

Trump tariffs, rates and inflation uncertainty hamper M&A upswing



by **Susan Barreto** — February 11, 2025



Michael Mufson, managing partner at investment bank Mufson Howe Hunter



Various sectors are expected to see a pickup in M&A activity in 2025, with new opportunities presenting themselves despite some widespread macro uncertainty, according to Michael Mufson, managing partner at investment bank Mufson Howe Hunter.

In the medium term, Mufson is expecting a boost in dealmaking following a year that saw half as many middle-market transactions as 2021, which

marked an all-time high in the private equity world with 2,788 deals, according to the investment bank's most recent market report.

"If you are an investment banker you are a glass half full person," Mufson said in an exclusive interview with *Alternatives Watch* about 2024's activity. "I was really excited that after doing this for 35 years this was the year. Private equity dry powder was over \$1 trillion, there were record levels in private credit, and interest rates were lower."

Going into year-end there was a backlog of firms in private equity portfolios that needed exits, but the Trump administration's tariff threats have put a "monkey wrench" in things and created uncertainty, according to Mufson, who has worked at the largest investment bank in Philadelphia specializing in M&A advisory since 2004. The specter of inflation that seems to be stubbornly above the U.S. Federal Reserve's 2% target can also be problematic, as can the prospect of interest rates remaining high for longer than expected.

Inevitable momentum?

However, while the first quarter may be slow due to political turbulence, Mufson expects 2025 to be a robust year as the money rolling into private equity has continued to grow.

In the banner year that was 2021, private equity exits totaled \$840 billion and soared along with M&A activity that totaled \$1.2 trillion. Even as activity slowed from 2022-2024, the amount of capital on the sidelines continued to build. In fact, in recent earnings reports many publicly traded private equity managers have outlined an interest in putting their growing capital to use.

One of the hiccups has been financing, but that may be changing too. Commercial banks and regulated lenders have had a hard time competing with newer private credit lenders. These firms allow for higher leverage multiples and that's the holy grail to private equity returns, Mufson added.

According to Mufson Howe Hunter's annual report on activity, multiples moved up to 10.9 times in 2024, up slightly from 2023. Private equity in Mufson's view has been putting greater emphasis on equity than debt and it has become a timely partnership with private credit lenders that they are themselves growing.

Sectors in play

Much of the transactional activity has been in service businesses, especially aftermarket service companies, with Mufson Howe Hunter recently advising on ICV Partners' purchase of Valvoline. Companies that are active in the home and residential services area is also seeing demand. Long term, the investment bank is positive on business and consumer services.

"2025 should be like a 2021," Mufson added. "You know valuations are strong and plenty of people are looking to buy private equity. They are rationalizing markets that used to be fragmented – service company tie-ups. Companies that haven't been professionalized."

Lastly, a trend that may turn out to be the most significant of all is the so-called "silver tsunami" where multi-generational privately held businesses are changing hands. These companies view the current market as an attractive way to get to liquidity events.

"Thirty years ago, they would have gone public, and they now go to private equity," Mufson added, observing the maturity of both the M&A and private equity market. Now \$5-\$10 million companies are being sold to domestic buyout funds, he said.

AI driving deals

Technology is helping these smaller, lower middle-market companies achieve successful buyouts.

Currently, Mufson estimates that 30% of bidders are using an AI, which is assisting them to do NDA reviews. Technology is also cutting down the time involved and the costs of doing business with law firms.

Mufson Howe Hunter is also using AI to conduct industry research as well and access potential buyer lists. In Mufson's view, he can imagine a big part of investment bankers' activity will be supported by AI. When his bank comes up with a buyers list, AI allows them to get granular on various issues and nuances and is something they are just beginning to use.

If 2025 is off to a slow start, but eventually it will be a great year, Mufson concluded.