Corporate Compass

Navigating the year ahead | January 2025

Corporate Advisory | Corporate Finance Advisory

North American Edition

Key themes for 2025

- **The pace of geopolitical, economic and technological change is accelerating**
  - Increasing swings in global political control and populist policy agendas create the potential for economic volatility just as an AI "industrial revolution" helps underpin growth
- **The U.S. appears well-positioned amid this uncertainty**
  - GDP growth estimates have been revised upward post-election and the economy remains strong
  - Markets trade near all-time-highs with small- and mid-cap firms set to help broaden the rally
  - De-regulation, interest rate cuts, and potential tax cuts may buoy markets further
- **M&A activity and the sponsor monetization pipeline for 2025 is expected to be strong given valuations, economic growth, and interest rate dynamics**
- **Though risks exist, 2025 is a year to take action**
  - Rate volatility, geopolitical tensions, and evolving consumer profiles should be key watch items
  - Softness in the Chinese economy, supply chain disruption from tariffs, and potential mass deportations present further risks, but in recent cycles, markets have remained resilient despite these factors
  - 2025 appears strong compared to longer-term uncertainty and risk

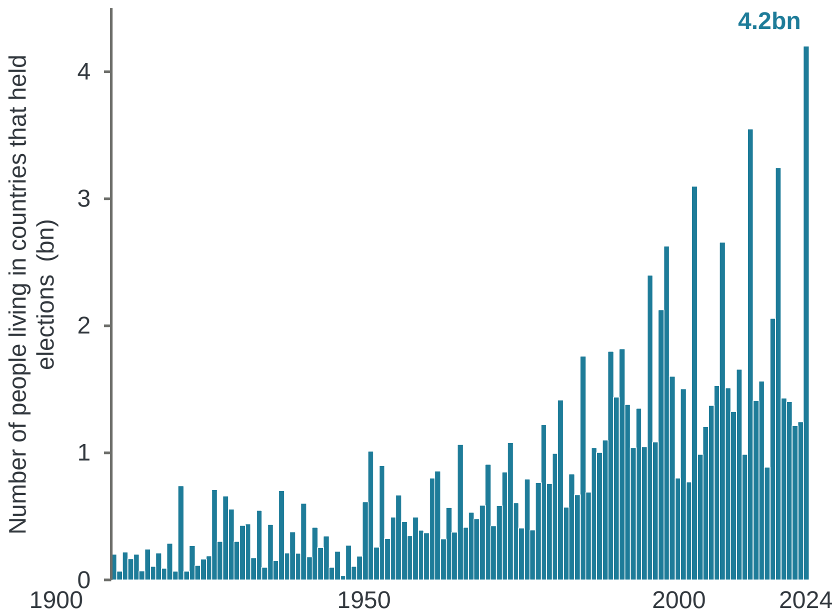
2024 was the "Year of the Election," with the world voting for change

100
federal elections held
(executive and/or legislative)[1]

50%
of global population held elections[2]

8 of 10
most populous nations voted

MORE PEOPLE LIVED IN COUNTRIES HOLDING ELECTIONS THAN AT ANY POINT IN RECORDED HISTORY



KEY OUTCOMES[4]

- The United States **returned former President Donald Trump to the White House** and **gave Republicans majorities** in the House and Senate
- UK Conservatives' 14-year reign ended in **largest UK landslide since 1906**
- Indian PM Narenda Modi was **re-elected**, but his party – the Bharatiya Janata Party (BJP) – **lost their outright majority**
- French President Emmanuel Macron's **legislative coalition was significantly hobbled** in a snap election; 2 **Prime Ministers resigned**
- **Japan's** Liberal Democratic Party (LDP) **lost** its parliamentary majority for **1st time since 2009**
- African National Congress (ANC) – the party of Nelson Mandela – **lost** its parliamentary majority for the **1st time in post-Apartheid South Africa**

Among democracies that held elections in 2024, over 80% saw the incumbent party lose seats or vote share from the last election[3]

Why it matters?

- ***Voters consistently chose disruption – and companies should anticipate challenges to the status quo***
- ***International relations, global trade and domestic economic policies are uncertain, as parties new to power will look to tackle high-profile voter issues first***
- ***Expect to see similar outcomes in key 2025 elections (e.g., Germany, Canada, Australia, Chile)***

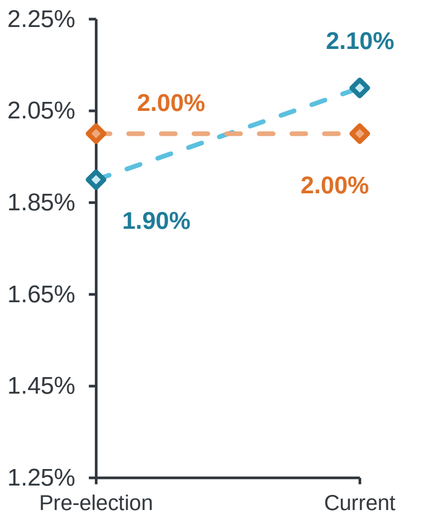
J.P.Morgan

Sources: [1] Various; Includes European Parliament elections held in all 27 EU member countries; [2] 2024: The Super Election Year, Statista; [3] Elections in 2024, The Economist; [4] Democrats aren't alone – incumbent parties have lost elections all around the world, ABC News

The U.S. election impact can be seen in evolving economic forecasts

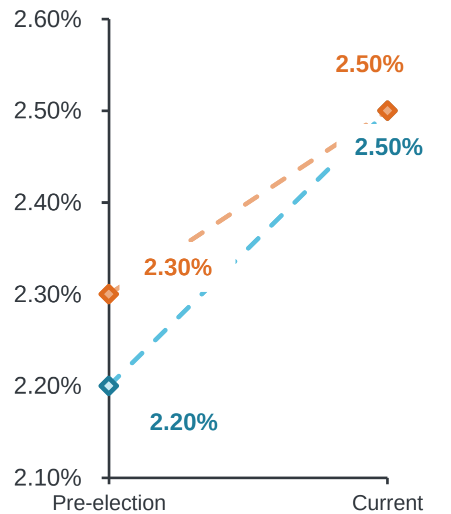
2025 2026

U.S. GDP GROWTH



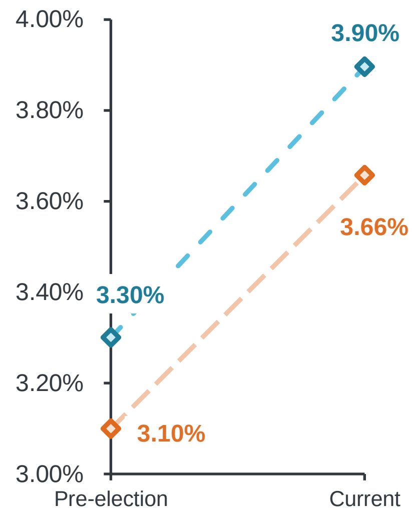
Why: Tax cuts and deregulation contributing to higher 2025E GDP growth

U.S. INFLATION EXPECTATIONS – CPI



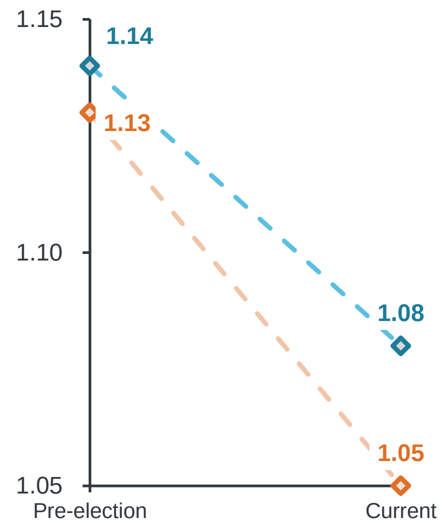
Why: Potential tariffs and mass deportation polices may cause inflationary pressure above Fed's 2% target

IMPLIED FED FUNDS RATES[1]



Why: More hawkish Fed to control inflation; fixed income investors may react negatively to potentially higher deficits

IMPLIED EUR / USD FX RATE



Why: U.S. tariff impacts on GDP growth and interest rates outside the U.S. may drive a stronger dollar

U.S. election results have seen GDP growth, inflation, interest rate, and dollar strength forecasts revised upwards amid risks and opportunities

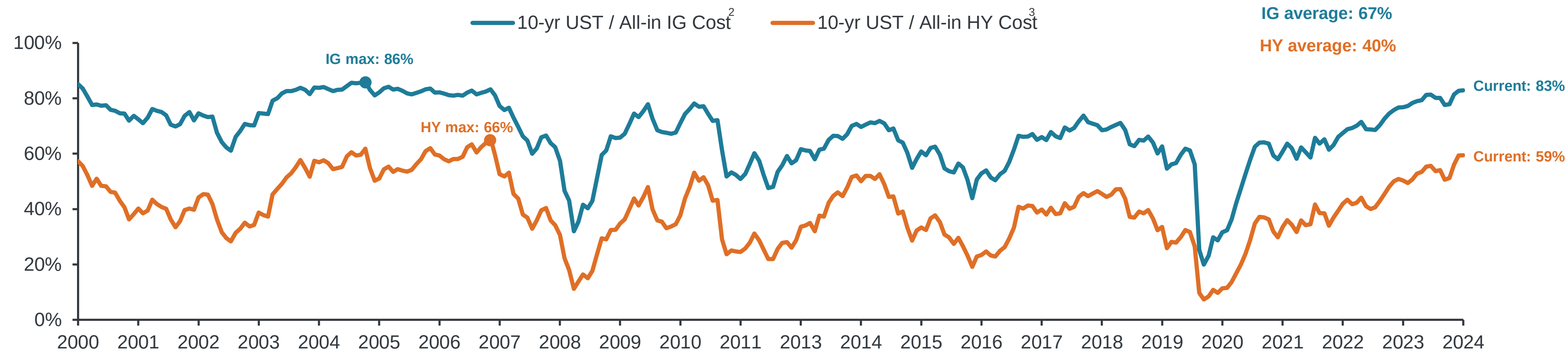
Why it matters?

- ***Actions may matter more than words: while the perception of a drastic shift in U.S. economic and trade policy is driving new outlooks post-election, historical precedent suggests that results will be guided by implementation – not rhetoric***
- ***Firms should prepare for higher borrowing costs and a stronger dollar, potentially offset by lower risk premia and spreads***

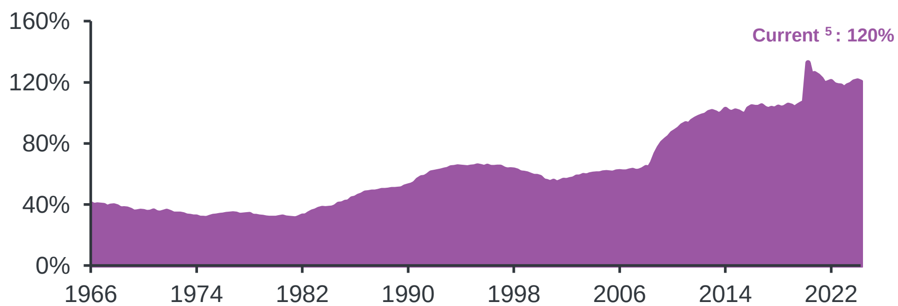
Source: FactSet as of 12/31/2024; Pre-election estimates as of 11/1/2024, current estimates as of 12/31/2024; [1] 2025E reflects implied rate at 12/10/2025 Fed meeting, 2026E reflects implied rate at 12/09/2026 Fed meeting

Issuers are exposed to U.S. policy decisions through borrowing costs

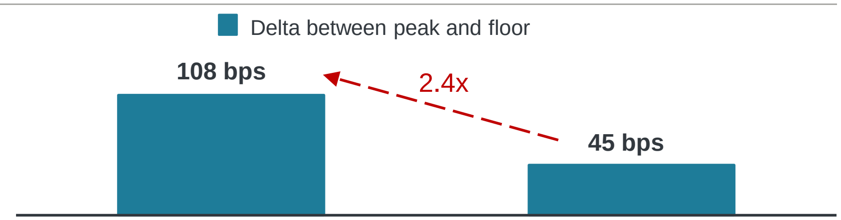
RISK FREE RATE AS A % OF TOTAL INVESTMENT GRADE AND HIGH-YIELD COST OVER TIME[1]



U.S. DEBT-TO-GDP OVER TIME[4]



2024 RATE AND SPREAD DISPERSION (BPS)[6]



	10-yr U.S. Treasury	IG spreads
Floor	3.62%	88 bps
Peak	4.70%	133 bps

Interest rate risk management strategies will be increasingly important in 2025 given Treasuries as a percentage of all-in yields are at the highest level in 15 years

Why it matters?

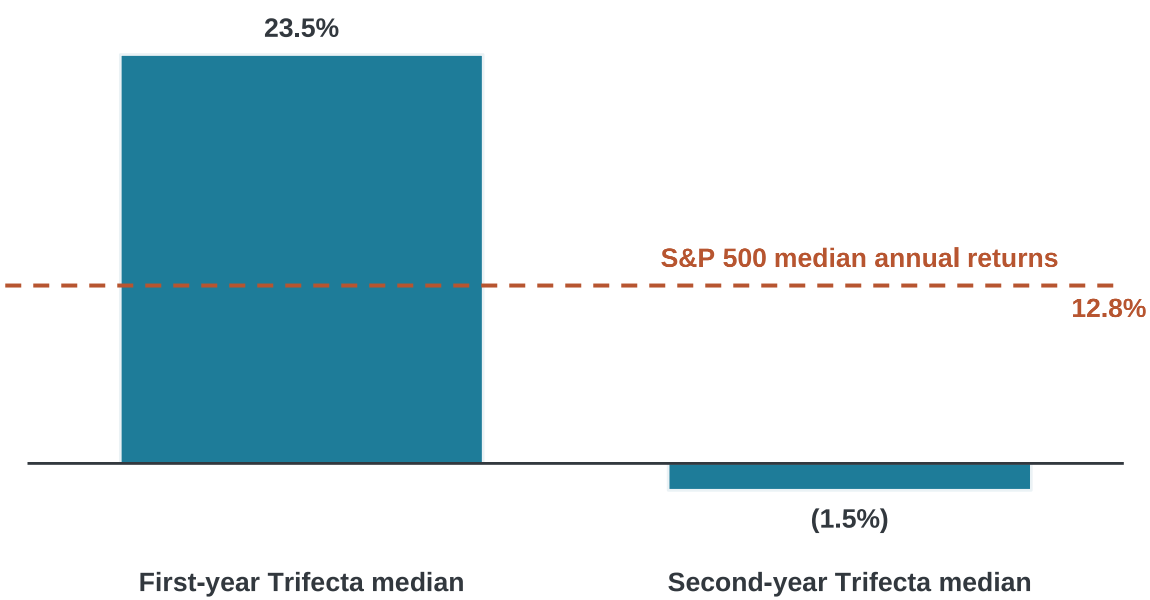
- ***Treasuries saw almost ~2.5x the dispersion vs. IG spreads in 2024 , demonstrating borrowers are now more exposed to volatile underlying rates***
- ***Economic factors (Trump tax cuts, elevated U.S. debt levels, and potential for a U.S. ratings downgrade) could translate to increased volatility in the risk-free-rate and overall borrowing costs even as spreads remain tight***
- ***Issuers should be proactive and opportunistic to take advantage of optimal conditions***

Source: FactSet and Morgan Markets as of 12/31/2024; [1] Calculated as U.S. 10-year Treasury divided by all-in cost of borrowing; [2] IG cost of borrowing using JP Morgan JULI; [3] HY cost of borrowing using JP Morgan High Yield index; [4] Federal Reserve Bank of St. Louis; [5] Current as of 7/1/2024; [6] IG spread using JP Morgan JULI Index

U.S. equity markets have typically rewarded single party control – at least initially

1990-2024 S&P 500 ANNUAL RETURNS

"Trifecta" governments: single party control of the White House, Senate and House of Representatives



First year Trifectas and key geopolitical and economic factors

- **1993 | Bill Clinton:** Post-Cold War growth, free trade (North American Free Trade Agreement), Clinton-Gore Deficit Reduction Plan
- **2003 | George W. Bush:** Post 9/11 national security, economic stimulus
- **2009 | Barack Obama:** Post-2008 recovery, healthcare (American Recovery and Reinvestment Act, Affordable Care Act)
- **2017 | Donald Trump:** Tax cuts (Tax Cuts and Jobs Act)
- **2021 | Joe Biden:** COVID economic recovery, industrial policy (Inflation Reduction Act, CHIPS Act, Infrastructure Act)

S&P 500 returns in the first year of Trifecta governments have been more than 80% higher than the long-term average

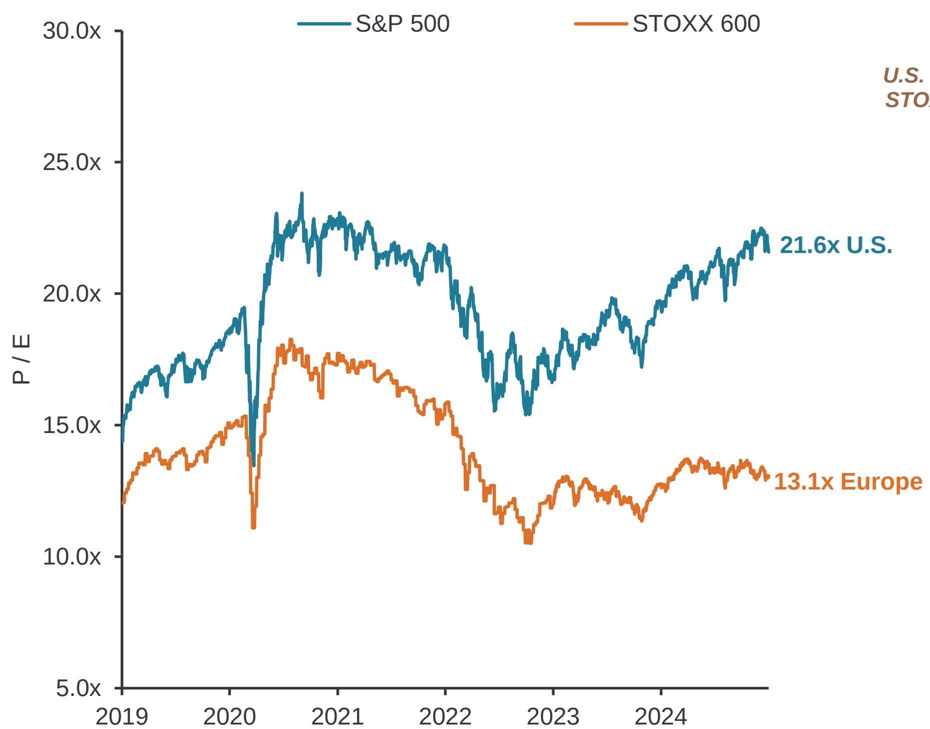
Why it matters?

- ***The halo of a Trifecta government tends to fade in the second year relative to average S&P 500 returns, and firms should take advantage of the potential strong economic and market positioning in 2025***
- ***U.S. companies and economic conditions are also at the strongest levels at the onset of a rate cut cycle in recent history***

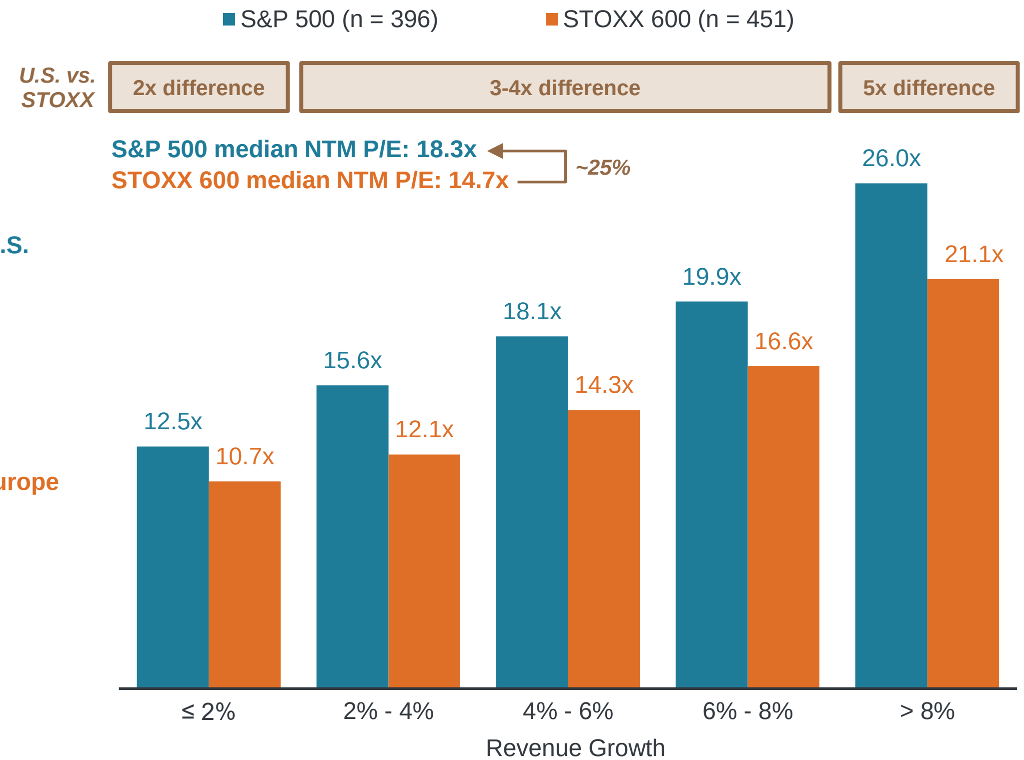
Sources: FactSet as of 12/31/2024, FRED

U.S. investors ascribe higher value to growth vs. European peers

INDEX LEVEL NTM P/E OVER TIME



MEDIAN NTM P/E BY REVENUE GROWTH[1]



The median large-cap U.S. firm trades at a ~25% premium to the median European firm

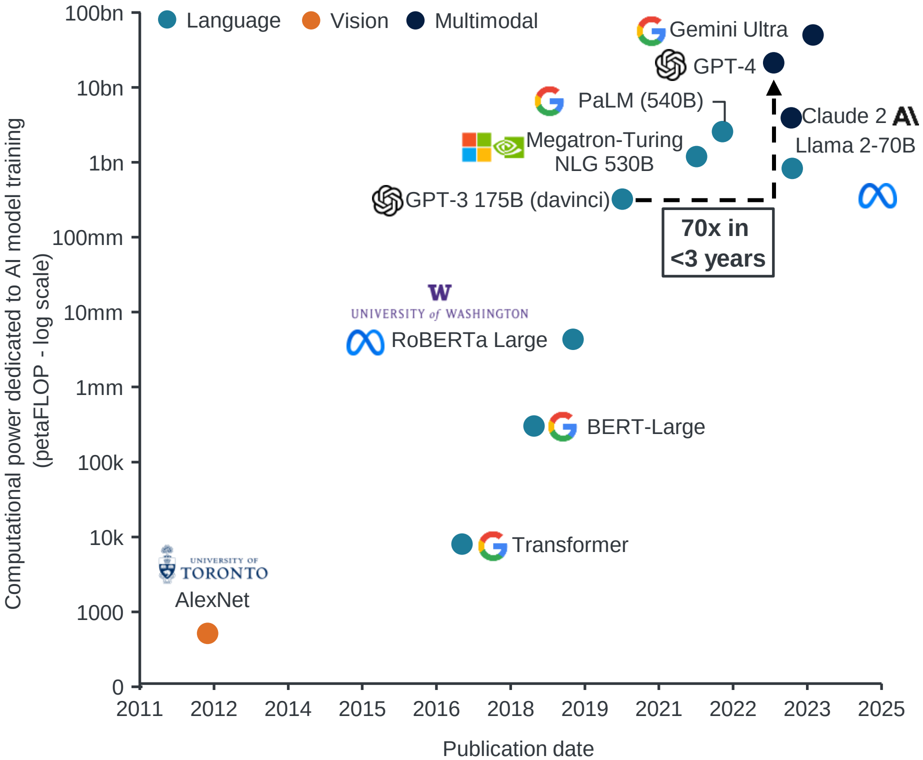
Why it matters?	
	• *Given relative valuations, capital, investor interest, and new company formation likely to continue to be biased towards the U.S.* • *Company re-listings into the U.S. likely to continue given the above factors* • *Firms may seek to carve-out their U.S. operations to better align M&A / equity compensation currency, and regulatory requirements*

Source: FactSet; [1] S&P 500 and STOXX 600 constituents excluding Financials and Real Estate as of Dec 31, 2024, Growth defined as 2-yr revenue forecast CAGR

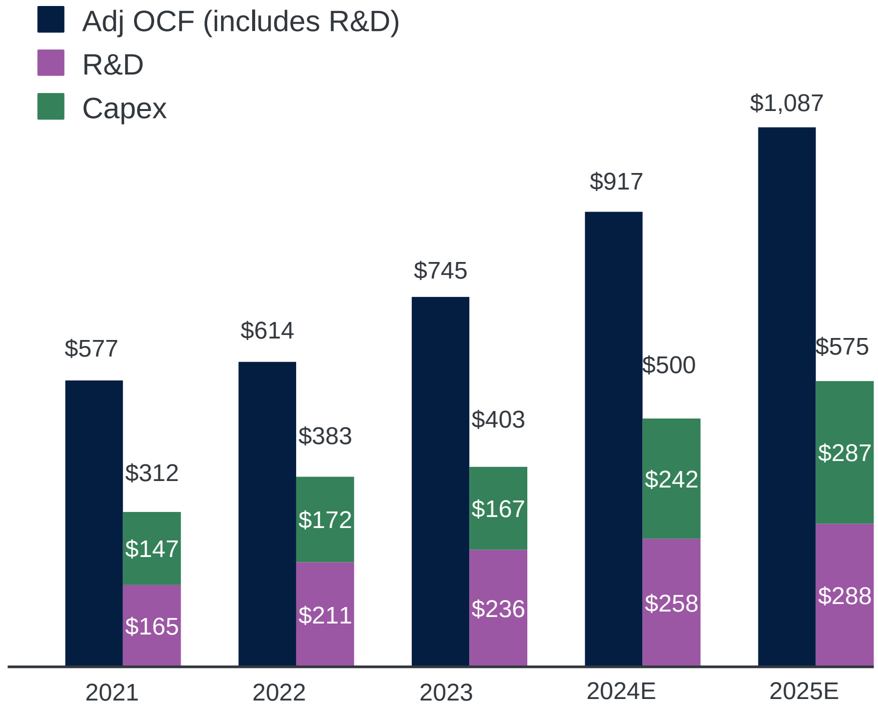
The AI "industrial revolution" underpins U.S. growth expectations

AI HAS GROWN EXPONENTIALLY SINCE 2022

Training Compute Of Notable Machine Learning Models By Domain, 2012–23



MAG 7 CASH FLOW GENERATION AND INVESTMENT SPENDING ($BN)



	2021	2022	2023	2024E	2025E
Excess FCF	***$265***	***$232***	***$342***	***$417***	***$511***

AI compute of machine learning models has increased 70x within 3 years of wide adoption and recent model (GPT-3 to GPT-4) releases

Mag 7 is expected to spend almost $600bn on investments in 2025 while generating $500bn+ in excess cash flow

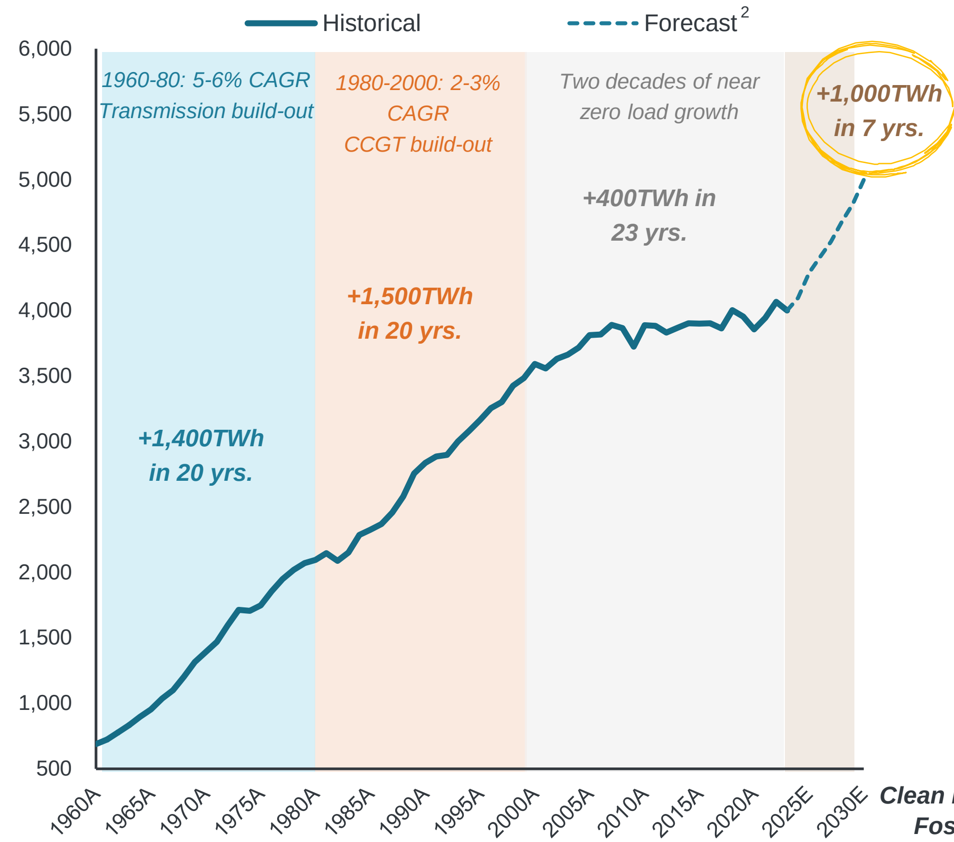
Why it matters?

- ***AI-boom driven growth has increased both market valuation and investment***
- ***The Mag 7 still generates significant free cash flow even after investment spending given their scale and diversification, suggesting limited impact from an economic downturn or significantly higher rates***
- ***20% of the current S&P 500 market value has been created from Mag 7 market cap growth since beginning of gen-AI boom[1]***

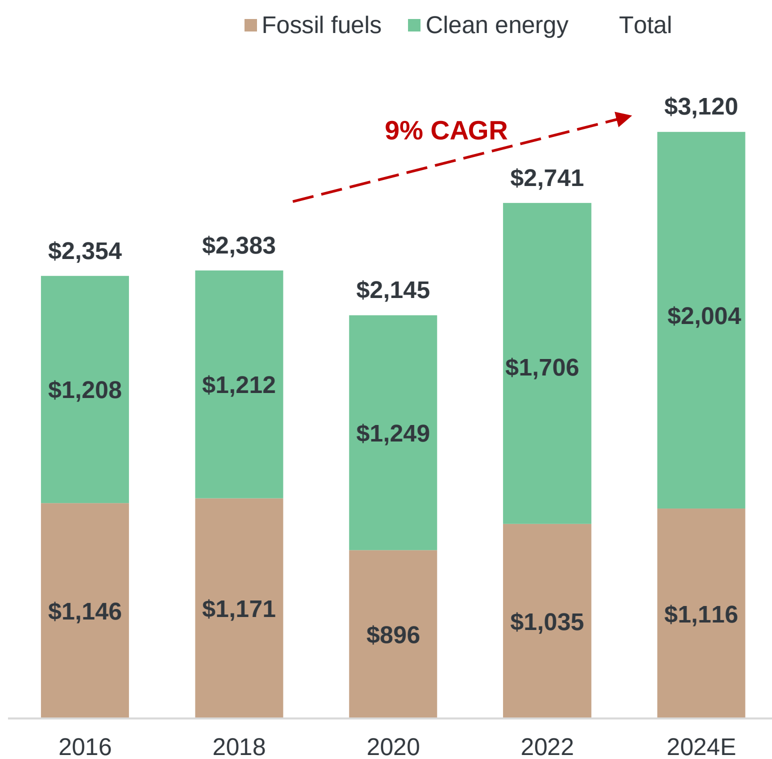
Source: FactSet as of 12/31/2024, Stanford University Artificial Intelligence Index Report 2024; IPSOS AI Monitor 2024; Magnificent 7 includes Apple, Microsoft, Alphabet (Google parent), Amazon, Nvidia, Meta and Tesla; [1] YE 2022 marked beginning of Gen-AI boom

The outlook for U.S. power demand has changed significantly

U.S. POWER DEMAND OVER TIME



GLOBAL INVESTMENT IN CLEAN ENERGY AND FOSSIL FUELS ($BN)[1]



Clean Energy / Fossil fuels	2016	2018	2020	2022	2024E
	1.1x	1.0x	1.4x	1.6x	1.8x

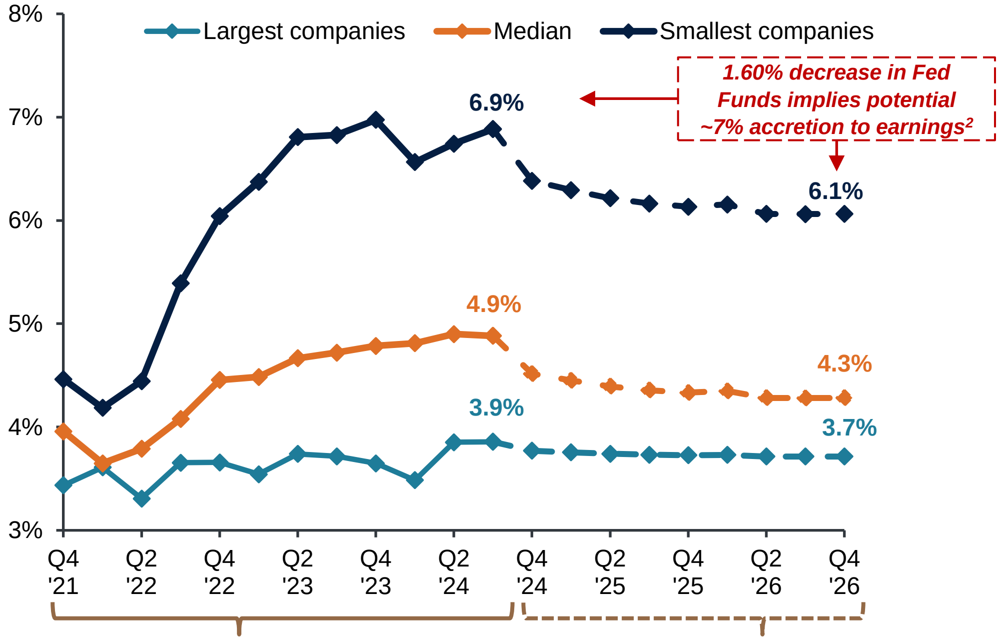
Energy investment growth will likely need to increase beyond the recent 9% annual rate to meet both increased demand and decarbonization goals

Why it matters?	
	• Power demand is expected to increase substantially driven by data centers for AI, industrialization, and electrification for transportation and heating • Further significant increases in low carbon energy generation – and conventional energy generation - will be required to meet growing demand • Investment of this scale may require creative capital solutions (e.g., minority equity structures) to meet size, cost and credit rating objectives

Source: IEA, WoodMac, FERC, Research & Consultant Reports, "World Energy Investment, 2024"; [1] Clean energy includes low-emissions fuels, nuclear & other clean power, energy efficiency and end-use, grids & storage, renewable power; Other clean power = fossil fuel power with CCUS, hydrogen, ammonia, and large-scale heat pumps; Low-emissions fuels = modern bioenergy, low-emissions H2 based fuels, and CCUS associated with fossil fuels and includes direct air capture; [2] Reflects McKinsey Forecast and 3 different brokers

Even in the absence of lower rates, less regulation tees up small cap outperformance

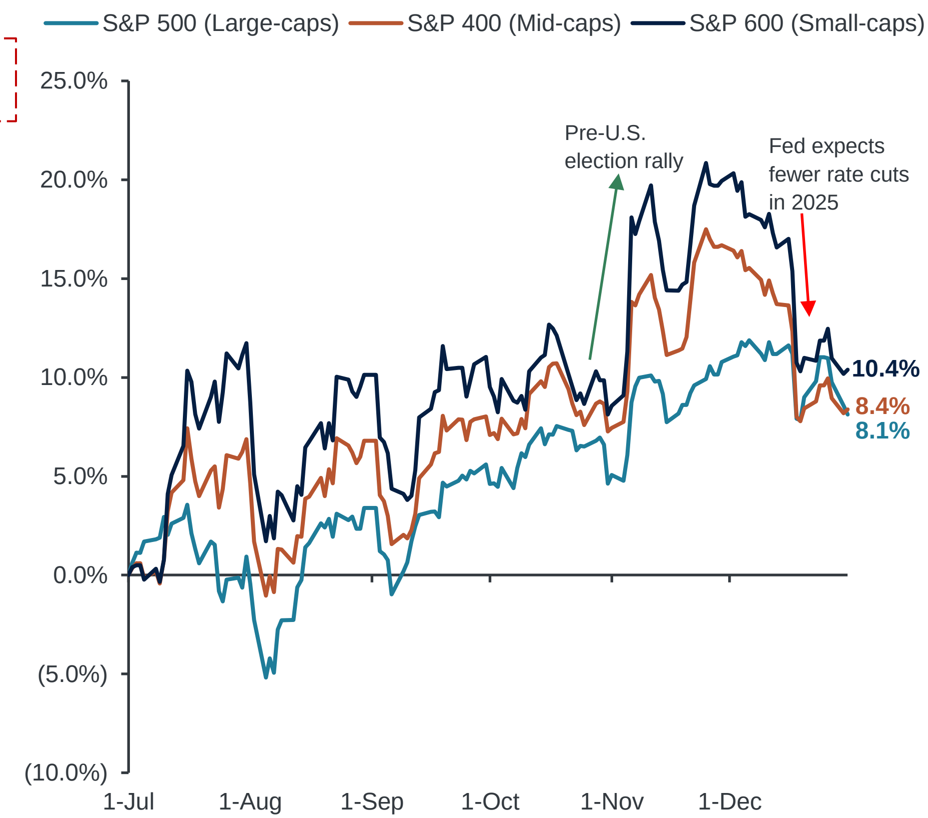
EFFECTIVE NET INTEREST EXPENSE OVER TIME – S&P 1500[1]



Historical observations

	Change from Q4 2021 – Q3 2024	Change per 1% change in Fed Funds	*Implied change through YE 2026[3]*
Fed Funds	+4.8%	--	*(1.6%)*
Smallest	+2.4%	~0.5%	*(0.8%)*
Median	+0.9%	~0.3%	*(0.6%)*
Largest	+0.4%	~0.1%	*(0.1%)*

TOTAL RETURNS SINCE H2 2024



Small cap have performed ~30% higher than large caps in 2H 2024, and have already benefitted from recent rate cuts

Why it matters?

- ***Smaller firms with shorter term and floating rate exposure stand to benefit the most from lower rates***
- ***Lower interest rates should provide tailwinds to valuations, with higher growth firms receiving the most benefit***
- ***De-regulation can have outsized benefits on smaller firms given cost structures and increase in sell-side opportunities***

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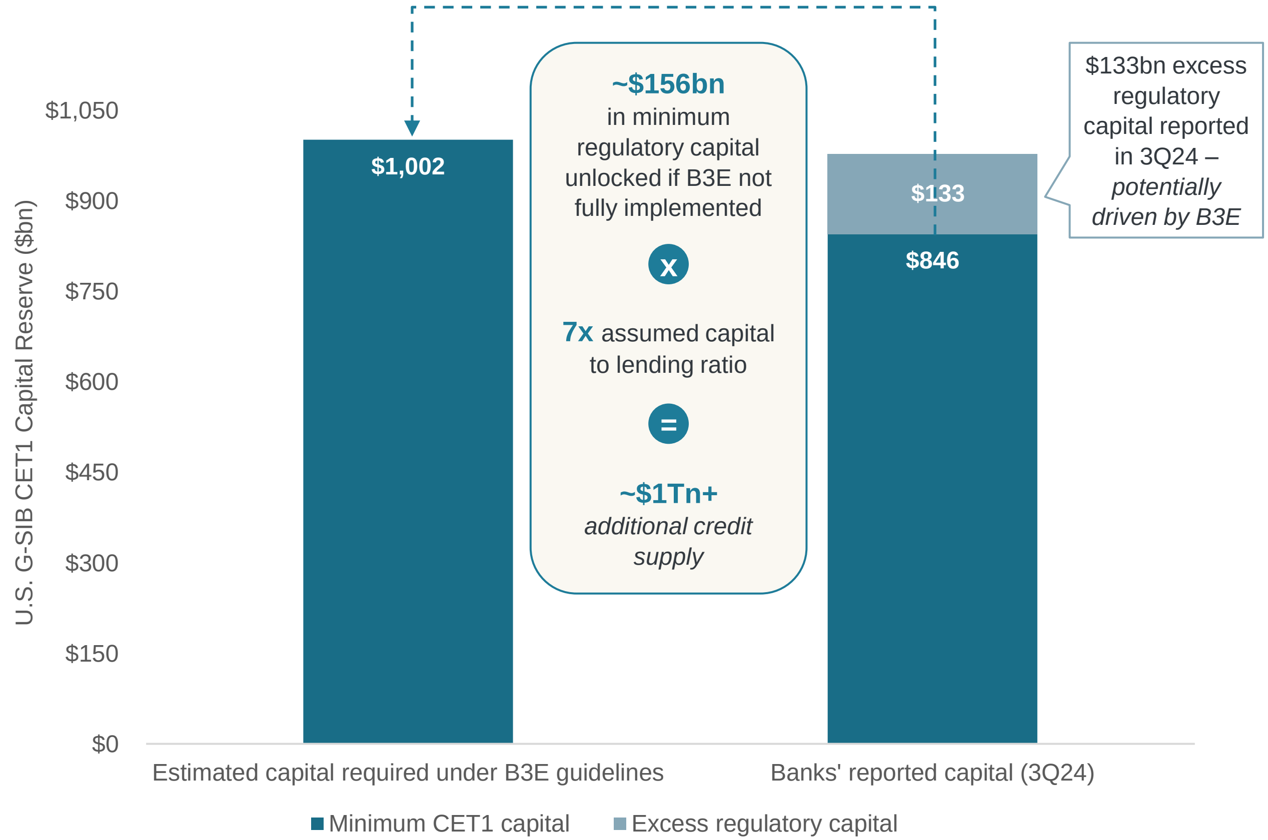
Source: FactSet as of 12/31/2024; Note: [1] Reflects index constituents as of 12/31 for each respective year; excludes Financials; calculated as quarterly interest expense net of quarterly income earned from interest annualized, divided by net debt, excludes companies with no debt or a negative net debt balance; largest firms represents top decile of companies by market cap and smallest firms represent bottom decile of companies by market cap each year; largest and smallest companies defined as firms in top and bottom 10% of S&P 1500 by market cap as of Q3 2024; [2] Based on median market cap ($712mm), debt / cap ratio (42%), NTM P/E (14.3), and 21% corporate tax rate for smallest companies as defined (excluding Real Estate and Financials); [3] Based on change in Effective Federal Funds Rate from Q4 2024 to YE 2026 based on Overnight Futures Markets as of 12/31/2024

De-regulation likely to be a tailwind across sectors

WHAT CAN CONGRESS AND THE ADMINISTRATION DO?

Antitrust M&A scrutiny	**Loosen 2023 antitrust merger guidelines, greenlighting more mergers and doing it faster**
Financial Services Basel Endgame Cryptocurrency	**Choose not to endorse Basel III Endgame ("B3E") or propose replacements**
Energy LNG export permitting	**Lift the Biden Administration pause on LNG export permits and approve pending permits, setting the stage for streamlined reviews**

BASEL III ENDGAME INCREASES LARGE BANKS' CAPITAL REQUIREMENTS IF FULLY IMPLEMENTED



Avoiding full implementation of Basel III Endgame regulations could illustratively increase the supply of credit by $1Tn+[1]

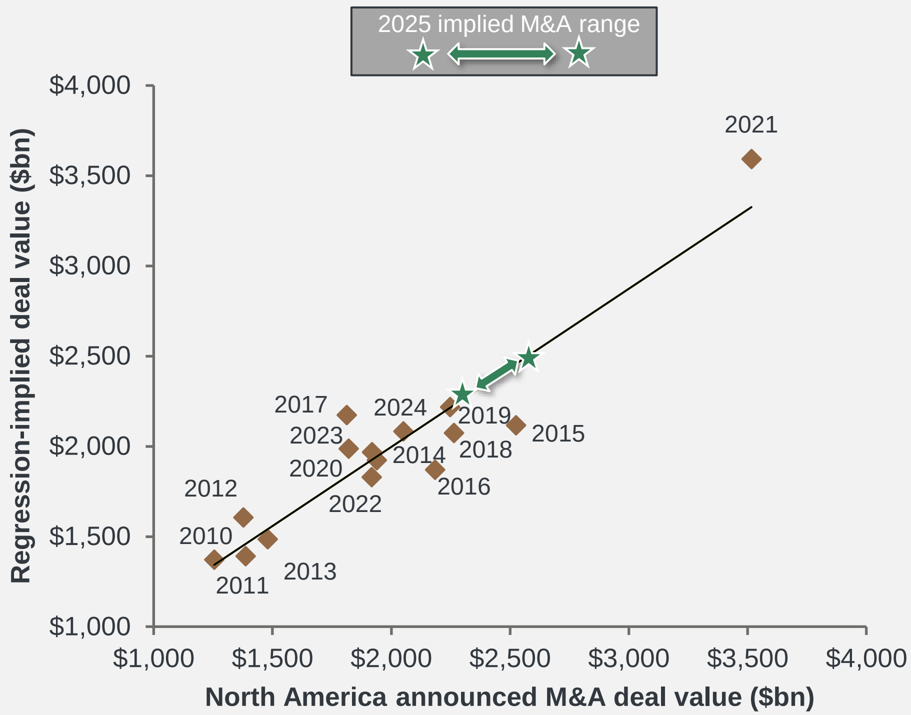
Why it matters?	• ***Opportunities for deregulation span antitrust, financial services, permitting, and countless others*** • ***The market may be primed for strategic action with the potential for an improved regulatory backdrop***

J.P.Morgan

Source: 3Q2024 earnings presentations from Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, State Street and Wells Fargo. Existing capital ratios as stated in Federal Reserve 2024 bank capital requirements. Estimated capital under B3E guidelines assumes +9% RWA requirement stated in 9/24 Michael Barr speech and includes 50bps buffer. [1]Assumes 7:1 capital to lending ratio.

What can economic and market factors tell us about M&A in 2025?

REGRESSION BEST-FIT ANALYSIS: EQUITY VALUATIONS + TREASURY RATES + ECONOMIC GROWTH[1,2,3,4]



KEY INSIGHTS

- **1.0x** in S&P 500 **average P/E multiple** implies **6.1% deal volume uplift**

+

- **50bps increase in real GDP growth rate** implies **~4.9% deal volume uplift**

+

- **50bps decrease 10-year Treasury rate** implies **~5.9% deal volume uplift**

$2.2trn - $2.5trn 2025E[3,4]

*regression-implied North America M&A volume up **8-23%** vs. 2024*

Overall **CEO confidence was up 7%** following the election – potentially indicating **increased willingness to consider strategic M&A**

S&P 500 valuations, expected U.S. economic growth, and interest rates imply an 8-23% increase in U.S. M&A in 2025, before accounting for de-regulation tailwinds[3]

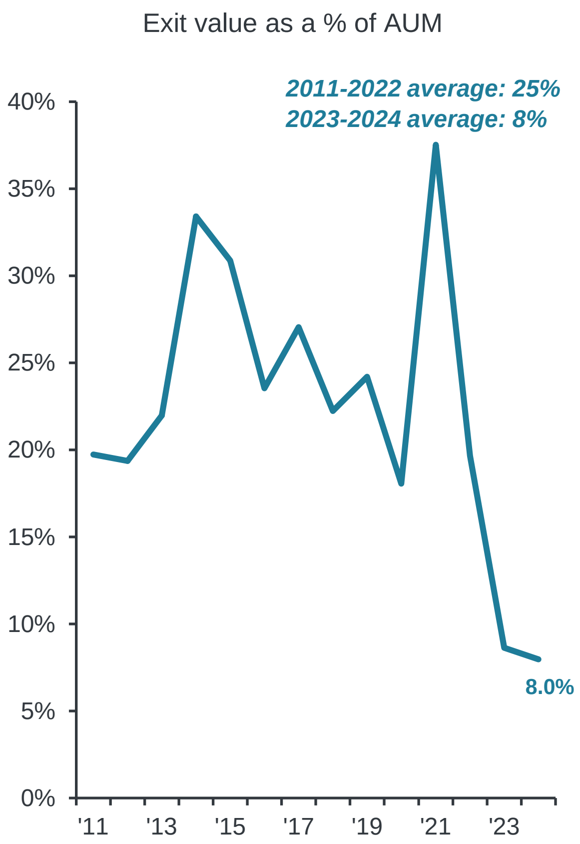
Why it matters?

- ***Be proactive: Identify potential acquisition targets and evaluate merits of a combination to have "first mover advantage"***
- ***Engage advisors and evaluate financing strategies in advance of approaching targets***
- ***Be prepared for potential inbound approaches***

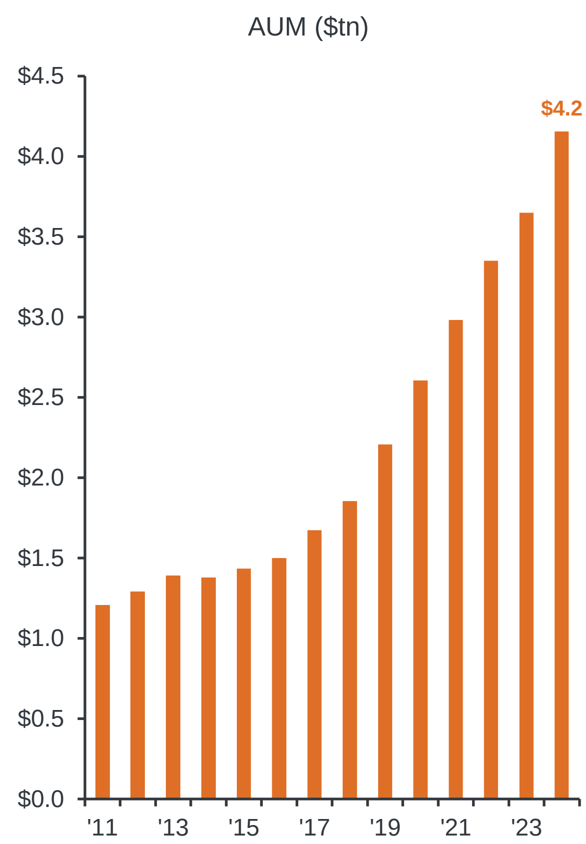
Source: Factset; FRED, Dealogic; [1] **Regression R-Squared of 88%**; Regression equation: **Deal value ($bn) = 49.4 + (124.1 x Average P/E multiple) + (20,103.3 x Real GDP growth rate) + (-24,131.0 x 10-year treasury rate);** [2] Based on JPM estimates of current P/E multiple, 2025E GDP, and implied 10-year Treasury rate at the end of the year; [3] Range based on with and without 10-year Treasury, relative to 2024 annualized M&A deal value; [4] North America based on any involvement (target, acquiror or divestor)

Sponsor monetizations are due for a rebound

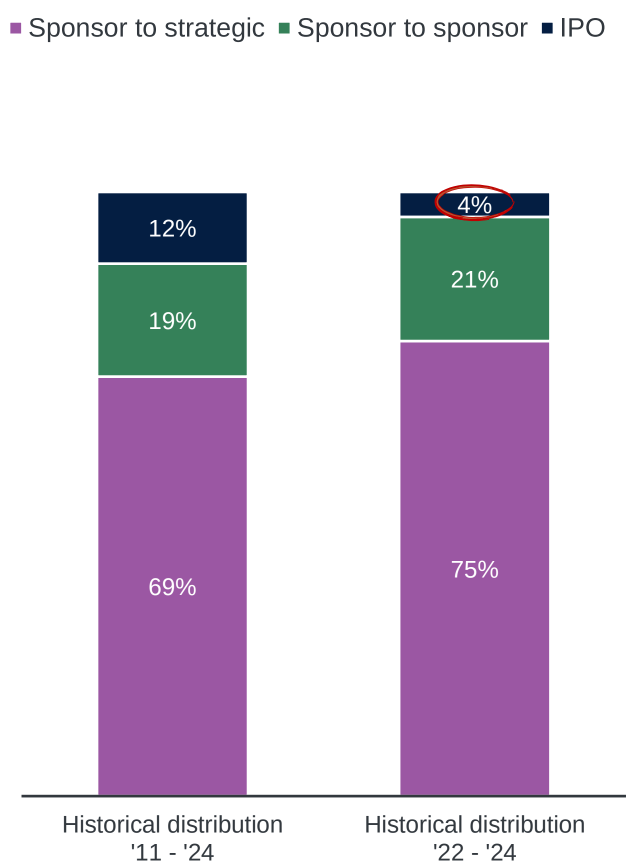
ANNUAL PRIVATE EQUITY EXIT VALUE AS A % OF AUM[1,2]



ANNUAL PRIVATE EQUITY AUM[1]



PRIVATE EQUITY EXITS BY DEAL VALUE OVER TIME ($BN)[3]



The pipeline of sponsor monetizations is at the highest level in 10+ years

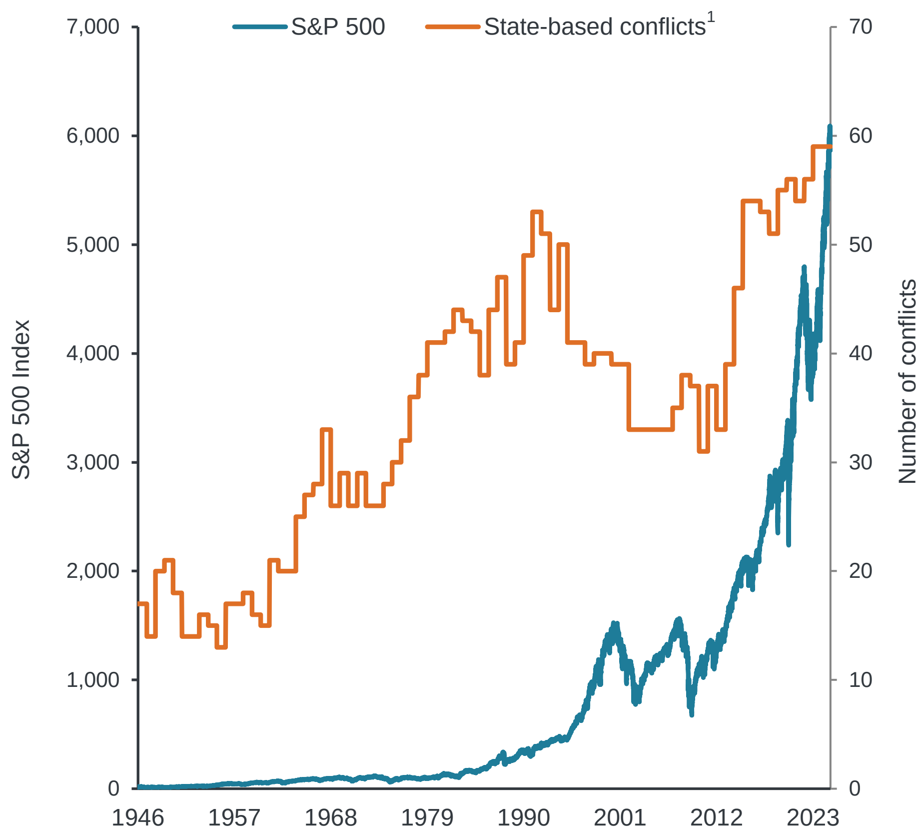
Why it matters?

- ***2021 & 2022 were outliers in private equity exit activity; 2023 & 2024 (expected) figures are at or below pre-COVID levels***
- ***Momentum for SMID caps may support more attractive valuation opportunities and more sponsor exit velocity***

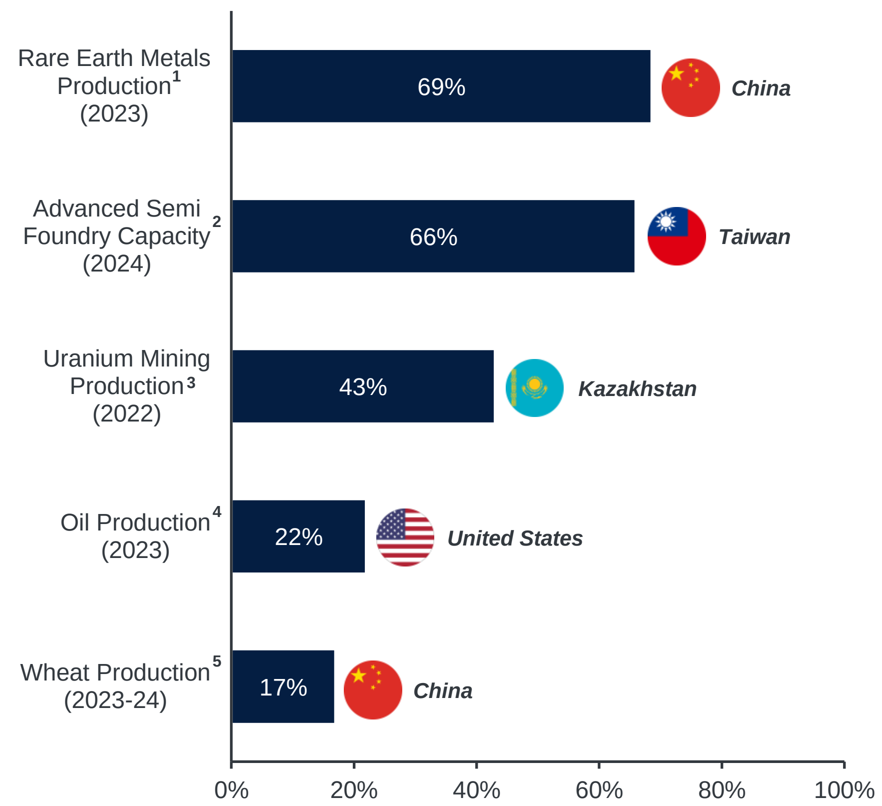
Source: Dealogic, Prequin; Note: includes partial and full exits, bankruptcies excluded; IPO value represents offer amount, not the market value of the company; [1] AUM includes buyout strategy only; [2] Annual exit value divided by beginning of year AUM; [3] 2024 exit figures annualized

Markets remain resilient despite increasing geopolitical risk

S&P 500 VS. ACTIVE CONFLICTS



KEY COMMODITY PRODUCTION CONCENTRATION



The number of active conflicts is at the highest level since World War II, and concentration in critical commodities and semiconductor manufacturing present risks

Why it matters?

- ***Equity market performance has historically discounted the escalation of geopolitical conflicts over the long-term***
- ***Globalization has allowed for the diversification of key economic inputs and supports the rationale for "ignoring" localized conflicts; does the increasing trend of deglobalization risk reversing this phenomenon?***

Source: UCDP/PRIO Armed Conflict dataset; FactSet data as of 12/31/2024; [1] Assumes 2024 number of state-based conflicts remains unchanged from 2023 data; [2] U.S. Geological Survey; [3] TrendForce; [4] World Nuclear Association; [5] U.S. Energy Information Administration; [6] U.S. Department of Agriculture

China faces risks both at home and on the world stage

CHINA'S GROWING PAINS

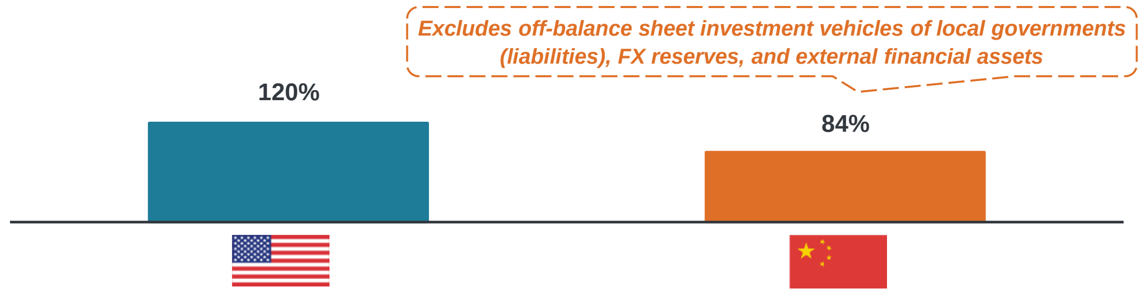
32% ↓ — Decline in domestic equity valuations (CSI 300) since 2021 peak

47% ↑ — Increase in youth unemployment from 11% in 2019[1]

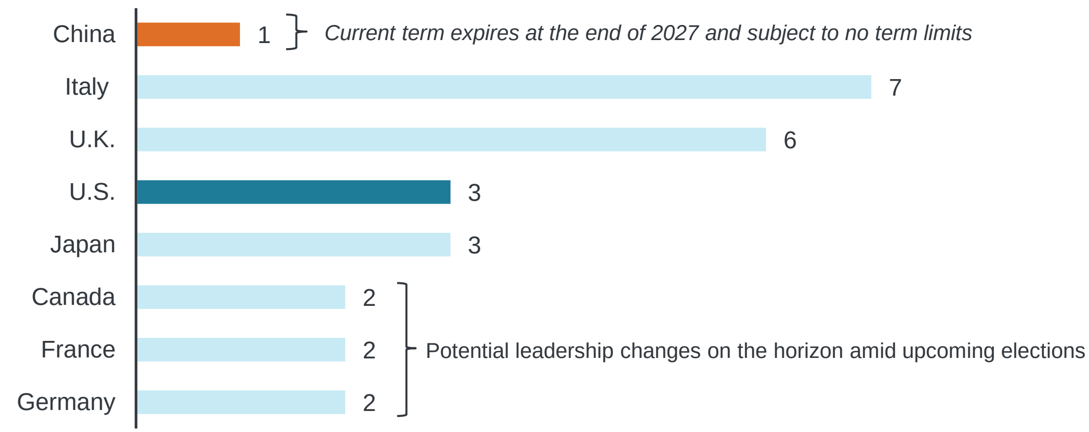
6% ↓ — Decline in housing prices YoY[2]

5% ↓ — Decline in exports into the U.S. since 2016[3] (Trump's first term)

DEBT-TO-GDP[4]



NUMBER OF LEADERS IN POWER SINCE PRESIDENT XI WAS ELECTED IN 2013



China's national Debt-to-GDP is almost 1/3 lower than the U.S, and is on track for ~15+ years with the same leadership uniquely positioning it to manage through challenges

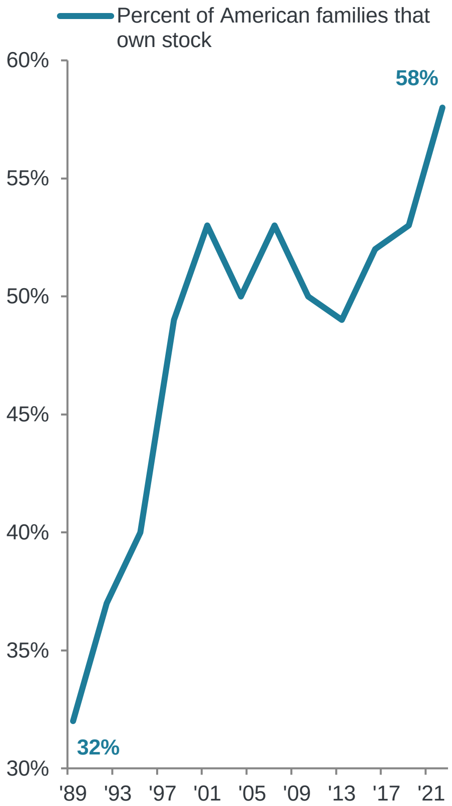
Why it matters?

- *Since President Trump's first term, Chinese exports to the U.S. have declined by over $24bn*
- *In addition to trade friction, China faces domestic economic issues: troubled real estate market, high youth unemployment, declining foreign direct investments and pressure on domestic capital markets*
- *However, China has dry powder and political unity to provide domestic economic stimuli, trade retaliation, or even potential trade concessions (e.g., FDI into the U.S. to avoid tariffs) – thought others, like the U.S., will remain wary of the distinction between "stimulus" and "manipulation"*

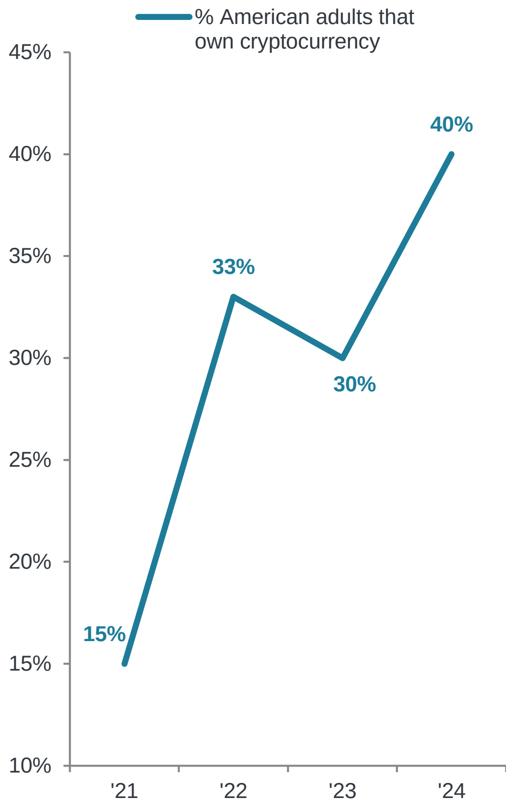
Source: J.P. Morgan, U.S. Census Bureau, Federal Reserve Bank of St. Louis, International Monetary Fund, National Bureau of Statistics of China; [1] Based on year-end 2023 FRED data; [2] China House Price Index, as of November 2024; [3] 2024 based on November YTD exports annualized, decline of $24bn since 2016; [4] U.S. debt-to-GDP as of Jul 2024, China debt-to-GDP as of YE 2023

The U.S. consumer is taking more risk

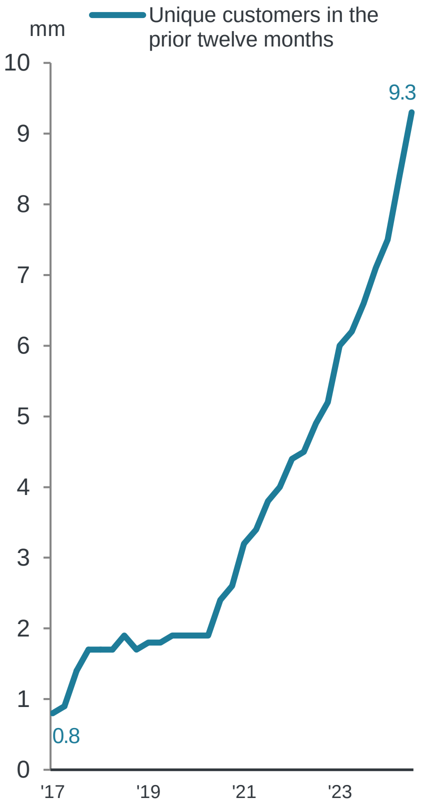
STOCK OWNERSHIP AMONG AMERICAN FAMILIES



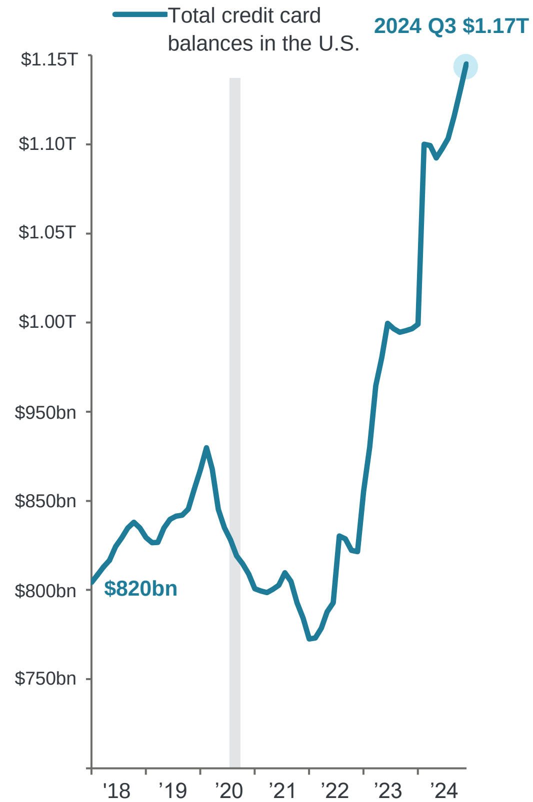
CRYPTOCURRENCY OWNERSHIP RATES AMONG U.S. ADULTS



U.S. GAMING COMPANY REPORTED ONLINE BETTING USERS[1]



CREDIT CARD DEBT HITS ANOTHER RECORD HIGH[2]



Consumers appear more willing to make financial bets than they have been in the last 30 years

Why it matters?

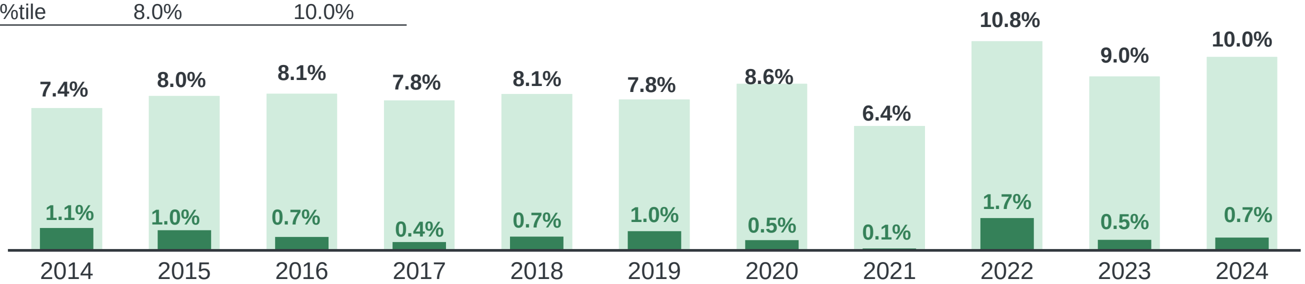
- ***Retail owners are a larger share of the investor population, which may change risk tolerance and investing behaviors***
- ***Savings rates are also near long-term lows***
- ***A shift in consumer behavior may amplify the impacts of the next economic downturn***

Source: 2022 Survey of Consumer Finances (Federal Reserve), 2024 Cryptocurrency Adoption and Sentiment Report (Security.org); [1] Includes U.S. users of major online betting platform; [2] Shaded area indicates recession, Data as of Nov. 13, 2024

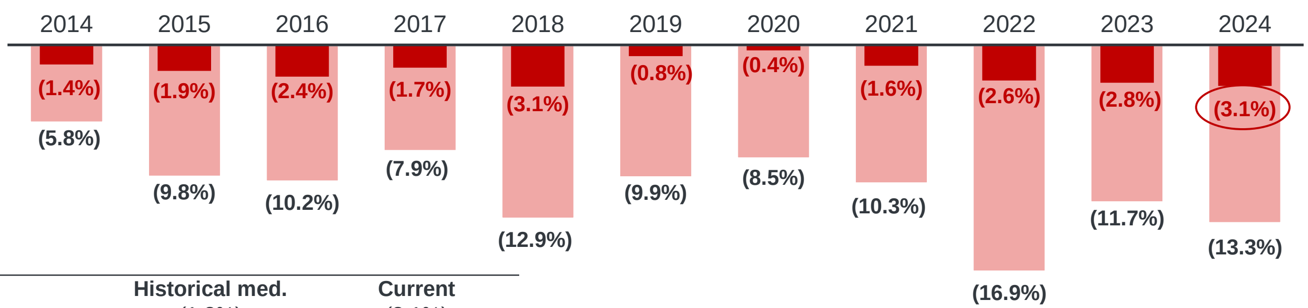
The downside risk of disappointing investors has increased

1 WEEK GICS ADJUSTED MARKET REACTION TO Q3 EARNINGS BEATS AND MISSES (%)[1]

	Historical med.	Current
Median	0.7%	0.7%
90th %tile	8.0%	10.0%

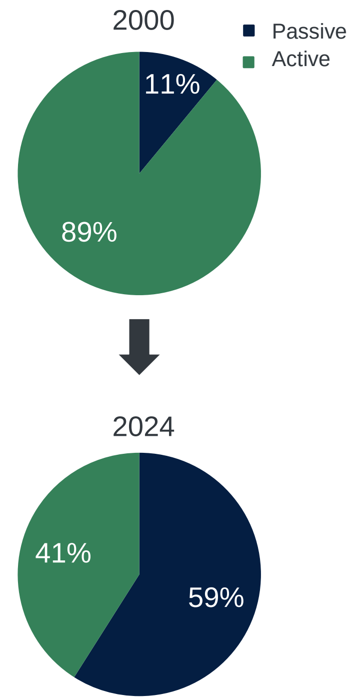


	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
% Beat	*77%*	*75%*	*78%*	*78%*	*83%*	*79%*	*83%*	*82%*	*75%*	*83%*	*78%*
% Miss	*22%*	*25%*	*20%*	*21%*	*17%*	*21%*	*17%*	*17%*	*24%*	*17%*	*22%*



	Historical med.	Current
Median	(1.8%)	(3.1%)
90th %tile	(10.0%)	(13.3%)

INCREASING POPULARITY OF PASSIVE AND RETAIL INVESTING[2]



Additionally, the proportion of U.S. families owning stock has almost doubled in the past 3 decades[3]

Negative reactions to earnings misses are now almost 2x the 10-year average

Why it matters?

- ***The shift from active to passive investments over the last few decades risk putting the marginal investor in a position of greater price influence***
- ***Higher retail stock ownership and lower holding periods may further increase volatility***

J.P.Morgan

Source: FactSet as of Dec 2024; [1] S&P 500 as of Q3 of each year; market reaction as of A-1 to A+5adjusted by price performance of GICS sector over same time period; [2] Per Morningstar as of Dec 7, 2024; [3] Increase from 32% in 1989 to 58% in 2021 per 2022 Survey of Consumer Finances (Federal Reserve)