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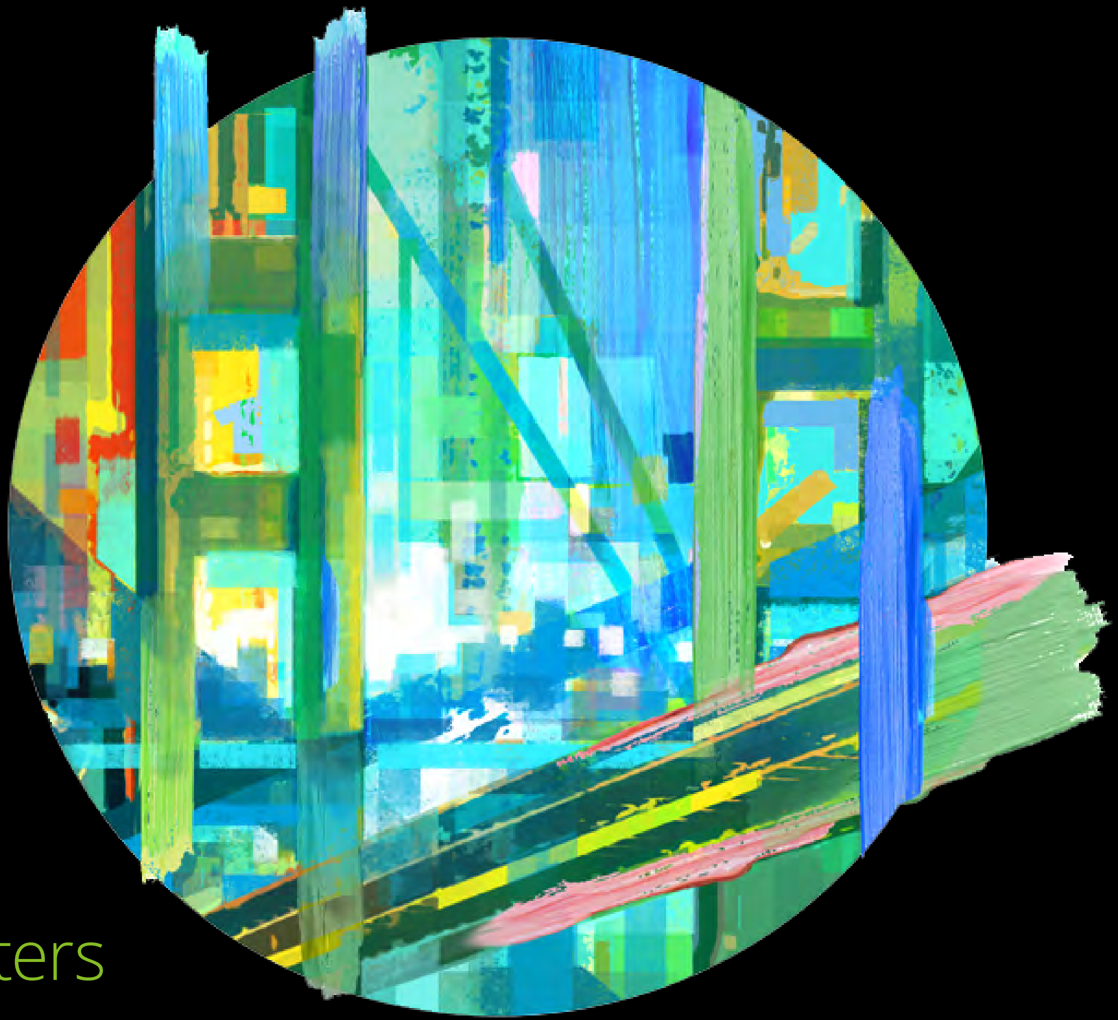


Navigating rougher waters

A Q2 Deloitte perspective on tariffs and the economy for US restructuring professionals and US M&A dealmakers[1]

The calm before the storm?

As we predicted in January 2024,[2] the US M&A market saw a measured rebound last year with aggregate deal value up 10% and the total number of deals up 6%, both over the preceding year.[3] At year end, looking ahead to 2025 and with continued momentum anticipated, the market initially complied, and such progress was noted. During Q1 this year, aggregate US deal value increased by 6% while deal volume rose 5% relative to the first quarter of 2024.[4] Additionally, the United States represented 50% of global M&A deal value in Q1 with 13 deals worth $5 billion or more during this period.[5]

The rise in M&A activity during the second half of 2024 and in Q1 2025 was driven by some US fed easing late last year, lower inflation, strong corporate earnings, GDP growth, and a robust equity market through the first quarter.

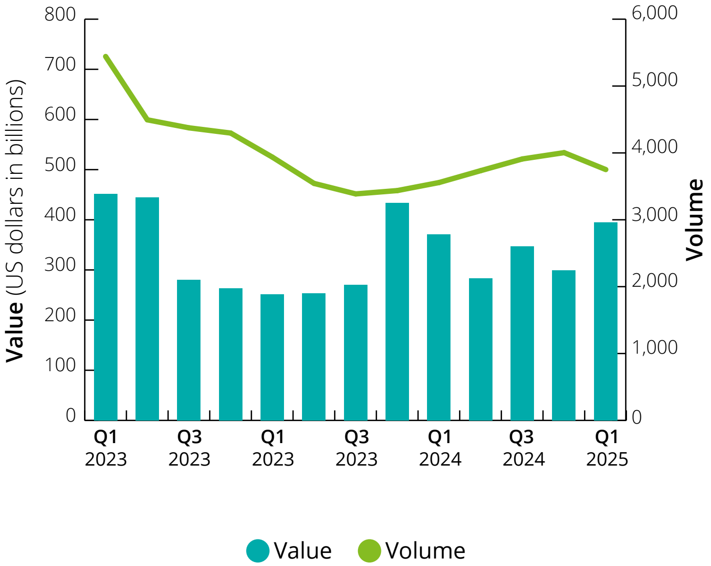
With the latest inflation numbers even closer to the Fed's 2% target by end of April, some analysts and economists believed the elusive "soft landing" had been achieved or was in view for the near future.

A U-turn for US M&A in April and Q2?

With Q1 in the books, the United States announced tariffs on nearly all of its trading partners in early April.[6] As of this writing and following a May 12 US agreement with China to temporarily reduce baseline tariffs, most goods from China now carry a tariff of 30%, down from 145% previously.[7] Most other countries and Europe now face 10% tariffs thanks to a 90-day pause that is projected to end in July. The stated goal of the pause is to allow time for negotiations regarding potential new trade deals. While there are some sector-specific exemptions, tariffs overall are in addition to specific ones levied on targeted products such as all steel and aluminum imported into the United States.[8]

Quarterly US M&A activity

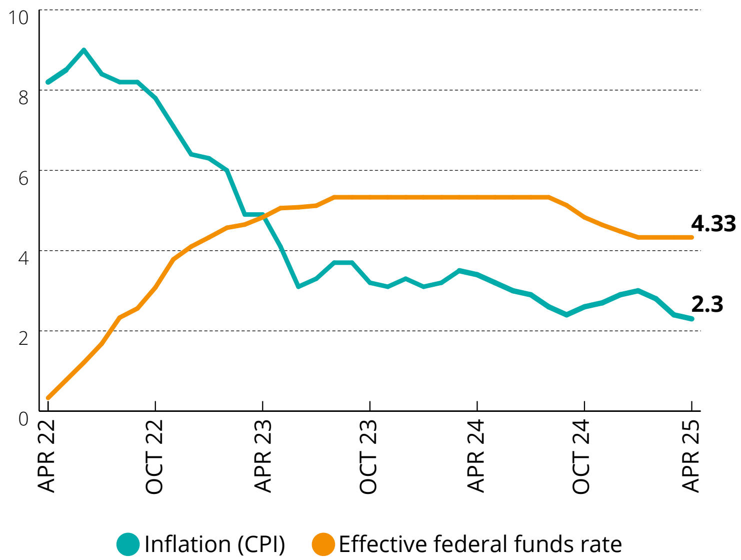
(Q1 2023 through Q1 2025)



Source: S&P Global Market Intelligence, LLC – S&P Capital IQ and Deloitte analysis, data generated April 8, 2025.

US inflation (CPI) vs effective federal funds rate

(Percent)



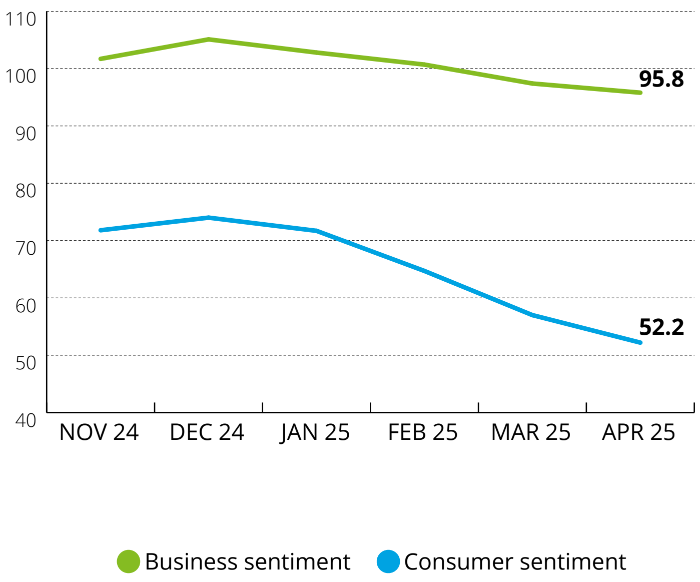
Source: Effective federal funds rate: Federal Reserve Bank of St. Louis, accessed on May 8, 2025; Inflation (CPI): Bureau of Labor Statistics, accessed on April 21, 2025

A U-turn for US M&A in April and Q2?

With the surprising and unpredictable trade policy changes, consumer and small business sentiment have seen more severe declines since beginning to fall earlier this year.[9] Consistent with the trend, CEO confidence also took a dive to levels last seen during the COVID-19 pandemic era.[10]

Consumer sentiment vs Business sentiment

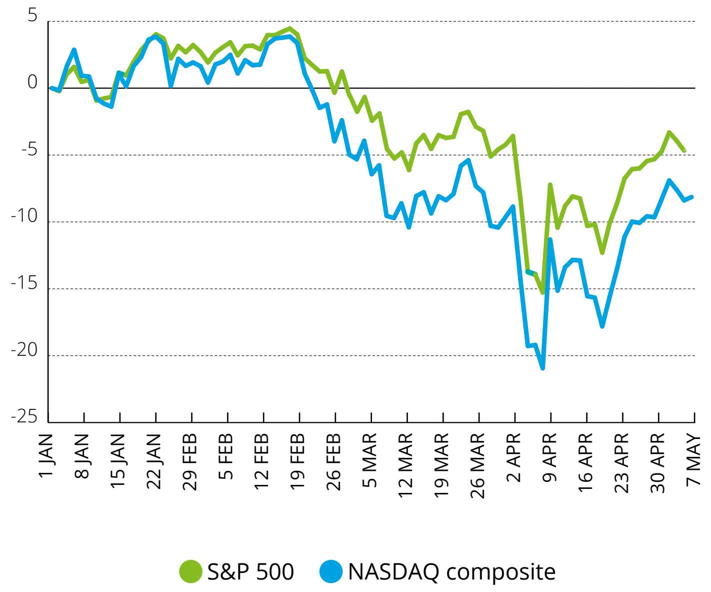
(Index)



Source: University of Michigan, Surveys of Consumers, accessed April 29, 2025; National Federation of Independent Business (NFIB), "New NFIB survey: Small business optimism slips," press release, April 8, 2025.

S&P 500 vs NASDAQ

(Percent change)



Source: S&P Global Market Intelligence, LLC – S&P Capital IQ and Deloitte analysis, data accessed on May 8, 2025.

CBOE volatility (aka "fear") trend

(Percent change)

Source: Federal Reserve Bank of St. Louis, CBOE Volatility Index: VIX, series accessed on May 8, 2025.

A U-turn for US M&A in April and Q2?

Bond yields have risen in recent weeks with 10-year treasuries rising from a low of 3.63% last September to a range of between 4.0% and 4.8% more recently, and with some sharp increases in April.[11] And the US dollar has weakened by 9.5% against major global currencies this year.[12] These trends indicate that US assets may become less attractive and harder to liquidate, potentially leading to slower economic growth, higher inflation, and reduced foreign investment. Consequently, M&A markets may experience decreased activity, as companies and investors become more cautious and even pause dealmaking and investment decisions, prioritizing stability over growth. But is this the best posture for dealmakers to be taking during the weeks and months ahead?

With a good Q1 for dealmakers, and a very different kind of opening month for Q2, we'd posit that the most important questions for M&A leaders now shouldn't be around divining the future, or even how to best mitigate risk, a perennial need. No one credible can predict the near-term, or longer, trends for trade policy, monetary policy, market movements, and the other economic metrics that have traditionally correlated with M&A activity. Rather, corporate and PE dealmakers may well be able to seize unique opportunities now to realize value.

How?

Corporate and PE dealmakers may well be able to seize unique opportunities now to realize value.

It's now "a time to pivot."

In a few words, we suggest that, for M&A leaders, and for restructuring/transformation professionals, it's now "a time to pivot." Our annual M&A Trends Survey for this year, published in early February, identified a number of pivots around which dealmakers have increasingly developed durable competencies. Put differently, the data from those 1,500 respondents (60% corporate and 40% private equity) showed that after several exogenous shocks to the market in recent years, M&A teams are increasingly being proactive versus reactive.[13]

Pivots are taking on different forms for dealmakers and, especially now given the rise in volatility and a less predictable future, we both expect and encourage more M&A teams to embrace such agility and flexibility as the new normal for M&A.

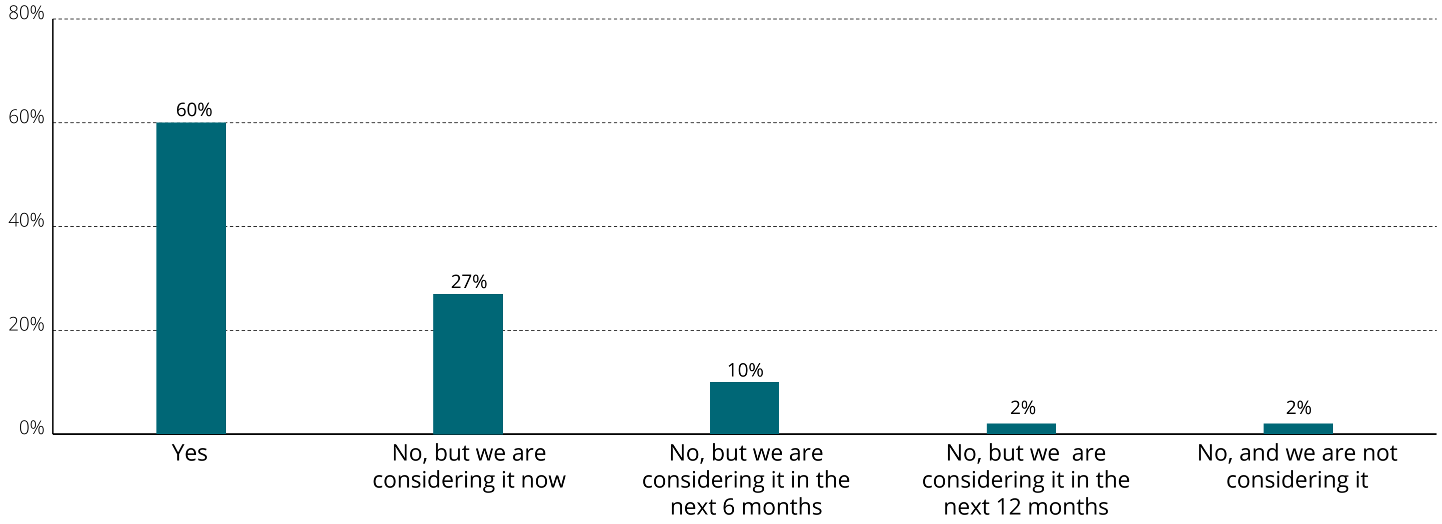
Strategic pivots

Over the past few years, as traditional M&A and divestitures have remained fairly consistent for our M&A survey respondents, alternatives like alliances, JVs, and IPOs have increased in popularity, rising to 43% in 2023 and 37% in 2024, up from just 26% in 2022.[14]

A different kind of strategic pivot—a shift from external dealmaking to internal transformation and restructuring—has also increased to the point (99% of respondents indicated completed or planned restructuring for the coming year) that this is now continuous and, indeed, a growing competency for many dealmakers and organizations. Chief among the reasons for restructuring now is digital transformation (41%) with preparation for acquisition/divestiture in second place (34%) just ahead of short-term cost improvement/cash flow management (33%).[15]

We expect the potential for rising default risk, along with tax and legal entity restructuring opportunities, to also be supportive of this trend.

Has your (or any of your portfolio company's) organization restructured (e.g., working capital, reorganization, cost reduction, restructuring) in the previous 12 months?
(Percent)



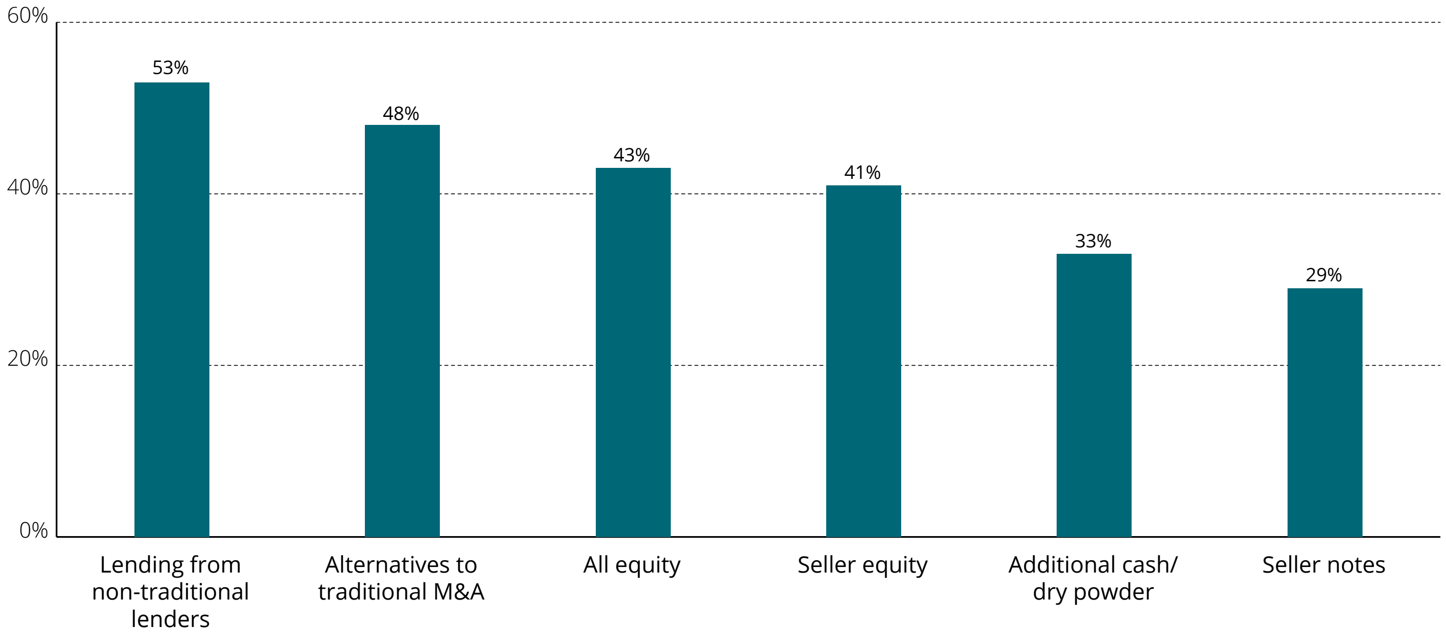
N = 1,500: Corporate N = 893, Private equity N = 607
Source: Deloitte M&A Trends Survey 2025

Financing pivots

Even with one hundred basis points worth of reductions to the fed funds rate during the final third of 2024, interest rates are still elevated at the time of this writing, limiting the use of traditional debt financing for deals. As a result, M&A teams have pivoted to alternative sources of financing deals, with nontraditional lenders (private credit) (53%), all equity (43%), and cash/dry powder (35%) among the leading options used.[16] As mentioned just above, we also expect tax planning and related opportunities to figure more prominently into the financing pivot story as well.

Given the economic, regulatory, and other operational headwinds, which alternative financing vehicles (to traditional bank debt) has your company used in the past year or will very likely use in the next year to get deals done? Please select all that apply.

(Percent)

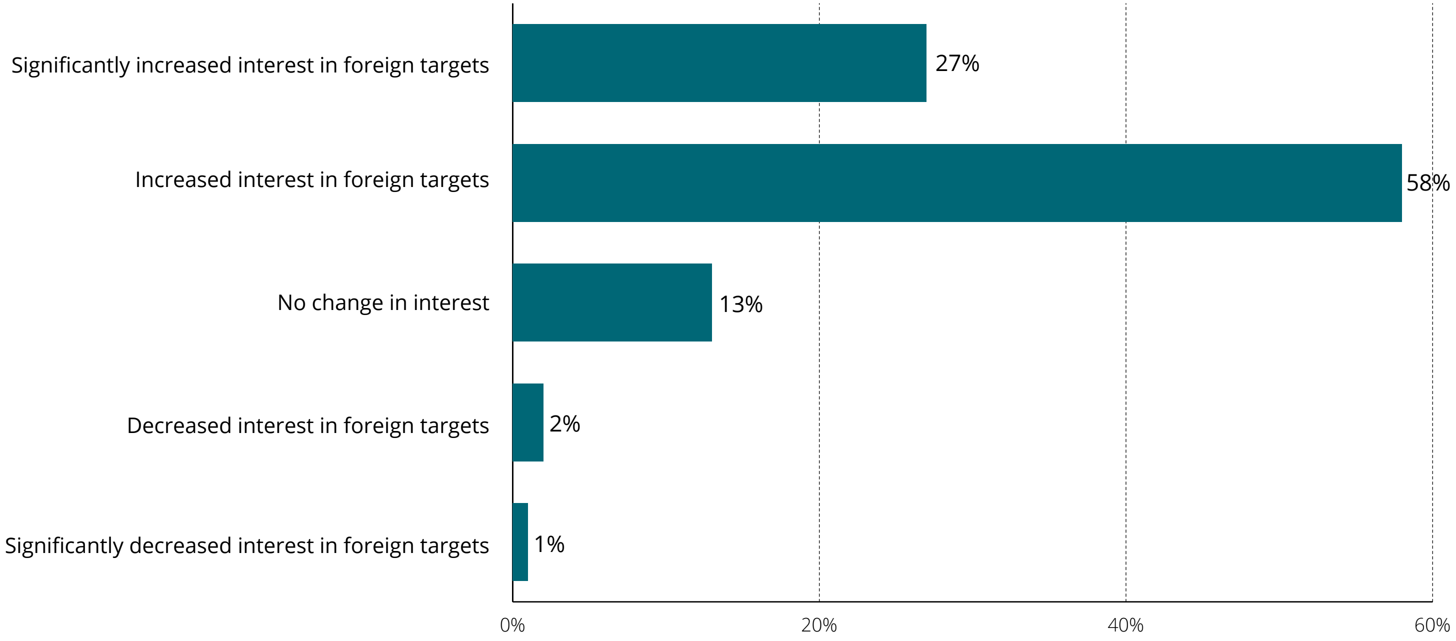


2024 N = 1,500
Source: Deloitte M&A Trends Survey 2025

Geographic pivots

Depending how long and how deep tariffs may persist, this may prompt companies to diversify their operations or expand into new markets to reduce their reliance on tariff-affected regions. This diversification strategy may involve acquiring companies in countries with more favorable trade conditions or establishing partnerships to navigate complex trade environments. As policy and geopolitical concerns are prompting some caution, US dealmakers may continue, or even accelerate, the trend of targeting deals in more developed nations closer to home—in Canada, Mexico or Europe, for example—to ensure stability while shortening supply chains and even onshoring production.[17]

Looking ahead, how do you expect your company's interest in acquiring foreign targets to change over the next 12 months?
(Percent)



Note: Due to rounding, numbers may not add to 100%. N = 1,500
Source: Deloitte M&A Trends Survey 2025

Closing with value

While “unprecedented” has become an overused term in recent years, there’s no denying that 2025 is shaping up to be a very challenging year for US M&A leaders. However, as has been the case in past instances of strong headwinds, the opportunities will also be apparent for those who are most prepared and bold with transformation initiatives and M&A strategy and execution.

In addition to the pivots we’ve described above, it’s also important to mention value realization. The risks and challenges for more targets may present more attractive opportunities for acquirers with cash and other means to finance deals. Companies and private equity funds are advised to be ready to pivot, and to be on the lookout for narrower bid-ask spreads (greater value in targeting) than have been available in recent years.

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This report would not have been possible without the insights and contributions of the following individuals: Shreeparna Sarkar, Pankaj Bansal, Jayesh Prabhu

Endnotes

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16. Ibid.
17. Ibid.