

M&A outlook points to gradual rebound in deal market in 2024

EY-Parthenon Deal Barometer

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Based on economic and market indicators, the latest EY-Parthenon Deal Barometer predicts an uptick of deals in the 2024 M&A outlook.

In brief:

- The latest Deal Barometer forecasts that 2024 US corporate M&A deal volume will increase 20% and US private equity M&A deal volume will be up 16%.
- Q1 2024 saw a 36% increase in global deal value. Our M&A outlook shows CEOs are looking to make acquisitions, and there is a rise in those looking to divest assets.

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The EY-Parthenon Deal Barometer, which incorporates the latest EY Macroeconomic outlook, estimates corporate US M&A deal volume will rise 20% in 2024, following a 17% contraction in 2023. This would represent a return to near pre-pandemic levels of activity with the number of deals in 2024 only about 4% below the average number of deals in 2017-19.

In US private equity (PE), the Deal Barometer indicates deal volumes are likely to rebound 16% in 2024, following a 15% contraction in 2023. While this would still leave deal volumes below the 2021 peak, it would represent a faster pace of growth than the average 9% annual pace from 2010 to 2019.

This perspective aligns with the EY CEO Outlook survey pointing to CEOs and institutional investors having a positive M&A outlook for corporate deals and PE activity in 2024. CEOs are looking at deal-making activity as a key lever to address their near-term priorities, with the top deal driver being the acquisition of technology, new production capabilities or innovative startups. They are also looking at their current portfolio of assets and operations and considering what will help their longer ambitions. The spike in intentions to divest assets over the next 12 months, which is broadly based across geographies and sectors, highlights how far CEOs are along their path to future-proofing for a different environment.

This edition features:

- 01 M&A market rebound expected to continue into 2025
- 02 In focus: corporate M&A outlook
- 03 In focus: PE deal outlook
- 04 Global market perspective
- 05 EY-Parthenon Deal Barometer: forecasting methodology

01 M&A market rebound expected to continue into 2025

Our M&A outlook sees a considerable rise in activity while still watching inflation.

Over the last three years, deal-making has fluctuated remarkably. In 2021 and early 2022, deals surged to record levels thanks to low inflation, strong economies, high company profits and particularly low interest rates. But with the Fed's aggressive policy tightening to combat high inflation beginning in March 2022, the higher cost of capital, increased economic uncertainty and geopolitical strife caused a sharp decline in deals. In 2023, US PE deals fell 15% from 2022 and roughly 25% from their 2021 peak, while US corporate M&A for deals over \$100 million fell 17% from 2022 and were about 45% lower than their 2021 peak.

As we look ahead, the **EY CEO Outlook survey** points to an increase in CEOs looking to make acquisitions and a big rise in those looking to divest assets. At the same time, most institutional investors (61%) anticipate a stable deal environment, with a third (34%) who expect an acceleration of deals.

The EY Macroeconomics team's US economic outlook shows US economic activity remains resilient, powered by consumers' ongoing ability and willingness to spend, even if they are being more scrutinous in the face of high prices. A robust labor market along with positive real wage growth continues to provide a solid foundation to consumer outlays. Meanwhile, businesses are focusing on high return-on-investment projects and productivity-enhancing investments in an elevated cost and interest rate environment.

In the coming quarters, we see the US economy gently cooling as slower labor demand, easing wage growth, stubborn inflation and tight credit conditions constrain private sector activity. We note that if inflation proves to be stickier than anticipated, the downside risk to the economy from reduced real income growth, a "higher-for-longer" Fed stance and tightening financial conditions would be notable.

For now, we assume the Fed will proceed with two 25 basis points (bps) rate cuts in July and November, and we anticipate real GDP growth will average 2.5% in 2024 – after a similar 2.5% expansion in 2023 – before cooling to 1.7% in 2025.

02 In focus: corporate M&A outlook

The optimistic scenario points to deals rising 31% in 2024, while the pessimistic scenario shows a muted recovery with an increase of 13%.

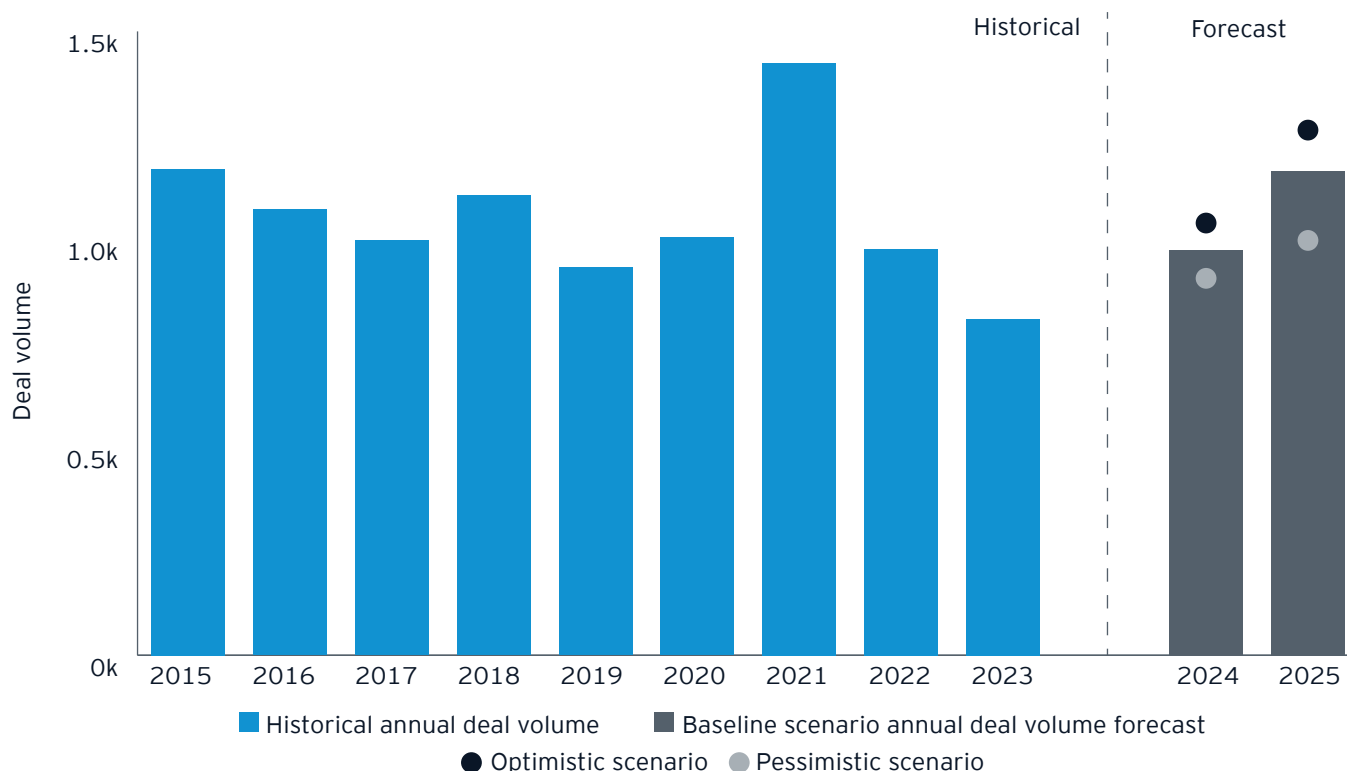
Based on the Macroeconomics team's US economic outlook, the EY Deal Barometer estimates corporate M&A deal volume (for deals over \$100 million) will gradually pick up, rising 20% in 2024, following a 17% contraction in 2023. (See Figure 1 below.)

Historically, corporate M&A deal volumes have been relatively stable at around 1,000 deals over \$100 million per year. But the low inflation and low interest rate environment in 2020-21 resulted in a large positive shock for deal volumes, registering an impressive jump of more than 40% in 2021. The Deal Barometer largely anticipates a return toward pre-pandemic levels of activity with the number of deals in 2024 only about 4% below the average number of deals in 2017-19.

In our optimistic macroeconomic scenario – where growth is stronger, inflation cooler and interest rates are lower – our Deal Barometer anticipates more rapid recovery for 2024 with the number of deals increasing 31%.

In the pessimistic scenario – where growth is weaker, inflation hotter and interest rates higher – deal volume is expected to show a muted recovery with 13% growth in 2024.

Figure 1: US corporate M&A deal volume

[illegible]

03 In focus: PE deal outlook

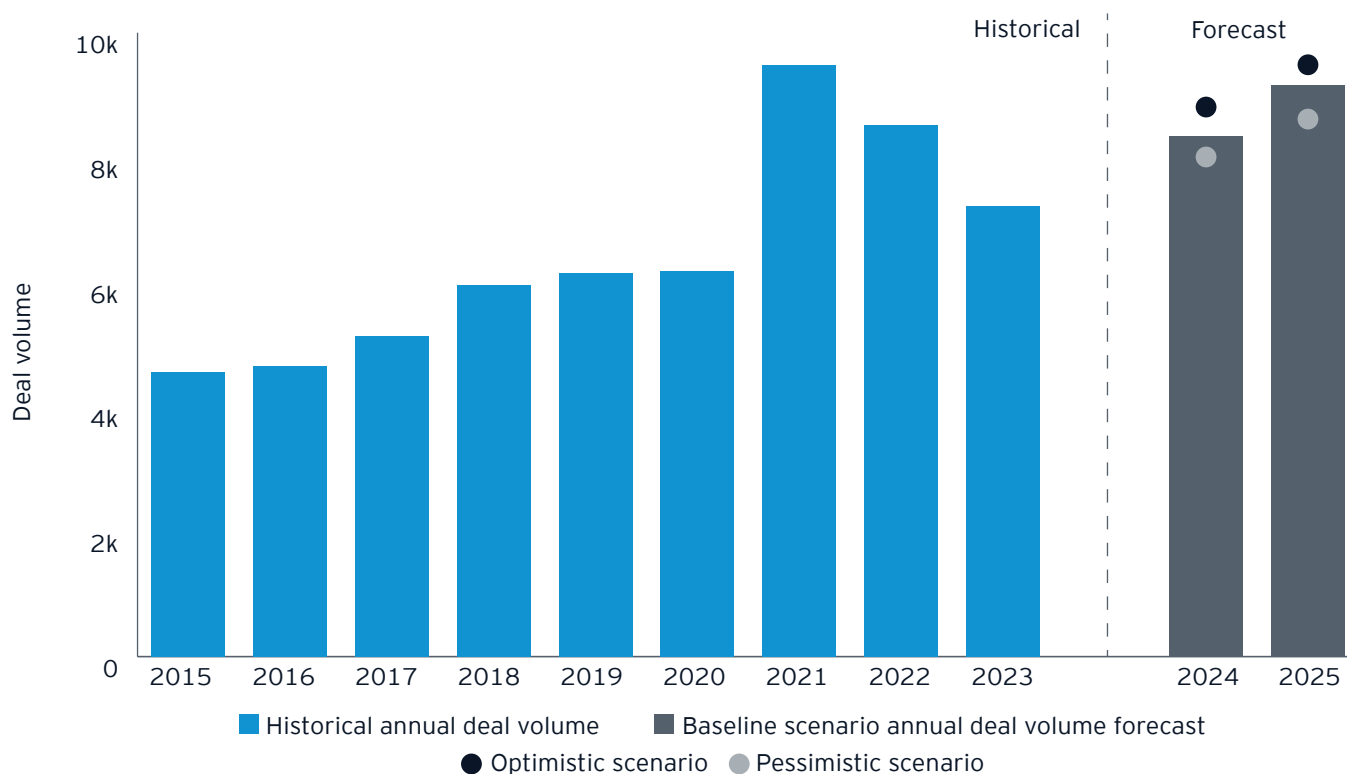
In our optimistic scenario, PE deal volumes would rise faster in 2024, up 23%, while the pessimistic scenario shows an increase of about 8%.

For private equity, the Deal Barometer indicates US PE deal volumes will rebound 16% in 2024, following a 15% contraction in 2023. While this would still leave deal volumes about 12% below the 2021 peak, it would represent a faster pace of growth than the average 9% annual pace from 2010 to 2019 (See Figure 2 below.)

In our optimistic macroeconomic scenario, deal volumes would rise faster in 2024, up 23% year over year (y/y). This would be two and a half times the pre-pandemic pace of growth so that deal volumes would be only 6% below the 2021 peak.

In our pessimistic macroeconomic scenario, deal volumes would rebound with a delay and much less in 2024, showing modest year-over-year growth of about 8%. In this scenario, deal volume would trail the 2021 peak by 18%.

Figure 2: US PE deal volume

[illegible]

04 Global market perspective

The first quarter of 2024 saw a 36% increase in global deal value, as well as a spike in CEOs' intentions to divest.

Globally, \$796 billion of deals were announced in Q1 2024, showing a very healthy 36% increase on the start of 2023. This gain was driven by significant strength in the US, more specifically in the energy and life sciences sectors. But there was also an uplift across Europe, especially in the UK, and an acceleration of deal-making in financial services along with a return of technology asset acquisitions.

Our latest CEO survey points to a striking uptick in intentions to divest an asset or part of the business, either through a trade sale, a sale to PE or a spin. Recent market developments will support this through 2024, as companies look to off-load parts of their business to either bring greater focus to their operations or to raise capital to invest in their remaining portfolio.

Our latest EY Private Equity Pulse shows this sentiment for divesting continued to rise among PE deal-makers in Q1, driven by greater macro clarity, increased visibility into interest rates and a sense that the valuation gap – one of the primary impediments to deal-making in recent quarters – continues to resolve. Nonetheless, announcements remain markedly uneven. While February was one of the busiest months of the last year, March was among the slowest.

It's becoming increasingly clear that while the PE market will continue to recover over the balance of the year, the trajectory will be nonlinear.

As hold periods continue to increase – in the US, for example, average hold periods hit 5.3 years last year – pressure continues to build for realizations. While many corporates remain more focused on selling – in particular, carving out noncore divisions – sponsors have been more active in acquiring PE assets.

Carve-out activity remains robust, as strategics continue to rationalize their businesses and raise cash to invest in core competencies. Last quarter, carve-outs made up 20% of deployment activity by value vs. approximately 5% in Q1 2023, and 11% in Q4 2023.

Still, with global funding markets being more open in 2024 than 2023, acquirers can be more confident in securing funding. Companies looking to divest will also be supported by an increasing appetite for new issues on exchanges and the long-awaited return of PEs as competitive buyers.

EY-Parthenon Deal Barometer: forecasting methodology

The EY Deal Barometer uses the EY Macroeconomics outlook for economic and financial market indicators to predict future trends in corporate M&A and private equity deal activity. Our macro-econometric framework considers factors such as GDP growth, corporate profits, corporate bond spreads, and changes in short- and long-term interest rates. We also factor CEO confidence¹ as a driver of corporate activity. For our analysis of corporate M&A deals, we focus on deals that are publicly disclosed and have a value of over \$100 million.

Over the last 35 years, it shows a correlation of 98% between private equity deal activity and GDP growth, inflation, corporate profits, and short- and long-run interest rates. The correlation between M&A activity and these economic indicators plus CEO confidence is around 75%, pointing to robust predictive power. By using this framework, we provide business executives with an objective perspective on the volume of private equity and corporate M&A deal activity in the coming quarters.

¹The measure of CEO confidence is provided by the Conference Board and is based on a survey on CEOs' perceptions of current and expected conditions in business and industry.



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