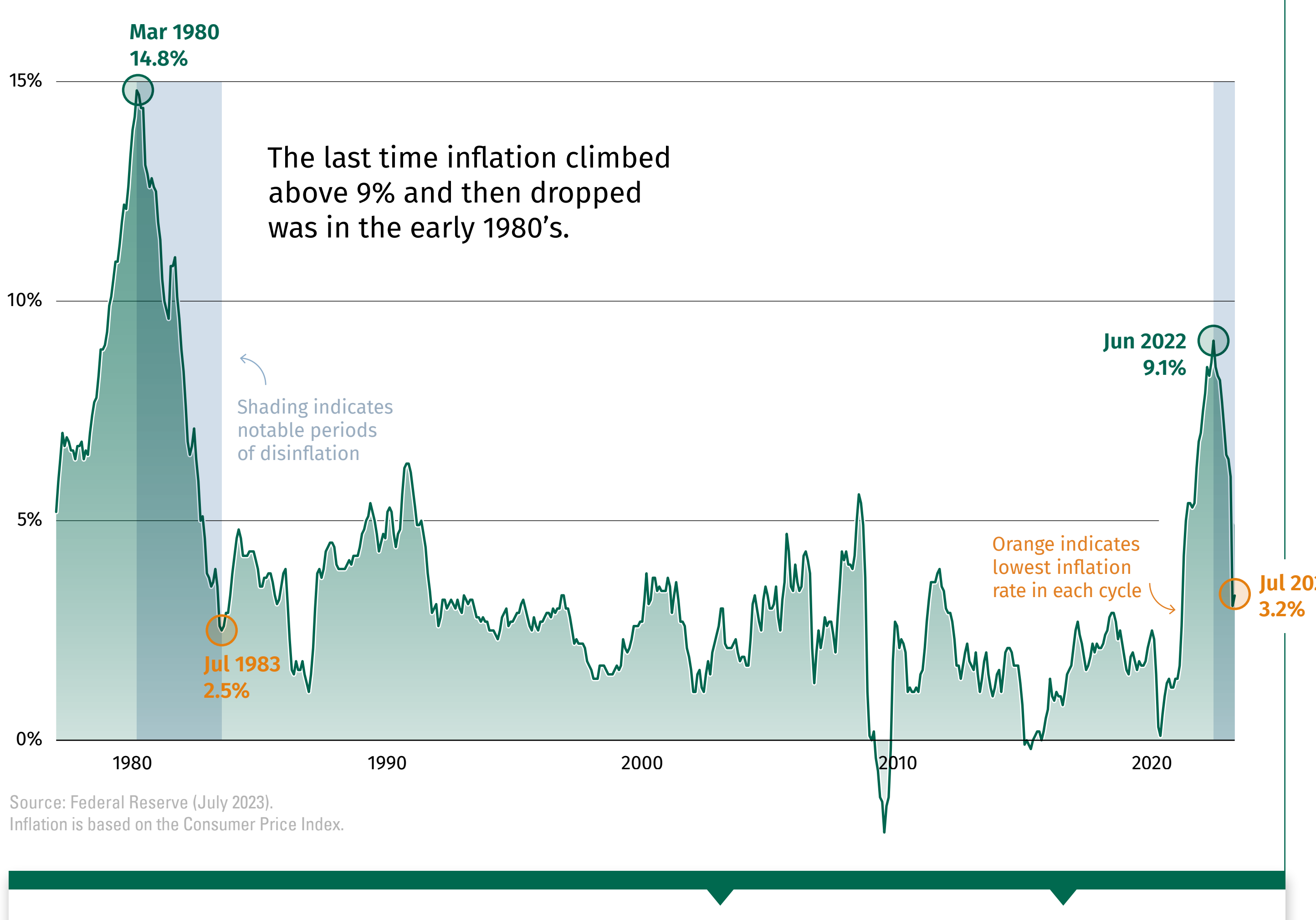
# HOW DISINFLATION COULD AFFECT COMPANY FINANCING

The macroeconomic environment is shifting. Since the second half of 2022, U.S. inflation has been dropping.

### YEAR-OVER-YEAR U.S. INFLATION RATE JAN 1977 – JUL 2023

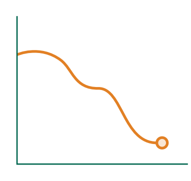



Source: Federal Reserve (July 2023).
Inflation is based on the Consumer Price Index.

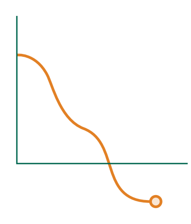
A decrease in the rate of inflation is known as **disinflation.**

It differs from deflation, which is a negative inflation rate like the U.S. experienced at the end of the Global Financial Crisis in 2009.

DISINFLATION
Slowing, Positive Inflation Rate



DEFLATION
Negative Inflation Rate



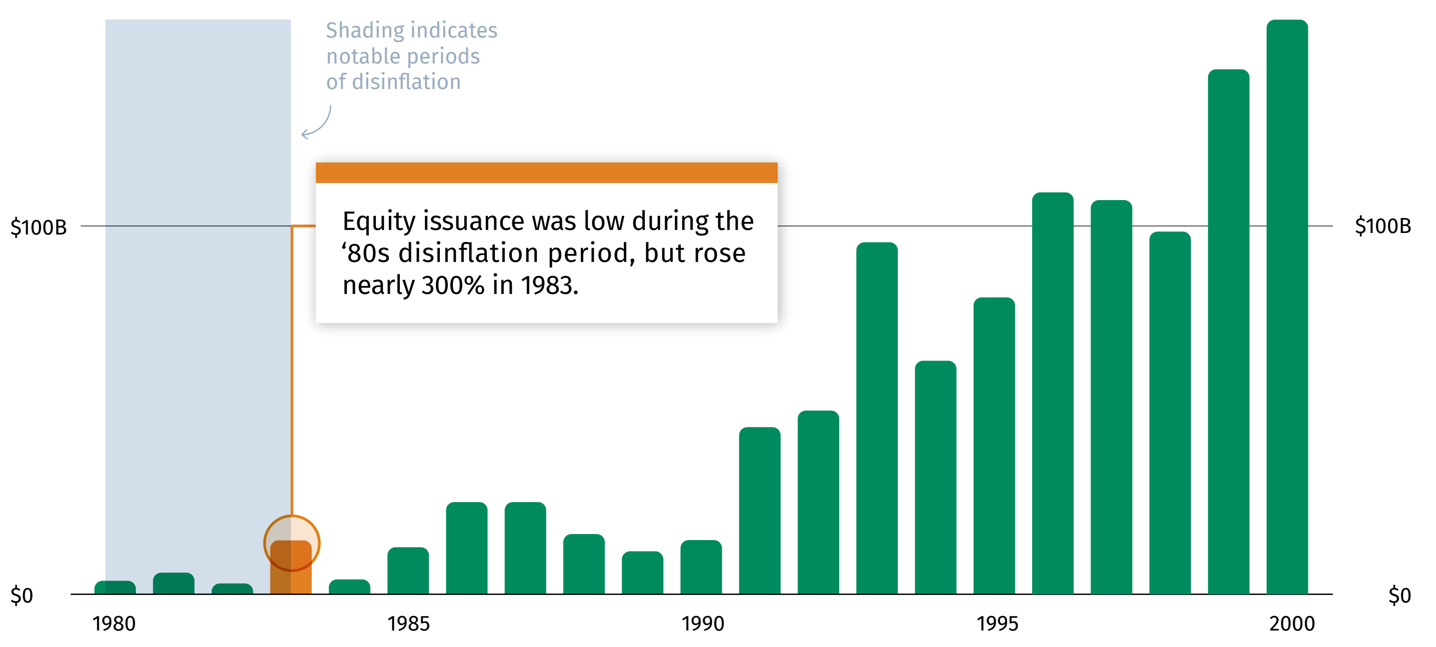
**How might slowing inflation affect the amount of debt and equity available to companies?**

## LOOKING TO HISTORY

There are many factors that influence capital markets, such as technological advances, monetary policy, and regulatory changes.

**With this caveat in mind, history signals that debt and equity issuance expands after a period of disinflation.**

### U.S. EQUITY ISSUANCE DEAL VALUE 1980 – 2000




Source: Bloomberg (Feb 2023).
U.S. public equity issuance dollar volume including initial and follow-on offerings and excluding convertibles.

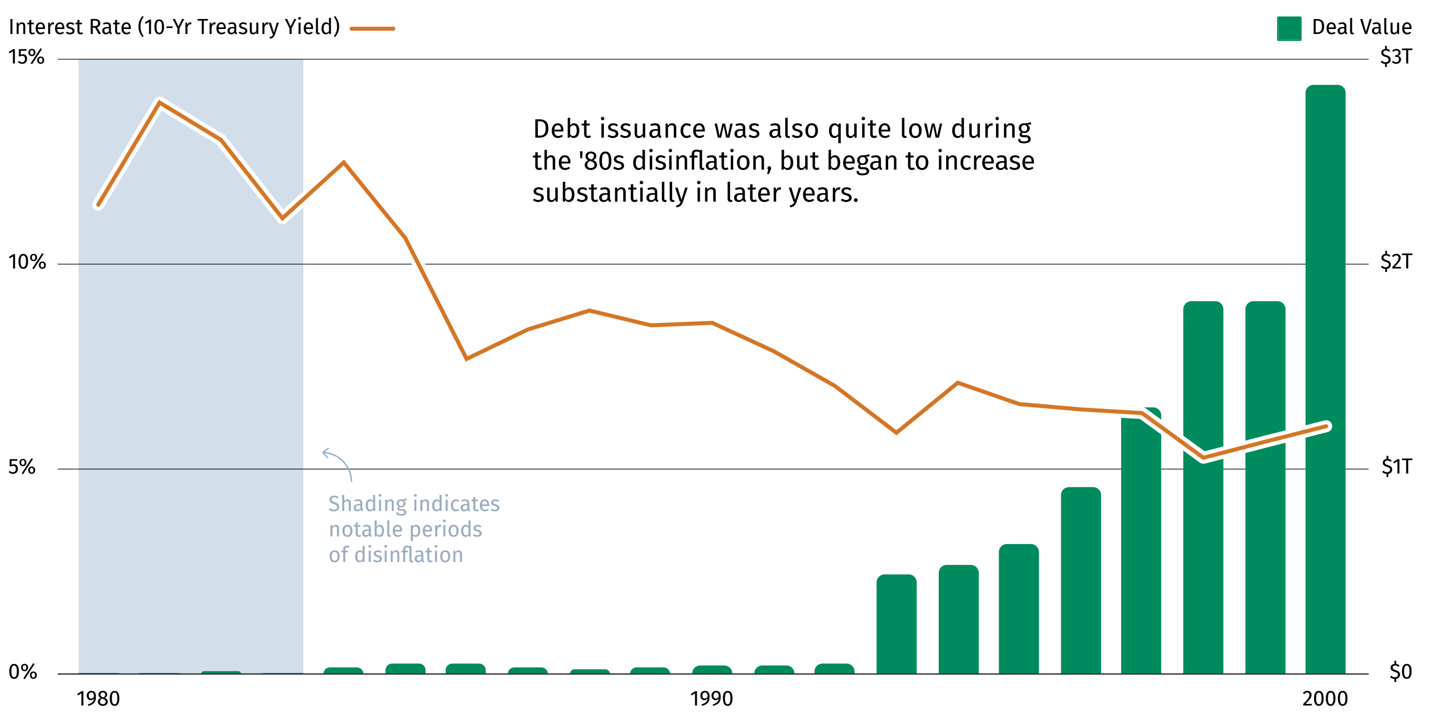
Equity issuance grew quickly in the years that followed.

Other factors also influenced equity issuance, such as the macroeconomic expansion, productivity growth, and the dotcom boom of the '90s.

Source: National Bureau of Economic Research (Jul 2002)

**What happened to debt?**

### U.S. DEBT ISSUANCE 1980 – 2000




Source: Dealogic (Feb 2023), Federal Reserve (Mar 2023).
Data reflects U.S. debt issuance dollar volume across several deal types including: Asset Backed Securities, U.S. Agency, Non-U.S. Agency, High Yield, Investment Grade, Government Backed, Mortgage Backed, Medium Term Notes, Covered Bonds, Preferreds, and Supranational.

**As interest rates dropped and debt capital markets matured, issuing debt became cheaper and corporations seized this opportunity.**

It's worth noting that debt issuance was also impacted by other factors, such as the maturity of the high-yield debt market and growth in non-bank lenders such as hedge funds and pension funds.


## THEN VS. NOW

**Could the U.S. see levels of capital financing similar to what happened during the '80s disinflation?**

There are many economic differences between then and now.

Consider how various indicators differed 10 months into each disinflationary period.

| | JANUARY 1981 | JULY 2023* |
|---|---|---|
| **INFLATION RATE**<br>Annual | 11.8% | 3.2% |
| **INFLATION EXPECTATIONS**<br>Next 12 Months | 9.5% | 3.4% |
| **INTEREST RATE**<br>10-Yr Treasury Yield | 12.6% | 4.2% |
| **UNEMPLOYMENT RATE**<br>Seasonally Adjusted | 7.5% | 3.8% |
| **NOMINAL WAGE GROWTH**<br>Annual, Seasonally Adjusted | 9.3% | 4.9% |
| **AFTER-TAX CORPORATE PROFITS**<br>As Share of Gross Value Added | 9.1% | 14.3% |

Source: Federal Reserve (July 2023).

* Data for 10-yr treasury yield, unemployment rate and nominal wage growth is as of August 2023. Corporate profits is as of Q4 1980 and Q2 2023. Inflation is a year-over-year inflation rate based on the Consumer Price Index. Nominal wage growth based on average hourly earnings of production and nonsupervisory employees, total private. After-tax corporate profits are based on nonfinancial corporate businesses without inventory valuation adjustment and capital consumption adjustment.

The U.S. economy is in a better position when it comes to factors like inflation, unemployment, and corporate profits.

**On the other hand, fears of an upcoming recession and turmoil in the banking sector have led to volatility.**

## WHAT TO CONSIDER

Amid uncertainty in financial markets, lenders and investors may be more cautious. Companies will need to be strategic about how they approach capital financing.

**HIGH-QUALITY, PROFITABLE COMPANIES** could be well positioned for IPOs as investors are focused on cash flow.

**HIGH-GROWTH COMPANIES** could face fewer options as lenders become selective and could consider alternative forms of equity and private debt.

**COMPANIES WITH LOWER CREDIT RATINGS** could find debt more expensive as lenders charge higher rates to account for market volatility.

Source: PwC (Jan 2023), Pitchbook (Mar 2023)

**In uncertain times, it's critical for businesses to work with the right advisor to find—and take advantage of—financing opportunities.**