2024 is right around the corner, and the worst is over

Good news around the world signals a better year for M&A transactions and public offerings

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As we approach the end of the year, it's natural for people to start wondering what the next one will be like. This 2023 has proven to be quite challenging. The uncertainty surrounding inflation and interest rate increases implemented by the main monetary authorities around the world, combined with a reduction in credit available for transactions, led to a drop in the volume of mergers and acquisitions and share offerings worldwide. Fortunately, although there is still no reason for celebration or excessive optimism, the general perception is that the worst is over.

United States and Europe

In the US and Europe, inflation has been gradually decreasing and the majority expectation is that the cycle of rising interest rates has come to an end, or at least is very close to the end. At the same time, the American economy has been showing signs of resilience, and few are betting that there will be a recession. The result is that we have witnessed, in this second half of the year, a resumption of successful initial public offerings (IPOs) and an improvement in the share prices of several companies.

The new trend also contributes to the recovery of the mergers and acquisitions environment. The improvement in the valuations of public companies serves as a reference for private operations, bringing buyers and sellers closer together. Stock offerings make money spin, capitalizing companies for acquisitions and returning money to investment funds, which use these resources for new acquisitions. We have also been following several private equity funds completing successful fundraisings for new funds — some of these focused on Latin America, which also helps to unlock the business environment.

Some legislative initiatives by the American government, such as the *Inflation reduction act* , the *Infrastructure act* and the *Chips and science act* , lead to the injection of relevant resources into the economy and encourage foreign companies to seek acquisitions in the US in the energy transition, infrastructure and technology sectors.

Brazil

In Brazil something similar is happening. The new government managed to allay concerns that an expansionary policy could cause inflation to get out of control, preventing the Central Bank from starting a new cycle of reducing interest rates. At the same time, the growth of the Gross Domestic Product (GDP) has been surprising positively.

The result is that the business environment is more positive. Some public companies managed to make successful follow-ons and important acquisitions were announced. The improvement in sovereign credit also contributes to improving the country's image.

Perhaps more important is the fact that some of the recent acquisitions involved foreign investors making their first investments in Brazil, which demonstrates that the confidence of these actors in the country is increasing.

Latin America

In the rest of Latin America the scenario is similar. Although there is still concern about the risk of sudden changes caused by governments with radical proposals, the general perception is that the institutions in the region are working and most of the disruptive proposals were rejected by the respective parliaments or annulled by the Judiciary. Inflation is also under control in most countries in the region, and Central Banks have already begun a process of reducing interest rates. Recently, the IMF announced an upward revision of growth expectations in Latin America, driven mainly by Mexico and Brazil.

With the main concerns overcome, foreign investors are beginning to view investment opportunities in the region with positive eyes once again. Be it fintechs and other technology companies, abundant natural resources, especially litium, or the various investment opportunities in the energy sector, especially renewable energy. Sectors such as health and education, in turn, can benefit from the expected increase in the purchasing power of a relevant portion of the population. Mexico is one of the major recipients of investment involving the new design of the global supply chain (neashoring).

In parallel, Latin America is beginning to benefit from the new international geopolitical framework, with growing tension between the USA and other Western countries in relation to China and Russia. The potential conflict has led investors to simply cancel (in the case of Russia) or drastically reduce (in the case of China) their investments in this part of the globe. Some of this money, destined for emerging countries, is starting to be directed to Latin America.

All of these events should lead to an improvement in the business environment in the year 2024. From them we can expect an increase in the number of capital market operations and mergers and acquisitions.

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