Merger Monthly series

M&A activity insights

January 2025

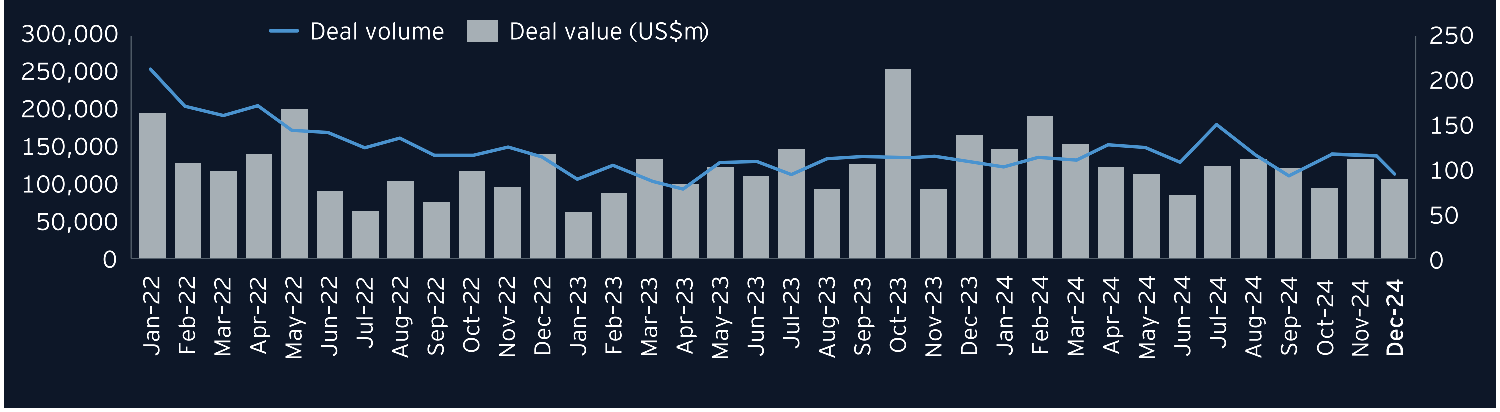
Shifting regulatory priorities, trade tariffs and tax cuts may shape M&A activity this year.

US M&A activity is expected to build further momentum in 2025, driven by falling interest rates, strong economic expansion, substantial uninvested capital, the imperative for business transformation and, potentially, more favorable regulatory conditions.

The December 2024 [US economic outlook] shows that the US continues to be on a solid growth path supported by healthy employment and income growth, robust consumer spending and strong productivity momentum that is helping tame inflationary pressures. The outlook predicts that these positive trends will extend into 2025, enabling the Federal Reserve (the Fed) to implement a measured and prudent policy adjustment.

Monthly global M&A trend (2022 onward)

Deal value (US$100m+); deal volume (US$100m+)



Source: EY Insights analysis and Dealogic

With dealmakers having better clarity around the monetary and regulatory dynamics, there has been a significant rise in CEOs' appetite to engage in M&A.

M&A sectors to watch

Key sectors to monitor in 2025 include:

- Oil and gas, which announced US$195b in deals last year
- Technology, where M&A spending picked up but remained moderate due to macroeconomic challenges and
- Life sciences, with pharma firms utilizing their substantial cash reserves to augment their drug portfolios.

Despite ongoing antitrust concerns, the momentum in these sectors indicates a strong potential for M&A activity resurgence in 2025.

Impact of relaxed regulatory policies on M&A

Much has been said about the new administration's lenient regulatory policies leading to an uptick in M&A in 2025. However, the approach may not be as laissez-faire as seen in historical contexts.

Comparing merger enforcement challenges brought by the Justice Department and the Federal Trade Commission, there were 116 M&A challenges between fiscal years 2017 and 2019, a period that roughly corresponds with President Donald Trump's first three years in office, compared to 110 between fiscal years 2021 and 2023, a period that roughly corresponds with Biden's first three years in office. This clearly suggests that Trump's first term in office was arguably just as tough for M&A approvals as President Joe Biden's term.

Nevertheless, the number of Hart-Scott-Rodino (HSR) filings was at its lowest under the Biden administration, indicating an aggressive anti-merger stance that likely discouraged potentially anticompetitive transactions. While this strategy may prevent problematic deals from reaching the Department of Justice Antitrust Division, thus saving time and resources, it could also suppress broader merger activity.

What can be expected in 2025 is continued merger scrutiny, but with a focus on negotiating resolutions rather than questioning cases and blocking mergers entirely.

Impact of new tax provisions on M&A

In the new term, Trump plans to extend the 2017 Tax Cuts and Jobs Act (TCJA) and reduce the effective corporate tax rate for domestic production to 15%. These tax measures could increase the appeal of US companies as acquisition targets and attract foreign entities looking to establish or expand operations in the US.

When Trump enacted the TCJA in 2017 and reduced the corporate tax rate from 35% to 21%, the US inbound deal count (US$100m+) during his first three years (2017-19) averaged 19% of total M&A, exceeding the 16% average during former President Obama's first three years of presidency (2009-11).

Impact of trade tariffs on M&A

The geopolitical landscape is shifting as protectionism and economic nationalism continues to rise. President Trump's tariff policies on China and other nations are likely to intensify geopolitical uncertainty. According to our CEO Survey, 96% of US CEOs believe it's crucial to reevaluate their organization's transformation strategy in response to increasing geopolitical volatility and policy uncertainty.

Tariffs could significantly affect cross-border deals, which otherwise should be increasing under the new administration's pro-business agenda. Proposed tariffs may raise the cost of imported goods, diminishing the appeal of foreign acquisitions and potentially prompting retaliatory tariffs from countries like China. Such an environment of increased trade barriers and economic uncertainty may discourage cross-border— particularly outbound— investments.

During Trump's first term, similar tariffs were implemented, and an EY insights analysis shows that US outbound deal count (US$100m+) from 2017 to 2019 represented an average of 14% of total M&A, which was lower than the 22% average during Obama's first three presidency years (2009-11).

2025 set for M&A activity surge amid affirming economic conditions

This year is poised to be a pivotal year for M&A, bolstered by key drivers: favorable macroeconomic conditions, a potentially more accommodating regulatory landscape and an increased risk appetite among corporations.

The global economic outlook for 2025 will be defined by a mix of challenges and opportunities. Market evolution, geopolitical shifts and industry-specific structural changes are predicted to chart the course of the US economy.

In light of this positive macroeconomic and deal-making climate, it's crucial for business leaders to adeptly manage the uncertainties surrounding trade tariffs, tax and regulatory policies.

Key deal drivers

- Increased deal appetite driven by Trump's pro-business agenda
- Lighter touch for regulatory and tax policies under Trump's administration
- Improved conditions in the financing market
- Attractive M&A valuations driven by reduced cost of debt
- Companies' continued rapidly growing data needs from AI adoption

US sector breakdown for US$100m+ deals – 2024

Sector	Volume	Volume change	Value	Value change
Technology	402	Up 36% YoY	US$384b	Up 40% y/y
Oil and gas	109	Up 7% YoY	US$195b	Down 32% y/y
Life sciences	225	Up 3% YoY	US$209b	Down 24% y/y
Power and utilities	68	Down 7% YoY	US$101b	Up 90% y/y
Chemicals and advanced materials	60	Up 22% YoY	US$101b	Up 55% y/y

Additional risks to dealmaking in 2025 include:

- Impact of new trade and economic policies under Trump's administration
- Possible chaos over federal government funding and few Republicans' willingness to oppose Trump on key priorities like raising the debt ceiling
- Changes to existing industrial policies such as Inflation Reduction Act as proposed by Trump
- Continued regulatory scrutiny related to specific sectors
- Economic concerns such as weak job market as well as inflation still being above the Fed's target

Conclusion

M&A activity in 2025 is expected to surge due to favorable economic conditions, falling interest rates and substantial uninvested capital, despite ongoing regulatory scrutiny and geopolitical uncertainties. Key sectors to watch include oil and gas, technology and life sciences. Trump's potential tax cuts and regulatory adjustments may further boost M&A activity, although trade tariffs could impact cross-border deals.

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