



## Economic Outlook Summary

January 2016

### Macro-Economic Highlights

- *THE* largest risk for the domestic U.S. economy in 2016 is what happens outside of the U.S. economy, specifically in the emerging markets.
- China holds the largest set of cards in terms of determining outcomes. They need to, and will, devalue their currency. Devaluation and the potential for a global deflationary shock is the biggest risk for real economies and financial markets globally.
- We need to remember that it is not “the business of the economy” in the U.S., but rather, it is an “economy of individual businesses”. Outcomes will be asymmetric dependent on the types of businesses and geographic specificity. Some businesses will do very well, others not so much.
- This *IS NOT* 2007-2009. We do not face a macro credit market freeze. It is the domestic energy sector that is in trouble and the key risk for credit markets. Dare we quote Bernanke and suggest problems in the credit markets “are contained”?
- The U.S. private sector is in relatively good shape. The offside balance sheets in this cycle belong to the public sector – governments. The key risk is ultimately upward pressure on taxes and/or lower government spending. At some point public sector balance sheets must reconcile, and that means capital will gravitate from public sector investments (think government bonds) to the private sector. We’re not there yet, but this is coming.

### Mergers & Acquisition Markets

- The M&A market is expected to remain strong through 2016 due to low interest rates, economic growth and high levels of corporate cash that are driving companies with limited organic expansion opportunities to seek growth through acquisitions.
- Sellers still have time to capitalize on high valuations, but interest rate increases and stock market declines may erode values. Thus, overall M&A activity will likely pull back at some point.
- Buyers should be diligent, but the strength in the M&A market is enticing new sellers to the market. Buyers that can realize synergies may find compelling opportunities at reasonable post-synergy valuation multiples.

### Private Equity

- Undeployed capital combined with a limited time to invest has elevated the competition from private equity firms as they seek to put their capital to work.

For the full presentation, visit: <https://vimeo.com/153304942>.

[www.CapitalPlanningAdvisors.com](http://www.CapitalPlanningAdvisors.com) | [www.DCAPartners.com](http://www.DCAPartners.com)