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State of the Markets

Inside Views on the Health and Productivity of the Global Innovation Economy

State of the Markets: Fourth Quarter 2019

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Wheels of Venture Keep Turning Despite Uncertainty

As we enter the final stretch of 2019, the global economic outlook is cloudy. Multiple uncertainties, including the intensifying trade war and conflicting economic indicators, have put investors and policymakers on edge. Trying to get ahead of a broader slowdown, central banks are cutting interest rates.

Private markets remain buoyant. After a banner fundraising year in 2018, VC dry powder is close to historic highs and PE fundraising is now having its own record year. A diverse cast of investors, from VCs to large asset managers, is participating in massive late-stage rounds, contributing to net new Unicorn creation.

The United States has dominated exits this year, with total US Unicorn exit value this year now standing at around $215 billion. Unicorns that have gone public have generally performed well, with a couple of high-profile exceptions. This year, public markets appear to reward unit economics more than growth-at-all-costs. In addition, disruptive new routes to liquidity have entered the conversation, such as direct listings and secondary programs.

Despite jitters created by the WeWork saga, fear of a global economic slowdown, and rising political uncertainty, the venture ecosystem remains robust — with ample private capital stockpiled for years to come.

State of the Markets: Fourth Quarter 2019

4	11	21	28
Macro	**Private Markets**	**Public Markets**	**Liquidity Options**
A Window of Uncertainty	Onward and Upward	An Update on IPOs	Alternative Routes

Macro
A Window of Uncertainty

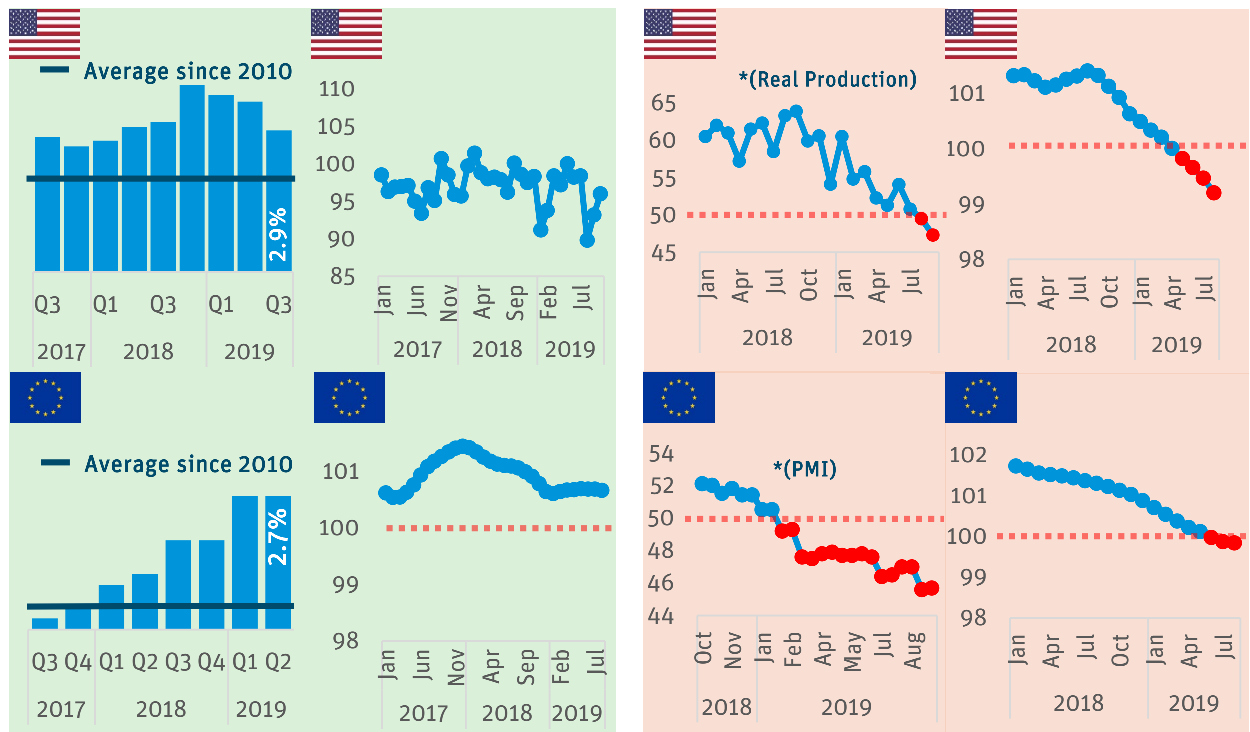
Consumers Still Happy; Producers Start to Hurt

Wage growth indicates the labor market remains strong, and consumer confidence is holding steady. In contrast, manufacturing activity and business confidence are on the decline, a product of the continuing trade war and late-cycle anxiety.

Labor Markets and Consumer Confidence

Production and Business Confidence

Wage Growth | Consumer Confidence | Production* | Business Confidence

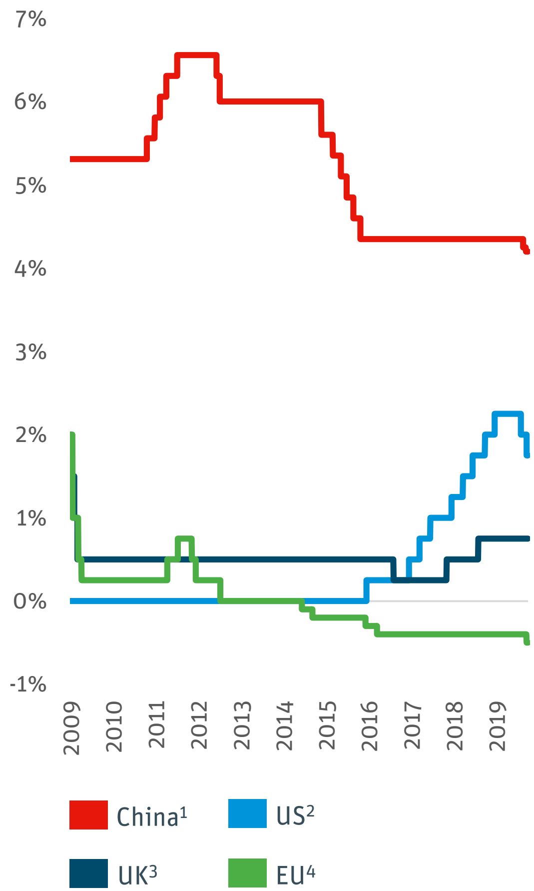


Notes: Wage growth figures include seasonal adjustment. Index readings below red line indicate a contraction.
Europe PMI index is for European Union; other Europe indicators are for the Euro Zone.
Source: Bureau of Labor Statistics, OECD, Eurostat, Markit Economics, ISM, University of Michigan and SVB analysis.

A Declining Rate Environment

For the first time since 2008, the US Federal Reserve cut rates amid recession concerns, slowing economic indicators and political uncertainty. Other major economies have followed suit, with the Eurozone entering negative territory and China effectively making cuts through re-benchmarking.

Benchmark Rates for Major Economies: 2009–2019



Yield Curve Inversion as an Indicator

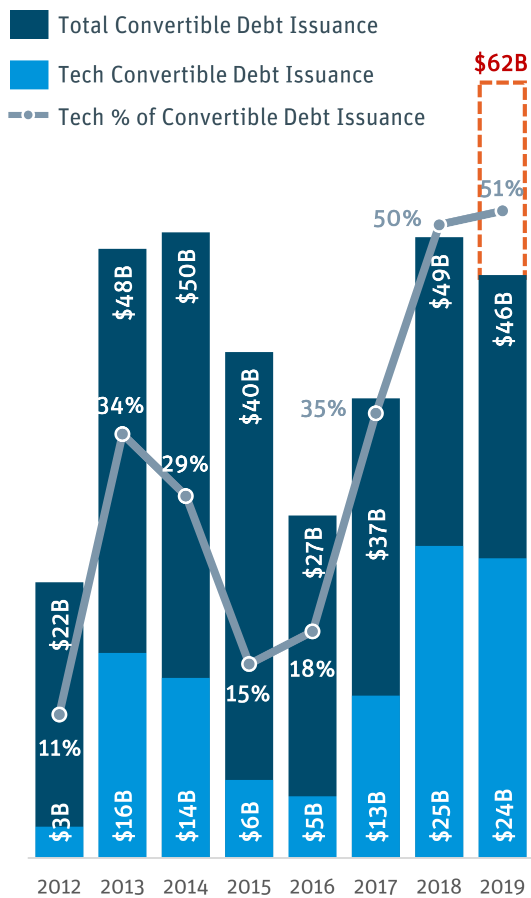
10Y - 2Y Inversion Month	Months Before Recession
Aug 1978	16
Sep 1980	10
Dec 1988	19
Feb 2000	13
Dec 2005	23
Aug 2019	?
Median	16

Notes: 1) One-Year Prime Lending Rate, 2) Fed Funds Rate, 3) Bank of England Official Bank Rate, 4) ECB Deposit Rate.
Source: S&P Capital IQ, Bloomberg, Federal Reserve Bank of New York, PBOC, Bank of England and SVB analysis.

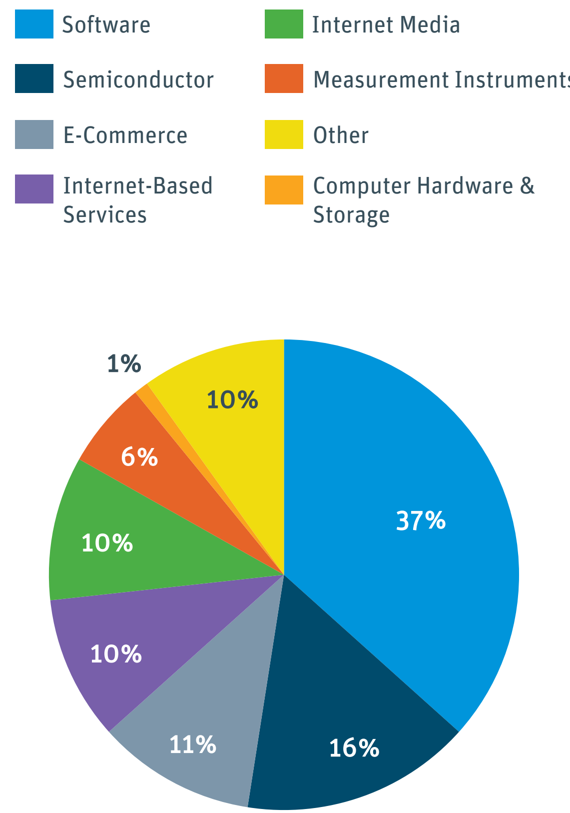
Tech Tapping Convertible Debt

With a drop in benchmark rates, stable credit spreads and strong performance of the convertible asset class, convertible debt issuance has been robust year-to-date. Tech has continued to take a larger share of total issuance and is on pace to surpass 2018's record year.

Convertible Debt Issuance



Tech Convertible Debt Issuance by Sub-Sector

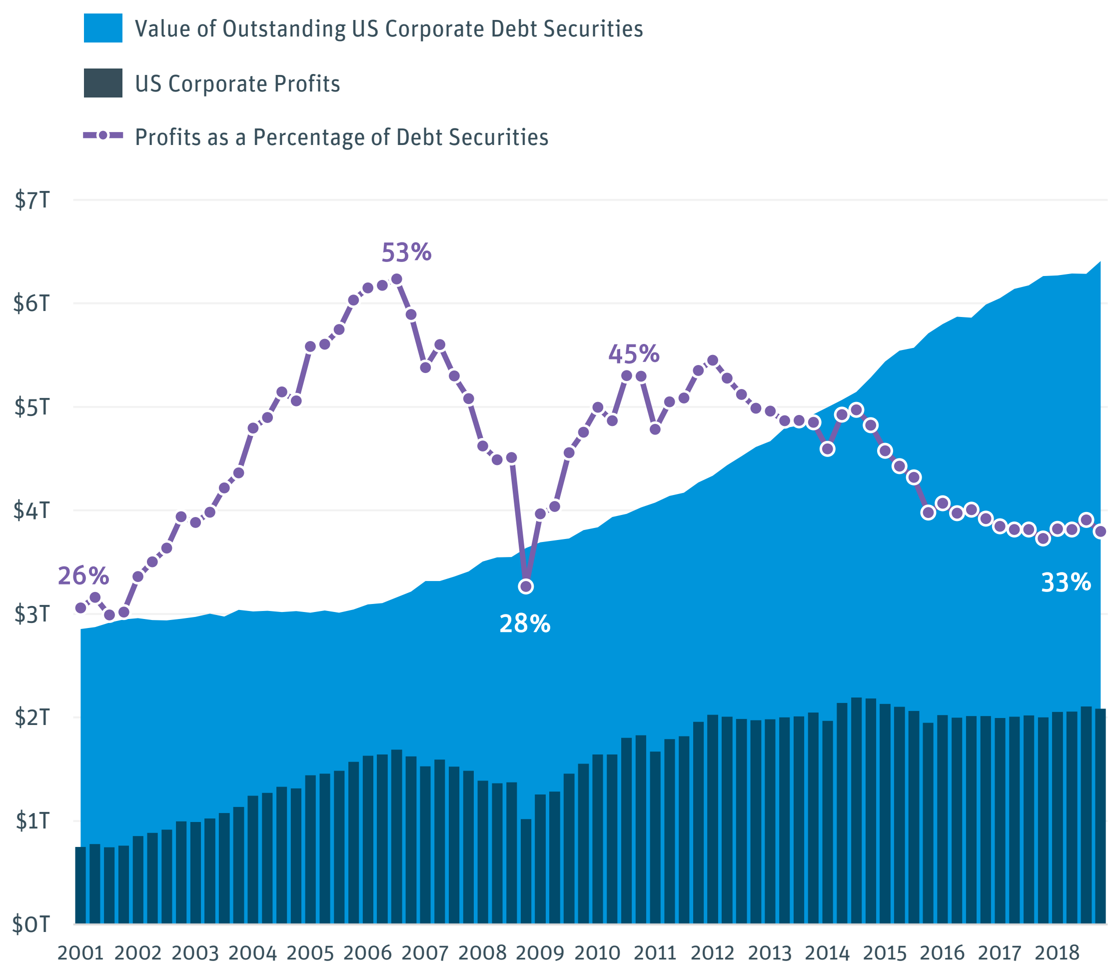


Source: SVB Leerink and SVB analysis.

More Corporate Debt in the System

Fomented by a low interest rate environment and economic expansion, corporate debt levels have risen to new heights after remaining relatively steady throughout the last cycle. Since 2011, debt to profitability has reached a post-GFC[1] high.

Corporate Debt and Profit, 2001–2018

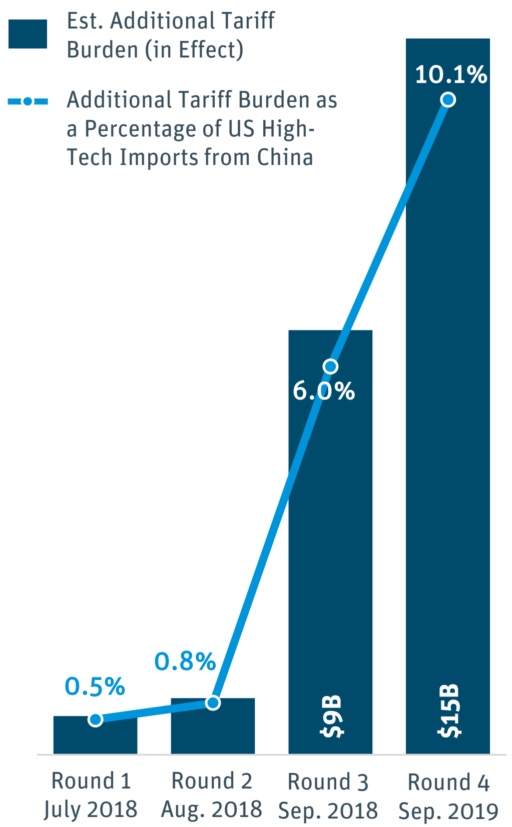


Notes: 1) GFC = Global Financial Crisis.
Source: Bank for International Settlements, Bureau of Economic Analysis and SVB analysis.

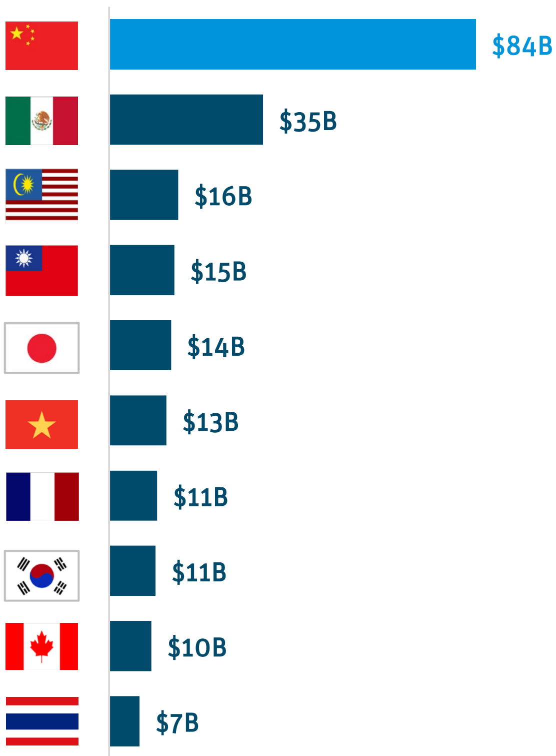
Trade With China Matters to Tech

The trade war with China continues to linger as Trump and Xi struggle to find common ground. Since our last update, Trump has levied new tariffs and threatened more increases. Despite this, the US remains heavily reliant on China — and broader Asia — for advanced tech imports.

Effect of US Tariff Rounds on High-Tech Sector[1]



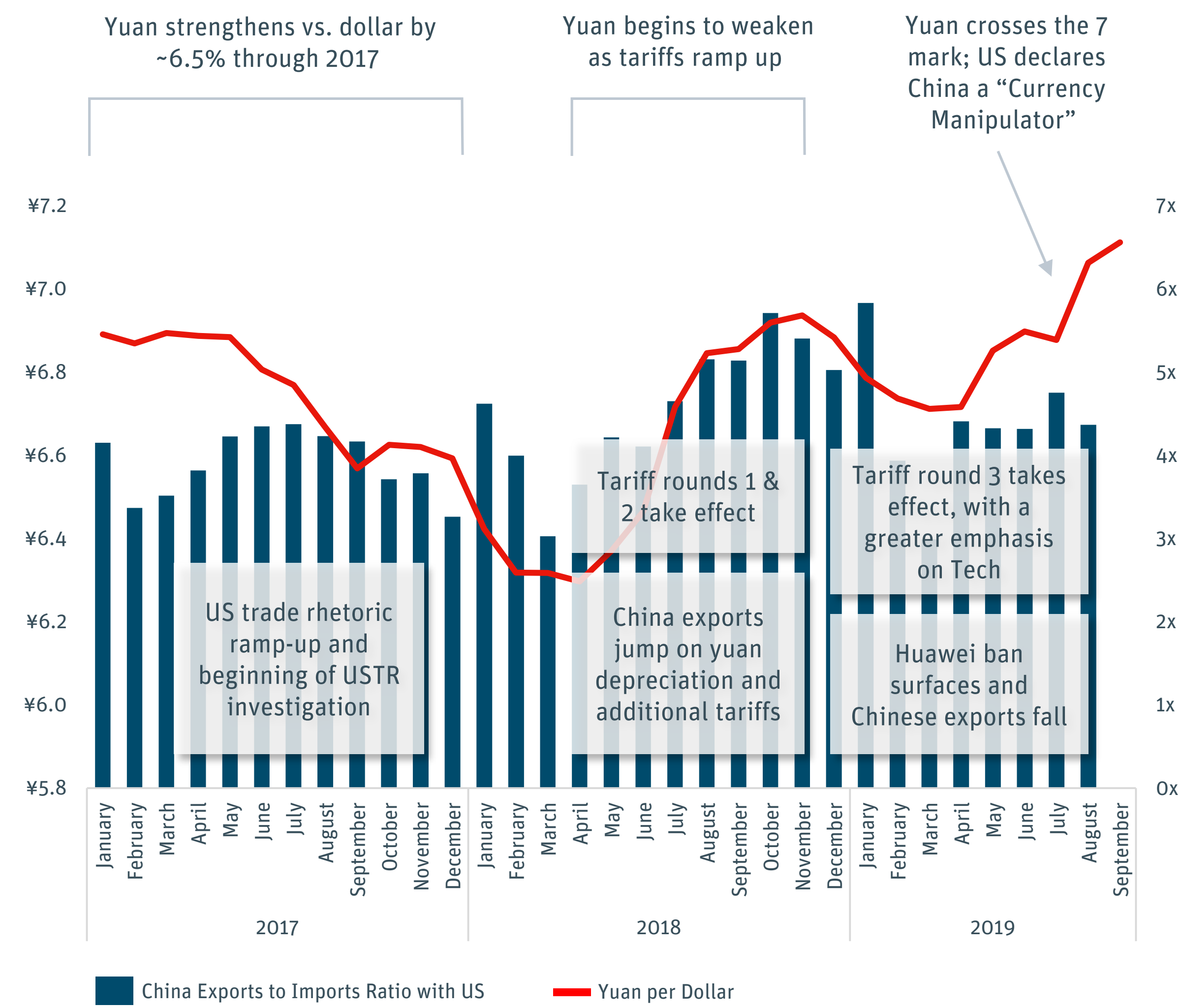
Advanced Tech Imports[2] YTD[3]



Notes: 1) Product codes associated with the High-Tech Sector are defined by the US Census. 2) Advanced Tech Products as defined by the US Census. 3) Year-to-date data through August 2019.
Source: US Treasury, US Census and SVB analysis.

Trade War Begets Tech War Begets FX War

The trade war has grown in size, intensity, and scope. Tech has joined agriculture and manufacturing in the crosshairs of tariffs and other sanctions. The yuan's recent weakening has brought currency to the fore, which may cushion the effects of the tariff increases.



Source: US Census, United States Federal Reserve and SVB analysis.

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About the Authors

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Bob Blee heads Silicon Valley Bank's Corporate Finance Group, which leads SVB's relationships with public and late-stage private companies in the Innovation sector throughout North America, providing a full suite of lending and banking products, and guidance as a trusted partner, helping our clients succeed and quickly scale.

Previously, Bob held a variety of roles in SVB's California and Midwest regions, including heading seed, early and mid-stage Infrastructure, Hardware and Consumer Internet and Fintech banking in the Bay Area and Southern California, and was responsible for SVB's Mezzanine Lending and Loan Syndications practices.

Bob sits on the nonprofit board of the Network for Teaching Entrepreneurship (NFTE) and the Silicon Valley Advisory Council of the Commonwealth Club. He is also active with his alma mater, the University of Illinois.

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Nick Candy, a Vice President of Research based in San Francisco, is responsible for the capital market research and data-driven analysis of the innovation economies that SVB serves globally. In this role, he has led global research efforts exploring investment, fundraising and exit dynamics in the venture ecosystem.

Prior to his research role, Nick managed strategic advisory and valuation engagements for venture-backed technology companies as part of SVB Analytics.

Nick earned a master of business administration from Chapman University and a bachelor of science in design from Bournemouth University. In addition, he holds the Chartered Financial Analyst (CFA) designation.

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Prior to this role, Andrew was a buy-side equity research analyst for a $100B+ asset manager based in the Bay Area. His area of coverage spanned the domestic and international Financials sector. Andrew earned a bachelor of science in accounting from Loyola Marymount University.

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For more than 35 years, Silicon Valley Bank has helped innovative companies and their investors move bold ideas forward, fast. SVB provides targeted financial services and expertise through its offices in innovation centers around the world. With commercial, international and private banking services, SVB helps address the unique needs of innovators.

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