MANAGEMENT
CONSULTANTS

INVESTMENT 360 INDEX 2023

Our respondents are optimistic about controlling inflation and the M&A environment in the long term.

WELCOME TO THE INVESTMENT 360 INDEX

Now in its seventh year, CIL's *Investment 360 Index* provides an increasingly valuable current and long-term analysis of business confidence among investors and business leaders.

This year's results reveal:

The medicine is working; inflation is expected to hit the 2% target: nearly all respondents (95%) think inflation will come down to the 2% target in the next 5 years. 61% feel that current monetary policies (implemented by the Bank of England) should stay the same.

M&A deal activity is expected to improve: M&A deal activity further declined in 2023, with 84% of respondents describing the deal flow as low or very low. 78% see M&A deal activity improving over the next 12 months, a welcome development after appearing to have found a floor, with no respondents believing it will deteriorate further.

Satisfaction with the government remains low: the majority do not think the government is doing a good job, with 48% feeling negative and 45% feeling mixed. The prospect of a change in government does little for optimism; only 22% feel optimistic about a change.

The Index is based on a survey of investment and business professionals that took place over August and September 2023. We had ~150 respondents.

Methodology

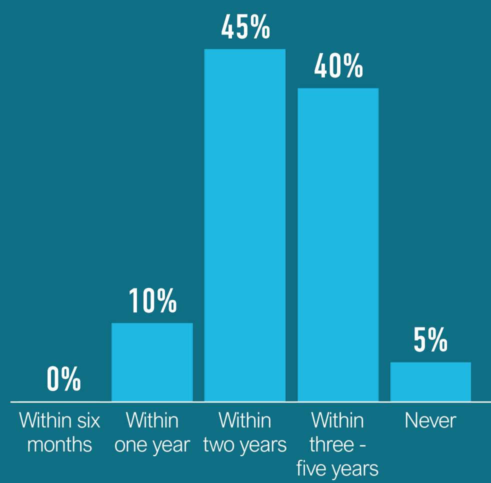
We have implemented a weighted net result. This calculates overall sentiment year-on-year, with "very negative" or "very positive" weighted +2 or -2 and a "quite negative" or "quite positive" response scoring +1 or -1.

If inflation takes three to five years to come down to the BoE's 2% target, businesses and consumers – not to mention the government – will need to adjust to higher borrowing costs, which will have material implications for leverage, asset (including house) prices, and consumer spending.

INFLATION WILL LIKELY HIT THE 2% TARGET.

The government's 2% inflation target has been out of reach since 2021 but the Bank of England (BoE) expects this will be achieved by early 2025. How does the M&A community see this playing out?

When do you expect inflation to come down to the 2% target?



Nearly all respondents (95%) expect inflation to come down to the 2% target within the next five years.

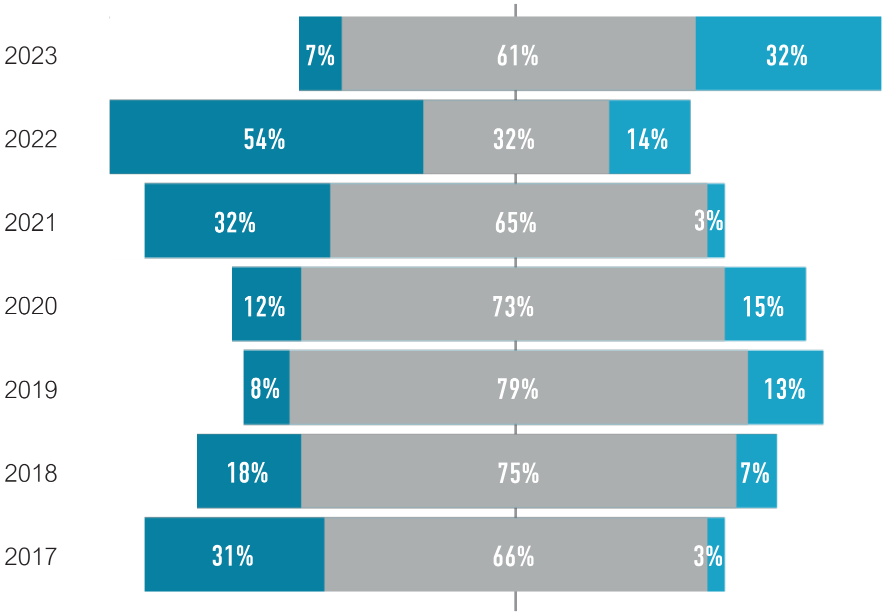
Over half (55%) see inflation meeting the 2% target within the next two years, while 40% anticipate it taking over three years. If this proves to be the case, the UK will likely need to maintain present interest rates for much of that period.

TOO MUCH, TOO LATE?

Respondents believe successive hikes are bearing fruit and that rates might be close to their peak, with nearly two thirds feeling that current monetary policy should stay the same. This reflects investor and business confidence that the 2% inflation target is achievable.

Do you think monetary policy should loosen, stay the same or tighten?

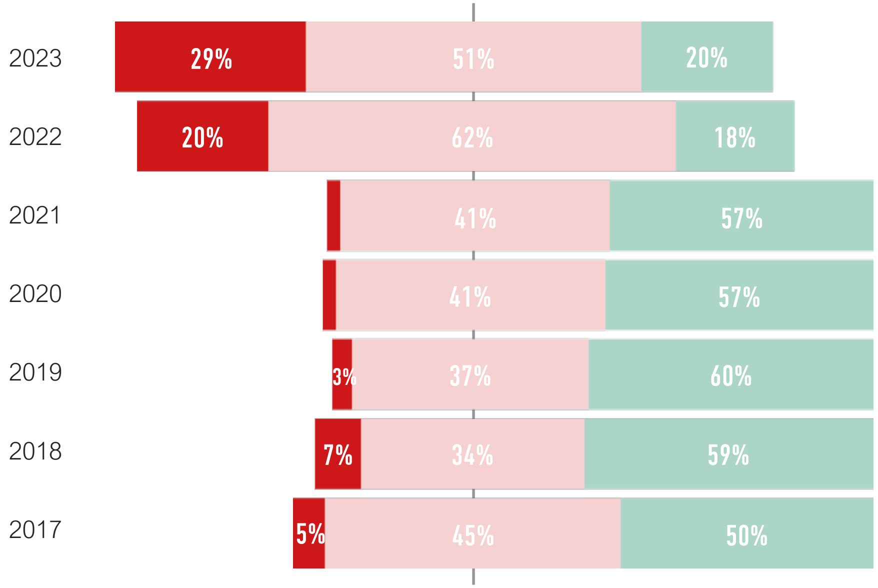
Tighten   Stay the same   Loosen



Despite favouring the BoE's monetary policy, respondents' overall satisfaction with the institution is mixed. This has been a rising trend; the evidence suggests that the business community saw a gap emerging between inflation data and the BoE's response during summer 2022.

Do you think the Bank of England is doing a good job?

No   Mixed   Yes



INTEREST RATES WERE TOO SLOW TO RISE, BUT THERE ARE NOW FEARS OF OVERCORRECTION.

Of the 29% of respondents who felt the BoE is not doing a good job, some provided additional commentary and cited the BoE's slow response in raising interest rates as a reason for their dissatisfaction.

"Too slow to react, strong risk now of overcorrection."

"Too slow to start tightening, following the wrong inflation data, now tightening too far."

"Too late raising interest rates and have had to play catch up."

It is worth noting that most respondents, who think the BoE is not doing a good job, feel that monetary policy should loosen. This is a reversal of last year's results, where those dissatisfied with the BoE wanted monetary policy to tighten.

In 2022

65%

of respondents disappointed by the BoE thought monetary policy should **tighten**.

In 2023

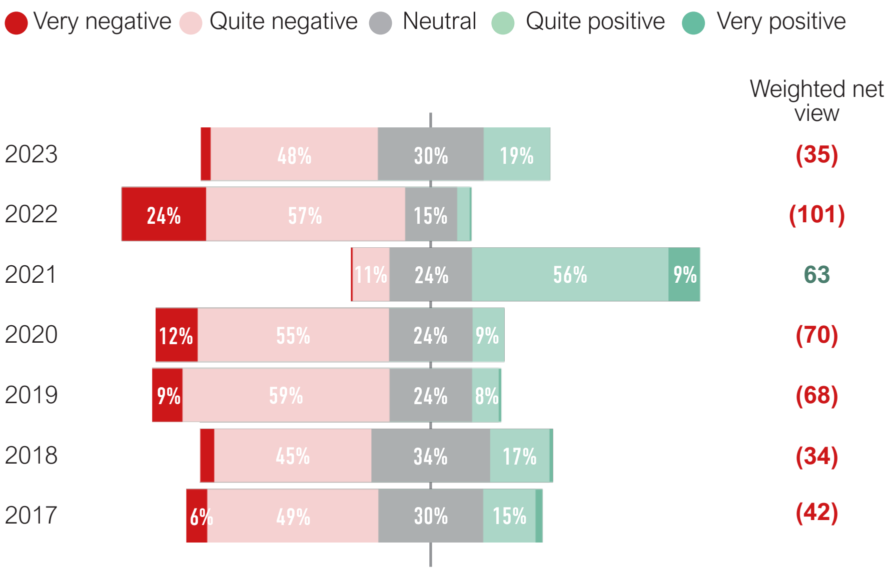
49%

of respondents disappointed by the BoE think monetary policy should **loosen**.

HIGH INFLATION IS DAMPENING THE SHORT TERM ECONOMIC OUTLOOK.

In the short term, respondents are cautiously optimistic. The weighted net view is more positive now than it has been — aside from the 2021 bump — since 2018.

How do you feel about the economic outlook for the UK in the short term (next 18-24 months)?



However, it is still worth noting that half of respondents are 'very negative' or 'quite negative' about the economic outlook for the UK in the next 18-24 months. Of those that provided comments to support this view, **44% cited inflation.**

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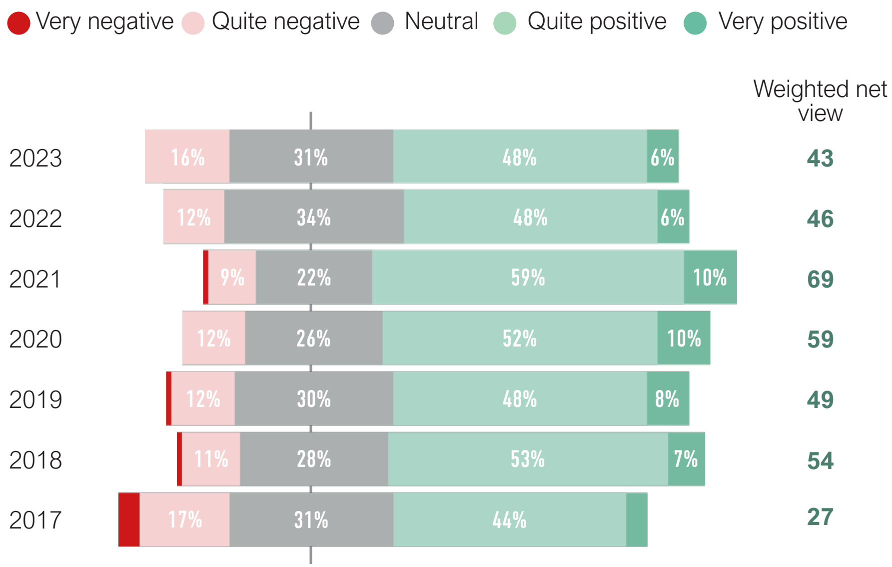
The long-term economic outlook is optimistic, with 54% feeling 'positive', aligning with respondents' optimism around inflation. Our survey consistently returns a short-term pessimist and long-term optimist view; we believe this reflects a fundamental conviction that the UK is a stable and investable economy that can work through its problems eventually.

How do you feel about the economic outlook for the UK in the long term (5-10 years)?

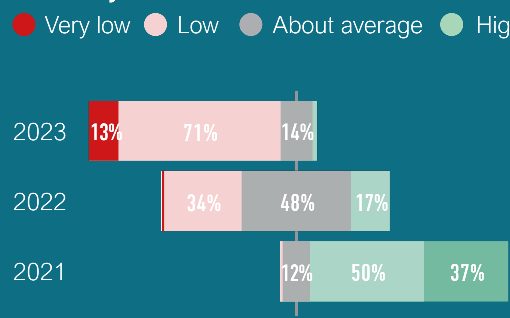


No one thinks that deal activity could get any worse - we've hit rock bottom. The only way is up.

M&A DEAL ACTIVITY WILL IMPROVE.

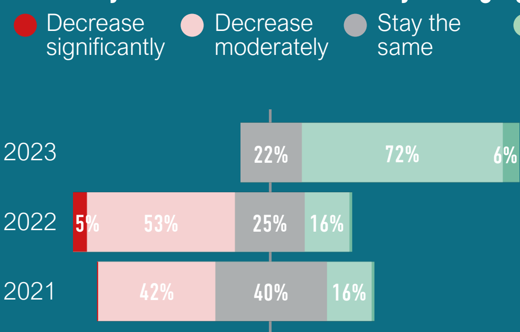
The M&A environment has been suppressed by inflation and rising interest rates. Having endured very low volumes, respondents feel more optimistic about M&A deal activity over the next 12 months.

What is your view on the current level of M&A deal activity?



M&A activity has further declined in 2023 as financing costs rose, inflation grew, and a drop in valuations made negotiations between sellers and buyers tougher.

How do you see M&A deal activity changing over the next 12 months?



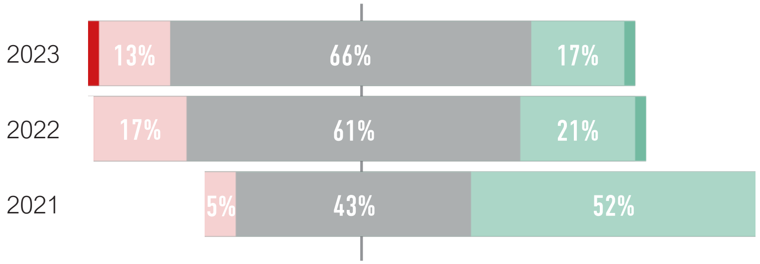
On the whole, respondents are optimistic about M&A in the next year, with none believing deal activity could get any worse. However, the recovery is expected to be gradual; only 6% of respond-ents are expecting the next phase to see a significant increase.

PERCEIVED QUALITY OF ASSETS IS 'AVERAGE', BUT IMPROVEMENT IS EXPECTED.

Respondents also anticipate improving asset quality. Currently, asset quality is seen as average by most (66%), but ~50% expect this to improve over the next 12 months.

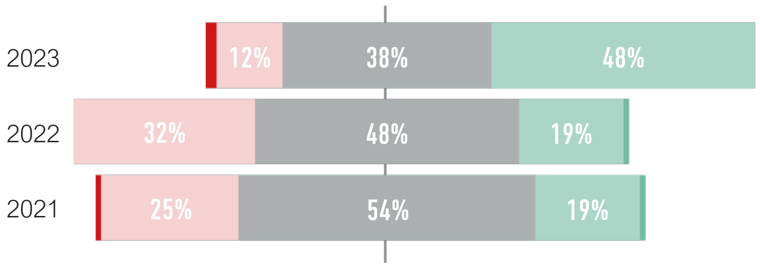
On average, what is the current quality of assets in the market?`

Very poor   Poor   About average   Good   Excellent



By comparison, how do you see the quality of assets changing over the next 12 months?

Decrease significantly   Decrease moderately   Stay the same   Increase moderately   Increase significantly



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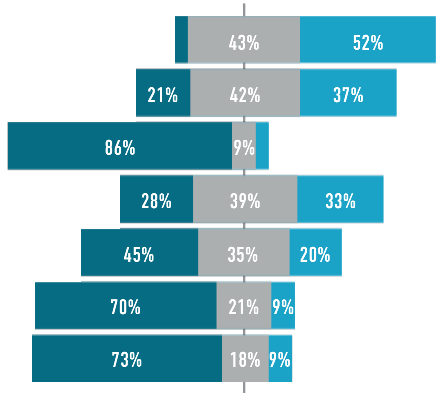
THE TIDE HAS TURNED FROM A SELLER'S MARKET TO A BUYER'S MARKET.

The shift away from the strong seller's market in 2021 has continued. Over half of respondents feel that it is now a buyer's market. Respondents indicate that the rising cost of capital, higher interest rates and tightening credit conditions have combined with macro-economic uncertainty to reduce competitive intensity within M&A.

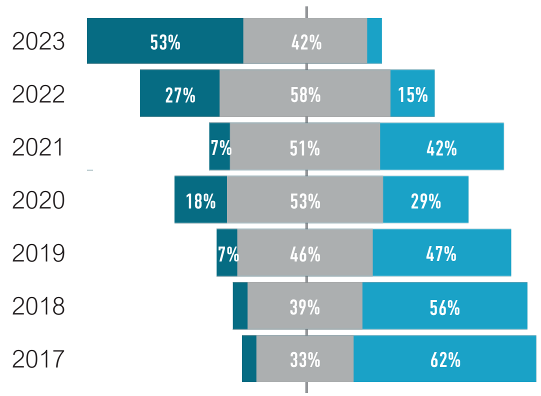
In terms of M&A, do you think it is a seller's or buyer's market?

Seller's   Neutral   Buyer's



Do you think credit markets are too loose, just right or too tight?

Too tight   Just right   Too loose



"Most investors now consider the UK a buyer's market for M&A assets. The shift has been gradual with the exception of 2021, where sentiment swung towards sellers. It's now clear why this happened: in 2020, most investors and corporate buyers sat on their hands... everyone felt nervous to make a move, and it was difficult to get board approval for investment. Therefore, in 2021, when investors noted COVID-19 had affected far fewer businesses than had been feared, many realised they should have made investments. Appetite to invest outstripped supply."

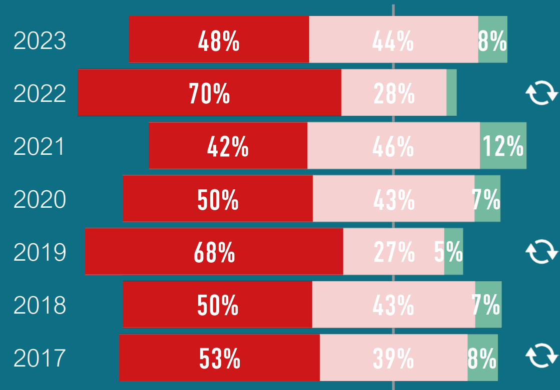
Alex Marshall
Senior Partner

I have doubts about how ‘business friendly’ a Labour government would be, albeit this government should tread the centre ground.

SATISFACTION WITH THE GOVERNMENT REMAINS LOW.

Do you think the government is doing a good job?

No · Mixed · Yes · Leadership change



Satisfaction with the government has never been high, and arguably never will be.

Respondents’ persistent pessimism hit an all-time low in last year’s Index, largely as a result of the Truss/Kwarteng Government. This year shows an improvement.

How does the prospect of a change in government make you feel?

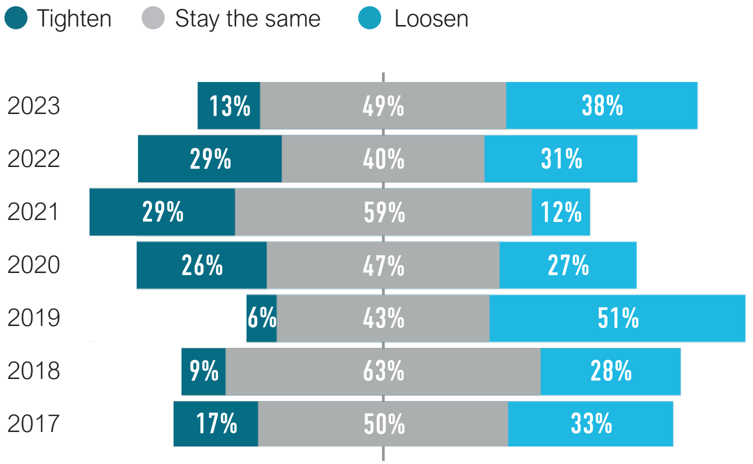
Pessimistic · Neutral · Optimistic

The prospect of a change in government fails to provoke much optimism, though interestingly respondents felt equally neutral as they did pessimistic, with 22% expressing optimism, resulting in a surprisingly neutral view.

FISCAL POLICIES SHOULD STAY THE SAME; CHANGES TO CORPORATION TAX HAVE HAD LITTLE M&A IMPACT.

These results tell us that over the course of 2020-2022, a substantial minority (25-30%) thought fiscal policy should tighten, indicating a willingness to increase the tax burden to improve services and investment. This sentiment has collapsed this year, with the percentage of respondents thinking that fiscal policy should tighten decreasing by more than half.

Do you think fiscal policy should loosen, stay the same or tighten?



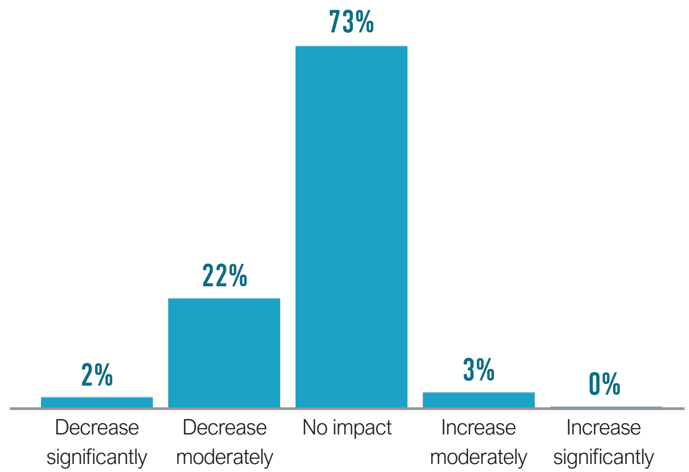
Although the business community recognises the importance of taxation-funded investment to long term stability and productivity, respondents fear that tax increases now might well suppress consumer sentiment or discretionary spending and thus near-term economic performance.

> Stimulus is needed. Money would be better spent by individuals.

> Having a tight policy for so long has not proven to be very successful.

Most respondents believe recent increases in corporation tax have had a limited impact on investment activity, with 73% believing investment activity has stayed the same despite the changes.

How have the recent increases in corporation tax impacted investment activity?



"The M&A community is, in general, more concerned about the impact of capital gains tax changes than corporation tax. Any proposed changes to CGT tend to provoke a knee-jerk reaction in M&A volumes. Corporation tax has been weaponised in many countries in pursuit of corporate investment; bringing the UK closer in line with the G7 is a responsible move that hasn't had much M&A market impact."

Alex Marshall
Senior Partner