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The market is entering a new decade on the outer edges of the longest run in M&A history, but even so, dealmakers are largely anticipating stable or increasing levels of activity in the year ahead, according to Deloitte's "The State of the Deal: M&A Trends 2020" survey of 1,000 U.S. corporate dealmakers and private equity firm professionals.

Nearly two-thirds of respondents (63%) expect deal volume to increase in the next 12 months, despite expectations moderating down 16% from last year; and, just 4% expect a deal volume decline. More than half (56%) expect deal values to increase in the year ahead, moderating down 14% from the year before, but those expecting deal

accountability and propel deal success."

Domestic deals on the rise as trade wars impact companies

According to our report, acquisition of foreign targets has decreased since late 2018, with more corporate and private equity investors conducting less deal activity in foreign markets. There was an 8% increase from 2018 in organizations that conduct less than one-quarter of their deals overseas, and a 7% decrease in firms that execute half to three-quarters of their deals internationally.

As domestic deal making increases, a rising number of private equity investors indicate that tariff negotiations have negatively impacted their portfolio companies' operations (70%, compared to 58% in 2018) and their portfolio companies' cash flows (70%, up from 55% in 2018).

"Since M&A activity is correlated with GDP, it makes sense that global economic uncertainty — an ongoing obstacle to M&A activity for many companies — is causing a slight retraction in some international deal making," continued Thomson. "This is less the case for cross-border deals between the U.S. and Europe where there is more visibility into macroeconomic factors at play, relatively predictable tax and favorable import/export regimes, and Brexit impacts may even create buying opportunities."

M&A expected to accelerate despite ongoing recession risks

As the current bull market and economic expansion extends into record territory and duration, M&A leaders report a positive outlook for deal making despite ongoing recession risks. If an economic downturn occurred in the next 12 months, 42% of respondents said their organizations' pursuit of acquisitions would increase in the next two years; just 23% said their activity would decrease.

“While an economic downturn will likely impact the frequency and size of

Three-quarters (75%) of corporate dealmakers anticipate pursuing divestitures in the upcoming 12 months, down only slightly from 77% in 2018. Thomson says that the more recent rise in divestiture popularity could accelerate further in the event of a downturn, if companies are facing financial distress. For now, responding corporates’ top three divestiture drivers remained similar to a year ago: change in strategy (17%), financing needs (15%) and divesting incompatible technology (15%).

In private equity, more than half (55%) expect an increase in the number of portfolio exits in the year ahead, driven by fund maturity (42%), fund redemptions (27%) and liquidity for new value opportunities (20%).

Gap widens between valuation and ROI on deals

Despite general optimism for M&A in the year ahead, challenges remain as dealmakers faced diminishing ROI on transactions in recent years. Of all dealmakers, 46% say that less than half of their transactions over the last two years have generated the expected value or return on investment (up from 40% a year ago). Fewer respondents (19%, down from 25% in 2018) indicated that at least three-quarters of their deals measured-up. Digging deeper, only 24% of corporates report having success at deriving expected deal value in 75% to 100% of deals closed in the past two years.

“Despite last year’s efforts to drive deal value via private equity firms’ heightened focus on value creation strategies and corporate dealmakers’ emphasis on post-merger integration plans, the disconnect between valuations and ultimate returns on transactions worsened,” said Thomson. “With no moderation in valuation multiples in sight, it will be important for dealmakers to home in on integration challenges and other areas for value creation in order to help deals hit their ROI thresholds in 2020.”