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TRENDBOOK

Investment Banking Outlook 2024

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Trends 2024

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possible recovery in 2024

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outlook amid uncertainty

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Executive summary

The year 2023 was challenging for the investment banking sector due to geopolitical conflict, market volatility, supply-chain bottlenecks, rising inflation, higher interest rates and changing financial regulations, resulting in fewer M&A, equity capital market (ECM) and debt capital market (DCM) deals.

Global investment banking revenue stood at USD50bn in the first three quarters of 2023, 20% less than in the first three quarters of 2022. Against this challenging backdrop, investment banking firms were forced to implement measures to increase their operating efficiency and contain costs. They evolved with the changing environment, adopting modern operating models, implementing new technology in their operations and building capabilities in-house, implementing all measures necessary to remain competitive and boost productivity.

Investor confidence seemed to grow in the last quarter of 2023 on acceptance that the economic conditions and new policies in place were the new normal, leading to expectations that the market would rebound. The US Federal Reserve's (Fed's) recent indications that it plans to implement a staggered 50-75bps cut in interest rates in 2024 would further increase market activity as would similar approaches by other major central banks.

Enduring strategies of investment banking firms

Investment banks (IBs) across the globe are implementing measures to optimise costs amid the economic downturn. However, cost-management programmes of the different divisions should be integrated, and the focus should be not just on cost cutting, but also cost transformation.

EY recently provided one of the global IBs with a cost optimisation and cost management strategy that helped it reduce operating expenses by 30%. IB firms are pursuing a number of measures to optimise costs, such as by digitalising offerings and through low-profile organic growth.

Consolidating vendors

IB firms are now more rigorous in their vendor management approach and are reviewing their relationships with vendors in detail in order to avoid unnecessary expenses. To this end, they are looking at consolidating their vendors and bucketing them as a few strategic partners that would manage the other relationships. A number of firms are realising the importance and benefits of vendor consolidation, and this has become a trend in the sector.

Digital transformation

Another strategy that IB firms are looking at is digitalizing operations using artificial intelligence (AI), cloud computing and other technologies. IB firms are modernising their digital infrastructures to optimise costs and increase efficiency.

» Big-data analytics are vital to IB firms; they are focusing on operations and solutions to improve perspectives
» Goldman Sachs, Deloitte and BNP Paribas have adopted blockchain technology for institutional assets and financial market participants
» Virtual data rooms such as FirmRoom, DealRoom, Intralinks and Datasite help in due diligence and other processes involved in an M&A transaction

This trend is leading to convergence in the sector and helping to achieve greater synergy.

Cost discipline

IB firms spend significantly on compensation, increasing the number of office locations and other operating expenses. Some of their investment in technology in recent years is now paying off in terms of increased efficiency in front- and back-end office operations.

IB firms face new challenges in remaining competitive and continue to revamp their strategies. Core transformation and cost transformation would be beneficial as would adopting new measures to contain increasing costs of technology to weather the challenges and capitalise on opportunities for growth.

1 M&A activity: possible recovery in 2024

EXECUTIVE SUMMARY

M&A activity has been low since 2013, and market volatility and geopolitical unrest have made IB firms change their outlook and M&A strategies. The number of global M&A transactions in 2023 was almost 25% less than in 2022.

High levels of dry powder with financial sponsors and the narrowing price gap between buyers and sellers will likely drive M&A transactions in 2024.

To remain competitive, companies need to understand and adapt to the changing environment.

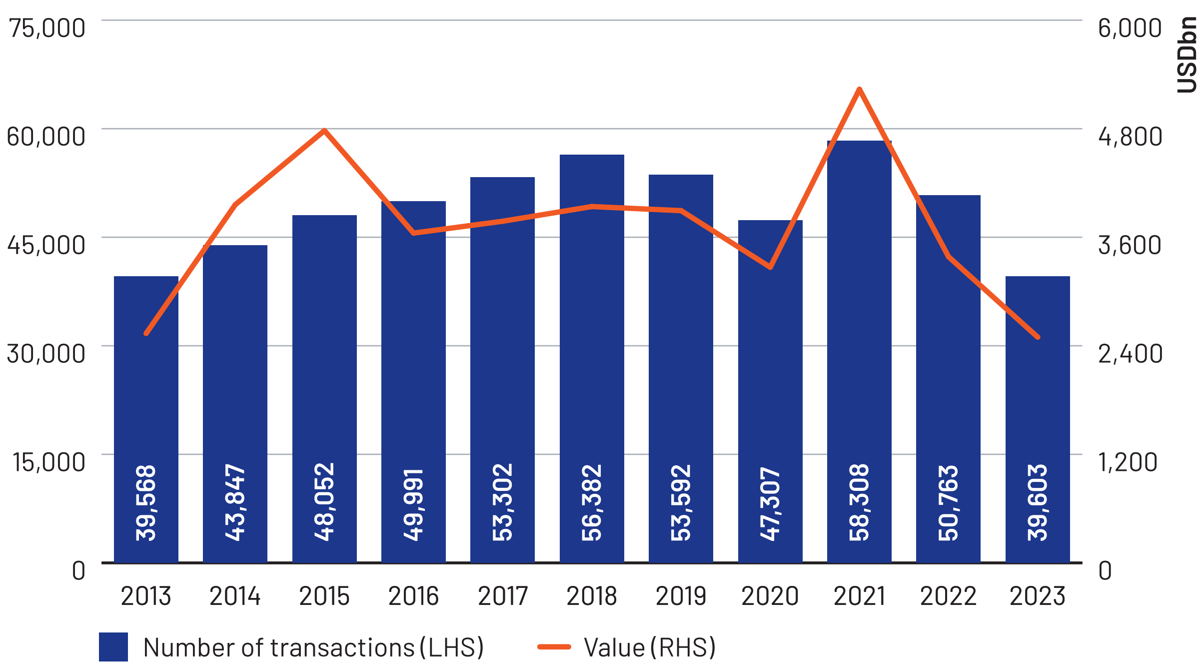
Recovery of M&A activity

Global M&A was expected to start gaining momentum in 2H 2023 but failed to do so. The slight recovery in volumes in M&A in the US, however, heightened expectations of a sustained recovery in 2024.

Market volatility, combined with an uncertain economic outlook, geopolitical unrest and rising interest rates, has compelled companies to adopt different M&A strategies to remain competitive.

Some dealmakers have capitalised on the current unstable situation by negotiating and pursuing M&A discussions that would not have been possible a few years ago.

Global M&A volume in 2023 was the lowest in the last 10 years. M&A deals totalled USD2,495bn in 2023, almost 26% lower than the USD3,384bn in 2022. In terms of number of transactions, North America accounted for the most (43%), followed Europe (35%) and other regions (22%).

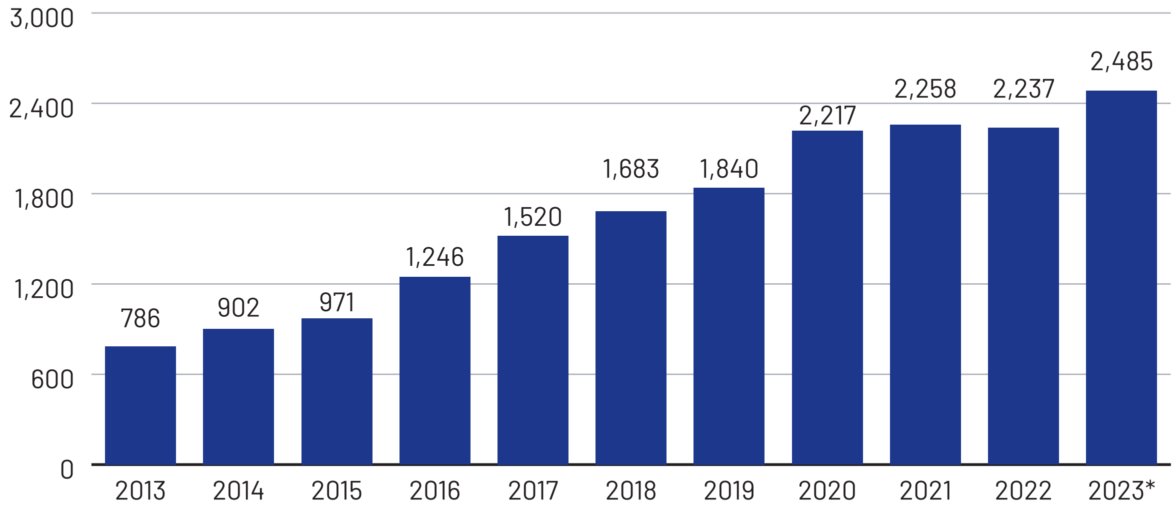


Source: IMAA Institute

M&A activity is set to gain momentum in 2024, driven mainly by the following:

» **High levels of dry powder with financial sponsors:** Approximately USD2.5tn of dry powder was available in the market as of July 2023. It is imperative that fund managers invest this money in the market, despite market conditions.

Dry powder (USDbn)



*As of 3 July 2023; private equity with vintage years 2000-23; Source: S&P Global Market Intelligence

» **Narrowing of price difference between buyers and sellers:** The wide price gap between buyers and sellers was another reason for the staggered deals in 2023. The price gap is expected to narrow as sellers and buyers accept the new normal and as rising interest rates, inflation and financing costs gradually stabilise.

A recovery of M&A activity in 2024 is inevitable

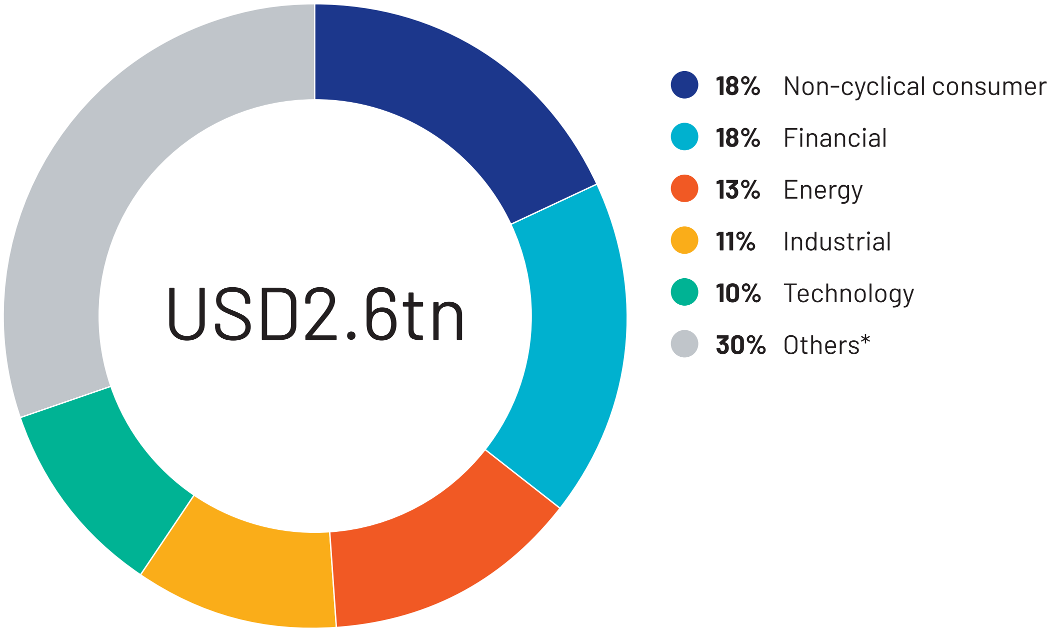
Increasing focus on small to mid-size deals: Companies are looking at small to mid-size transactions, keeping in mind current market conditions and high interest rates.

» Small deals are not that affected by market volatility, and conducting a series of small transactions would help a firm in its transformation journey

» As regulatory restrictions such as those relating to competition increase, IB firms would look for small deals more than large ones

» Small deals enable meeting the strategic requirement of enhancing growth at less regulatory scrutiny

Shift in activity by sector: Despite declining M&A activity, 2023 saw some sectors bucking the trend. The top five sectors in 2023 through 31 October were as follows:



*"Others" includes the O&G, software, REIT, pharmaceuticals, telecommunications and internet sectors

Source: *ANALYSIS: These Target Industries Show Promise for M&A in 2024 (bloomberglaw.com)*

Many other target sector groups (such as TMT, healthcare and pharma, followed by industrial, power, utilities and infrastructure, and financial services) grew in 2023; their deal volumes are set to increase in 2024.

We expect technology companies to capitalise on lower valuations and enter deals to accelerate business synergies. Financial sponsors have also shown interest in AI/machine-learning (ML) technology due to increasing demand for digital transformation.

The healthcare sector has capital reserves that can be used for strategic deals. We expect medtech and healthcare analytics companies to also attract investor interest. Advancements in drug development and the continued need for innovative treatment/medical solutions should drive consolidation and M&A activity in the pharma sector.

Increasing cross-border transactions: Heightened geopolitical tensions had dampened cross-border transactions, but companies are now seeking growth and diversification to reduce the risk of a volatile economy. Investors are choosing local strategic partnerships to mitigate the challenges from domestic regulations. However, despite such challenges, companies are strategically pursuing M&A to expand globally, as shown below.

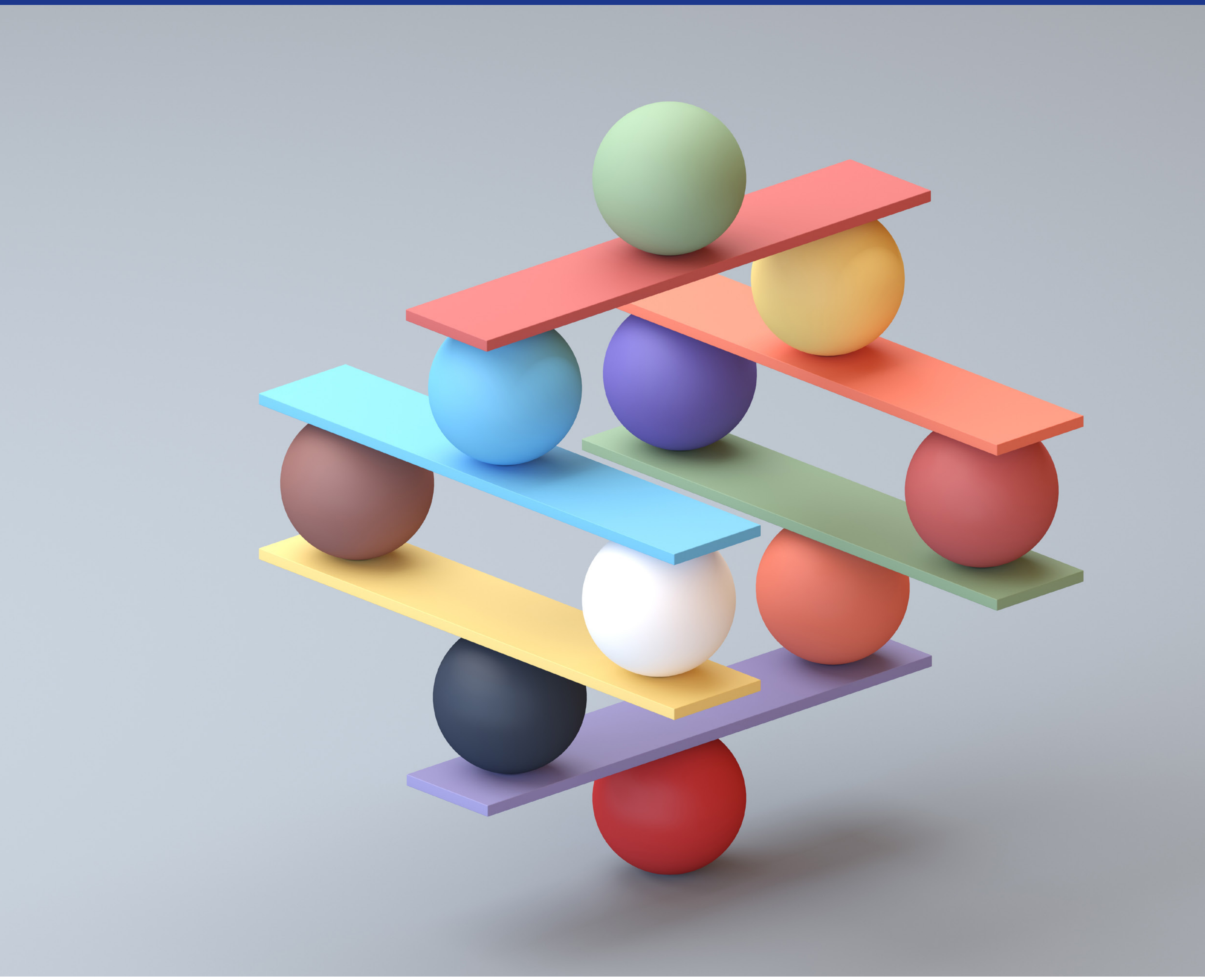
Date	Target	Acquirer	Total enterprise value (USDm)
18/12/2023	United States Steel Corporation	Nippon Steel Corporation	14,900.0
12/9/2023	WestRock Company	Smurfit Kappa Group plc	11,200.0
28/8/2023	Abcam Plc	Danaher Corporation	5,700.0
27/6/2023	NWS Holdings	Chow Tai Fook Enterprises	4,500.0
9/10/2023	Schaeffler AG	Vitesco Technologies Group	3,800.0
18/12/2023	NIO Inc.	CYVN Holdings	2,200.0
29/11/2023	Musti Group Oyj	Sonae Holdings	954.0
18/12/2023	Link Administration Holdings	Mitsubishi UFJ Trust and Banking Corporation	802.7
12/10/2023	The Restaurant Group	Apollo Global Management	620.0

Source: Company websites

Technological advancement driving the market: Digitalisation has been a key trend for many years and will likely continue in 2024. Corporates across sectors are realising the importance of technology, and breakthroughs in the field are prompting them to look for avenues to drive innovation to enhance operations. The market for digital transformation-led services is growing and is estimated to grow at a 13% CAGR from 2020 to 2025. Tailwinds include operational efficiency, support functions, digitalisation and increased importance of business strategies aligned with technology, providing increasing opportunities for investors.

With companies pursuing different growth strategies, mid-market deals are likely to increase, driving growth and transformation. Deal volume declined by almost 15% in 2023, although to levels higher than the pre-pandemic level. All companies and investors are now looking to maintain their strategy of adapting to the current situation and capitalising on the dynamics of large M&A opportunities in 2024.

2 Debt capital markets: a resilient outlook amid uncertainty



EXECUTIVE SUMMARY

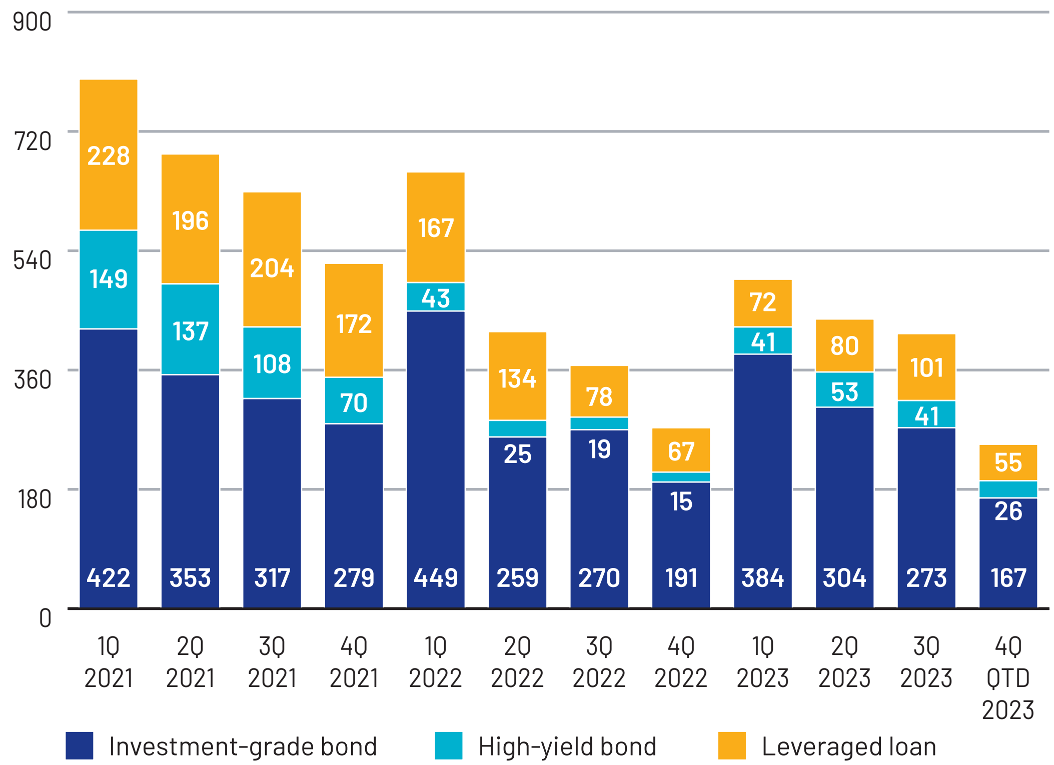
Market volatility, combined with geopolitical tensions and central banks hiking interest rates to offset increasing inflation, led to turmoil in DCMs in 2023. However, as consumer price increases slowed and market sentiment turned positive towards the end of the year, market activity picked up.

The major central banks are gearing up for a potential shift in their interest rate hikes and economic policies in 2024. This paradigm shift would pave the way to reducing financial pressure, benefiting companies and governments.

Debt capital markets: a resilient outlook amid uncertainty

Rising inflation, Fed rate hikes and geopolitical tensions caused turmoil in capital markets in 2023. However, inflation steadying and a pause in interest rate hikes paved the way for optimism during the last quarter of the year, and the market seemed to stabilise. Refinancing volumes in the leveraged financing space increased to 74% of total volumes in the first half of 2023, significantly reducing the number of maturities in 2024 and 2025. USD101bn worth of US leveraged loans mature in 2025 and USD185bn in 2026. Issuers expect a recovery in M&A activity to increase leveraged financing in the market.

Americas (USDbn)



*Data as of 28 November 2023; Source: PwC Analysis, LCD. Refinitiv

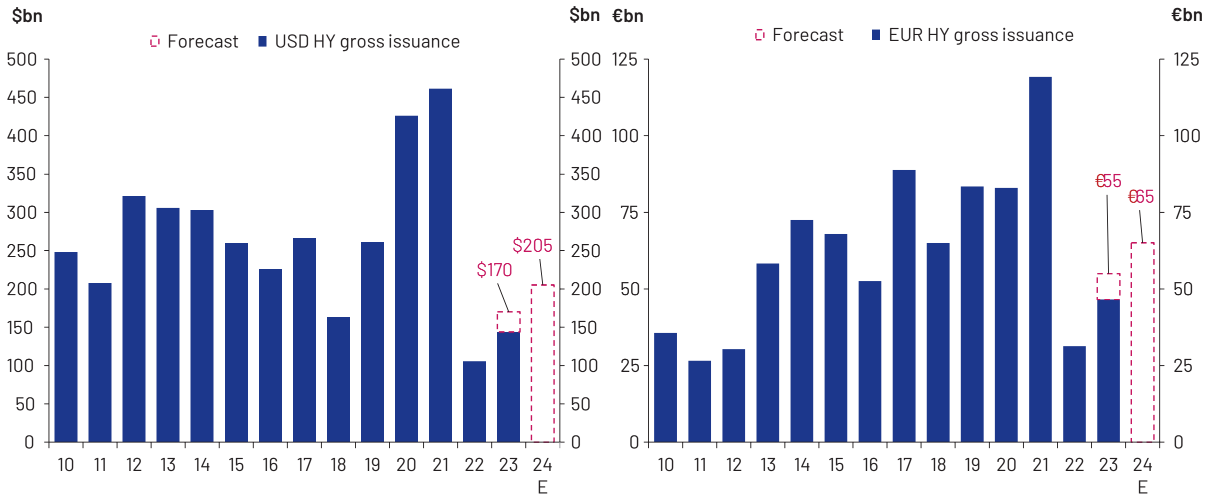
The higher interest rates that make borrowing expensive have impacted small businesses and are risky for borrowing companies but have minimal impact on large corporates. Large corporates, therefore, started investing their surplus cash in investments that generate returns higher than interest expenses. The benefit of higher net interest income would end if the Fed's interest rates are not reduced, as many debt instruments fall due in the coming two years and corporates would need to refinance them at higher interest rates.

The US, Europe and UK economies are set to see slower growth; the US and Europe are also expected to cut rates by mid-2024. High-quality fixed income bonds and government bonds are likely to be placed better in 2024. In 2023, US corporate and government bond yields reached their highest since 2009 and are expected at 3.95% by end-2024, followed by German bond yields at 1.8%.

Bond market turning the tables: Demand for fixed income securities such as government bonds, agency mortgage-backed securities and investment-grade debt increased in 2023 due to the high yields they offered. These high-income debt securities are expected to offer higher yields with lower risk in 2024.

High-yield bond issuance improved by 60% y/y in the US and by more than 100% in Europe through November 2023. The energy sector saw an improvement, with strong cash flow helping the companies deleverage and providing opportunities for refinancing and M&A activity. Volumes of secured financing are also improving as collateral securities protect investor interest in this volatile environment.

Actuals vs. forecast for annual gross supply



Source: Dealogic, Goldman Sachs Global Investment Research

Refinancing to the rescue: A number of companies expect the central banks to cut rates in the first half of 2024, but such cuts would not necessarily mean that funding costs would also reduce at the same pace. Such uncertainty is prompting companies to refinance their debt maturing in the next couple of years.

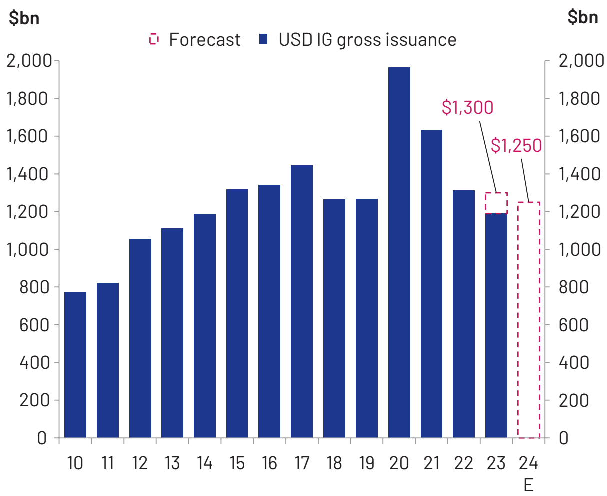
US interest rates have stopped increasing due to the stability needed; this improved investor sentiment and issuer confidence, enhancing refinancing activity, especially during the latter part of 4Q 2023. Average spreads on investment-grade debt fell to 111bps, the lowest in 2023.

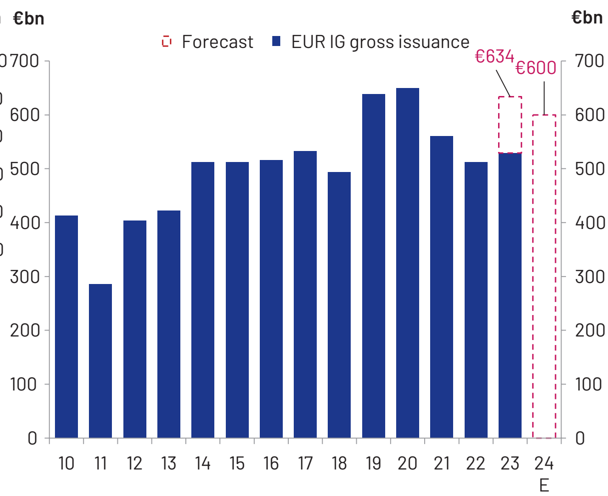
Issuer	Date	Refinanced amount (USDm)
Cemex SA de C.V.	21/9/2023	3,000
Tempur Sealy International, Inc.	11/10/2023	1,650
Surgery Partners	6/12/2023	1,400
Norwegian Cruise Line Holdings	1/11/2023	1,200
Elements Solutions	18/9/2023	1,150
New Fortress Energy	4/12/2023	800
CNL Healthcare Properties, Inc.	7/12/2023	600
DXP Enterprises, Inc.	16/10/2023	550

Source: Company websites

More than USD150bn worth of investment-grade (IG) bonds was issued by QTD 4Q 2023. IG spreads were at their tightest in 2023, and some borrowers were looking at de-risking portions of their funding needs for 2024, increasing refinancing activity.

Annual growth issuance volumes in the USD and EUR IG Markets





Source: Dealogic, Goldman Sachs Global Research

Growth in the private credit market: Many issuers moved to private credit in 2023 due to the difficulty in entering the syndicated market, leading to significant growth in the private credit market, with a number of take-private and sponsor-to-sponsor transactions.

The market is expected to grow to USD2.8tn in the next five years. Current market sentiment has resulted in the need for traditional asset managers to improve their private credit capabilities, with a number of players, including BlackRock and Fidelity Investments,

opening private credit units to cater to this growing need. Companies, such as technology companies, with strong recurring revenue but limited EBITDA will likely find funding options in private credit more feasible than those via banks.

The decline in bank lending, high levels of dry powder with investors and the need for more funds would continue to drive the private credit market for the next five years.

Reviving commercial mortgage-backed securities (CMBS): Rising interest rates have increased the cost of financing, and with fewer lenders in the market, commercial real estate is likely to find accessing capital in 2024 more difficult. Global property sales volumes decreased 57% globally and 55% in the US as of September 2023. Around USD900bn worth of loans are set to mature in the US in 2024; there could be some difficulty in refinancing these in the current situation.

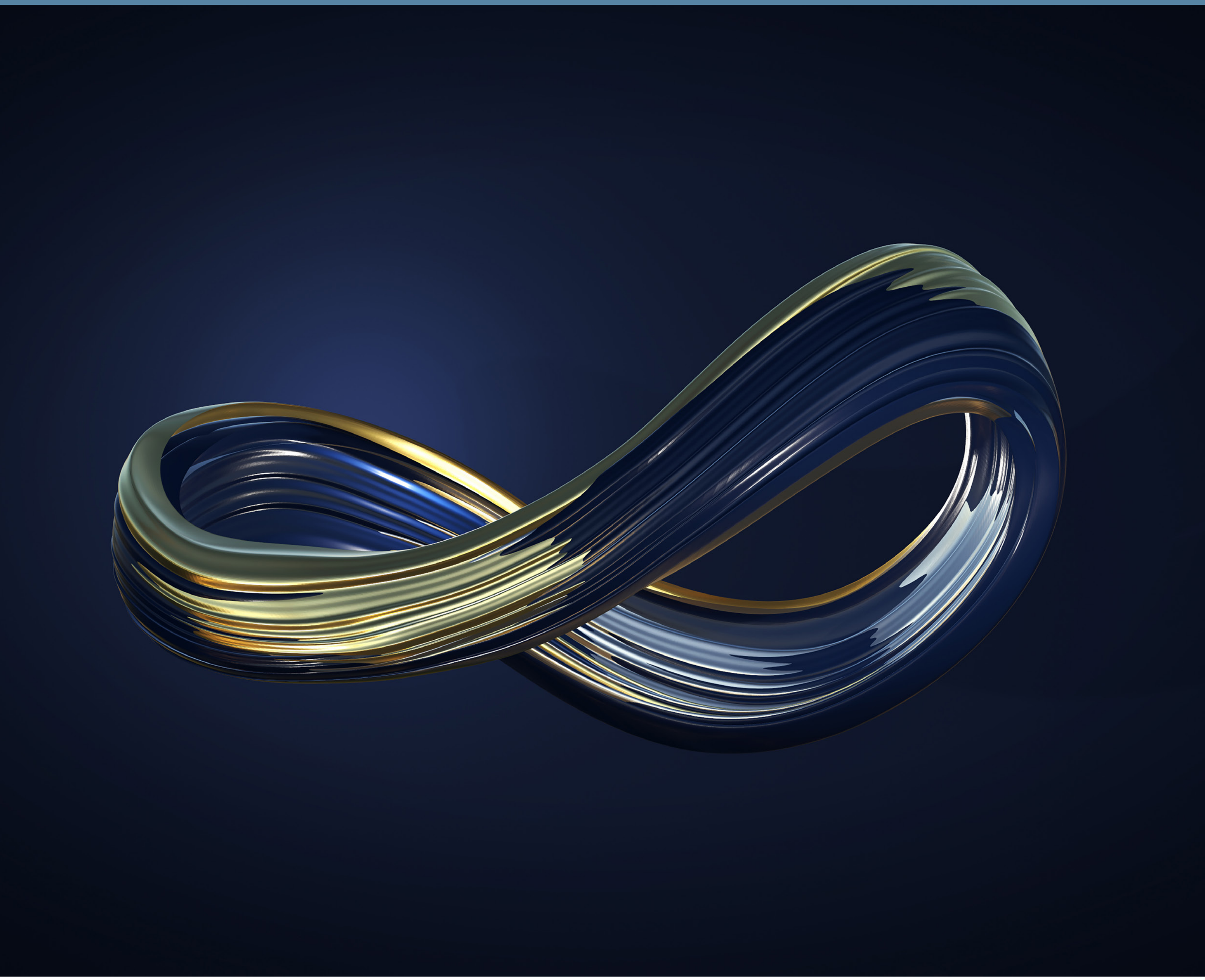
US CMBS loans are facing significant delinquency – this had increased by close to 14bps to 4.4% in September 2023. In the current challenging scenario, we expect lenders and borrowers to take a more conservative approach and adopt measures such as opting for mezzanine or preferred debt, and diversification strategies by using capital for property types other than the traditional ones.

With significant loan volumes maturing in 2024, commercial real estate (CRE) leaders are looking at alternative ways in which to cope with the challenges and increase sales volumes. They are moving towards sustainability initiatives for their buildings, with more focus on procuring renewable energy capabilities, and finding ways to boost operational efficiency through technology and vendor management. Borrowers are also considering alternative sources of capital such as mezzanine debt.

We expect just a small number of CMBS loans in the office space in 2024 due to the hybrid working format; however, the industrial and multifamily segments are likely to be positive. Other segments expected to grow in 2024 are retail and lodging. The future of CRE depends on how leaders adapt to the trends shaping the sector.

DCMs show a mixed outlook for 2024. With inflation currently stable and the Fed's interest rate hikes paused, investors gained confidence in December 2023 as did corporates. Corporates are seeking shorter-tenor issuance to mitigate the increasing cost of funding. Refinancing will likely continue as they look to reduce at least some of the borrowing cost. Corporates and investors alike expect central banks to cut rates in 2024.

3 IPO market: building momentum for a strong upturn



EXECUTIVE SUMMARY

The IPO market saw a shift in sentiment in 2023 and is set to bounce back to pre-2019 levels in 2024.

The Americas and Europe, the Middle East, India and Africa (EMEIA) saw a rebound in 2023. Strong economic growth backed by growing capital markets in countries such as Indonesia, India and Japan also resulted in higher yields than benchmark indices.

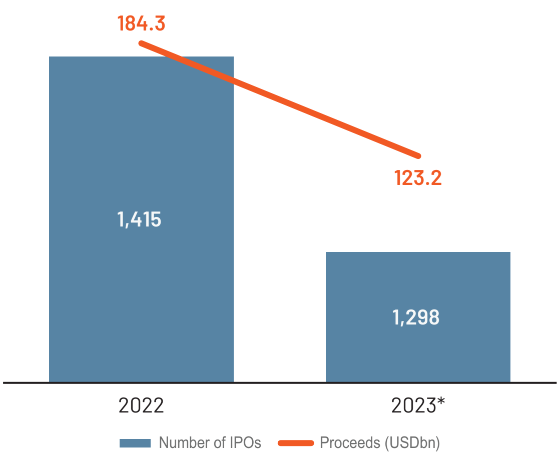
Improved investor sentiment in Western markets, growing emerging markets (EMs), the large number of private companies backed by venture capital and stabilising inflation are expected to reduce the headwinds and provide opportunities for the IPO market in 2024.

IPO market gaining momentum

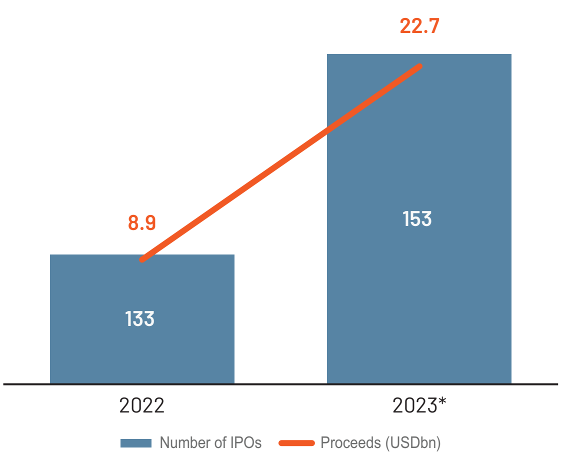
The IPO market has been struggling since the boom in 2021, when the largest number of IPO deals in the market (2,388 IPOs) raised USD453.3bn1. This level of activity is unlikely to be repeated in the near future, but market experts forecast that the IPO market will stage a rebound to levels such as seen in 2019 and before.

USD101.2bn in capital was raised globally through IPOs in the first three quarters of 2023, a 32% decrease y/y. Despite the drop, 3Q alone showed a notable improvement, with September seeing the most recovery after the 2021 put.

Global



Americas



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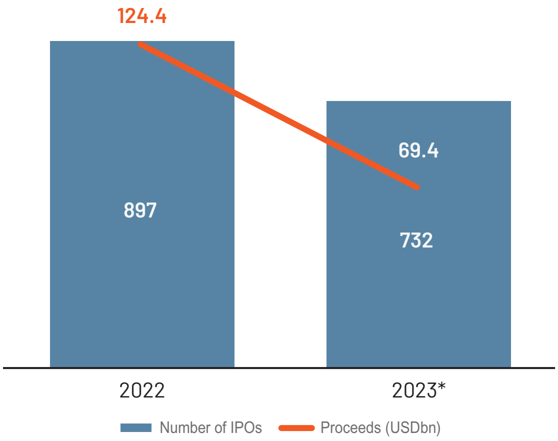
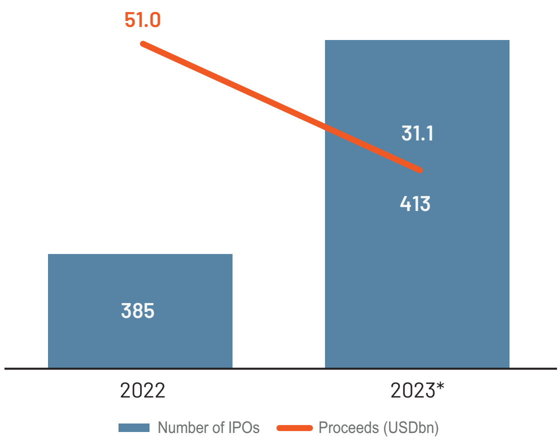


EMEA



*Data for 2023 is until 4 December 2023, including expected IPOs; Source: EY analysis, Dealogic

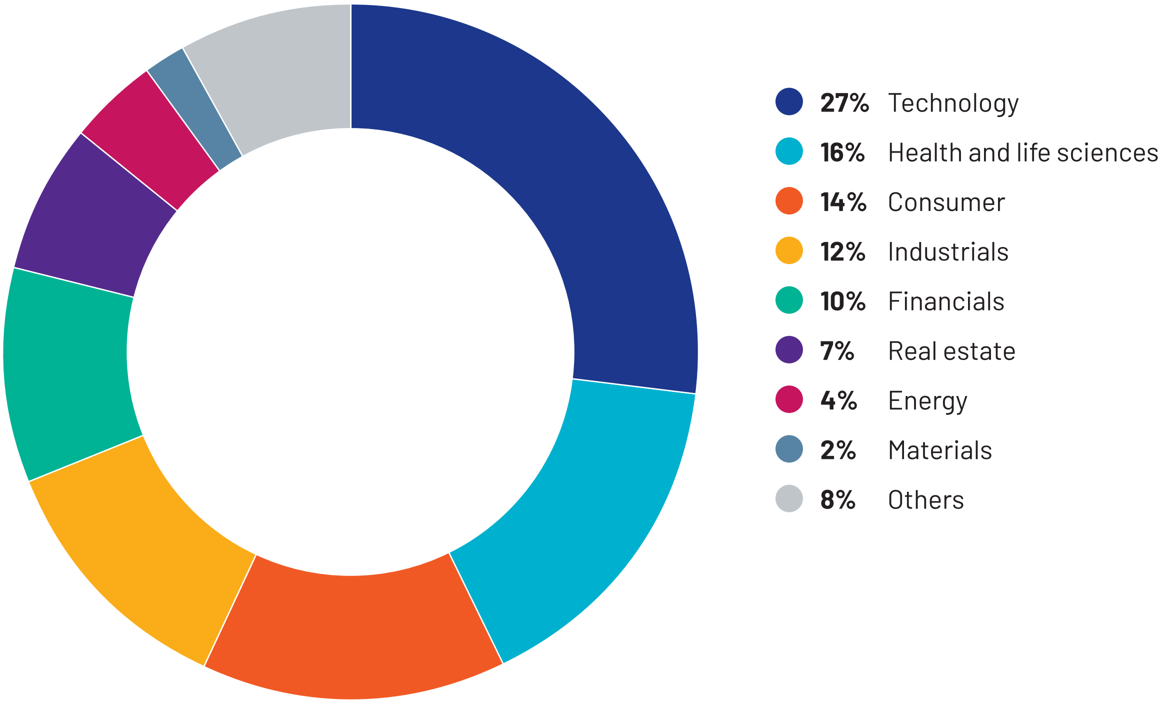
The global IPO market is showing signs of improvement, with pricing re-aligned between issuers and investors, improving investor sentiment in Western economies and growing EMs.

Trends driving equity capital markets in 2024:

» **Moderate inflation backed by potential rate cuts paving the way for increased liquidity:** Many central banks expect interest rate cuts in 2024 as inflation remains stable, and investors are becoming more confident in the equity markets. They are looking to invest in companies with strong fundamentals and able to grow despite challenging economic conditions, rather than in companies with high valuations.

» **Strong IPO backlog in major sectors:** Investors expected the IPO market to reopen after Arm Holdings' IPO, but the company's post-IPO performance reiterated the fact that the market was not ready. Many private-market companies plan to go public in 2024. Venture capital-backed companies, especially those in the later stages of obtaining venture capital, either need to obtain more funding from the venture capital firm or go for an IPO to stay competitive amid the market uncertainty. This has resulted in a strong pipeline of IPO companies backed by venture capital –around 257 technology companies for 2024. Around 800 IPOs were withdrawn or postponed due to unstable markets in 2023. The companies concerned are now poised to go public in search of funding.

IPO pipeline by sector



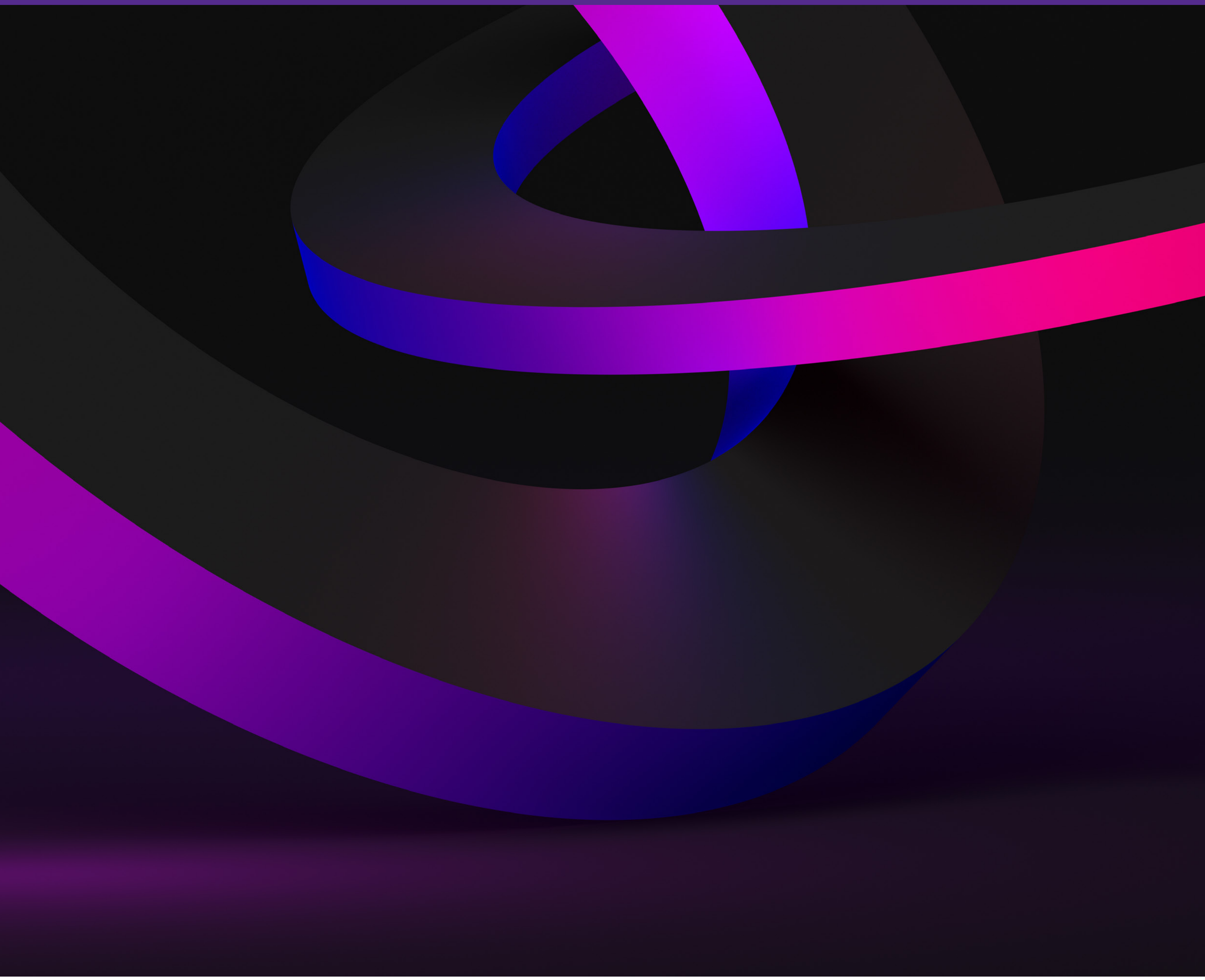
- **Positive investor sentiment across the globe:** Expectations that were raised in the latter part of 4Q 2023 due to the increased IPO listings translated into an improvement in US listings. The shift in investor confidence, signs of rate hikes ending and the positivity surrounding an improving economy resulted in enhanced confidence in the market. Europe has also shown signs of the IPO market improving, such as the announcement of Germany's Schott AG IPO. Europe is optimistic about a recovery in IPOs in 2024. In the Middle East, Saudi Arabia's Lumi Rental Co.'s strong post-filing performance has increased investor confidence in market recovery. Asia Pacific is expected to rebound in 2024, with mainland China and Hong Kong at the forefront. Within EMEIA, India, Turkey and Italy are expected to drive the market in 2024, followed by MENA, Romania and Germany.

There is no perfect timing for a company to go public. Each would have its own set of challenges, and aligning these with market conditions would be difficult. Companies around the world are proving that they can report strong earnings despite changes in central-bank policy.

"As valuation gaps narrow, investors are reviewing the post-listing performance of the new cohort of IPOs, which, if positive, could renew market confidence" – George Chan, EY Global IPO Leader

Investors are realigning, and the valuation gap between issuers and investors is narrowing. Investors are now looking at new IPO pricing as a benchmark versus valuations of previously priced IPOs. Strong company fundamentals and their avenues to profitability are a major concern for investors due to the tighter liquidity and higher cost of capital in the market. We expect inflation to slow in 2024 and do not consider the possible economic downturn a threat any longer.

4 Changing landscape for technological advancement



EXECUTIVE SUMMARY

Technology has been evolving, and a number of processes are being automated. IB firms, too, are adopting technological tools to improve their efficiency.

Wall Street has also adopted technology to improve operational efficiency and streamline processes and is positioning itself to offer better-quality services.

The future of IB depends largely on how well IB firms adapt to the changing technological advancements and keep abreast of regulations.

Technology landscape

IB firms are adopting ever-evolving technology, and some of the new trending technologies have already had an impact on the market, improving operations and reducing redundancies.

Automating redundant tasks with AI:
AI helps automate tasks and improve efficiency, freeing up front-end office resources' time to focus on client-facing activities and building relationships with stakeholders. We expect AI to help generate initial deal structures and to be used in due diligence, valuation and compliance and in drafting legal and other documents.

Benefits of implementing AI

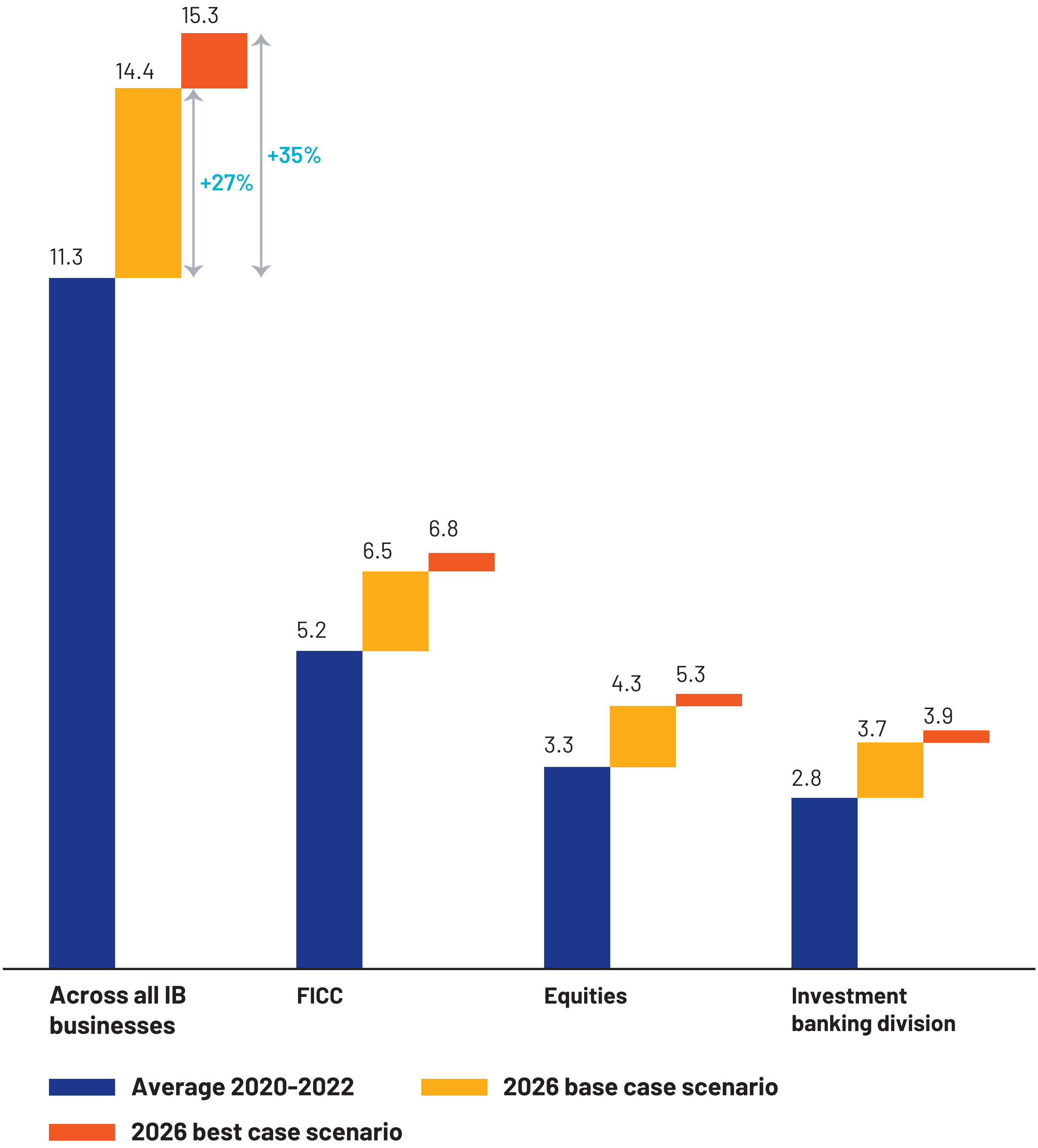
» JPMorgan Chase recently introduced ChatGPT-like software, a trademark product called "IndexGPT" that analyses and selects securities customised based on customer needs
» Deutsche Bank has been developing AI strategy since 2021; it invested in expanding its AI workforce in September 2023
» ING Group introduced Holmes, a tool to help front-end office employees accelerate background processes such as finding and using rating reports and credit documents
» Wells Fargo introduced Fargo™, a virtual assistant to answer banking-related questions

IB service vendors use AI-enabled offerings and are investing heavily in new technology.

» Pitchbook introduced VC Exit Predictor, a tool that leverages ML and PitchBook's database on venture capital firms, financing rounds and investors to forecast outcomes of an exit
» Bloomberg introduced BloombergGPT, a large language model built using 50bn parameters specifically for the finance domain

Generative AI will boost productivity unevenly across investment banking business lines

Productivity gains per full-time employee (US$ million)



Note: Investment banking division includes equity and debt issuances, and M&A advisory activities.

Source: Deloitte Center for Financial Services analysis of Tricumen data.

The use of AI will benefit IB the most, followed by equities and fixed income, currencies and commodities (FICC) trading. It is expected to increase productivity by 35% on average.

Attractive solutions from natural language programming (NLP): NLP is a sub-field of AI. Combined with AI, NLP helps structure unstructured data. The financial services sector uses NLP to reduce the number of manual tasks, assess financial sentiment and risk associated in trading and build successful portfolios.

NLP is used mainly to locate relevant/essential information in large sets of documents and analyse quarterly results and news for the purpose of investment analysis. NLP is widely used in equities trading, as it helps gauge financial sentiment not only via analysing financial statements but also via understanding market sentiment towards a company. NLP helps particularly when a large amount of data has to be deciphered quickly.

» JPMorgan Chase has developed COIN, a software to help legal departments assess thousands of legal papers

With NLP gaining momentum, companies are focusing more on developing and implementing it in their operations. The NLP market is worth USD9.2bn and is expected to grow 18.4% by 2028. The focus is more on the accuracy and feasibility of NLP applications.

Growing cryptocurrency and central bank digital currency (CBDC) markets: The recent growth of cryptocurrencies has increased interest in digital currencies. Keen investors expected regulatory restrictions on cryptocurrencies, but market momentum was positive in 2023.

Bitcoin prices increased more than 70% YTD and Ethereum prices more than 30% in 2023. Clear regulations governing the crypto market could pave the way for more investment in the digital currency market in 2024.

The headwinds in the digital currency market are interest rate hikes and a slowing economy, which discourage investors from investing in riskier assets. Bitcoin and Ethereum currently account for more than two-thirds of the market, and 2024 is likely to see other cryptocurrencies enter the market.

CBDCs are not decentralised, unlike cryptocurrencies, but recent developments in the digital assets market could pave the way for growth in CBDCs. A number of countries expect to develop and implement their own CBDCs in 2024.

The dynamic and innovative future of IB would depend largely on how well IB firms adapt to technological advancements. It is, therefore, important that they stay abreast of regulatory restrictions and risks associated with technology adaptation.

5 Emerging markets likely to outperform developed markets

EXECUTIVE SUMMARY

Emerging markets (EMs) have recovered faster than developed markets (DMs). We expect EMs to enjoy a positive environment in terms of equities, the debt market and the general economy in 2024 due to inflation declining and macroeconomic momentum increasing. Against the backdrop of a lagging China market, the EM Index (except China) is outperforming the S&P Index and other major indices. With positive economic growth due to inflation declining and a strong middle class, we expect EMs to perform better in 2024. The IMF forecasts a number of EMs to grow more than DMs.

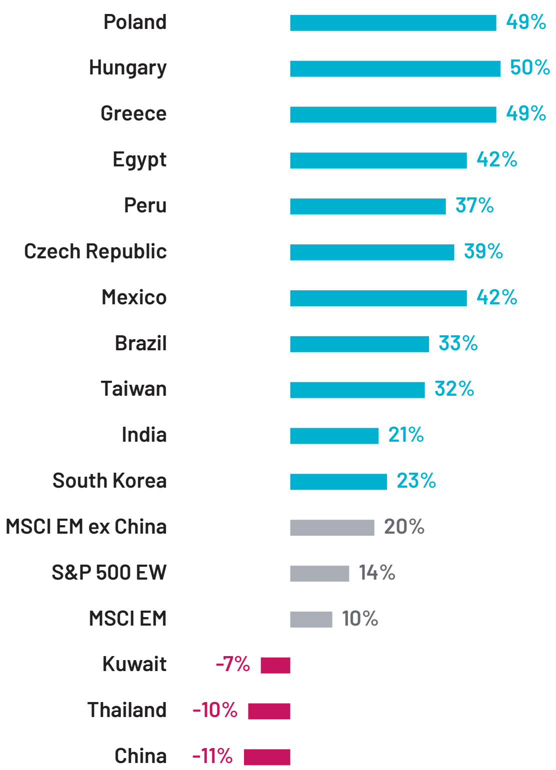
EMs to perform better than DMs
We expect EMs to enjoy a positive environment in terms of equities, the debt market and the general economy in 2024 due to inflation declining and macroeconomic momentum increasing. EMs account for around 60% of global GDP, with tailwinds from increased consumption by a growing middle class. We expect the middle class in these economies to account for more than 50% of the global middle-class population by 2030.

Economic growth in EMs: Some of the markets have entered a significant or higher-than-expected phase of economic growth as their interest rates have fallen. The central banks of many of these markets, such as Brazil, Chile, Hungary, Peru and Poland, started cutting interest rates in 2023 and saw a sharp fall in inflation. They are likely to continue cutting rates in 2024. We expect such easing of interest rates ahead of the Fed to favour earnings growth in EMs in 2024. The GDP growth rate was revised multiple times in 2023 to reflect positive growth, driven largely by India, Mexico and Brazil. We expect the growth premium over DMs to continue widening in 2024, with Asia contributing the most to global GDP.

EMs are showing positive economic growth, unlike developed economies, and with the fall in interest rates, we expect their economies to be stronger than those of DMs in 2024.

EM equities outlook: EM equities have outperformed most DM equities. The MSCI EM Index shows annualised returns of 7.83% over 1999-2023 versus S&P's 7.55% over the period. Many EMs, such as Poland, Hungary and Greece and larger markets such as Mexico, Brazil, India, South Korea and Taiwan outperformed the US and other DM indices. The major headwind in the EM Index is China.

A few markets such as China dragged down the performance of EMs



Source: Bloomberg

EM debt market outlook: We expect EM debt to lead financial markets in 2024. EM debt has historically been correlated positively with market volatility/cyclicality. The trend seems to be changing due to recent improvements in infrastructure and sectors, and as wealth increases. The US and China dominate the global economy, and their slower growth would have a major impact globally, but EMs are likely to be resilient, with the IMF forecasting higher growth among EMs than among DMs.

Growth forecasts for many EMs exceed those for the US and other DMs

Index market value and 2023 GDP growth forecasts (%)

	EUR corp.	US corp.	EM sov.	EM corp.	2024 GDP
India	0.0	0.0	0.7	4.2	6.3
Philippines	0.0	0.0	3.3	2.8	5.9
Indonesia	0.0	0.0	4.8	3.6	5.0
Malaysia	0.0	0.0	2.7	1.9	4.3
China	0.4	0.0	4.6	6.8	4.2
UAE	0.0	0.0	4.4	4.4	4.0
Saudi Arabia	0.0	0.0	4.8	4.0	4.0
Turkey	0.0	0.0	4.6	3.9	3.0
Hong Kong	0.0	0.4	0.0	4.8	2.9
Qatar	0.0	0.0	3.6	3.1	2.2
Mexico	0.4	0.7	5.1	4.4	2.1
Colombia	0.2	0.5	2.8	3.8	2.0
South Africa	0.0	0.3	2.8	3.5	1.8
Chile	0.1	0.9	3.2	3.9	1.6
Brazil	0.4	0.0	3.3	4.9	1.5
US	84.0	19.9	0.0	0.0	1.5
France	0.3	20.0	0.0	0.0	1.3
Australia	0.8	1.8	0.0	0.0	1.2
Netherlands	0.8	5.8	0.0	0.0	1.2
Japan	2.2	1.8	0.0	0.0	1.0
Germany	0.5	14.0	0.0	0.0	0.9
Italy	0.0	4.3	0.0	0.0	0.7
UK	4.2	8.1	0.0	0.0	0.6

Source: IMF, JP Morgan, Bloomberg, PineBridge Investments as of 18 October 2023

The Fed's rate hike also has a greater impact on USD-dominated bond markets. Some IG countries in Asia and the Middle East will not be significantly impacted by the hike, as they have active local-currency markets in which they can issue bonds profitably since interest rates are much lower than in the US. Non-IG would be impacted by the hike, as they do not have active local markets and would need to refinance at the current high rate. However, more than three-fourths of the EMs have active local markets for USD EM corporate bonds, providing an alternative for capital raising. The EM corporate bond market is also less sensitive to foreign exchange; only 15% of the market is vulnerable to currency volatility; the rest is supported by FX hedges or issued by countries with pegged currencies.

EMs are set to meet all challenges and avert the risks associated with cyclical interferences, and investors expect them to offer more attractive returns in 2024. We expect EMs to enjoy a favourable environment this year, with inflation trending lower and macroeconomic momentum improving. Economic growth, combined with lower leverage, would provide better returns to investors with large and diversified portfolios.

Conclusion

This year promises hope for the IB sector. On the back of expectations for a recovery in M&A and ECM activity and more DCM deals, IB firms have started responding positively and expect modest growth in 2024. We expect an increase in restructuring activity, especially in sectors such as commercial real estate, technology and consumer. Corporates will likely look at smaller deals to gain momentum before considering mega deals. We expect investors to be more vigilant and consider performance before making an investment.

We also expect a number of IPO deals after the prolonged suspension, and a spike in refinancing in DCMs. Large private equity firms earned a substantial amount of cash in 2023 and have high levels of dry powder available; they would be under pressure to start investing these funds irrespective of market conditions. This could increase the number of take-private and LBO deals in the market. A large number of activities that were paused in 2023 due to market conditions are set to recover, and we expect the market to grow modestly.

Authors

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Saswata Mohanty has over 15+ years of work experience across different value chains in the Investment Banking domain. Additionally, he supports the Public Finance / Project Finance team, with a focus on Municipal Finance and Infrastructure - Public Private Partnership(P3). Saswata has been successfully executing engagement while also looking at client relationship, employee engagement, delivery management and overall client satisfaction. He has effectively strategised and streamlined processes, providing our clients with the best possible solutions, thus significantly increasing client retention and satisfaction rates. Prior to joining Acuity, he was with Verity Knowledge Solution (affiliate of UBS) for close to 6 years. He holds a Master's degree in Business Administration in Finance.

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Akshata is a Delivery Lead at Acuity Knowledge Partners, completing a decade of experience since joining the company as a fresh graduate. Akshata is an integral member of a mid-market U.S. Investment Bank's team based in Bangalore. Throughout her tenure, she has adeptly navigated through various roles, supporting a diverse range of sectors and product teams. She actively engages with onshore bankers and supports across the value chain, from deal origination to execution, for various live pitches. Alongside the service delivery, Akshata takes an active role in delivering training to enhance team competencies and mentoring.

Akshata's academic background includes a Master of Business Administration with a specialization in Finance from the SDM Institute for Management Development in Mysore, further underpinning her expertise in the financial sector.

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Notes

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Acuity was established as a separate business from Moody's Corporation in 2019, following its acquisition by Equistone Partners Europe (Equistone). In January 2023, funds advised by global private equity firm Permira acquired a majority stake in the business from Equistone, which remains invested as a minority shareholder.

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