DCA PARTNERS

Q3 2024 Economic Update

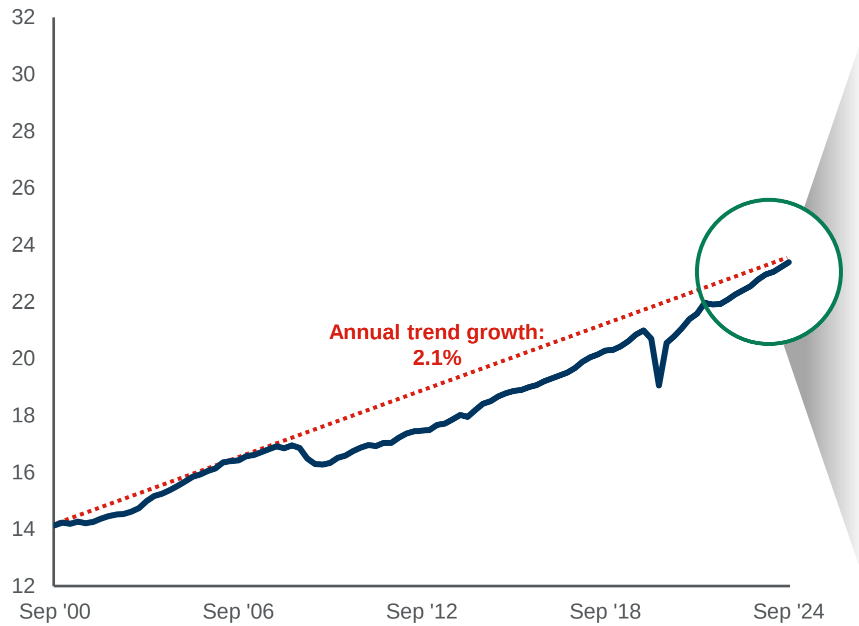
Macroeconomic backdrop

Economy Continues to Grow at Higher-than-Average Pace

- **Q3 2024 real GDP[1] increased at a 2.8% annualized rate**
- Growth slightly missed analyst forecasts of 3.0% due to a widening of the trade deficit as imports increased by 11.2% and exports increased by 8.9%
- The underlying mix signaled robust growth, but lingering concerns remain around a cooling housing market, moderating job growth, and persistent core inflation:
  - **Consumer spending** expanded by 3.7% as consumers increased purchases on both goods and services, the fastest expansion since Q1 2023
  - **Business investment** grew 3.3% bolstered by spending on equipment, in particular information processing equipment and transportation equipment
  - **Residential investment** fell for a second straight quarter, contracting by 5.1%, due to reduced investment in new single- and multi-family structures

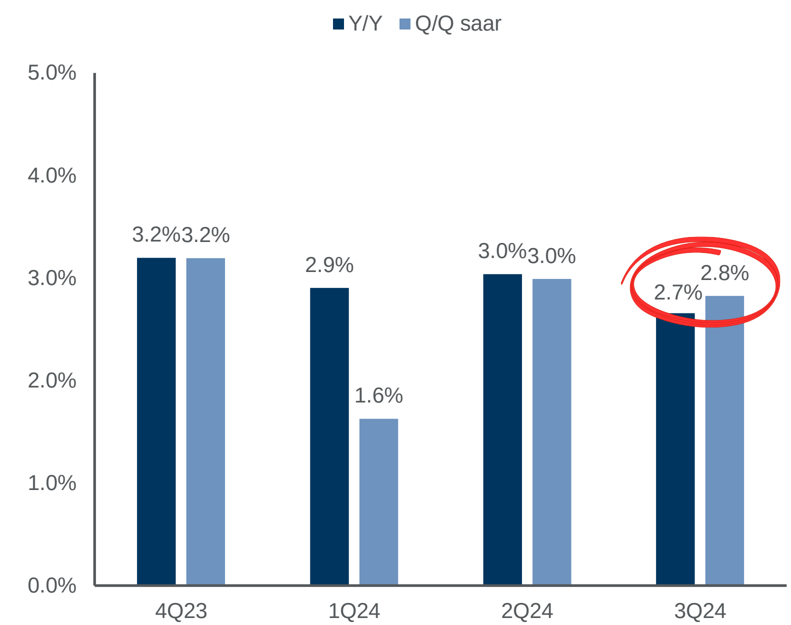
Real GDP[1]

Trillions of chained (2017) dollars, seasonally adjusted at annual rates



Real GDP Growth[1] (%)

% growth



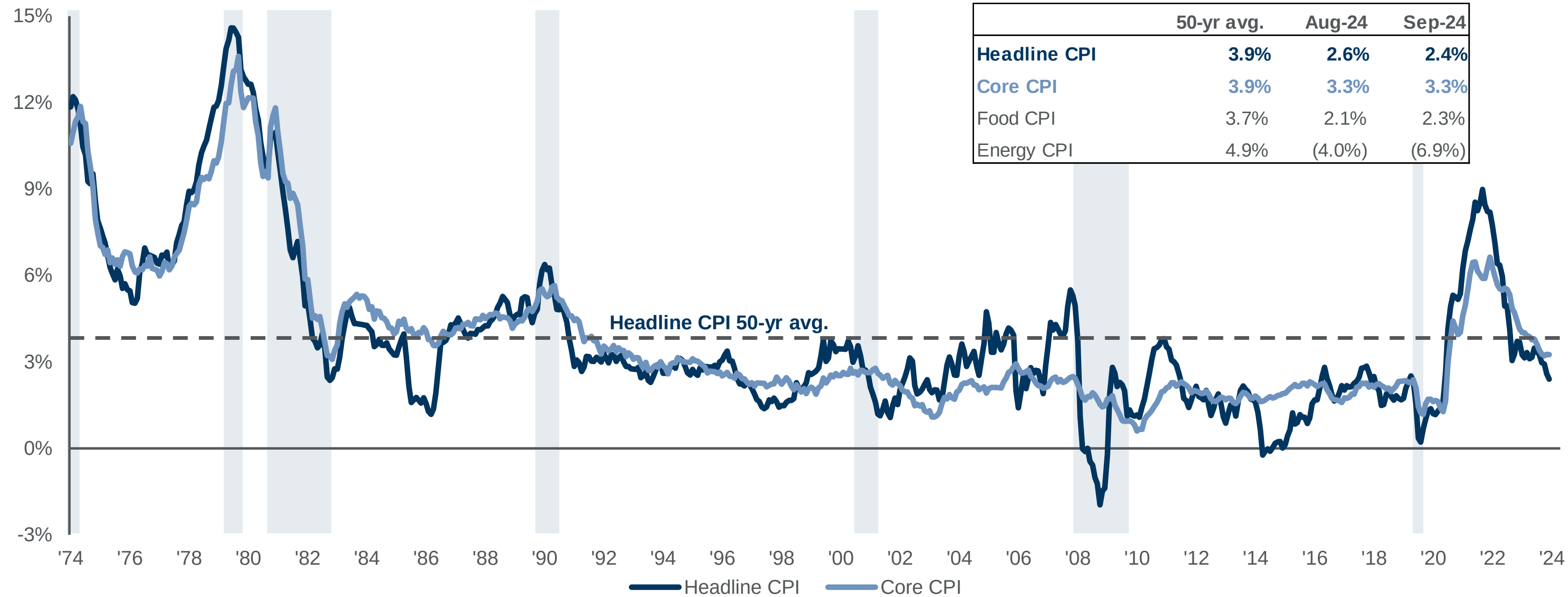
Source: Bureau of Economic Analysis and DCA Partners analysis
Note[1]: Reflects the 2024 Q3 Advance Estimate as of 10/30/2024

Continued Downward Trend in Inflation Provides Flexibility for More Rate Cuts…

- **After some stronger-than-expected readings in the first half of the year, inflation has been trending down over the summer**
- Overall encouraging signs of easing, but important to distinguish between inflation components:
  - **Headline CPI**: Rose by 0.2% month-over-month, bringing the year-over-year rate down to 2.4%, driven by declining gasoline and fuel oil prices, indicating broader inflationary pressures are softening
  - **Core CPI**: Increased by 0.3% month-over-month, reflecting stubbornly high prices in transportation services and apparel, maintaining a year-over-year rate of 3.3%
- Despite some sticky inflation in subcategories, the latest numbers should bolster the Fed's confidence that inflation is trending towards its 2% target

Headline CPI and Core CPI

% change vs. prior year, seasonally adjusted



	50-yr avg.	Aug-24	Sep-24
Headline CPI	**3.9%**	**2.6%**	**2.4%**
Core CPI	**3.9%**	**3.3%**	**3.3%**
Food CPI	3.7%	2.1%	2.3%
Energy CPI	4.9%	(4.0%)	(6.9%)

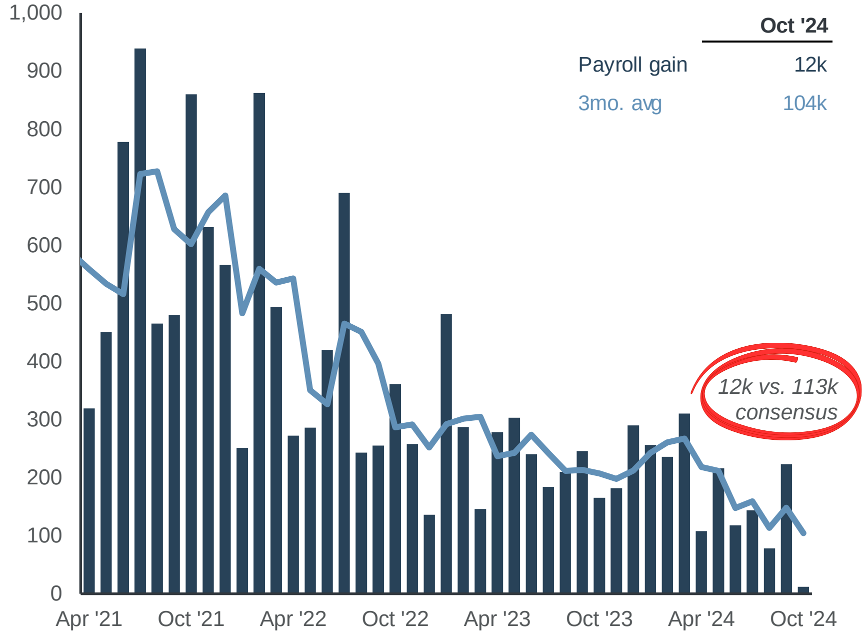
Source: U.S. Bureau of Labor Statistics and DCA Partners analysis

…Further Supported by Cooling Labor Market

- **Job market has been noisy in recent months but clear downward trend visible**
  - 12k jobs added in October 2024, significantly below consensus expectations of 113k, and the lowest monthly gain since December 2020
  - Unemployment rate remained unchanged at 4.1% in line with expectations; jobless rate remained unchanged at 7.7%
- Markets had already priced in disruption caused by hurricanes Helene and Milton as well as the major strikes by dockworkers and Boeing employees; investors anticipate that the soft labor numbers will allow the Federal Reserve to cut rates again in 2024
- Post-COVID, immigration has fueled labor supply, vastly exceeding expectations in 2023 and inevitably adding pressure on the employment rate should this trend persist

Nonfarm Payroll Gains

Month-over-month change and 3mo. rolling average, seasonally adjusted, thousands



Job Openings and Labor Turnover Survey

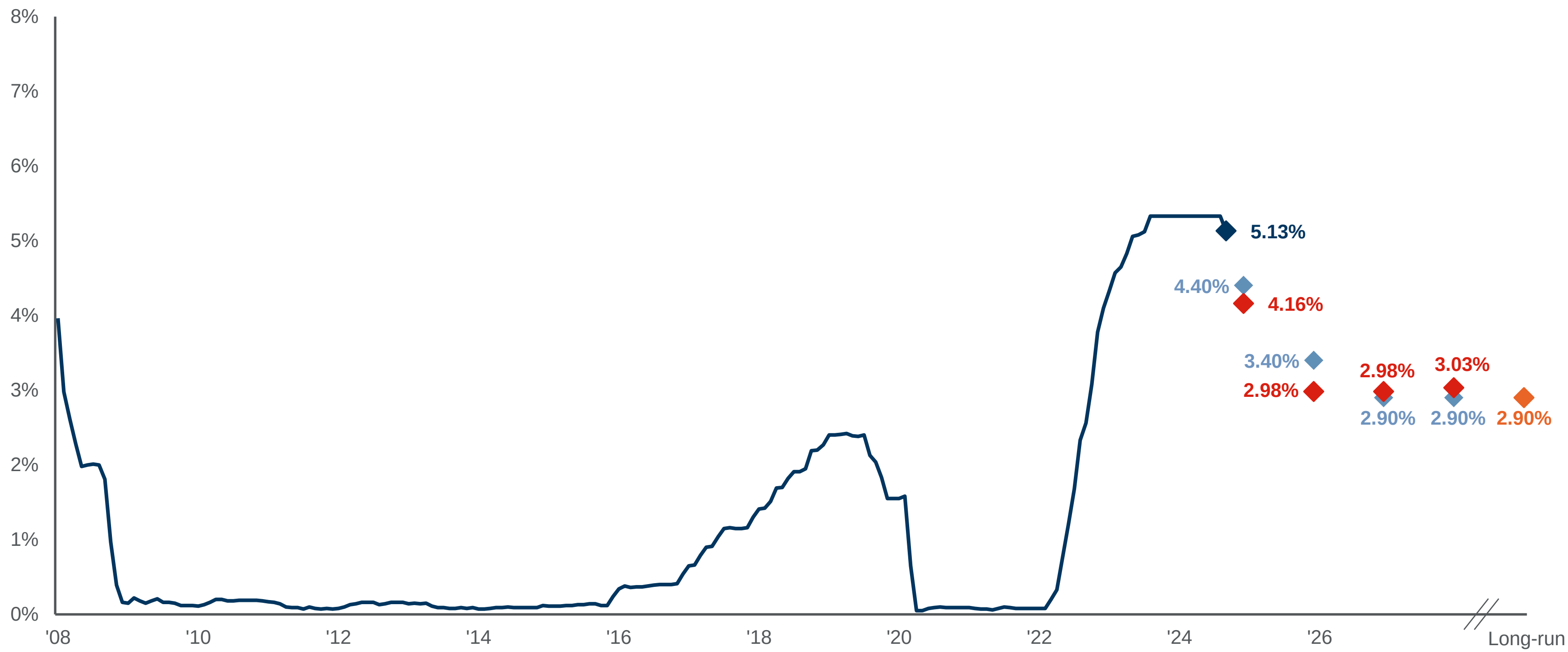
Total nonfarm job openings, seasonally adjusted, thousands

Source: U.S. Bureau of Labor Statistics and DCA Partners analysis

Fed Started Rate Cut Phase with Larger than Expected Cut

FOMC September 2024 forecasts
Percent

	2024	2025	2026	2027	Long run
Change in real GDP, 4Q to 4Q	2.0	2.0	2.0	2.0	1.8
Unemployment rate, 4Q	4.4	4.4	4.3	4.2	4.2
Headline PCE inflation, 4Q to 4Q	2.3	2.1	2.0	2.0	2.0
Core PCE inflation, 4Q to 4Q	2.6	2.2	2.0	2.0	

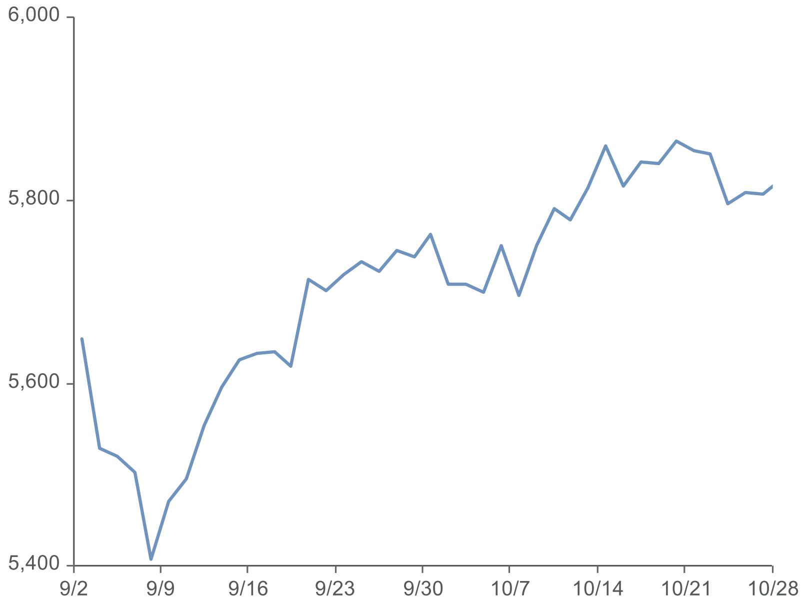


Source: Federal Reserve

High Volatility in Equity Markets around Rate Cut

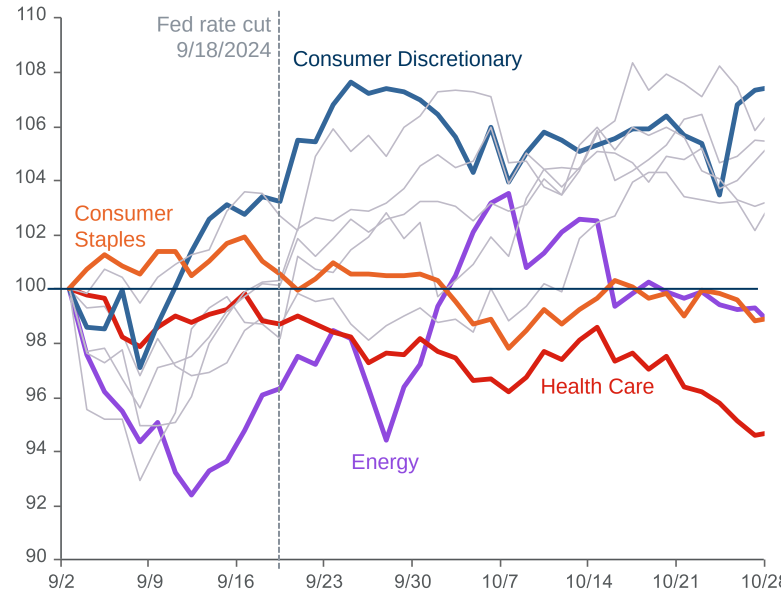
- **S&P 500 has risen by 5% over the last two months while experiencing large swings around the FOMC meeting of September 18**
- Investors have been highly sensitive to the release of new economic data, trying to anticipate and price in the Fed's next rate decisions
- While overall market has risen significantly, the picture is more nuanced for its constituent subsectors:
  - Consumer Discretionary rose significantly based on the overall health of the consumer and strong labor numbers
  - Traditionally viewed as more defensive subsectors, Health Care and Consumer Staples were the two worst performers as rate cuts favor growth-oriented industries
  - Energy has experienced significant volatility as the wars in the Middle East and OPEC's production cuts have caused uncertainty

S&P 500



S&P 500 – Subsectors

September 2, 2024 = 100



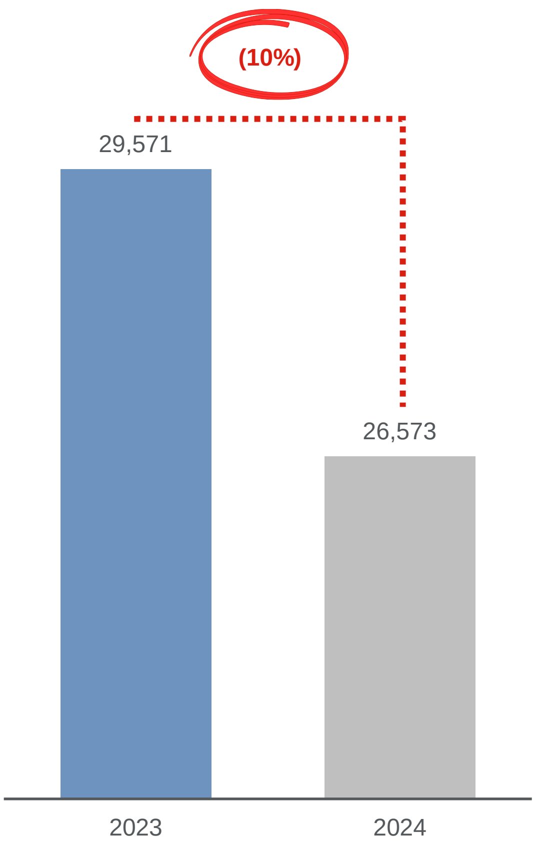
Source: FactSet and DCA Partners analysis as of 10/28/2024

M&A trends

Global M&A Continues to Moderate, with Megadeals Driving Substantial Activity

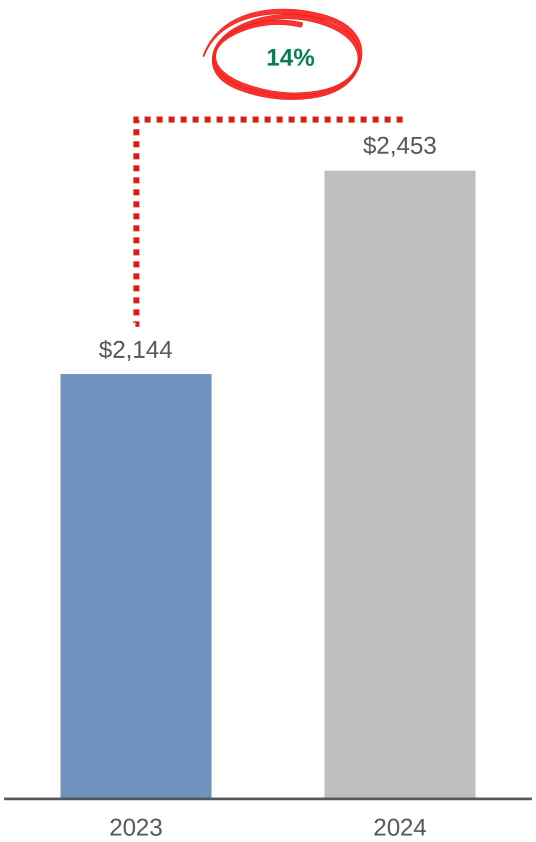
Q1 – Q3 Global Deal Volumes

of deals



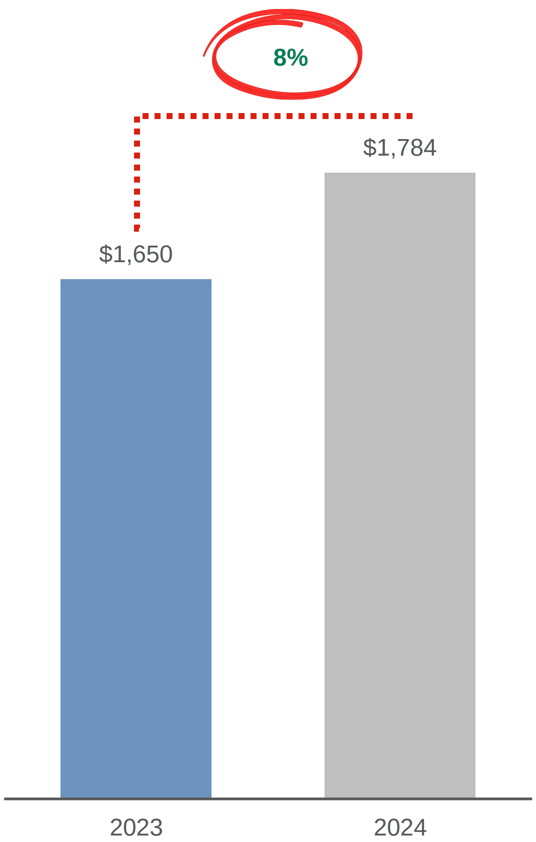
Q1 – Q3 Global Deal Value

$ in billions



Q1 – Q3 Global Deal Value (Less megadeals)

$ in billions

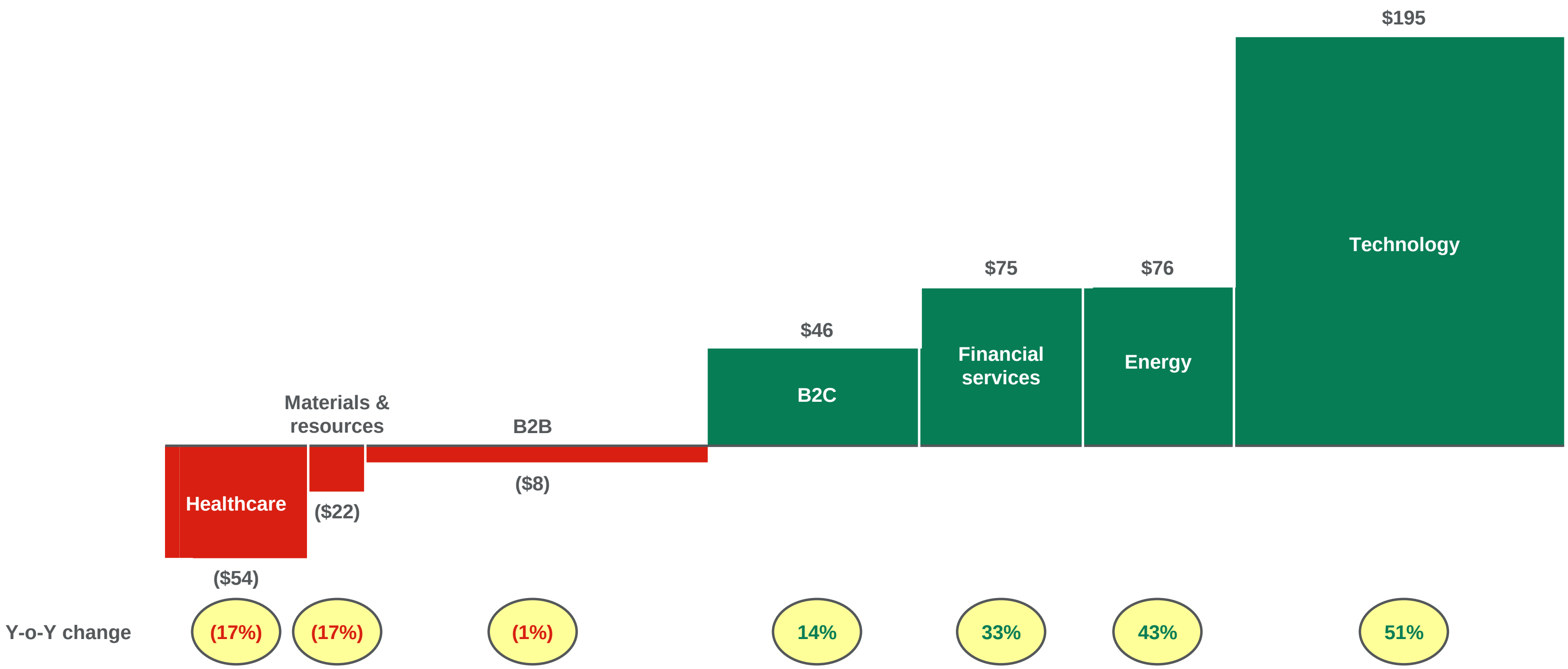


Source: Pitchbook and DCA Partners analysis as of 9/30/2024

Strong Technology Sector Boosts Global Dealmaking

Change in Global Deal Value by Industry

$ in billions

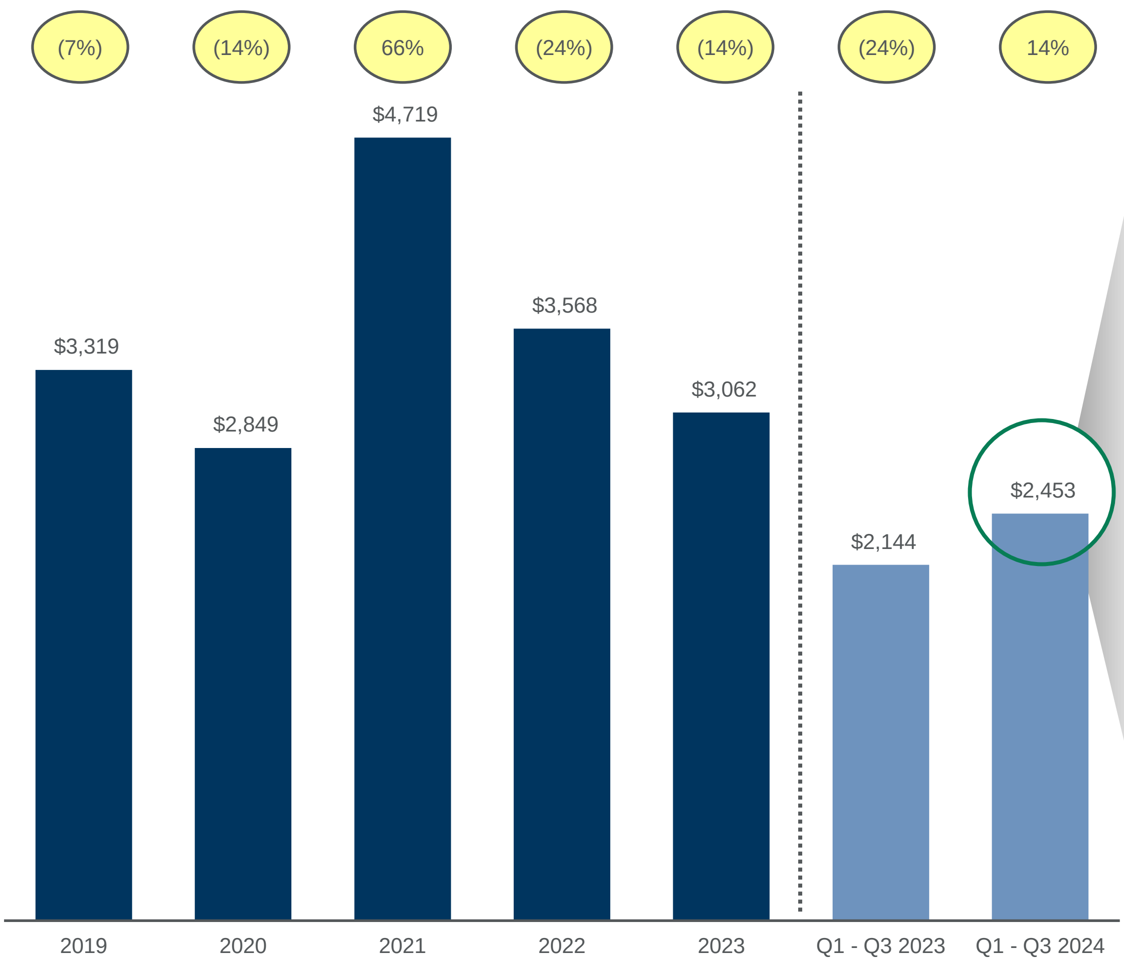


Source: Pitchbook and DCA Partners analysis as of 9/30/2024

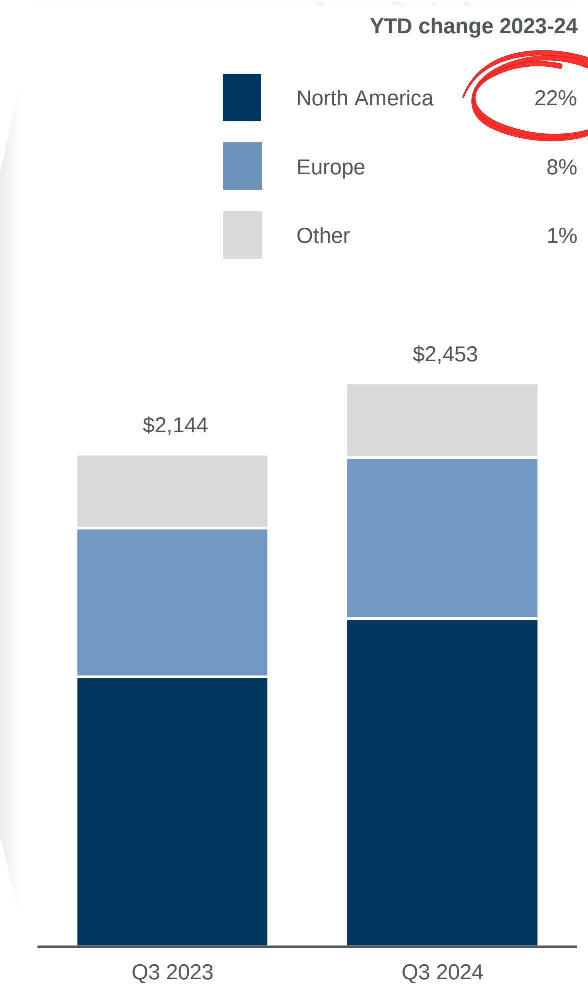
North America Led Global M&A Recovery Amid Regional Divergence

Global M&A Volume

$ in billion, % YoY growth



Global M&A Volume by Geography

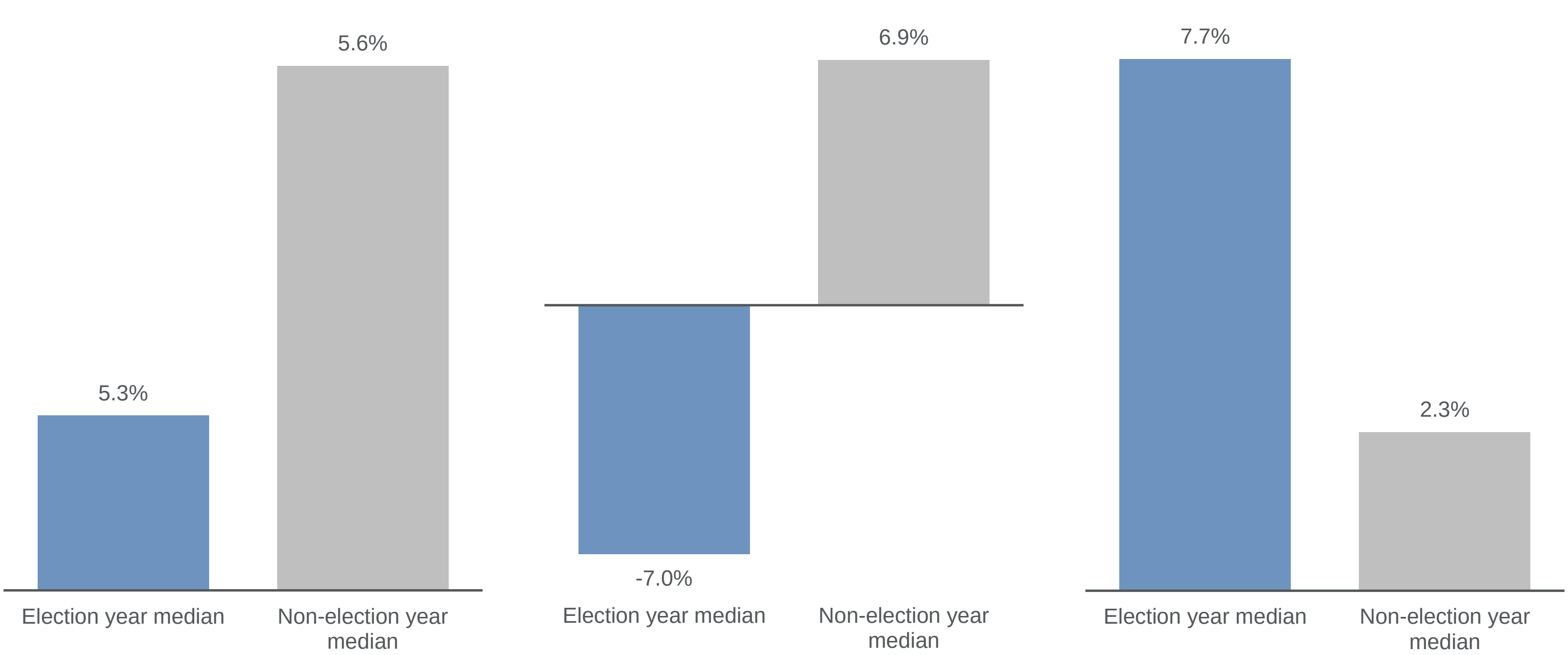


Source: Pitchbook and DCA Partners analysis as of 9/30/2024

Historically U.S. Elections Have Held Back M&A…

Percent Change in Number of Announced M&A Transactions by U.S. Acquirors[1]

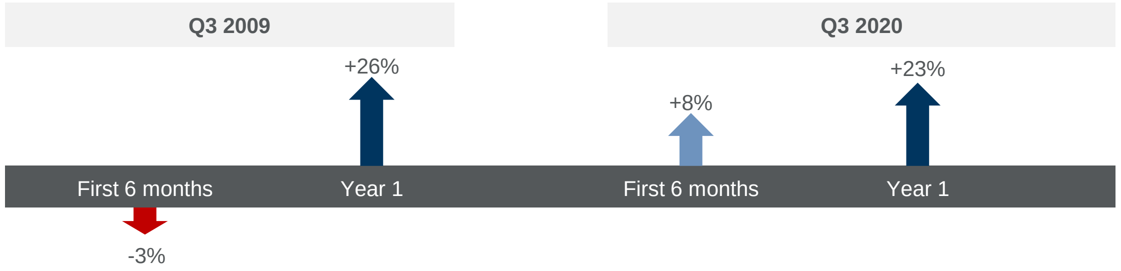
1H (Election year vs. Prior Year) | **Q3 (Election year vs. Prior Year)** | **Q4 + Next Q1 (Election year vs. Prior Year)**



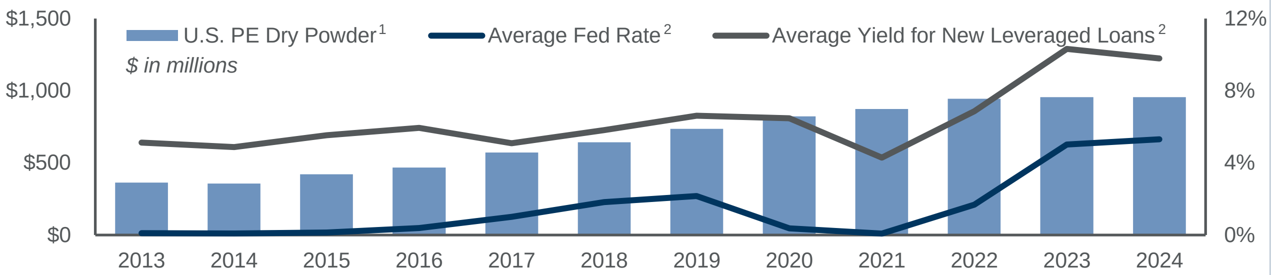
Source: Capital IQ and Wall Street Research
Note[1]: Analyzes data from 1992 – 2022 (excluding 2008)

…But Lower Interest Rates and PE Appetite will Support Transaction Activity in 2025

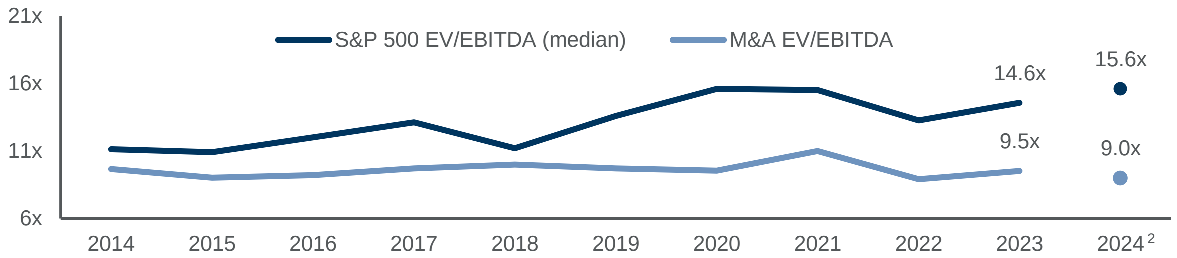
U.S. M&A deal counts tend to increase after the first quarter of GDP growth post first rate cut



Substantial amounts of dry powder and expectations for a more predictable and favorable rate environment will drive M&A activity



Significant gap remains between private and public market valuations, but increased appetite in 2025 will help to improve alignment on expectations amongst buyers and sellers



Source: U.S. Federal Reserve, Dealogic, Pitchbook, FactSet, and DCA Partners analysis
Note[1]: As of 6/30/2024
Note[2]: As of 9/30/2024

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