Q4 2024
MACRO-ECONOMIC OUTLOOK

Macro-Economic Outlook

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Last month, the Federal Reserve announced the first of a series of interest rate cuts, slashing interest rates by 50 basis points. Given recent macroeconomic trends, we expect the Federal Reserve to announce another rate cut on November 6, this time reducing interest rates by 25 BPs. Once the central bank has their end of year meeting in December, we will have more insight into the Fed's next moves. Over the course of the next year, we anticipate steady rate cuts will ultimately bring interest rates down to between 3.25% and 3.0% by the end of 2025. As interest rate cuts come into effect with more on the way, we look into the current state of the M&A markets as well as the broader economy and labor.

Positive Impact on Banking

The banking industry as a whole continues to see robust profits as trading desks stay busy and M&A mega deals start to pick up. As a result of success in those areas, Goldman saw a 45% increase in profits this Q3.[1] These positive numbers from the leading bank serve as a useful barometer for the larger industry. Private equity firms will look to deploy their amassed dry powder, as favorable interest rates create more opportunities for both buying and selling in the form of better valuations and cheaper capital.

Some dealmakers feel that the current regulatory environment, rather than interest rates, has posed the biggest challenge for M&A deals. Fear of antitrust lawsuits and regulatory hurdles can create a chilling effect on mega M&A deal flow, as companies wait until what they see as more favorable conditions. Under chairwoman Lina Khan, the FTC has taken an aggressive stance against what it sees as monopolist and anti-competition behavior.

These efforts, such as stricter M&A disclosure requirements and an attempted ban on non-competes, have ruffled many feathers on Wall Street. Wealthy donors in both parties have pushed for a change in FTC leadership in the hopes of less antitrust scrutiny. Regardless of which party wins the upcoming November election, the current regulatory environment may change to the benefit of the M&A markets.

[1] https://www.bloomberg.com/news/articles/2024-10-15/goldman-equity-traders-dealmakers-fuel-a-45-surge-in-profit?srnd=phx-industries-finance

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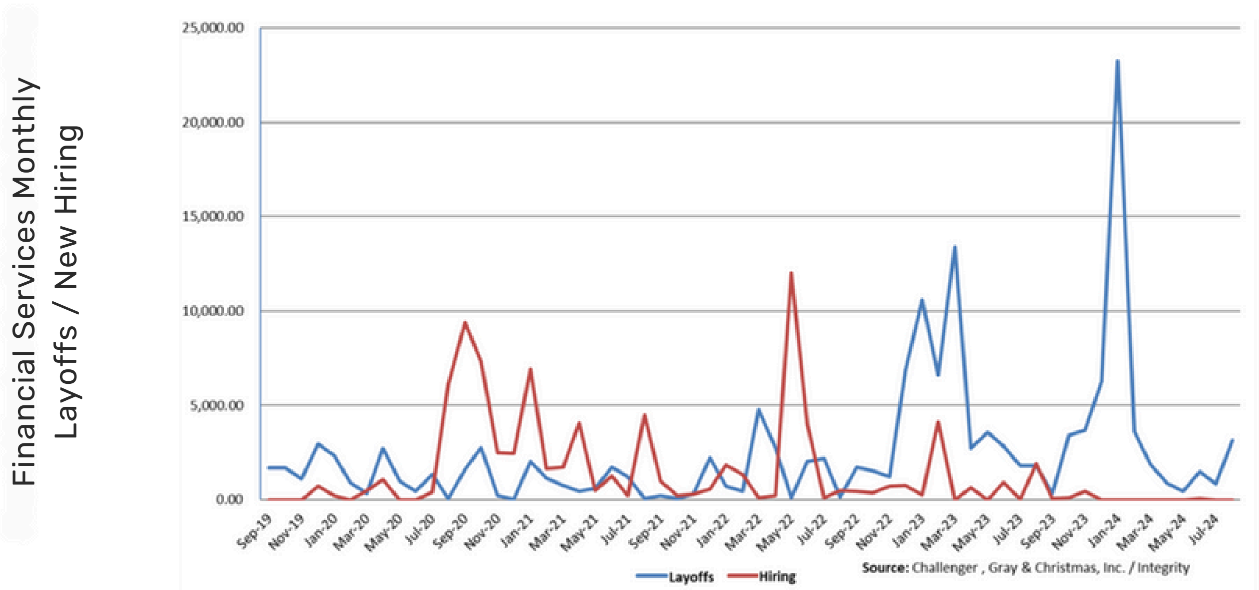
Despite those concerns, banks still had strong performances relative to 2023: Wall Street bonuses are expected to rise more than 7%, according to NYS Comptroller Thomas DiNapoli.[2] This would be the first increase in over two years, as high interest rates produced sluggish M&A deal flow and fees. Even with strong industry-wide profits, the Comptroller's office reports that there were 3,400 fewer jobs on Wall Street, as most banks sought to reduce headcounts and decrease labor expenses. These layoffs can largely be interpreted as corrections of inflated headcount from the earlier hiring frenzy in the post-pandemic boom.



Overall Sentiment is Cautious Optimism

In the broader economy, inflation remains an issue, as Core CPI advanced again last month. The consumer price index, which tracks the price of key goods (excluding food and energy) is one of the primary ways the Fed measures inflation. Higher than expected inflation could limit the Fed's appetite for another rate cut, although the Fed is also concerned about a rise in unemployment. Nevertheless, the central bank seems on track to achieve its goal of a "soft landing," where an intentional slowdown of economic activity cools inflation without forcing the economy into a recession.

Moderated growth in Q4 and an incremental slowdown should continue to see inflation decrease while job openings and unemployment remain at acceptable levels. The stock market continues to perform well, although a rising concentration in tech and AI stocks leaves many investors potentially exposed to macroeconomic or geopolitical volatility. These factors, from M&A markets, to CPI, to labor and compensation, lead us to an economic outlook that has some areas of concern, but is overall cautiously optimistic.

[2] https://www.reuters.com/markets/us/wall-street-bonuses-projected-rise-more-than-7-2024-ny-comptroller-says-2024-10-09/

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