Westlaw Today

Resilient economy and promises of lessened regulation, lower taxes raise hopes for a surge in M&A

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JANUARY 30, 2025

Key points

- Pro-growth policies and reduced regulation could create significant opportunities for increased M&A in 2025.
- Lower interest rates, moderating inflation and rising stock market valuations may also encourage strategic buyers and financial sponsors to pursue acquisitions.
- Sectors expected to benefit most from Trump administration policies include energy, digital currencies, industrials, financial services, AI/technology and health care/life sciences.
- Despite market observers' optimism and the positive forces supporting M&A, dealmakers will need to consider the potential impact of increased tariffs, the possibility of persistent inflation and slower economic growth, and of interest rates remaining higher for longer.

Domestic and global M&A transaction activity remained strong in 2024, supported by a 17% increase, by value, in megadeals (*i.e.*, deals over $5 billion), despite the headwinds M&A market participants faced — interest rates that remained relatively high, continued inflation, intense regulatory scrutiny of deals in the U.S. and internationally, geopolitical conflicts and the uncertainty of the U.S. election.

Global M&A in 2024 registered a 10% increase in deal value, while deal count fell by 14% from 2023.

Similarly, U.S. M&A featured a 5% increase in deal value and an 18% decrease in deal count from 2023.[1]

The odds are good that activity will gain momentum, based on President Donald Trump's election platform of adopting a pro-growth agenda, reducing regulation and accelerating domestic production and business expansion. Coupled with other improving macroeconomic and geopolitical trends, these policies should support more M&A dealmaking in 2025.

Antitrust

Many dealmakers are particularly eager for the Trump administration to relax antitrust enforcement, which could provide greater confidence that transactions can get done after four years in which Biden administration officials pressed expansive interpretations of antitrust laws and were willing to challenge mergers based on untested theories and new types of harms.

M&A practitioners are anticipating a decrease in the so-called "merger tax" resulting from the time and expense of going through prolonged antitrust reviews. A return to reviews focused on measurable competitive impact could encourage combinations that companies had been reluctant to pursue under the Biden administration.[2]

It should be noted, though, that even if the merger review process is more predictable, other aspects of antitrust enforcement may not change substantially under the second Trump administration.

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Populist rhetoric and anti-big tech sentiment may result in the continuation of some of the monopolization cases, such as the ongoing enforcement action centering on Google search (which was initiated under the first Trump administration) and the action against Meta to divest its Instagram and WhatsApp platforms.

National security

We expect that cross-border M&A activity will continue to be an important part of the M&A landscape in 2025.

However, dealmakers can expect to see continued scrutiny by the Committee on Foreign Investment in the United States (CFIUS) of purchases of U.S. targets by acquirers from rival nations, such as China, or from other countries where the industry is of particular national interest.

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In response to enhanced CFIUS enforcement, and also possibly in response to steep new tariffs in the U.S. if those are imposed, other countries could conduct tougher foreign investment reviews, potentially impeding cross-border transactions. Companies considering such deals will need to plan carefully for foreign investment scrutiny.[3]

Trade policy

The president made tariffs and other protectionist policies central in his campaign, and, since the election, has continued his threats to deploy significant tariffs on imports (https://bit.ly/4heD8lq).

Stiff tariffs could incentivize U.S. companies to divest non-U.S. operations and/or modify their supply chains. They may also prompt non-U.S. companies to consider making acquisitions in the U.S. or move some of their manufacturing operations there. In any event, acquirers of companies with significant manufacturing or sourcing from outside the U.S. may want to consider the potential impact of the tariffs on the target's earnings and profitability.

Dealmakers, however, should also be cognizant of the possibility that higher tariffs in the U.S. could provoke other countries to impose higher tariffs on U.S. goods, which could lead to a global trade war that could have a chilling effect on overall deal activity.[4]

Taxes

During his first term, in 2017, President Trump signed the Tax Cuts and Jobs Act (TCJA), which, among other things, lowered the corporate tax rate to 21%, largely left undisturbed the taxation of carried interests with respect to real estate and decreased rates for individual tax brackets.

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In his 2024 campaign, President Trump stated his desire to make permanent many of the provisions of the TCJA that expire at the end of 2025 and proposed further cutting the corporate tax rate to 15%.[5]

These moves would require approval by Congress and might face opposition from deficit hawks. But extending the TCJA cuts or enacting similar tax policies would likely promote M&A activity and incentivize domestic investment.

Favorable macroeconomic and geopolitical conditions

In addition to the new administration's policies, improving macroeconomic and geopolitical conditions — including lower interest rates, higher stock market valuations and lower inflation — could bolster M&A activity in 2025. Any resolution of major international conflicts could add an extra lift.

If the Federal Reserve continues its interest rate cuts, that would decrease the cost of acquisition financing and improve returns on investment. In particular, lower rates could spur dealmaking by private equity funds that continue to have significant amounts of uncalled capital, or "dry powder," to deploy and have been constrained during the higher interest rate environment of 2023 and 2024.

Rising stock market valuations could also inspire greater confidence in the boardrooms and C-suites of corporate buyers to pursue acquisitions as a means to grow their businesses. We might therefore see greater use of stock consideration by such buyers.

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As market valuations increase, we may see a narrowing of the valuation gap that hindered some transactions in 2024. Sellers — including financial sponsors that have held assets longer than planned — may take the opportunity to sell, providing another stream of deals.

Sectors positioned to benefit most

President Trump's second term might benefit certain sectors more than others and lead companies within such sectors to more aggressively pursue growth opportunities.

- **Energy.** President Trump campaigned on promoting fossil fuel development, including permitting oil and gas companies to drill on federal land, reducing the amount of time to approve drilling permits and increasing fracking levels. The combination of decreased regulation and possible increased energy demand with a growing economy over the next four years positions the energy sector — and in particular oil and gas — to grow under the new administration. However, deal participants will need to consider that investors and some in the industry have opposed increased production because that could reduce oil and gas prices and returns on investment.
- **Digital currencies.** The expectation of an administration that is friendly to cryptocurrencies has already resulted in a skyrocketing of bitcoin prices and other digital currencies following the election. If these assets gain wider acceptance, we may see increased M&A activity in this sector.[6]
- **Financial services.** Like cryptocurrencies, bank stocks soared after the election, partly on the expectation of lessening financial regulations and lower capital requirements. The result could be more strategic transactions and greater availability of

credit for acquirers. We may also see further growth in private credit in the absence of greater regulation.[7]

- **Industrials.** Loosening regulation and protectionist policies should give a boost to U.S. industrial companies, better positioning them to make acquisitions and making targets more attractive.
- **Artificial intelligence and other technology.** The exponential growth of the artificial intelligence (AI) sector in recent years is expected to continue under the incoming administration as more companies incorporate AI into their growth strategies. President Trump has said he would repeal President Joe Biden's AI executive order and will not look to impose any restrictions on the use of AI in business, which may encourage more dealmaking in the sector. We may also see more M&A transactions in the technology sector more broadly as the largest tech companies seek to divest operations while other tech companies look to consolidate in a less restrictive regulatory environment.[8]
- **Health care/life sciences.** While the impact of a Robert F. Kennedy Jr.-led Department of Health and Human Services is difficult to predict, health care and life science companies may pursue strategic acquisitions as a way to maintain their competitiveness and grow their businesses amid the increased scrutiny of health care costs expected under the Trump administration.[9]

Potential risks and uncertainties ahead

Despite the overall favorable conditions, dealmakers will need to consider potential risks and uncertainties that could have a disruptive impact on the economic outlook. For example, some economists have warned that tariffs, tighter immigration policies and pro-growth policies may endanger the Fed's hoped-for "soft landing."

Furthermore, the enactment of significant tariffs on imports of goods to the U.S. could provoke a trade war, which in turn might revive inflation. That has the potential to impact earnings growth and dampen transactional activity.

Geopolitical concerns may also continue to chill global M&A activity. While many are hopeful for resolutions of major international conflicts, the wars in Ukraine and the Middle East may continue throughout 2025. Companies considering transactions with counterparties that may be impacted by the conflicts will need to account for this possibility in their planning.

Notes

[1] All data is from LSEG Data & Analytics' Global Mergers & Acquisitions Review for the Full Year 2024.

[2] See "Keep Your Seatbelts Fastened: The Wild Antitrust Ride May Not Be Over," https://bit.ly/4hvRILA

[3] See "In the US and Europe, Export and Import Controls May Be Expanded," https://bit.ly/4hA1Lzf, and "China Merger Control Process Should Remain Navigable Even if Tensions Rise," https://bit.ly/3CoBTqW

[4] See "Decoding Tariff Threats: What Importers Can Expect on Day 1 and Beyond," https://bit.ly/4jvdvol

[5] See "Possible Tax Reforms Could Run Up Against Deficit and Debt Concerns," https://bit.ly/4hhp7d5

[6] See "Cryptocurrencies Stand To Gain From New Regulators and a Receptive Congress," https://bit.ly/40v9PKx

[7] See "Trump 2.0 Could Mean a More Bank- and Fintech-Friendly Environment," https://bit.ly/4h52zML

[8] See "US Federal Regulation of AI Is Likely To Be Lighter, but States May Fill the Void," https://bit.ly/4jAq0io

[9] See "Drug Pricing and Health Care Fraud Remain Key Issues," https://bit.ly/40s2ewm

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This article was published on Westlaw Today on January 30, 2025.

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