

Is M&A About to Bounce Back?

By outward appearances, the M&A market remains in the doldrums. Global deal value was down nearly 40% over the first three quarters of 2023, compared with the same period in 2022. Interest rates are likely to remain “higher for longer,” in the words of Jerome Powell, chairman of the Federal Reserve.

Outward appearances can be deceiving, masking pre-deal activities not yet public. My sense, from talking to CEOs and colleagues, is that deal preparing—if not yet dealmaking—is on the rise.

M&A markets are cyclical. They bounced back six to eight quarters after bear markets following the dot-com and housing crises. They will again. But when? A few green shoots may be emerging.

- Inflation is improving, even as interest rates remain elevated, giving dealmakers more certainty in pricing and structuring transactions.
- Cash levels at corporations and private equity firms are close to all-time highs. They are facing increasing pressure to deploy that cash, as multiples adjust to the new normal.

Investing near the bottom of the market can be audacious but smart. Deals in downmarkets outperform hot-market deals by 2½ times when measured by long-term shareholder return. That is one of the many findings in the recent [20th anniversary edition of BCG’s annual M&A report](#).

Chance favors the prepared mind. The dealmaking may stay sloppy in the short term, but given the pre-deal activity in motion,

2024 at least should be a more active M&A year than 2023, potentially a much better one. ExxonMobil's and Chevron's proposed deals, both valued north of \$50 billion, are examples of bold early moves for scale, lower cost, and consolidation of attractive resources in preparation for the energy transition.

If 2024 will be a bounceback year, late 2023 is a good time to start anticipating and envisioning deals, which often take six to nine months or longer to launch. By the time the market has clearly turned, companies that did not do their prep work will be playing catch-up.

M&A can be transformational. The global economy is undergoing the most fundamental transformation since at least World War II, driven, in part, by the energy transition, AI & digitization, and supply chain reconfiguration.

Dealmaking can help companies navigate these shifts more quickly. Carrier Global's proposed acquisition of Viessmann Climate Solutions, a German manufacturer of heating, cooling, and renewable energy systems, will enable the air conditioning maker to capitalize on the energy transition in Europe. Cisco's proposed merger with Splunk will help the company expand its position in growing security, analytics, and AI markets and bring in more recurring revenue.

Reasons abound to doubt the precise timing of a turnaround: geopolitical tensions, renewed inflation, government policy, and so on. But, as BCG's M&A research shows, when the market turns, history favors farsighted companies ready to act.

Until next time,



Christoph Schweizer
Chief Executive Officer

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