# Why Acquisitions Could Be The Story Of 2018

## Description

After a decade of ultra-loose monetary policy, the world economy is now in a period of transition. In the US, interest rates have already started moving higher from their historic low, with the Federal Reserve set to continue on a path of gradually rising rates. Elsewhere, interest rates could begin to follow suit. This could create an opportune moment for companies to engage in acquisitions before the cost of doing so becomes too expensive.



## A changing world

The global economy is likely to see higher interest rates in 2018 and beyond for a variety of reasons. Notably, it is now in a much stronger position with a brighter outlook than it has been for around a decade. While during the financial crisis and in its aftermath low interest rates were needed to encourage spending and borrowing by businesses and consumers, today they are simply not required in order to generate economic activity. Much of this is because of higher confidence in the outlook for the global economy.

In addition, lower interest rates may not be needed because of changes to inflation expectations. In the last decade, the world experienced a deflationary cycle, which meant low interest rates were required just to keep inflation positive. However, with the US now set to deliver higher spending levels as part of the current administration’s tax and spending plans, inflation could move higher across the globe. This could make a higher interest rate required in order to cool inflationary forces and prevent the world economy from overheating.

## More acquisitions

Since interest rates are set to move higher in the US and potentially across the globe, borrowing levels could increase in the short run. This may sound counterintuitive, since a higher interest rate may mean the cost of servicing debt rises. However, companies which are able to issue debt today on termswhich are likely to be much more favourable than they will be in future years may seize the opportunityto do so. They may use this cash to engage in M&A activity, which could begin to take place during the remainder of 2017 and particularly in 2018, when further interest rate rises are forecast.

Furthermore, acquisitions may become more popular among companies which currently have relatively high cash balances. Although higher interest rates may mean the return on cash increases, rising inflation could keep it in negative territory on a real-terms basis. Therefore, companies may seek to keep their cash balances lower than they have done in recent years as its value could be eroded away. Buying other assets or other companies could be one means of achieving this aim.

## Looking ahead

While companies have had the opportunity to borrow at low interest rates for a number of years, the rise of interest rates could prompt them to take action in the short run. Alongside the scope for higher inflation, this may make borrowing more attractive in 2018. Therefore, the prospects for M&A activity in the next couple of years could increase, leading to a higher number of takeovers than investors have become accustomed to in recent years.



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