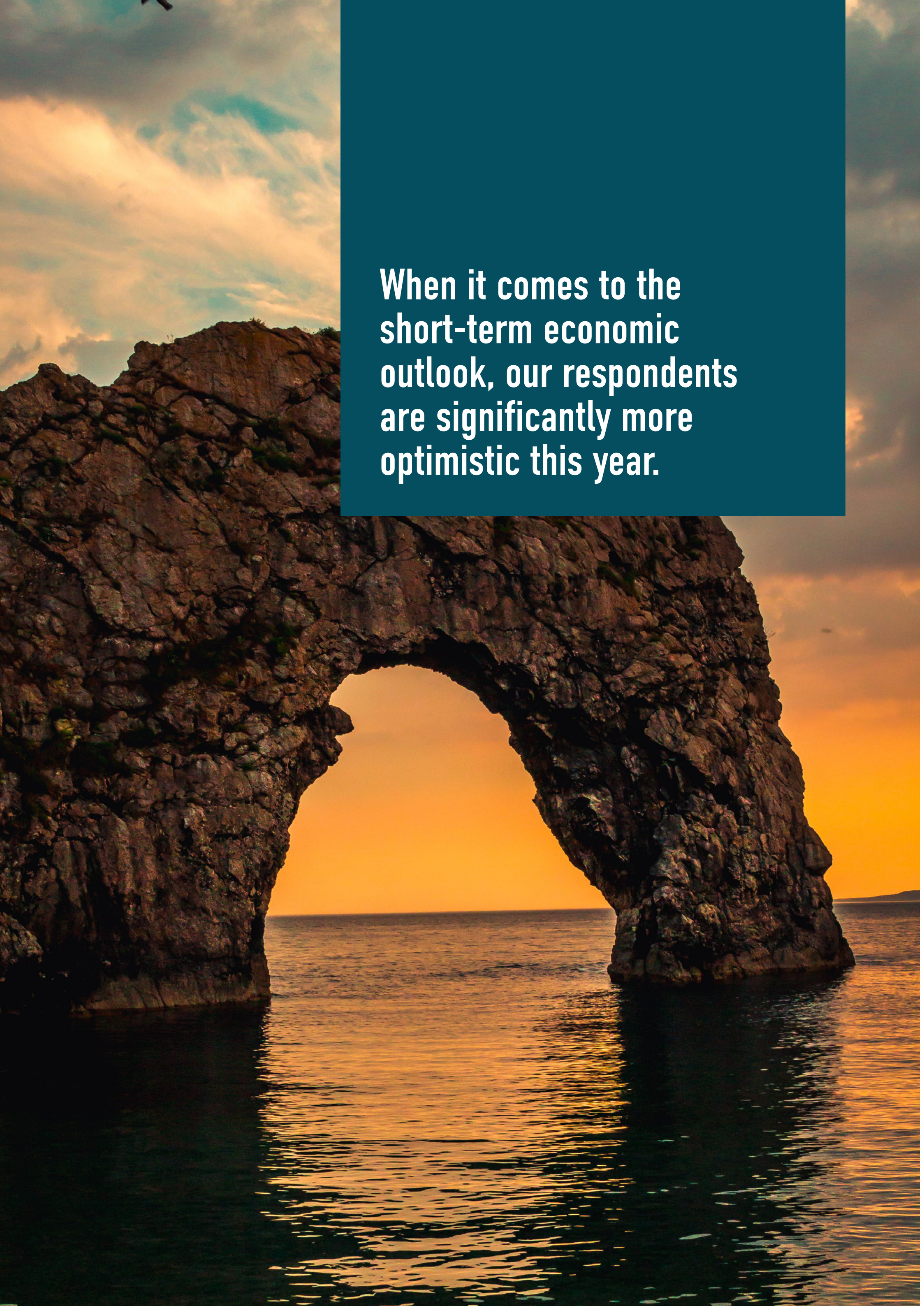
MANAGEMENT CONSULTANTS

INVESTMENT 360 INDEX 2024



When it comes to the short-term economic outlook, our respondents are significantly more optimistic this year.

WELCOME TO THE INVESTMENT 360 INDEX

Now in its eighth year, CIL's Investment 360 Index continues to offer valuable insights into business confidence among investors and business leaders, both in the short and long-term.

Private equity craves stability
Over half (56%) of respondents think maintaining a stable policy environment should be the government's top priority in order to boost UK M&A and business investment activity.

Optimism is gaining ground
Optimism about the short-term economic outlook is the highest in our survey's eight year history, with the exception of the post-COVID 2021 boom. Nearly half (48%) feel 'positive' about the next 12 months, up from 19% this time last year.

The Bank of England (BoE) is consistently too slow to act
There is a growing consensus that monetary policy should loosen, with support rising from 32% last year to 62% this year. Interest rates have remained higher for longer than necessary, reflecting frustration that the BoE has been slow to adjust - first in tightening, and now in loosening.

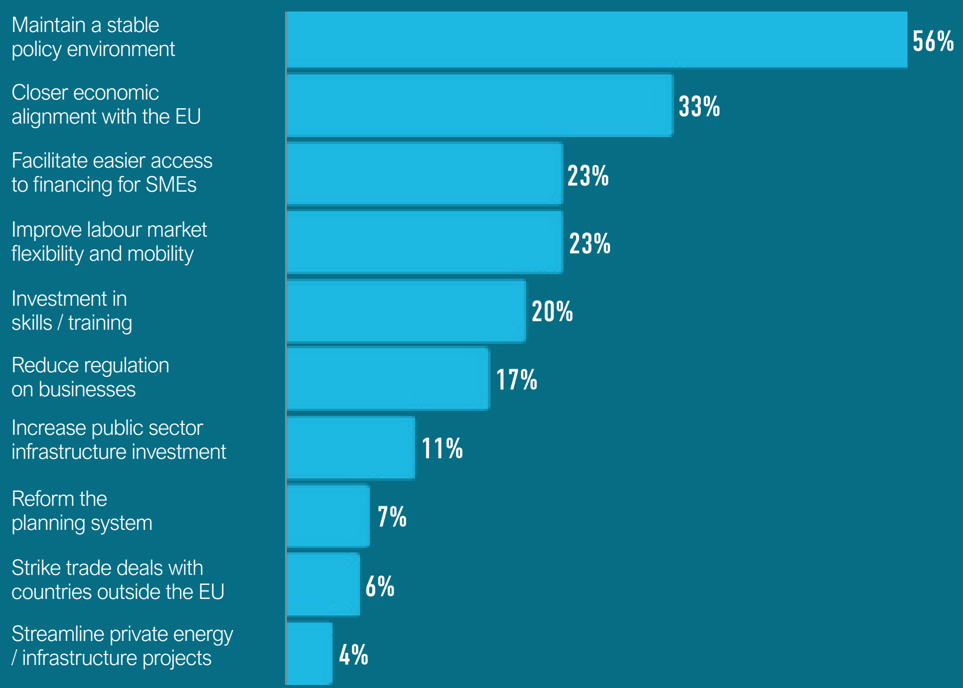
The Index is based on a survey of business and investment leaders, and took place over August and September 2024. We had ~140 respondents from among the leadership of UK corporates, PE investors and M&A advisory communities.

PRIVATE EQUITY CRAVES STABILITY

After years of uncertainty, the desire for a stable environment to boost UK M&A activity is clear.

A stable policy environment is critical: 56% of respondents cite it as the top priority for the government to address to boost UK M&A activity.

Which action by the new UK government would most positively impact UK M&A?

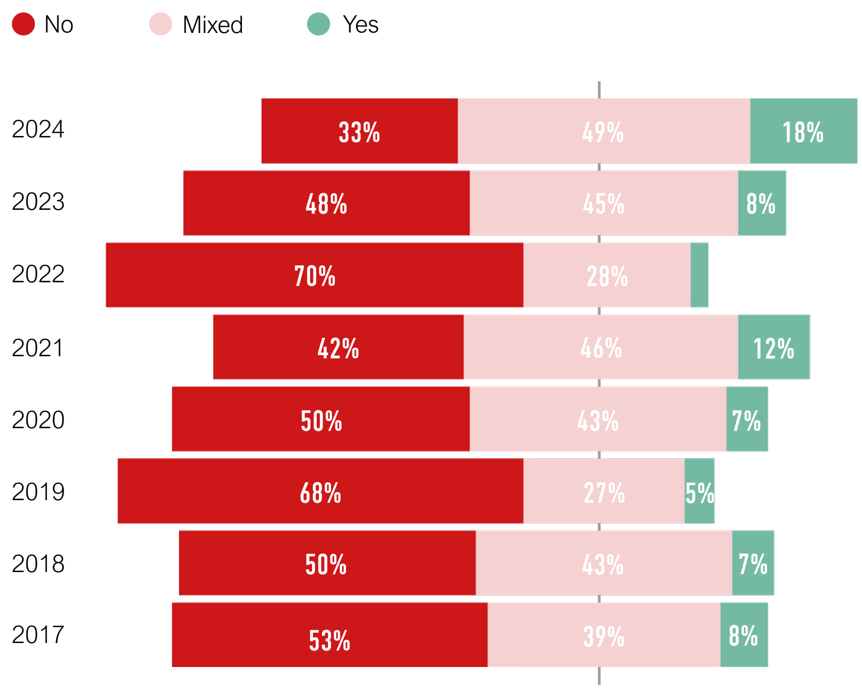


CAN LABOUR DELIVER THIS STABILITY?

There is increasing confidence that a Labour Government could provide the stability needed for growth.

Despite mixed views on the Labour Government's performance to date (18% ‘positive’, 49% ‘mixed’, 33% ‘negative’), this represents the most positive sentiment towards the government in the survey’s history – a noticeable shift compared to previous years.

Do you think the government is doing a good job?



UK business leaders and investors acknowledge that fiscal tightening may be necessary to restore stability. The emphasis is on maintaining business confidence – even if it means higher taxes.

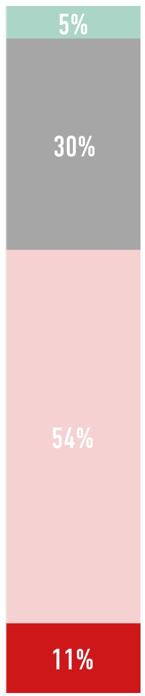
BALANCING RISKS FOR LONG-TERM STABILITY

65% of our respondents believe Labour will negatively affect the private equity industry, citing concerns over capital gains and wealth taxes.

Despite concerns, there remains relative optimism about Labour's performance. Private equity investors, who make up 47% of our respondents, show willingness to absorb some setbacks to secure the stability they seek.

What impact will the government have on private equity?

Very negative · Quite negative · Neutral · Quite positive · Very positive



Much of the apprehension surrounding the government's impact on private equity points to Labour's stance on capital gains tax, carried interest and other wealth taxes.

> **Labour needs to tread carefully with respect to capital gains tax, taxes on carried interest and other wealth taxes. It's obvious there will need to be some increases but hopefully these are proportionate and do not scare off investors and entrepreneurs who are key to driving economic growth.**

These concerns aside, there remains a strong positive outlook on M&A activity over the next 12 months. Investors believe that while Labour's tax policies could pose challenges, deals will continue to move forward.

> **Overall, the investment environment is likely negative but feels positive at an individual level because opportunities can be found in any environment.**

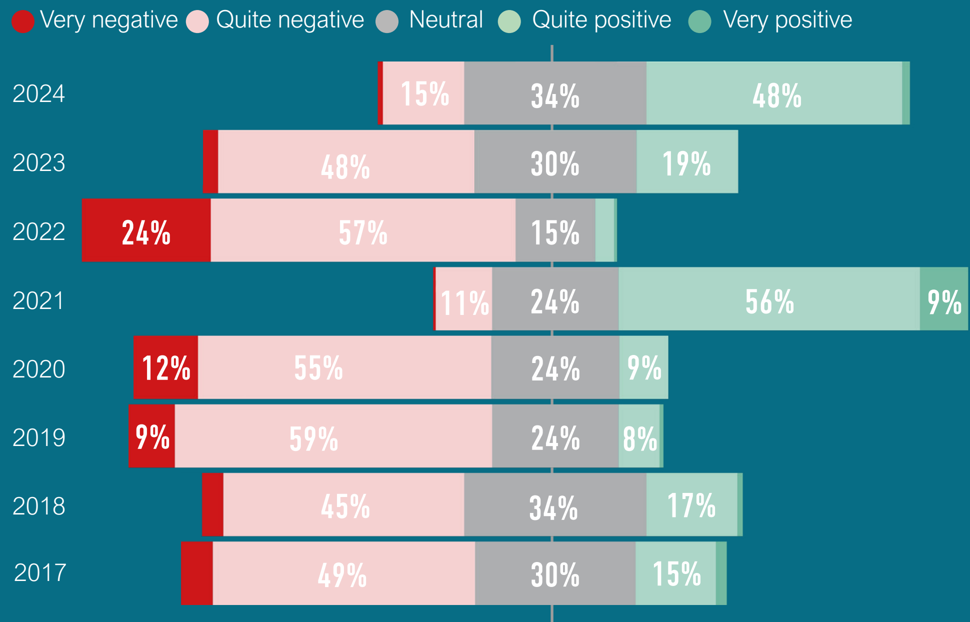
> “ A combination of lower interest rates, better government and growth momentum will drive economic growth.

OPTIMISM IS GAINING GROUND

Easing interest rates and the anticipated stability expected from a new Labour Government are key factors fuelling optimism, underscoring the importance of a stable policy environment.

Positivity about the UK's short-term economic outlook has surged from 19% last year to 48% this year - the highest result ever recorded with the exception of the post-COVID 2021 boom.

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

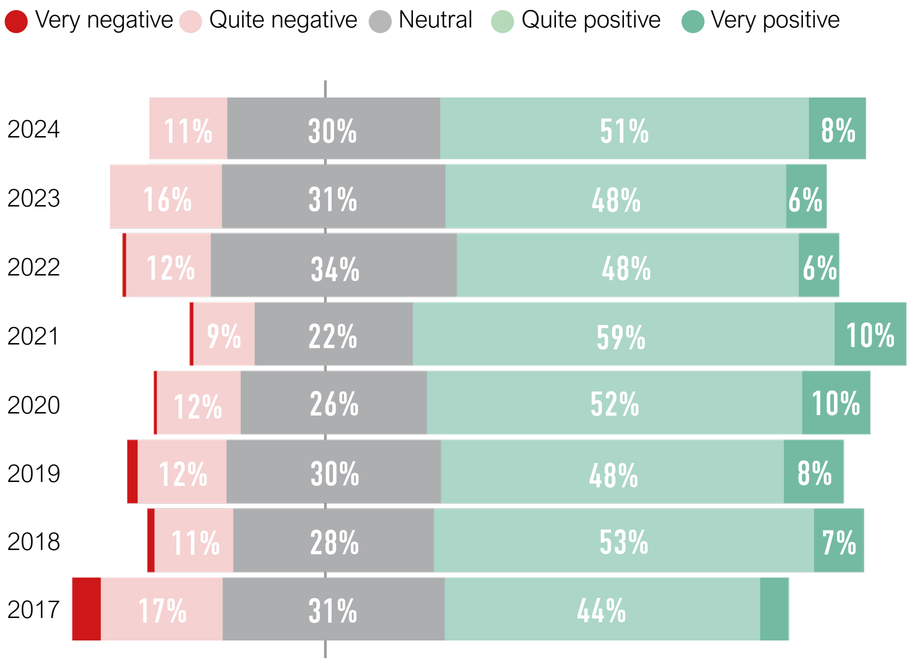


LONG-TERM OUTLOOK REMAINS STEADY

Long-term expectations remain similar to previous years, though signs of improvement are emerging.

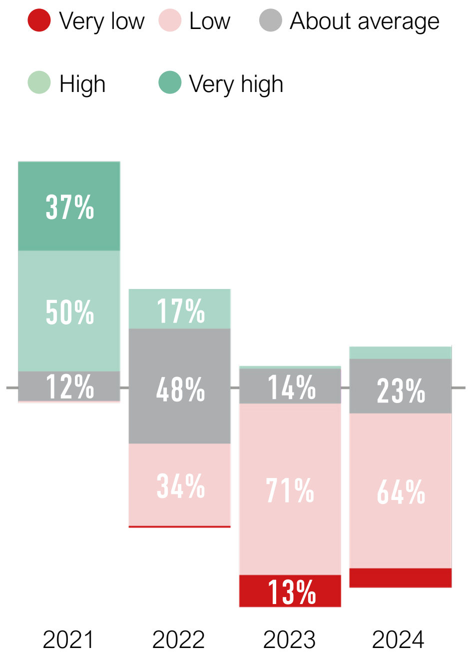
Currently, 51% of our respondents feel 'quite positive' about the economic environment over the next 5-10 years. Their immediate focus remains on the short-term outlook.

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

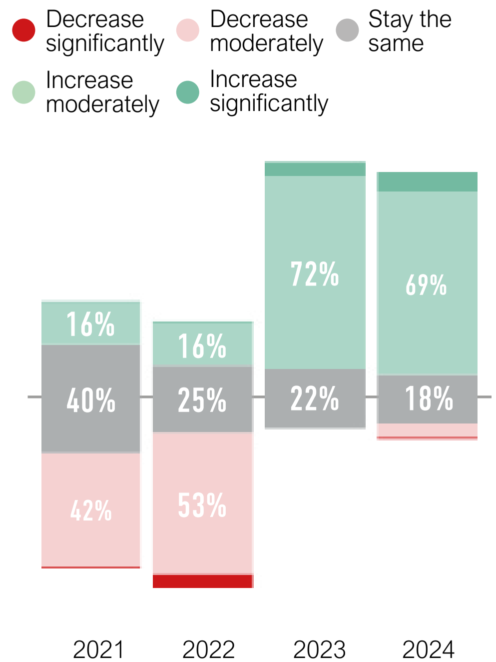


Perceptions of current M&A deal activity are showing signs of recovery after hitting their lowest point last year, aligning with expectations from 2023, when 72% predicted a moderate increase in deal activity.

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

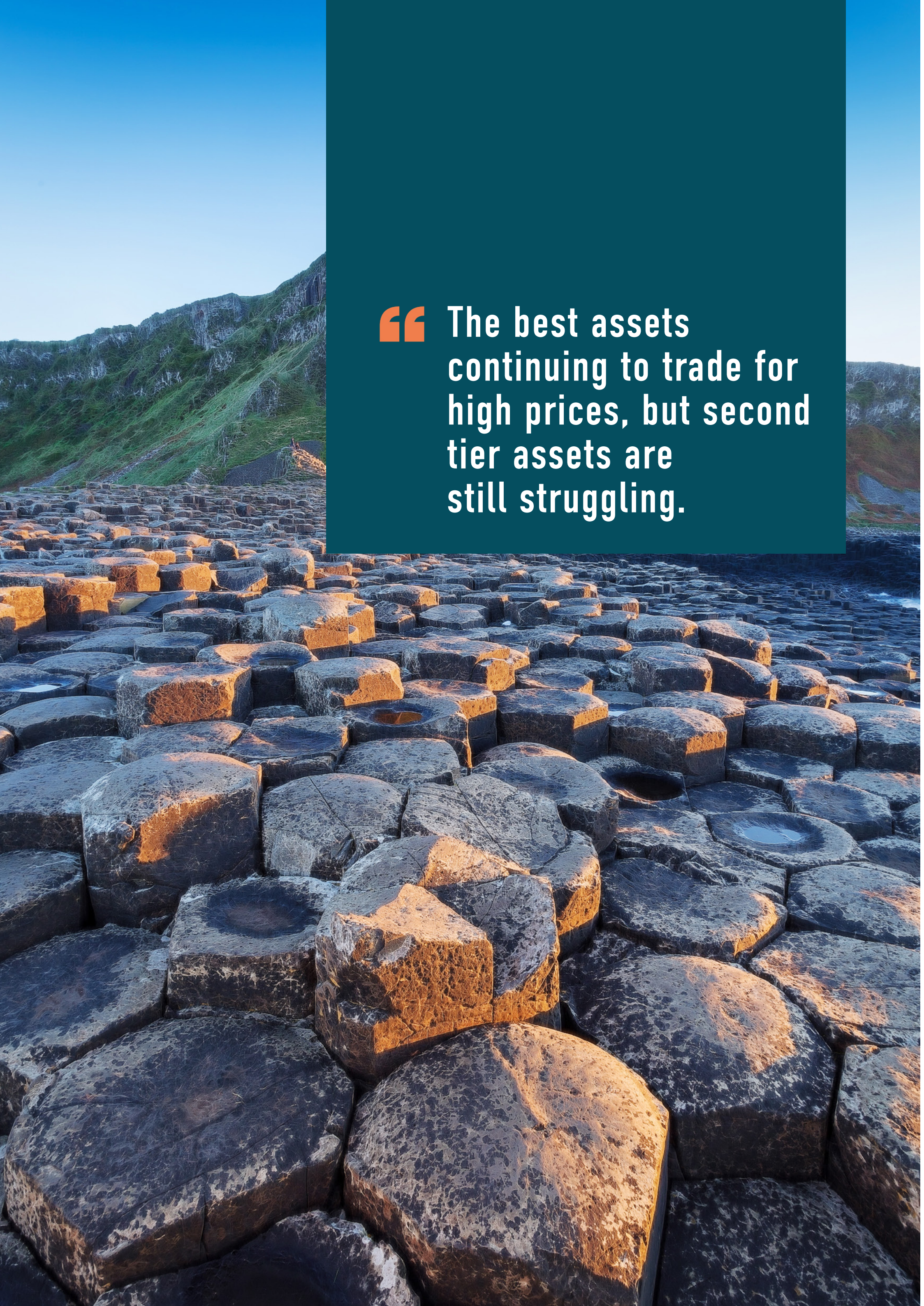


How do you see M&A deal activity changing over the next 12 months?



Deal activity predictions from our survey respondents have generally proven accurate in recent years. In 2021 and 2022, future predictions of a moderate decline came to fruition with deal activity dropping by -8.3% between 2021 and 2022, and -7.5% between 2022 and 2023. Early indications suggest that predictions of a moderate increase in our 2023 results are likely to be correct, with transaction data showing a marginal increase from H2 2023 to H1 2024.

Looking ahead, almost 70% believe M&A deal activity should improve moderately over the next 12 months. So, while a rapid acceleration out of the current deal environment is unlikely, we can be cautiously optimistic that it should continue to improve.

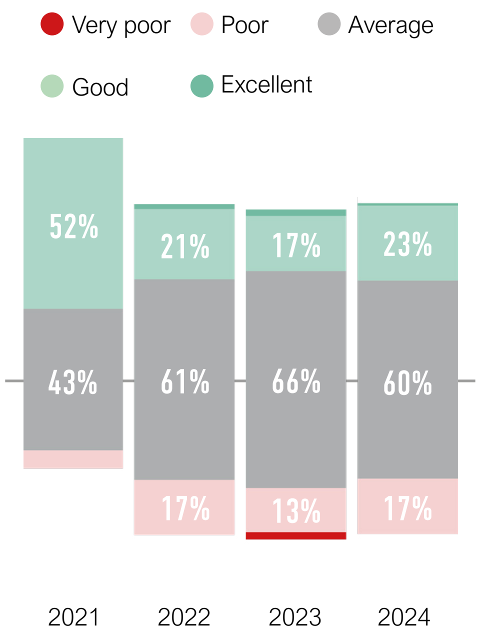


> “The best assets continuing to trade for high prices, but second tier assets are still struggling.

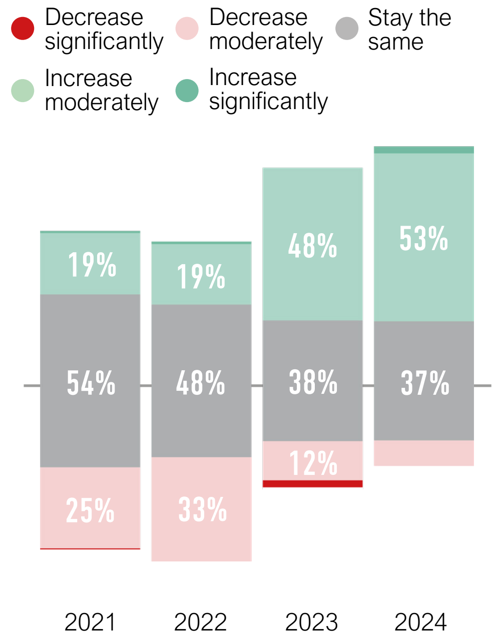
ASSET QUALITY EVOLVES SLOWLY

Respondents typically expect moderate shifts in asset quality. In 2023, two-thirds rated asset quality as average, but anticipated gradual improvement. This has been reflected in this year’s results, with 24% now rating asset quality as good or excellent, up from 19% last year.

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



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

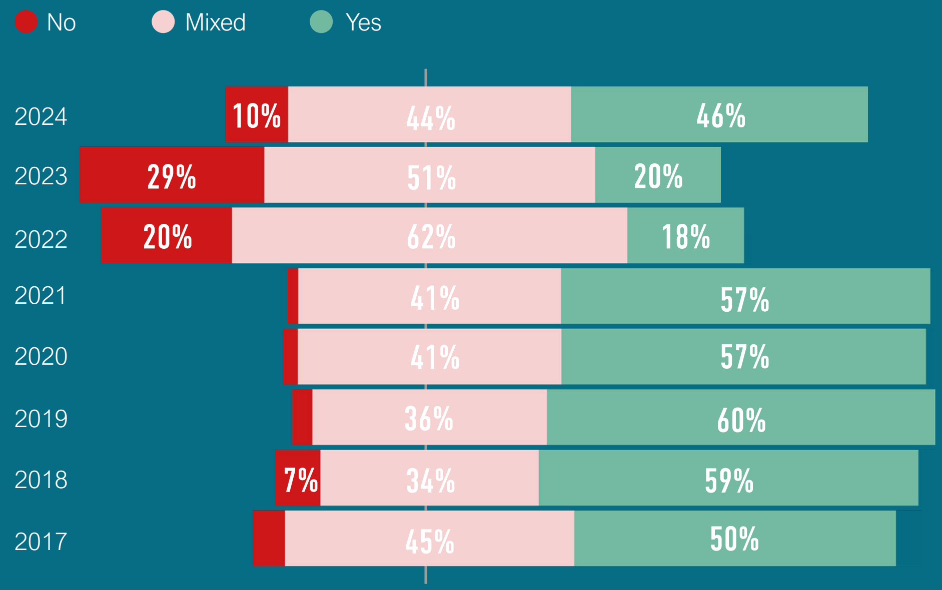


Increased satisfaction with the Bank of England is tempered by the view that interest rates have been elevated for too long.

THE BANK OF ENGLAND IS CONSISTENTLY TOO SLOW TO ACT

While confidence in the BoE has improved, many believe it has not been taking timely action. Approval has risen to 46% from 20% last year, reflecting improved confidence due to stabilising inflation.

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



However, a clear tension exists. Among the 54% who feel mixed or negative about the BoE's performance the vast majority believe monetary policy should loosen. This suggests that much of the dissatisfaction stems from the perception that monetary policy has remained too tight for too long.

INVESTMENT 360 INDEX 2024

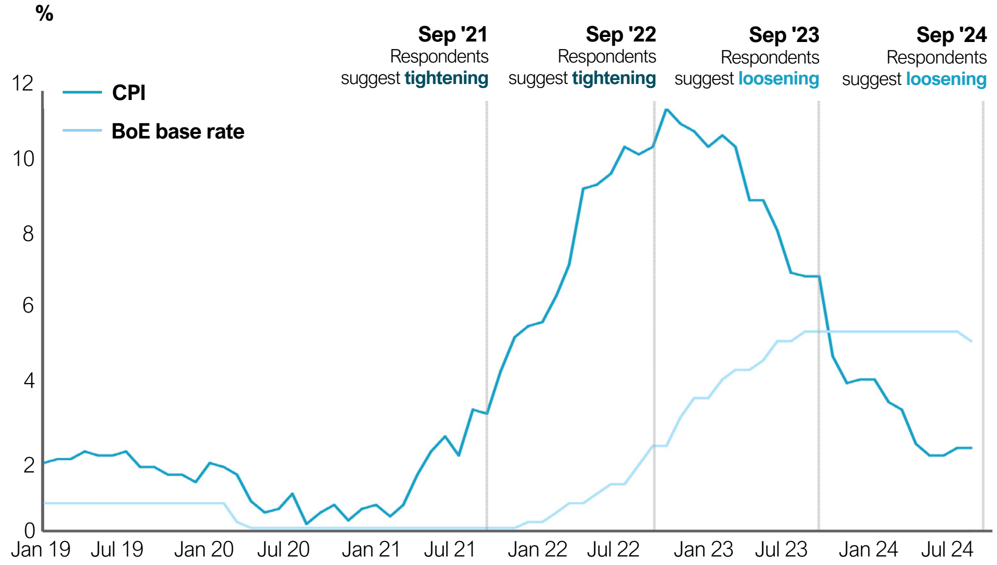
SLOW TO TIGHTEN, SLOW TO LOOSEN.

In 2021, despite BoE approval standing at 57%, warning signs were emerging. With CPI inflation rising to 3.1% from 0.5% a year prior, 32% of respondents believed that the Bank of England should tighten monetary policy to address these inflation risks.

Do you think that monetary policy (implement by the Bank of England), should loosen, stay the same or tighten?

However, the Bank was slow to act. By 2022, satisfaction with its performance fell to 18% as CPI inflation surged to 10.1%, with even more respondents (54%) calling for tighter monetary policy.

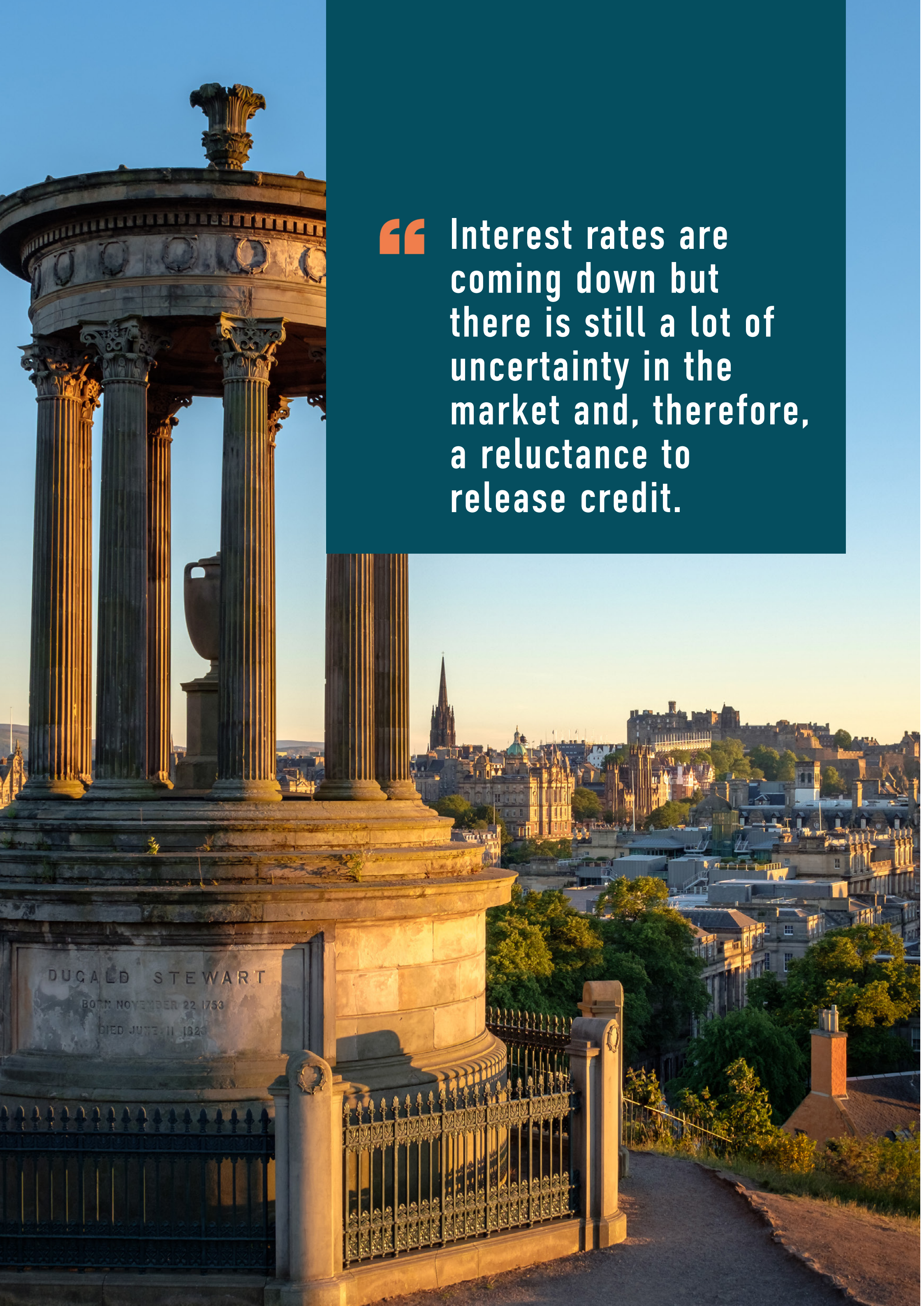
Monthly inflation and interest (BoE base) rates



Those who view the BoE's performance as mixed or negative cite concerns that monetary policy has now been too tight for too long.

> Interest rates have stayed high for longer than was necessary, given a large driver of inflation was supply-side constraints.

> Further loosening is required as credit and cash flow tightness are stifling growth.



> Interest rates are coming down but there is still a lot of uncertainty in the market and, therefore, a reluctance to release credit.

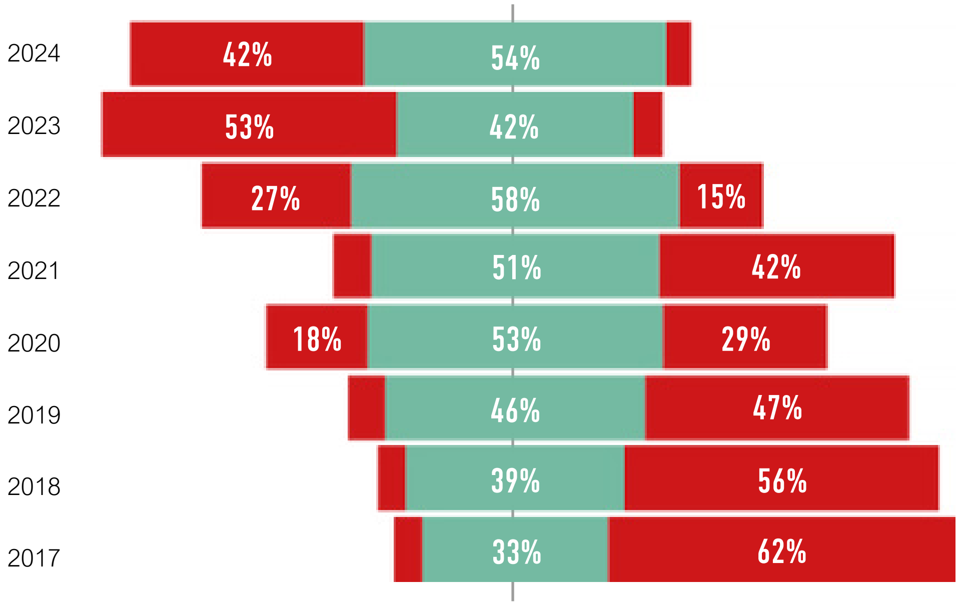
A DELICATE BALANCING ACT

Credit markets are viewed as being in a positive position, with 54% assessing them as 'just right'.

However, a significant portion (42%) still think credit markets are too tight, reflecting a common concern over elevated borrowing costs; once again, this reflects on BoE monetary policy.

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

Too tight · Just right · Too loose



The BoE now faces a challenging balancing act: keeping business confidence high while gradually loosening monetary policy.

WHAT'S NEXT?

This year's Index highlights the critical importance of a stable environment to promote growth, investment and improve the M&A outlook. But how do we get there?

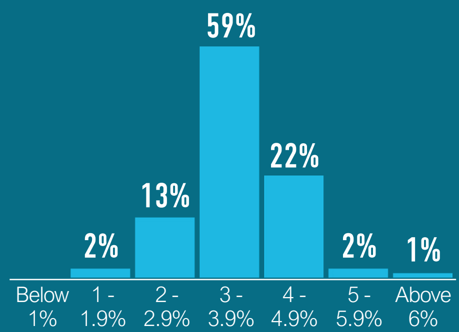
1. LOWER THE BASE RATE

As of the 19th September, the BoE set the base rate at 5%, with the next review scheduled for 7th November. BoE Governor, Andrew Bailey, has said that the rate should decrease in the coming months if inflation remains under control.

There is cautious optimism, with almost 60% predicting that the base rate will fall to a healthier 3–3.9% by Summer 2026.

But what's fuelling this confidence? And what steps need to be taken to ensure this outlook materialises?

At what level do you think the BoE base rate will be in summer 2026?



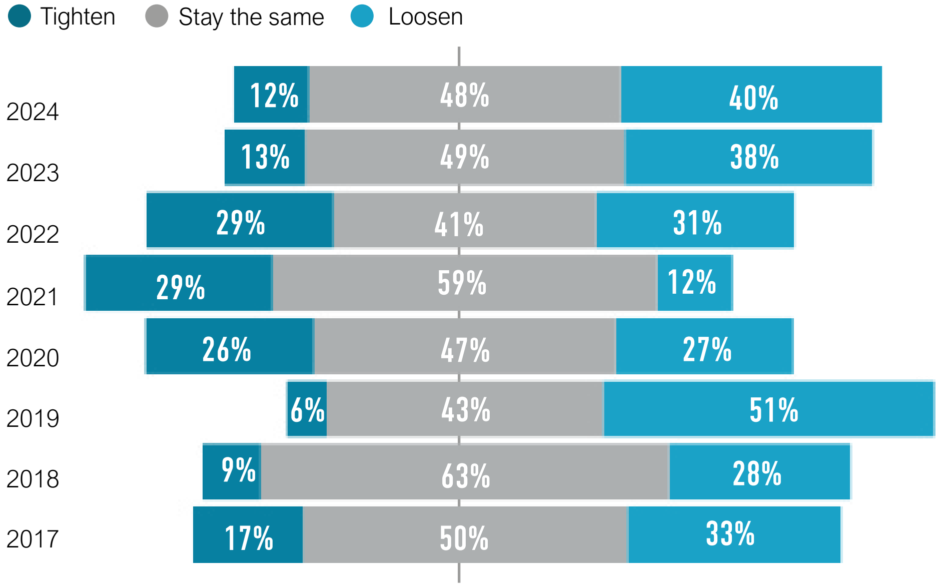
Alex Marshall
Senior Partner

> The UK business community expects interest rates to reduce in the near term. However, the BoE has recently been warning that rates will not tumble rapidly. Our research suggests both can be correct, and this survey has made some accurate short term predictions in the past.

2. BALANCE TAXATION AND SPENDING

Nearly half (48%) of our respondents believe that fiscal policy should remain unchanged. Why? It could reflect a sense that there's little flexibility to fix the current policy landscape.

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



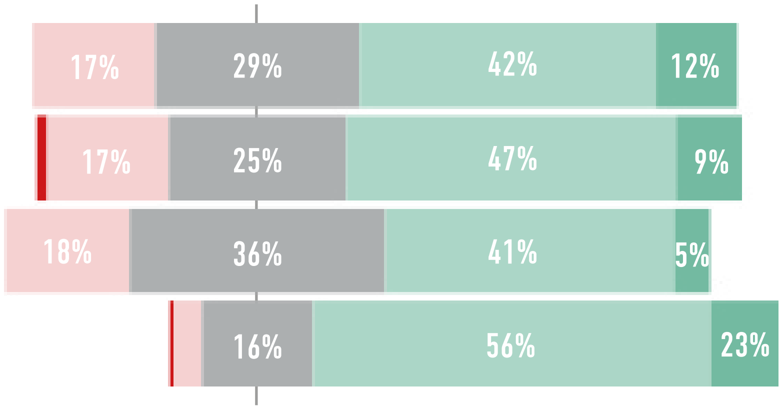
The real challenge lies in finding the right balance between meeting election promises and balancing the books while stimulating growth.

This is no easy task: the UK's debt-to-GDP ratio is the highest it's been since the 1960s, prompting calls for tighter fiscal policy to reduce debt. However, many simultaneously agree that taxes are too high; advocating reduced taxes and looser fiscal policy. It is a delicate balance to say the least.

3. OPPORTUNITIES EXIST IN ANY ENVIRONMENT

Even if stability takes a while longer to achieve, our respondents remain positive about the investment environment. Many believe that opportunities can be found even in (or perhaps because of) uncertain economic conditions.

How do you feel about the investment environment for your business or portfolio?



Healthcare, in particular, stands out as an increasingly attractive vertical for investment with a number of respondents citing the positive structural trends of the sector.

James Silk
Partner, Healthcare & Life Sciences

> "The healthcare sector has a number of attractive characteristics for both investors and operators. The need for services continues, placing pressure on the system to deliver these services. There are multiple approaches to help address the resulting demand and supply imbalance around the sector, presenting opportunities for investors who remain keen to deploy capital.

GET IN TOUCH

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Alex Marshall
Senior Partner
amarshall@cil.com

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