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2018: Record M&A spending spree



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After successive quarters of strong economic growth, and with corporate spending power high, global mergers and acquisitions (M&A) had their strongest start ever in the first half of 2018, totalling \$2.5 trillion in value. Deal-making volumes are up 65% from the same time a year ago and the most, on a nominal basis, since Reuters began keeping M&A data in 1980. The figure is inflated by a wave of so-called 'mega deals' worth over \$10 billion, primarily in the US tech and media sectors. However, the trend is also stellar in Europe and Chinese deal-making has made a comeback after subdued activity in 2017.

With the Trump administration's \$1.2 trillion tax cuts and the unlocking of overseas cash bounties, US corporates are 'awash with cash and swimming in opportunity' and CEOs have found themselves confident that now is an opportune moment to pursue transformative mergers. Borrowing costs remain relatively low and credit availability remains strong. It is widely

accepted that yields are creeping up and that could be compelling some to act sooner rather than later.

According to Deloitte research, the key motivation for companies engaging in M&A is technological acquisition. Seismic shifts in technology and the threat of disruption are forcing all manner of companies to pursue strategic combinations. For example, the ongoing bidding war between Walt Disney and Comcast for 21st Century Fox is fueled by the need to have more content offering more consumer choice and for scale in order to compete against the behemoths, Amazon, Netflix and Google...

The uptick in deals can be viewed positively as a sign that CEOs are bullish on business, have an expansionary mindset and are optimistic about the future. The better macro-economic environment has created greater confidence to get things done and deals that have been in the pipeline for a long time are finally materializing.

However, it is prudent to remember that increased M&A activity is a lagging rather than a leading indicator: M&A often becomes more prominent as the business cycle ages and corporates start to exhaust their organic growth opportunities, whilst simultaneously making the most of readily-available cheap debt financing. Many major economies have experienced a long period of uninterrupted growth and, as a result, investment professionals are scrutinising for any signs of irrational exuberance, such as frenzied levels of M&A that commonly occurs late in the cycle. Announced global M&A moved upwards in 2000 at the height of the dotcom bubble, and in 2007 in the build up to the financial crisis.

The recent burst in announced global M&A does not amount to a sell signal and we still maintain an equity overweight, believing that this asset class can continue to benefit from the expansionary environment through 2018, achieving modest gains. We will however continue to monitor M&A volumes along with other-end-of-cycle indicators, which, for the moment do not indicate any imminent danger.

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