VICTORY PARTNERS

MIDDLE MARKET INSIGHT | What Business Owners Need To Know

**US YIELD CURVE INVERTED**
US 2Y YIELD EXCEEDED THE 10Y YIELD FOR THE FIRST TIME SINCE EARLY APRIL

**75 BP HIKE**
THE FED HASN'T HIKED BY 75 BP SINCE 1994

## Bond Yields, Dollar Surge With Fed Bets, As Recession Risk Grows

- The highest US inflation in four decades will push the Federal Reserve to raise interest rates more aggressively this year, and a recession may not be far behind.
- Market pricing suggested the possibility that the US central bank might look to implement even bigger hikes than the 50-basis-point moves it's done already this cycle. Traders see 175 basis points of tightening by the Fed's September decision, implying two 50 bp and one 75 bp hike, according to interest rate swaps tied to FOMC policy outcome dates.
- The yield curve inversion resonates with need to tackle elevated price pressures which will see the Fed tip the economy into recession. This view is consistent with expectations that the Fed will need to loosen policy again within two years. The market is already positioning for policy makers to respond to the looming slowdown with future rate cuts, pricing two 25 bp of easing by the middle of 2024

**OPEC+ ALLIANCE**
TO BE A DOMINANT FORCE SUPPORTING CRUDE PRICES

**37%**
SAY OIL TO BE THE LIKELY TO FALL THE MOST AMID GLOBAL MARKET SELLOFF

## More Commodity Inflation Beckons as War Boosts Coal

- The war- and pandemic-fueled shortage of raw materials appears poised to fuel what's already the biggest surge in commodity prices in decades, according to the latest MLIV Pulse survey conducted June 6-10. At the same time, demand for fossil fuels is only expected to rise as Europe seeks to shift away from Russian energy, dashing any immediate hopes that high prices will foster a shift to cleaner renewable sources.
- Coal is likely to play a bigger role in filling Europe's energy gap in the coming winter according to 68% of respondents in the MLIV survey, while just 32% saw renewables leading the way.
- Crude fell a third day amid a global market selloff as Friday's shock US inflation data put pressure on the Federal Reserve to tighten further.

**LACK OF LIQUIDITY**
PUSHING STARTUPS TO CONSIDER EARLY EXITS

**TECH VALUATIONS**
TO BE DRIVEN BY COMPS, PRECEDENT & OPERATING METRICS

## Tech M&A Looks Ripe with Softening Valuations

- Several tech-startups have already announced aggressive cost-cutting measures and layoffs. Fintech firm Bolt and Edtech firm Section 4 have reduced their workforce by 33% and 25% respectively, as per Crunchbase
- As growth funding evaporates, some startup founders are seeking exits with strategic buyers and private equity investors. "The valuations are going to be driven by public comps, precedent transactions and fundamental operating metrics", said Kewsong Lee (Carlyle Group CEO) at a recent conference.
- Recent deals highlight how private equity and corporate giants are seeking opportunities in the beaten-down tech sector. They could also indicate the importance of tech-enabled cost savings during a wave of inflation.

Sources: www.bloomberg.com | www.nytimes.com | www.themiddlemarket.com