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The Fall 2019 issue of *The Journal of Private Equity* arrives at a time of continued US and global economic uncertainty and growing concern about an upcoming recession. Among the advanced economies, the US has been the single country[1] that has outperformed other major industrial economies, supporting growth in the global economy. Expectations began to change in the second half of 2018 and continue to decline during 2019. Recently released data for September show the Conference Board Consumer Confidence Index declined 7.3%; the Present Situation Index (which assesses the current business and labor market conditions) fell 4.1%; and the Expectations Index (which is consumer's short-term outlook for income, business, and labor market conditions) declined 11%. Similarly, the Conference Boards Index of CEO Confidence for the third quarter of 2019 fell by more than 26% from the second quarter. Confidence in the economy among small and midsize business CEOs continues to decline, falling 4% in the Q3 2019, a drop from Q2, according to the Vistage CEO Confidence Index, which is the lowest level since Q3 2011. The National Federation of Independent Business representing small business owners' optimism index declined 1.2% in Q3 from its level in Q2. Even globally, the OECD Business Confidence Index[2] has sharply declined this year from 101.3 to 99; whether we look at it in terms of leading indicators of economic activity, business confidence, or consumer confidence.

Actual data indicate that in the third quarter, consumption expenditures declined from the second quarter, accounting for −1.8% to 3Q real GDP growth while employment, consumer wage compensation, and the saving rate are increasing. Similarly, Q3 contributions to the percent change in GDP by Real Gross Business Domestic Investment[3] continue to decline, which began in 2018.

So far, this more pessimistic outlook and recent spending data by consumers and producers have not yet been reversed by the Federal Reserve's three overnight interest rate cuts of 25 basis points each on July 30, September 18, and on October 30, to a current range between 1.5% and 1.75%. At the same time, fiscal policy or spending by the federal government has been rising to help stimulate the economy, which is currently growing at an annual rate around 2% in real terms, and

[1] The Japanese economy has improved with Real GDP growing at around 1%.

[2] The OECD was the basically the same for the G7 countries, the US, or the 19 countries of the Eurozone.

[3] Business investment typically follows a longer cycle than consumption and has been declining since rising sharply at the beginning of 2018.

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keep it from falling into a recession.[4] As of Q3 this year, government spending was at a level of $3.5 trillion, up from $3.2 trillion in Q3 2018. The government budget deficit is 3.8% of GDP, and the overall government debt ratio to GDP is 106.1% and rising. The concern is how much additional expansion in fiscal policy, or government spending, or US debt, is acceptable before Congress says no more.

A primary cause of the surge in consumer and business fears of recession is the administration's change in US trade policy. The recent increase in US tariffs could have serious negative consequences on foreign countries' growth in both developed and emerging market economies, and demand for US exports. Similarly, retaliatory tariffs by foreign countries on US exports could negatively impact real GDP growth in the US. If the endgame of the administration is to establish a more fair treatment for US exports by reducing foreign countries' trade and non-trade barriers to US exports, the resulting outcome could boost world trade growth and benefit US economic growth. However, not knowing the outcome of tariff negotiations nor how soon the outcome will be known is currently a major negative factor facing the US economy, especially as the world economies are increasingly interdependent. Meanwhile, the US trade deficit in goods has grown to $578.9 billion through August this year, an increase of over $9 billion for the same period in 2018, and an increasing trade deficit hurts US GDP growth.

In anticipation of an economic slowdown in the US, private equity companies have been fundraising aggressively, and as of September raised an amount equal to the 2018 total in anticipation of additional buying opportunities. Private equity deal-making this year exceeded $500 billion through September and is expected to continue through the end of this year and into early 2020, depending on tariff negotiation progress, primarily with China.[5] Traditionally, a slowdown in US economic activity and a decline in stock prices are a stimulant for mergers and acquisitions (M&A), and this tends to benefit private equity. In the US, through September this year, M&A activity is up about 2%, reaching an all-time high. Company performance going into an economic slowdown declines, and profits fall, making them less expensive targets for private equity purchases. At the same time, the lowering of interest rates by the Federal Reserve reduces the cost of funds benefiting private equity Leveraged Buyout (LBO) activity. Consequently, private equity is likely to continue to experience strong growth through the remainder of this year and into 2020.

The Winter 2019 issue of *The Journal of Private Equity* begins with an important article by Michael Spiro on "Private Equity and Qualified Small Business Stock: *Tax Implications of Various Holding Company Structures for Control Investments*." He explains that recently interest has grown in structuring private equity acquisitions to take advantage of the tax incentives associated with investments in "qualified small business stock" ("QSBS"). Although QSBS can often provide a meaningful tax benefit for private equity investors, deciding whether, and how, to structure a control investment for QSBS can be complex. This article considers the benefits of QSBS relative to investments in certain "flow-through" entities. It also explores several legal ambiguities and anomalies that lead to both planning opportunities and traps for the unwary in structuring platform investments and add-on acquisitions in a manner that optimizes QSBS.

In the next article, Clémence Duclos analyzes "Infrastructure Investment as a True Portfolio Diversifier." Often compared to real estate for its inner characteristics, infrastructure (such as a railway, a bridge, or a port) is an alternative asset deeply involved in the growth and development of a country. Both political and economic environments have an impact on infrastructure investment. For example, European countries are improving their life quality with better transportation networks, access to renewable energy, and social infrastructures. Developed countries try to achieve economic growth through the improvement of economic infra-

[4] Recession is defined as two successive quarterly declines in real GDP.

[5] The current largest US trade partners include: China, Canada, and Mexico and the US runs the greatest trade deficits with China, Mexico, and Japan. See Census.gov › Business & Industry › Foreign Trade › US International Trade Data.

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structures. In contrast, developing countries focus on social infrastructures (such as hospitals, schools, desalination plants, and waste and water treatment plants) to achieve a higher level of economic and social development. The author studies the performance of a diversified portfolio, the Yale endowment fund investment portfolio, with a portfolio fully invested in infrastructure investments to determine which one is the most efficient. The results show that the diversified portfolio appears to be the most efficient for all types of investors. However, during a financial crisis, a portfolio made up of infrastructure investments is least impacted and the most efficient.

In the next article, Ravi Kashyap revisits the life and legacy of "Michael Milken: *The Junk Dealer*." He discusses why Michael Milken, also known as the Junk Bond King, was, in fact, "The Junk Dealer," showing that his accomplishments were nothing short of a miracle. His compensation at that time captures the magnitude of the changes he brought about, the ecosystem he created for businesses to flourish, the impact he had on the wider economy, and on the future growth and development of the American industry. We emphasize two of his contributions to the financial industry that have grown in importance over the years. One was the impetus given to the private equity industry and the use of LBOs. The second was the realization that thorough research was the key to success, financial and otherwise. Perhaps an unintended consequence of the growth in junk bonds and tailored financing was the growth of Silicon Valley and technology powerhouses in the California Bay Area. Investors witnessed that there was a possibility for significant returns, and financial success could result from risk mitigation that Milken demonstrated by investing in portfolios of so-called high risk and low profile companies. The birth of financial and technology firms by finding innovative ways of financing could be the key to the sustained growth of these ecosystems.

Semen Bogatyrev explores "New Horizons of Behavioral Valuation." His objective is to solve the problem of investment decisions in the current environment where investor irrationality comes to the front and blinds traditional classical analytical tools. During the post-crisis period, it becomes a problem not only for Russian valuation analysts but for global analysts as well. The current study uses a behavioral finance methodology to solve this problem. To illustrate the solution, Bogatyrev uses the discounted cash flow valuation techniques on a huge amount of on-sale Russian businesses and then applies quantitative financial solution methods to process multiple results.

Mohammad Mustafa provides a detailed systematic examination in an "Overview of the Venture Capital Landscape in India." He explores the development of the venture capital industry in India in recent years, examines how it will continue to develop in the future, and assesses what factors will influence its development most importantly. Mustafa compares India's venture capital to other private market investment asset classes in India and other developed venture markets in the US and Europe. The author explains the organizational structure of Indian venture funds and examines their sources for the funds. Mustafa also analyses the investment patterns of venture capital investment, in terms of venture stage, industry sectors, investment size, deal trends, and geography. He reviews available exit mechanisms and explains which exit mechanism has been more favorable and why. In summary, the author discusses the levels of return achieved.

The next article, by Ritesh Jayantibhai Patel explores "International Trade and Stock Market Integration: *Evidence from a Study of India and its Major Trading Partners*." The objective is to examine the integration between the stock market movements in India and those of its major trading partners, particularly during the global financial crisis in 2008. India's major trading partners are the United States, China, Germany, Switzerland, Russia, Hong Kong, Saudi Arabia, and the UAE. The study covers a period of 18 years from January 1, 2001 to December 31, 2018 and includes a pre-2008 crisis period and post-crisis period. Patel's research finds that short-term and long-term integration exists among a majority of the markets. However, after the financial crisis, stock markets become more integrated with each other due to an increase in international trade. The reason for this outcome is the increase in trade with China after the financial crisis. The results of the study have implications for the government's international trade policy affecting other countries. Investors can design their short-run and long-run investment portfolios by considering the

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changing degrees of financial risks of different securities. The study also has practical implications for multinational corporation's policy decision-making.

Tay Kin Bee analyzes "The Future Dynamics of the Chemical Distribution Business in the ASEAN with the Anticipated Surge of M&A." The chemical distribution market size valued at about €210 billion in 2015 is expected to expand to €440 billion by the year 2030. The specialty chemical distribution market itself had a global market size of about €97 billion, of which the Asia-Pacific market contributed about €40 billion in sales in 2017. Asia-Pacific has the largest specialty chemical market, and it is also the fastest growing with a compound annual growth rate of 6.8% from 2012 to 2017. Chemical consumption in North America and Western Europe is declining due to weaker demand, but in the Asia-Pacific region, the increased demand for the chemical distribution business will continue until 2022. So as a result, the author expects mergers and acquisitions activities will pick up tremendously in the Asia-Pacific region as global companies search for fast growth in their business and opt for mergers and acquisitions to grow inorganically. The author identifies the major chemical distributors operating in the Asia-Pacific region, especially in ASEAN, that are the potential targets for mergers and acquisitions.

In the next article, Wesley Harris and Jarunee Wonglimpiyara study "Start-Up Accelerators and Crowdfunding to Drive Innovation Development" under Thailand 4.0 Policy. The authors explore the major accelerator programs to support innovation, commercialization, and the start-up eco-innovation system. Their results show the problems of a weak Triple Helix system since the interactions among universities, industry, and the government are not strong enough to drive effective technology commercialization. Arguably, the accelerator program should act as an intermediary among the institutional spheres to provide interactive linkages and promote effective utilization of research results. The empirical study provides insightful implications about the move towards Thailand 4.0 and the lessons in stimulating entrepreneurial development, which might be helpful to other developing economies.

Houda Lechheb, Hicham Ouakil, and Youness Jouilil examine "Economic Growth, Poverty and Income Inequality: *Implications for Lower- and Middle-Income Countries in the Era of Globalization*." Economic literature suggests that there is an inverse correlation between the income inequality measured by the GINI index and economic growth measured by GDP. The author's study using econometric evidence shows that this is not always the case for lower-middle-income countries during the period 1970–2018. These results suggest that a one-percentage-point rise in the poverty gap GINI index decreases GDP per capita by between 3.8% and 6.8%, respectively. Accordingly, the path to sustainable economic growth in the future passes through a reduction in income inequalities primarily because governments initiate actions and policies for supporting the poorest people.

F. John Mathis
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