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

<table>
<thead>
<tr>
<th>4</th>
<th>11</th>
<th>21</th>
<th>28</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macro</strong></td>
<td><strong>Private Markets</strong></td>
<td><strong>Public Markets</strong></td>
<td><strong>Liquidity Options</strong></td>
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<td>A Window of Uncertainty</td>
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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.

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

<table>
<thead>
<tr>
<th>10Y - 2Y Inversion Month</th>
<th>Months Before Recession</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug 1978</td>
<td>16</td>
</tr>
<tr>
<td>Sep 1980</td>
<td>10</td>
</tr>
<tr>
<td>Dec 1988</td>
<td>19</td>
</tr>
<tr>
<td>Feb 2000</td>
<td>13</td>
</tr>
<tr>
<td>Dec 2005</td>
<td>23</td>
</tr>
<tr>
<td>Aug 2019</td>
<td>?</td>
</tr>
<tr>
<td>Median</td>
<td>16</td>
</tr>
</tbody>
</table>
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.
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-GFC² high.

Notes: 1) GFC = Global Financial Crisis.  
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

<table>
<thead>
<tr>
<th>Round</th>
<th>Tariff Burden (in Effect)</th>
<th>Additional Tariff Burden as a Percentage of US High-Tech Imports from China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Round 1</td>
<td>$9B</td>
<td>0.5%</td>
</tr>
<tr>
<td>Round 2</td>
<td>$15B</td>
<td>0.8%</td>
</tr>
<tr>
<td>Round 3</td>
<td>$13B</td>
<td>6.0%</td>
</tr>
<tr>
<td>Round 4</td>
<td>$15B</td>
<td>10.1%</td>
</tr>
</tbody>
</table>

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.
Please reach out to your **SVB Relationship Manager** for the complete report.
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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.

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