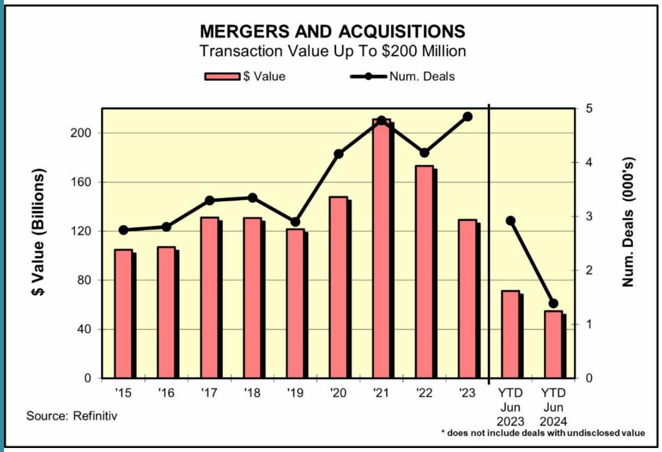
Money Supply Stays Flat



As seen on the graph at left, the money supply began to tick back up in July of this year to $21 trillion after dropping to $20.7 trillion in October of 2023.

As of September 11, a record $6.3 trillion in investor funds were parked in money market accounts, leaving much dry powder should investors wish to employ capital.

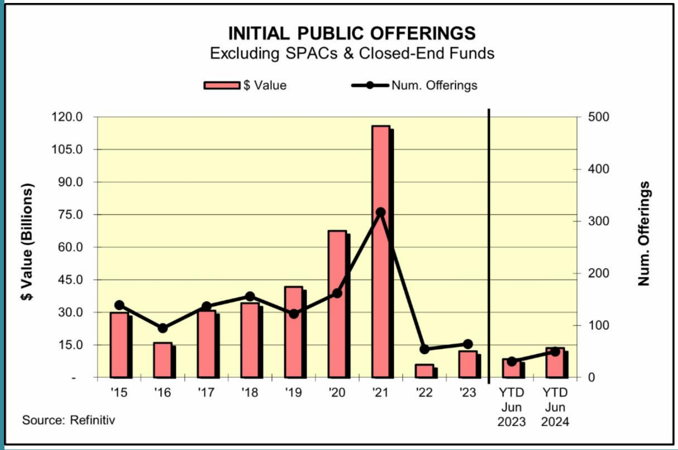
M&A Market Activity



Both the aggregate value of middle-market M&A transactions and the number of transactions decreased through July of 2024 when compared with the same period last year. (It should be noted that certain financial data aggregators showed relatively flat year-to-date comparisons in the dollar value of transactions)

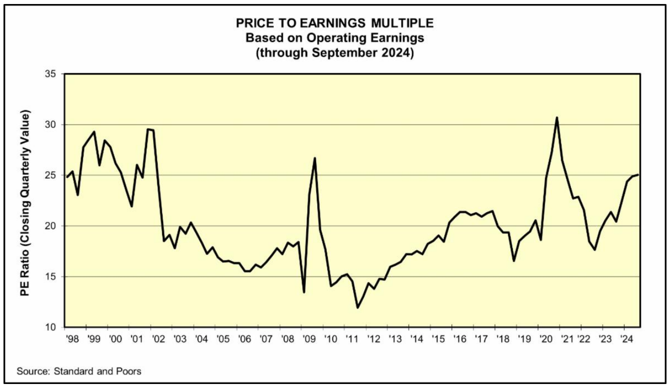
CoView's anecdotal gauge of the market indicates that there has been no decline in buyers seeking to make acquisitions. Rather, challenging year over year comparisons in M&A activity are the product of flat profits reported by businesses up for sale (due a volatile economy) and high interest rates which put a lid on prices buyers were willing to offer.

IPO Activity



IPO activity in the first half of 2024 was weak as high interest rates and a volatile stock market dampened investor appetite for new offerings. The stock market's reaching new highs in recent days and the Federal Reserve's 50 basis point reduction in the overnight borrowing rate will likely spur a rebound in IPO activity.

Valuation Perspective: PE Ratios



The chart on the left shows historical P/E ratios moving up in 2024 as investors anticipated the Fed beginning to ease lending rates. Current operating P/E ratios are in the neighborhood of 25x, above the 30-year average of 19.4x.

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