M&A Outlook for 2023 (Part Two)

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Any attempt to predict what the future investing climate will be is bound to be an iffy proposition. This point was driven home to us as we reviewed past candidates for Lead Left Quotes of the Week that didn't make the cut for one reason or another.

For instance, back in May 2021 one CIO of a large private wealth manager predicted:

"Inflation will be higher. At a dangerous level? No." Another fixed income head at a top global asset manager wasn't so sure. "There is so much dislocation in the economy…that it will take at least six to 12 months before we get a clear view of the underlying inflation trend."

Prescient too was Mohamed El-Erian of Allianz. "The last few years have been great for investors because everything went up," he said back then. "You gained on your equities and bonds. Now you risk losing money on both sides." Indeed.

The biggest challenge today is predicting Fed behavior. It seems predicated less on inflation data and more on a determination to send a signal to markets (see our *Chart of the Week*) that its battle against systemically higher prices is serious enough to likely end in a recession. Sustained higher rates lasting into 2024 might have a lasting impact on deal making activity.

That's led to some towel-throwing by analysts. "My belief is that markets are unforecastable most of the time," said Andrew Pease, head of investment strategy at Russell Investments. He notes in Katie Martin's always excellent FT column only when "people hurt" can you really move with certainty. A hurt that would be likely in the sort of downturn the Fed is aiming for.

Ms. Martin also cites a JPM study showing the S&P 500 earned 9.76% from 2002 to 2022. But if you deselected the 30 best performing days, that return barely broke even. Of course it's impossible ahead of time to pick those high points – a teeny 0.56% of the number of business days over two decades. Proving whether public or private, timing the market is tricky business.

As we heard from yesterday's panel (more to follow next week), M&A participants are used to playing the long game. Their commentary is echoed by others. "The M&A market is not going to stop," noted Christopher Auld, head of leveraged finance at Stifel in a WSJ piece. "It just doesn't work that way. What it does is it evolves."

This week's Quote of the Week winner came from William Regner, an M&A partner at Debevoise & Plimpton. "The most important ingredient, in a way…is confidence," he told WSJ in the same article. This confidence will come from innovative structures that adapt to financing pressures such as higher interest rates without sacrificing execution.

We would point out that activity level is a relative thing. As our panelists stated, while 2022 was a down year from a volume perspective, it was still in the top five for activity. 2023 might prove to be slower than that – as Wall Street's downsizing seems to anticipate. But history has shown it's hard to count out determined buyers and sellers looking for ways to make a deal.