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Global Financial Services Industry: M&A and Capital Market Landscape Q1'25 Review

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Global Financial Services Market: Combating the Volatility with Resilience!

In Q1'25, the global financial services market navigated a complex landscape marked by heightened uncertainty and shifting economic dynamics. Trade tensions, particularly resulting from evolving U.S. policies, introduced volatility across financial markets, leading to a cautious stance from investors. Inflation remained a key concern, with central banks, including the Federal Reserve, maintaining a cautious stance on rate cuts despite growing pressure from market participants. Emerging markets demonstrated resilience, benefiting from a weaker dollar and renewed investor approach for risk, while developed economies, particularly the US, faced recessionary fears and fluctuating interest rates.

Geopolitical tensions continued to be high, including trade disputes and military conflicts. All these factors continued to cause volatility in the financial market and thereby created an environment of uncertainty regarding the future of the global economy during the year.

Equity markets experienced turbulence, with US stocks underperforming relative their international counterparts. Investors sought refuge in bonds, driving a rally in treasuries and municipal bonds, which benefited from favorable supply-demand dynamics. Commodities, particularly oil and gold, surged amid geopolitical uncertainties, further complicating the global economic outlook. Meanwhile, China's economy showed unexpected strength, with solid retail sales and industrial output supporting asset markets, despite lingering concerns over trade policies and inflationary pressures.

Furthermore, the financial services (FS) sector saw notable shifts in M&A and capital markets volumes. Deal-making remained active, with firms strategically positioning themselves to navigate regulatory changes and economic headwinds. The banking sector faced challenges from tightening credit conditions, while FinTech and digital finance continued to expand, driven by technological advancements and evolving consumer preferences.

At the end of the quarter, market participants remained focused on inflation trends, central bank policies, and geopolitical developments, all of which may shape the trajectory of financial markets in the coming months of 2025.

The following key developments had a strong bearing on M&A and Capital markets' activities across the global financial services market during Q1'25:

- Companies explored foreign investments to bring in cutting-edge technology, global best practices, increased product offerings and improved access to capital for the next level of growth
- Large financial institutions focused on acquiring regional banks and fintech firms to expand their digital capabilities and market presence
- Macroeconomic conditions and geopolitical tensions remained challenging, trade tensions and economic uncertainty influenced capital flows, with investors favoring defensive sectors and stable jurisdictions
- Spotlight were also on divestitures of non-core assets as businesses attempted to strengthen their balance sheets and make their business models more resilient
- The focus seemed to be shifting to long-term planning and M&A as a way of addressing strategic issues in the sector, leading to a return of investor confidence and stability to banking markets

Sector Wise Performance (YTD'25)

Insurance stocks survived the downturn due to higher interest rates and strong premium growth, helping insurers maintain profitability despite market volatility

The **asset management** stocks declined majorly due to rising recession fears, trade war concerns, and persistent inflation pressures prompting investors to seek safer options

The downturn in **S&P 500** stocks was mainly due to investors reaction to new global tariffs and rapidly rising U.S. Treasury yields, which fueled uncertainty and sell-offs

Banking stocks slowed down due to rising interest rate concerns, which impacted loan demand and increased regulatory scrutiny, adding uncertainty to the sector

FinTech stocks fell mainly due to macroeconomic uncertainty, reduced venture capital funding, and regulatory challenges, as investors prioritized smaller, lower risk deals amid rising inflation and trade tensions

Source: The sectoral analysis reflects the general performance of the respective S&P indices

Heightened economic uncertainty, trade tensions, with central banks maintaining cautious policies, geopolitical instability and tariff policies disrupting global trade impacted the global financial market

Key Sectoral Performance: Tale of 4 Key Sub-Sectors

Banking

- The M&A deal volume declined in Q1'25 as compared to Q1'24.
- One of the major factors being the introduction of new US tariffs leading many companies to pause or delay deals until the impact on the business could be assessed
- In the US, 13 transactions took place in the Midwest, making it the most-targeted region, followed by the Southeast region with 6 announced transactions
- US bank M&A activity anticipates stable growth due to interest rate cuts and regulatory shifts with economic conditions and credit

Asset Management

- Companies are focusing more into strategic alliances that enhance technology, alternative investments and ESG integration
- Traditional active managers are expected to collaborate to scale up to fund new capabilities (such as ESG) and boost distribution
- Mergers and acquisitions with direct pension fund involvement declined sharply in first three months of 2025
- The Wealth Management M&A market remains robust, with 118 announced transactions in Q1'25

market adjustments influencing profitability and lending strategies

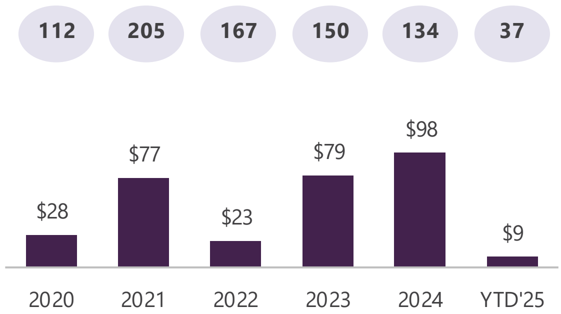


Figure: Count and Value of US Banks' M&A Deals (in US$bn)

- Asset management business volumes are expected to expand moderately, driven by interest rate easing, resilient economic growth and increased investor demand for alternative assets, while geopolitical uncertainty and regulatory shifts may create short-term volatility and selective capital reallocation

Insurance

- Insurance corporations continue to divest capital-intensive life and annuity businesses to focus on core products and reduce complexity in their operations
- As per OPTIS Partners, there were a total of 141 announced insurance agency mergers and acquisitions in Q1'25, down 15% from166 in Q1'24
- Insurance companies are collaborating with InsurTechs to take advantage in areas such as machine learning and artificial intelligence capabilities

FinTech

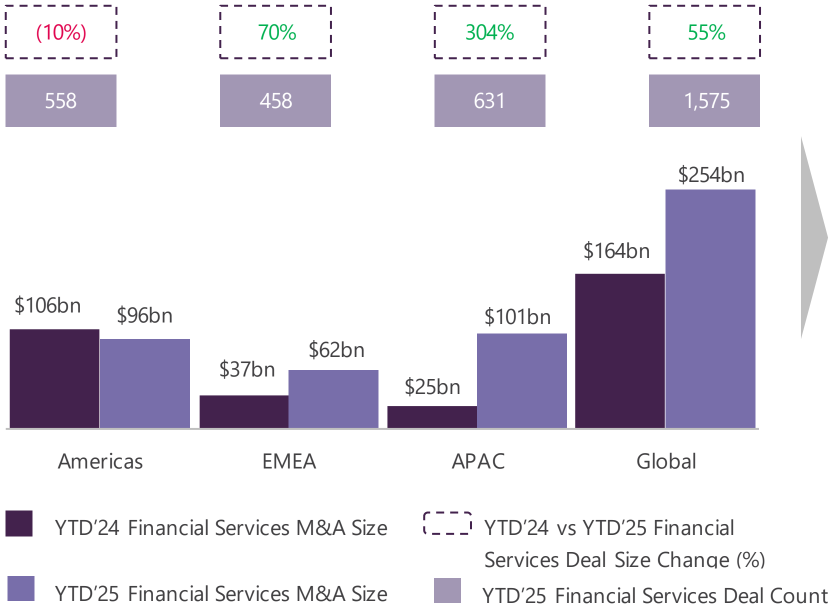
- Despite growth in broader venture funding, fintech funding declined by 40% in Q1'25, compared to Q1'24
- The total capital invested in FinTech globally were amounted to $366mm in Q1'25, compared to $571mm in Q1'24
- Although private equity is making fewer bets, they are increasing in size as late-stage fundraising rounds become the primary focus of investment
- Significant developments in blockchain, digital banking, mobile payments, cybersecurity and API integration gained traction

Global Financial Services M&A Q1'25: M&A Remains Strong But Selective

In Q1 2025, global financial services M&A activity remained strong. Despite economic uncertainty, strategic acquirers dominated the market, focusing on FinTech integration and regulatory adaptation. During the quarter, several large financial institutions prioritized regional consolidation, acquiring firms to strengthen their market presence and enhance operational efficiencies. Economies in Europe's M&A market faced energy price volatility and political fragmentation, leading to a surge in intra-European deals as firms sought regional consolidation. Deal activity in APAC market saw selective deal-making, with firms pivoting to lower-risk assets, particularly in Australia and Southeast Asia.

While a miraculous cross-sectoral upturn in M&A activity might be challenging, there were some encouraging signs for possible deal-making, such as the recent rapid upturn in FinTech and InsurTech M&As.

Private equity (PE) players remained cautious, focusing on bolt-on acquisitions to enhance portfolio value, while strategic buyers prioritized mid-market transactions over megadeals. Additionally, dealmakers anticipate a further increase in M&A volumes from activist campaigns in the upcoming quarters due to prior challenging growth factors, which had already provided a chance for some notable activist investors to start new proxy battles.



Mergers and acquisitions started strong but slowed in Q1'25 after a rebound in 2024.

Worldpay's acquisition by Global Payments for $24.3bn and Baloise insurance by Helvetia for US$9.8bn were some of notable big-ticket deals (where the transaction value is greater than or equal to US$1.0bn) in Q1'25

Source: Refinitiv. Figures in US$bn. Data as of May 01, 2025.

Some of the key observation during Q1'25:

- Steady flow of carve-outs, spin-offs and joint ventures offered creative ways to achieve strategic goals
- Due to strict merger scrutiny by the regulators the buyers had to wait longer for deal negotiations
- Corporates with strong balance sheets and sound M&A processes had a competitive advantage in the current market as they had the enough dry powder and the ability to extract synergies
- Activism remained a significant factor, with many campaigns pressing for M&A transactions to enhance shareholder value
- While private equity firms remained active, they adopted a more selective approach, prioritizing deals with strong revenue visibility and operational resilience

Key M&A Themes

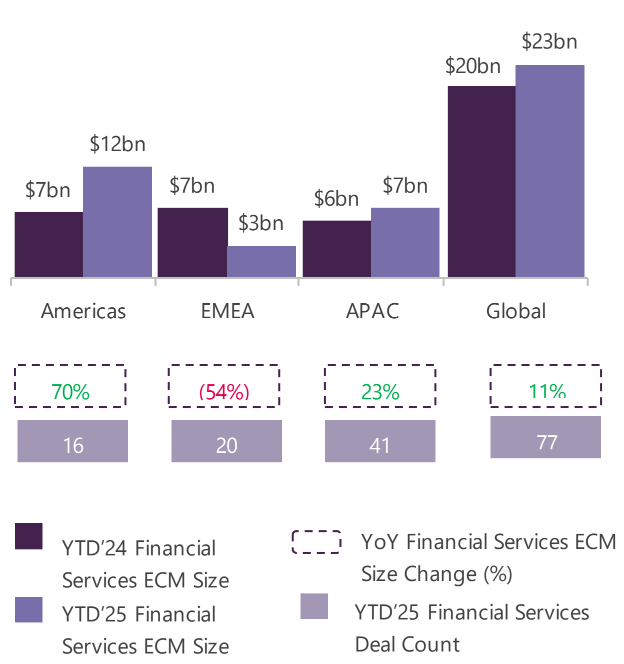
- **Strategic alliances**
- **Banking consolidation**
- **Business expansion**
- **Refinancing**
- **Boosting market share**
- **Operational synergies**
- **Regulatory adaption**
- **Portfolio rebalancing**

Funding: Strong Volumes Driven by Backlogs Amidst Profound Uncertainty

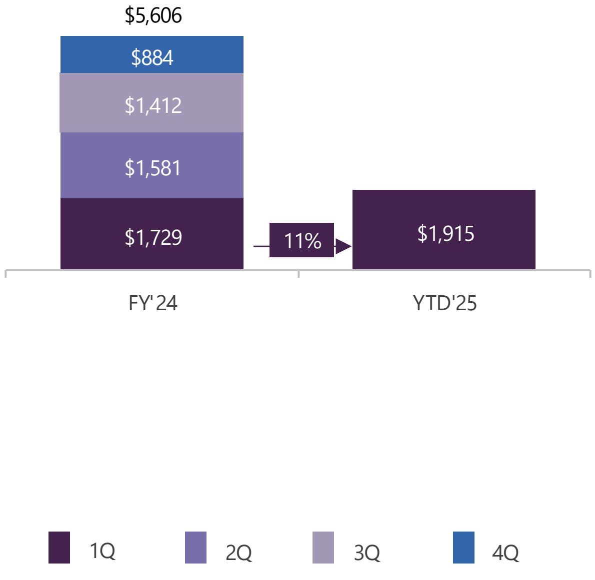
The Debt Capital Market (DCM) showed high optimism in Q1'25 despite significant challenges and the impact of the a global election "super-cycle" that took place last year. Issuers largely were able to push out near-term maturities amid tight credit conditions. Most of the deals were related to refinancing and repricing, though volumes decelerated a bit as secondary market weakness dampened momentum. Investors also exhibited greater risk tolerance as banks have been more active, resulting in increased M&A financing in the syndicated debt markets and more favorable pricing during the year. Aided by strong investor interest and tighter spreads, borrowers refinanced more costly private credit with more affordable widely syndicated loans. Overall, looking ahead we expect refinancing deals to remain under focus in 2025 with interest rate cuts and Central Bank stimulus globally, likely to give an improved market tone for deals offset a bit by some political headwinds.

The resurgence in Equity Capital Market (ECM) in the US was primarily driven by the perception of lower in interest rates and easing inflation, strong base effect (soft y-o-y figures), backlogs and better economic growth prospects and listing companies' willingness to accept valuation resets. However, deal activity slowed down drastically from March on account of severe market volatility and tariff uncertainties. Recovery in China, supported by Hong Kong and South Korea, aided strong numbers in APAC. Overall, majority of the deal activity came from FinTech companies with investors focusing on AI, innovation and growth. However, investors are still trying to quantify the impact of US trade policies. This is expected to continue to dampen market optimism which we witnessed at the start of the year.

Global Financial Services ECM



Global Financial Services DCM & Syndicate Loans



Source: Refinitiv data as of May 01, 2025. Figures in US$bn; ECM=Equity Capital Market, DCM=Debt Capital Market

ESG: Key to Long-term and Sustainable Value Generation

The COVID-19 pandemic has demonstrated that adhering to ESG factors is key to crisis-resilient long-term value creation. Companies with dynamic business cultures were relatively more resilient during the shutdowns, given their ability to absorb the shock. Globally, investors have started to recognize the potential benefits of announcing an acquisition that is ESG accretive.

Global financial regulators have identified scenario analysis as a potentially useful means of evaluating and managing financial institutions' exposure to climate-related financial risks. Regulators in the US have begun to investigate how to use scenario analysis to better evaluate the long-term, climate-related financial risks that financial institutions face, as well as how these risks may emerge and vary from past events.

As the ESG investment market continues to grow rapidly, Banks are strategically deploying fintech ecosystems to drive sustainability in their products and operations which is referred to as 'Sustainable Digital Finance'. Several banks have joined the UN-convened Net-Zero Banking Alliance. Under this, they have committed to align their lending and investment portfolios with net-zero emissions by 2050.

2025 Outlook: Spotlight on Adaptability and Rebuild

Despite the recent slowdown, the long-term fundamental M&A themes remain intact. We foresee the following trends to define the overall deal-making in 2025:

1. **Digital payments:** Despite the ongoing macroeconomic difficulties and their implications on the M&A market, the payments sector continues to be quite appealing for the investors. The payments business is seen as more profitable, scalable, and less regulated than other areas of the financial services industry by corporates in the banking and payments sectors as well as private equity firms
2. **ESG:** ESG factors are becoming increasingly important to investors when making judgments about investments and formulating company plans. They have refocused their attention from asset managers and insurers on the ESG risks in their private investment portfolios due to recent geopolitical tensions
3. **Emerging markets are expected to become centers for FinTech**: Global governments will make more investments in South-East Asia, the Middle East, and Africa to expand their fintech ecosystems and bolster the regions' digital economies
4. **Restructuring:** Participants in the FS market are observing increasing indications of a decline in credit quality. Regulatory adjustments, including global tax rule refinements, are prompting financial institutions to restructure operations for better compliance. Additionally, banking sector consolidation is expected, with regional banks divesting assets and fintech-driven mergers accelerating.
5. **Digital transformation:** Digitalization and artificial intelligence (AI) continue to be strategic goals for financial services players to address consumer expectations and establish market position. Transaction activity in 2025 is expected to focus on deals to leverage data, implement solutions to growing cybersecurity concerns, drive operational efficiencies, and expedite transaction process
6. **Private Equity:** Insurance brokerage, platforms, fintech, insurtech and regtech are expected to be in the crosshair of deal makers. We therefore anticipate more M&A activity in these sectors as increased cost of capital and restrictions on leverage putting pressure on returns for PE investors, value creation will be more crucial than ever

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