Merger Monthly series

M&A activity insights

March 2025

In February 2025, the M&A market entered a watchful phase, evidenced by a downturn in the number and total value of deals over US$100m. The volume of these deals fell by 5.9% year over year and 19.5% from the prior month, while combined deal value dropped by 53% year-over-year (YoY) and 34% from January.

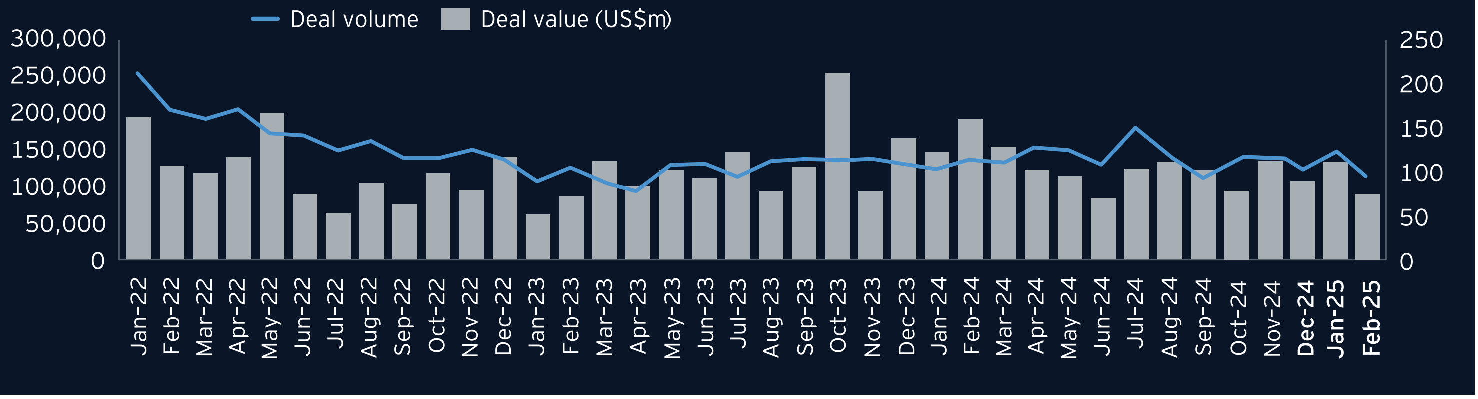
Businesses were careful with M&A activity over US$1b: while volume in deals this size rose 12% from a year earlier, dollar value decreased by 59% and there were no large cap deals (those above US$10b), compared with six such deals in February 2024. This combination of factors indicates selective activity in the mid-market.[1]

Amid the current slowdown in activity, the Trump administration's deregulation efforts and potential interest rate reductions later in the year may lift the M&A market, presenting chances for more affordable debt financing and avenues for growth.

Companies are closely scrutinizing the effects of volatile trade policies and economic trends before engaging in substantial mergers or acquisitions. This approach has led to a preference for bolt-on acquisitions, allowing for strategic growth without the commitment to larger investments. Nonetheless, there is an optimistic expectation for a surge in M&A activity once the market conditions become more favorable.

Monthly global M&A trend (2022 onward)

Deal value (US$100m+); deal volume (US$100m+)



Source: EY Insights analysis and Dealogic

US sector breakdown for top deals (US$100m+) – February 2025

Technology, Oil & Gas, Chemicals, Aerospace & Defense, and Mobility sectors were particularly notable for their significant contributions to both the volume and value of transactions.

Sector	Volume	Volume change	Value	Value change
Technology	35	Up 25% YoY	US$27b	Down 36% YoY
Oil & Gas, Chemicals	14	Down 18% YoY	US$18b	Down 59% YoY
Aerospace & Defense, Mobility	9	Up 13% YoY	US$12b	Up 100% YoY

Capital availability enabled balanced US deal activity distribution

The availability of capital has played an important role in sustaining M&A activity in the US, facilitating transactions across various sectors. Technology again emerged as the frontrunner in February 2025, recording the highest deal value.

The Federal Reserve's decision to maintain interest rates at 4.25% to 4.50% also supported debt financing, allowing companies to pursue mid-cap deals[1] despite a cautious economic backdrop. However, the high cost of capital continues to weigh on some CEOs' decision-making, leading to a cautious approach in certain industries.

Private equity deals remained steady amid strategic adjustments

Private equity (PE) continued to be a key contributor of deals in February 2025, making up 43% of the month's deal value. With significant capital on hand, PE firms are expected to maintain active dealmaking, particularly in seeking exits. Shifting away from leveraged buyouts, these firms are now prioritizing strategic partnerships, minority investments and smaller, easily integrated acquisitions, reducing the need for borrowing. The strategic adjustments can be attributed to an evolving market landscape that demands greater risk management and operational efficiency.

By targeting smaller, focused investments, PE players are better positioned to preserve capital and limit exposure to high leverage. This approach not only facilitates quicker integration and operational synergies but also strengthens exit strategies by concentrating on long-term value creation. Such recalibration underscores a cautious yet adaptable investment climate, balancing growth ambitions with the shifting economic environment.

Key deal drivers for this month:

- Ample dry powder and corporate cash reserves continue to propel M&A activity.
- Targeted M&A with focus on strategic growth, market consolidation and niche capability enhancement.
- The Fed held interest rates steady; this supported an environment conducive to M&A activity by maintaining the availability of capital at predictable costs.
- Companies are increasingly moving to cloud computing, expanding in the Internet of Things (IoT) domain and facing surging data demands due to artificial intelligence (AI) adoption.
- Steady PE growth is bolstered by persistent advancements in technology integration, private market expansion and confidence stemming from shrinking valuation disparities and rising asset availability.

[1] "Mid-market" includes core middle market (CMM), with deal size ranging from $100 million to $500 million; and upper middle market (UMM), with deal size ranging from $500 million to $1 billion.

Additional risks to dealmaking in 1Q25 include:

- Big Tech mega deals might face tougher government checks, risking delays and issues in combining companies successfully.
- It's essential that businesses navigate the impact of new trade and economic policies under Trump's administration.
- Economic slowdown concerns, spurred by weaker-than-expected data, pose a risk to dealmaking as they may lead to a cautious investment climate and reduced M&A activity.

Looking ahead

The US M&A market is adopting a wait-and-see approach amid uncertainties surrounding the Trump administration's economic policies, including implementing significant tariffs. Companies are focusing on cost management and supply chain optimization, preparing for more robust deal activity once clarity returns.

While the US economy began the year with strong momentum, increasing uncertainty around trade and fiscal policies is straining the outlook. The latest EY economic report suggests that economic growth may moderate to a 2% trend rate in the coming quarters, with GDP projected to expand by 2.3% in 2025 and slow to an average of 1.7% in 2026.

However, the anticipated moderation in consumer spending and business growth is being met with strategic workforce planning and a focus on productivity, positioning businesses to effectively manage cost pressures and maintain momentum. The latest EY US economic outlook highlighted a gradual moderation in spending trends with consumption momentum likely to ease from 3.2% YoY in Q4 2024 toward 2% YoY in Q4 2025.

Conclusion

In February 2025, the M&A market showed caution, with deal value down. Despite this, selective mid-market M&A activity persisted. The Trump administration's potential deregulation and rate cuts later in 2025 may drive M&A, while companies focus on strategic growth and risk management.

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