



Top 10 Topics for Directors in 2019: Corporate Strategy

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According to [Ernst & Young's Global Capital Confidence Barometer](#), covering the second half of 2018, business executives continue to have high confidence in the U.S. and global economies over the next 12 months. This is in contrast to economists' predictions that a U.S. recession may occur in the next two years. Outside of the United States, major economies began to slow in 2018, including those of Japan and the United Kingdom. Heading into 2019, volatile stock markets, geopolitical and regulatory uncertainties and interest rate increases may impact strategic plans. The Federal Reserve has provided "mixed signals" as to whether it plans to increase interest rates further. It was initially expected that the Federal Reserve would increase interest rates up to three times in 2019; however, Federal Reserve Chairman Jerome Powell indicated at the end of November 2018 that interest rates are "just below" estimates that are considered neutral, which may imply that the Federal Reserve may not raise interest rates as aggressively as anticipated by the markets. Companies are beginning to experience the effects of previous interest rate rises, including higher leverage multiples and interest rates on new debt. As a result, companies may postpone or reduce acquisition activity, consider alternative sources of capital (in lieu of incurring new debt) or apply conservative foreign exchange rates to financial forecasts.

In addition, company performance and mergers and acquisitions activity is expected to be challenged by geopolitical and regulatory uncertainty. For example, although President Trump reached an agreement with the governments of Canada and Mexico to replace the North American Free Trade Agreement (NAFTA) with the U.S.-Mexico-Canada Agreement (USMCA) in the fall of 2018, Congress is not expected to consider the USMCA until 2019. In Europe, the United Kingdom is expected to leave the European Union on March 29, 2019; however, the

formal, withdrawal agreement is not expected to be in place until December 2020. Real estate and financial services are among the industries more sensitive to post-Brexit uncertainty. On November 29, 2018, Brookfield Property Group pulled a multibillion-dollar bid to take Intu, a British retailer, private as a result of economic uncertainty and potential volatility across global markets.

One of the more unpredictable variables is the outcome of the continued trade negotiations between the U.S. and Chinese governments. U.S. levies of 10 percent on \$200 billion in Chinese goods took effect on September 24, 2018. During the G-20 Summit in Buenos Aires in December 2018, the United States agreed to postpone a scheduled increase in tariffs to 25 percent on an expanded list of goods worth more than \$250 billion until approximately March 2019 in exchange for China lifting restrictions on the purchase of U.S. farm, energy products and cars, to allow both sides to continue discussions. This is consistent with similar agreements the United States has recently reached with the European Union and Japan; however, it remains unclear whether the temporary stay on increased tariffs will lead to a long-term agreement. As a result of the current Chinese import duties, United States businesses have already begun to reduce orders, negotiate price decreases and request accelerated production runs.

Despite continued confidence in the mergers and acquisitions market over the next 12 months, corporate appetite to actively pursue acquisitions is the lowest in four years, primarily due to geopolitical and regulatory uncertainty over the next 12 months. For companies inclined to “pause” acquisition activity, boards may consider maximizing synergies from recent acquisitions or review their companies’ existing portfolios for potential divestitures, which can also be an alternative source of capital.

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