

To What Extent Does Monetary Policy Uncertainty Affect M&A Outcomes?

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Abstract

At both the macro and firm level, there exists a robust negative association between political and regulatory uncertainty and merger and acquisition (M&A) activity. This negative impact is pronounced when uncertainty is linked to taxes, government spending, monetary and fiscal policies, and regulation. The effect is intensified for deals that are less reversible¹ and for firms whose product demand or stock returns are more sensitive to policy uncertainty.

Existing scholarly research has dedicated significant attention to comprehending the factors behind the fluctuating nature of M&A activities. In our contribution to this ongoing discourse, we shed light on an additional influential aspect affecting M&A activity, namely, the presence of monetary policy uncertainty.

Introduction

According to the European Central Bank, monetary policy refers to a set of “decisions taken by central banks to influence the cost and availability of money in an economy” (European Central Bank, 2021). The influence of the United States monetary policy on Mergers and Acquisitions (M&As), executed in the United States, comprehends a vast amount of outcomes and various tools such as alternating interest rates, discount windows, discount rates, and open market operations, among others (Friedman, 1968). Monetary Policy has proven to affect the cost of financing and asset prices (Bernanke and Blinder, 1992). Thus, in comparison to other regulations, monetary policy has a far-reaching influence (Taylor, 2000). An example of this extensive impact is the Federal Reserve's recent decision to cut interest rates to near-zero levels in response to the economic downturn caused by the COVID-19 pandemic. This decision has significantly affected the US economy, as it has lowered borrowing costs for businesses and homebuyers, made it easier for consumers to take out loans, and boosted stock markets. This monetary policy shift has had a significantly greater influence than other policymaker actions, such as government stimulus programs, which are far more limited in scope and efficacy. This

¹Refers to a transaction that is difficult to undo or reverse once it has been put in motion or completed. This lack of reversibility can be due to various factors, such as the nature of the industry, contractual agreements, as well as the integration of operations.

demonstrates how monetary policy decisions have a considerable influence on enterprises' investment and financing options.

Thus, monetary policy is improbable to be overlooked when corporate managers consider new investment prospects and, more specifically, when considering their involvement in M&A transactions. M&As comprise a large portion of corporate investments (Eckbo, 2009) and the synergies of M&As are highly dependent on the state of the overall economy, which is heavily influenced by monetary policy decisions (Summers, 2014). The monetary policy affects the value of M&As, their risk, the likelihood of their completion, and the M&A synergies (Adra et al., 2019).

Our research sheds light on the impact of monetary policy on M&As, with the goal of providing enterprises and policymakers with insights to help them operate effectively in times of uncertainty. This is especially relevant given the current global macroeconomic uncertain times. Specifically, this paper examines the effects of the US Monetary Policy on the outcomes of M&As executed in the United States from January 1st, 1997 to December 31st, 2017.

Background & Significance

Background

“History doesn't repeat itself, but it rhymes” (Mark Twain). 2022 was a double-edged sword. After an unparalleled year for M&A (and IPO) activity in 2021 and for the first five months of 2022, on March 22nd, 2022, the US Federal Reserve Bank (FED) announced and implemented its first interest rate hike which, in addition to heightened macroeconomic uncertainty, dampened the deal market until today, June 2023. The midyear correction had a significant impact on annual M&A deal value, causing a decline of 36% equivalent to \$3.8 trillion (Fig. 1 & 2). Figure 1 clearly depicts the unprecedented amount and size of deals in 2021 and the sharp downturn in the size of deals in 2022. Figure 2 depicts the negative response of M&As to the United States Federal Reserve (FED) raising rates on March 22nd, 2022, kicking off the infamous rate hike cycle of 2022 and 2023.²

² From March 2022 to March 2023, the FED raised rates 10 consecutive times.

Figure 1

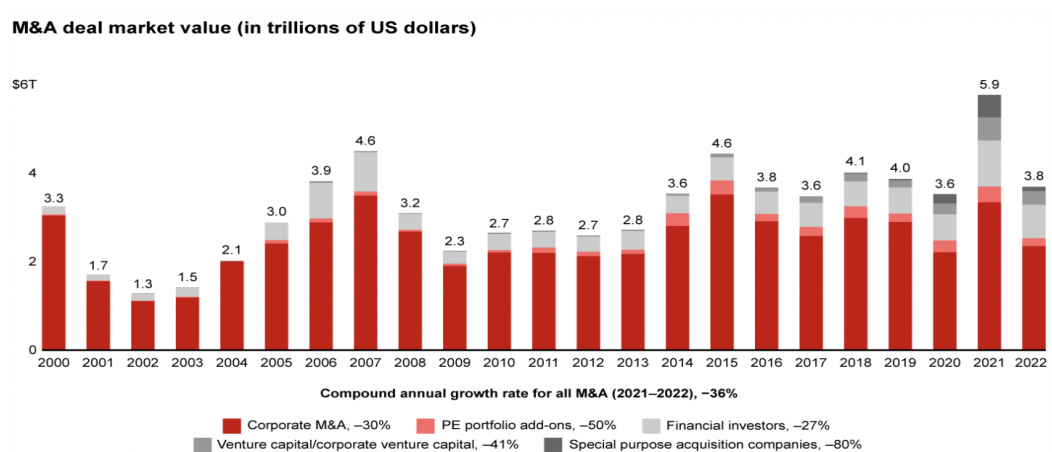


Fig.1 M&A deal market value trend until 2022

Figure 2

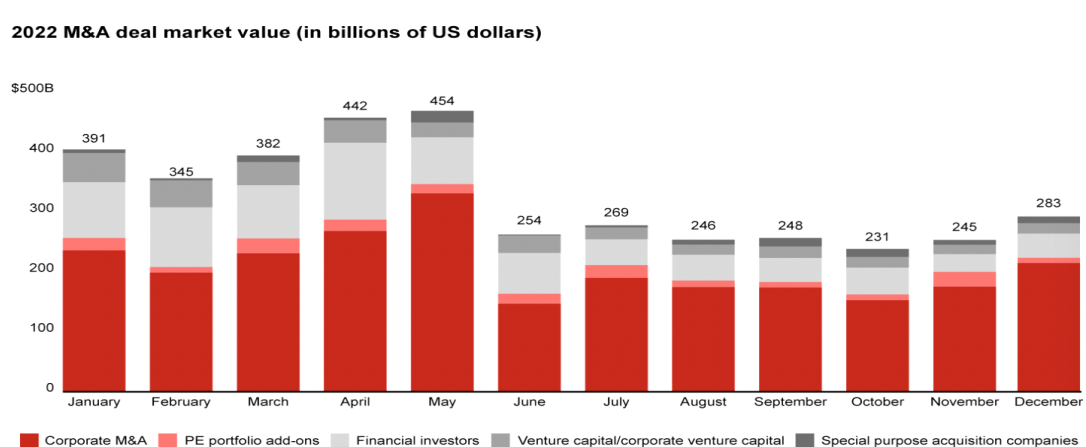


Fig.2 Market value of M&As in 2022

Thus, 2022 presented dealmakers with unmatched levels of volatility and risks stemming from variables that were previously not heavily emphasized in deal models. Factors such as inflation, interest rates, capital availability, industrial policy, national security, geopolitical tensions, and supply chain uncertainties all contributed to an environment of heightened uncertainty.

Much of the global macroeconomic environment of 2022 is characterizing 2023, as heightened uncertainty continues driven by factors such as geopolitical tensions, trade disputes, and the consequences of the COVID-19 pandemic such as supply chain disruptions and high inflation.

Significance

For most of 2023, central banks around the world have struggled to reduce inflation, which has raised monetary policy uncertainty. To the point that there are polls dedicated to voting on whether the Federal Reserve will increase, maintain, or cut interest rates at the next meeting. Recently Bloomberg published an article named “Global Dealmakers Suffer Worst January for M&A in Two Decades” discussing the low volume of deals in 2023 (Sahloul, 2023). This supports our hypothesis that increased monetary policy uncertainty has put a strain on finance markets (Fig.3).

Figure 3

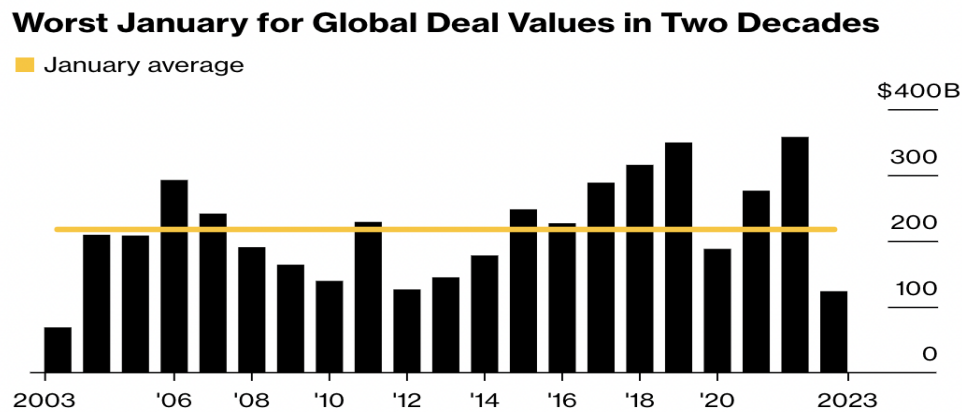


Fig.3 Deal flow from January 2023 to today, June 2023.

Merger and acquisition (M&A) activities play a crucial role in shaping the corporate landscape and driving economic growth (Heather, 2022). These transactions involve the consolidation of companies, asset acquisitions, and strategic alliances, and their outcomes have far-reaching implications for shareholders, employees, and the broader U.S. economy (Heather, 2022). Understanding the factors that influence M&A outcomes is of paramount importance to investors, policymakers, and corporate decision-makers.

One key factor that we hypothesize can significantly impact M&A outcomes is monetary policy uncertainty. Monetary policy refers to the actions taken by central banks to manage the money supply, interest rates, and overall economic conditions. Uncertainty surrounding monetary policy arises when there is ambiguity or unpredictability regarding future monetary

policy actions, such as changes in interest rates or adjustments to quantitative easing programs or interest rate hikes.

The impact of monetary policy uncertainty on various economic variables has been widely studied. Researchers have examined its effects on investment decisions, stock market volatility, and macroeconomic indicators. However, its specific influence on M&A outcomes, which play a vital role in corporate strategy and economic growth, has received limited attention.

Understanding the extent to which monetary policy uncertainty affects M&A outcomes can provide valuable insights into the dynamics of the M&A market and its susceptibility to external factors. This research can contribute to the development of more informed investment strategies, improved policy frameworks, and enhanced corporate decision-making, ultimately fostering economic stability and growth.

Results may have far-reaching repercussions for governments, business executives, and investors. Understanding the interaction between monetary policy uncertainty and M&As might assist policymakers in designing more effective monetary policy frameworks that promote stability and minimize uncertainty. These findings can also help corporate executives evaluate investment prospects and formulate acquisition plans. In times of monetary policy uncertainty, investors can utilize this knowledge to analyze the possible risks and benefits associated with M&A transactions. As a result, we expect our conclusion, which is based on the historical consequences of monetary policy uncertainty on M&As, will assist stakeholders in navigating these difficult circumstances today and in the future.

Research Hypothesis

We hypothesize that monetary policy uncertainty negatively affects the volume of M&As. This theory is founded on the research we conducted on several economists' published papers, which will be carefully examined throughout this paper. We also hypothesize that with clear and transparent communication about current and future short-term monetary policy, policymakers can make more economically confident decisions to further stimulate M&As and in turn the economy and its growth.

Literature Review

Our analysis reveals that different forms of uncertainty can impact firms in various ways, leading to different outcomes. While prior studies (Bhagwat et al., 2016; Duchin and Schmidt, 2013; Garfinkel and Hankins, 2011) have been grouped as investigations into uncertainty and M&A activity, they explore different aspects of uncertainty, sometimes resulting in contrasting and even opposing predictions. In our research, we contribute by concentrating on the monetary policy dimension of uncertainty. We carefully examine whether our findings are unique and establish a new relationship between M&A activity and uncertainty. In this section, we elaborate on how our study builds upon these previous works and others.

The existing literature has not yet reached a consensus on the complex question of how uncertainty affects merger activity. Garfinkel and Hankins (2011) found that increased cash flow uncertainty prompts firms to engage in vertical integration, leading to merger waves. Their findings suggest that managers pursue mergers as a risk management strategy to hedge against uncertainty. Similarly, Duchin and Schmidt (2013) identify a positive link between uncertainty and merger activity. They argue that merger waves increase firm-level uncertainty, driving mergers motivated by empire-building. Our approach differs from these studies as we examine macroeconomic uncertainty, which is more challenging to diversify and focus on a specific source of aggregate uncertainty, namely the monetary system.

Our study aligns more closely with Bhagwat et al. (2016), who demonstrate that increases in market-wide implied volatility, as captured by the VIX, correspond to weaker M&A activity. The authors find that this inverse relationship between the VIX and deal volume is prominent in (i) public targets, which face longer waiting periods between deal announcement and completion, (ii) concentrated industries, where deals are subject to greater antitrust scrutiny, and (iii) large deals. Another branch of the literature establishes a connection between policy uncertainty and asset prices. Pastor and Veronesi (2012) develop a model that links policy uncertainty with stock prices, and empirical studies show that policy uncertainty commands a risk premium. This evidence suggests that macroeconomic uncertainty impacts M&A activity by increasing the risk of deal termination or renegotiation. Building upon this literature, we establish a relationship between uncertainty and M&A activity by investigating monetary policy uncertainty.

Additionally, our research contributes to the emerging literature that links policy uncertainty to real economic outcomes. Baker et al. (2016) developed the Monetary Policy Uncertainty Index (MPU) used by both Adra et al. (2019) and Nguyen and Phan (2017) to demonstrate that increases in policy uncertainty are associated with heightened stock price volatility and declines in industrial production and employment. They claim that MPU has a significant negative impact on investment, with firms becoming more cautious in the face of uncertainty. Moreover, Bloom et al. (2018) reveal that shocks in policy uncertainty foreshadow significant declines in GDP, driving business cycles. Our analysis corroborates the aforementioned findings which are useful to our research since we will use the MPU index created by Baker et al. (2016) as a proxy for our variable of interest, monetary policy uncertainty.

Also, Nguyen and Phan (2017) investigated the impact of monetary policy on M&A outcomes in the US between 1986 to 2014 using the Baker et al. (2016) MPU Index. They proved that with a 1 standard-deviation increase in the MPU value, there is a 5.8% decrease in the acquisition probability. This finding was later supported by Adra et al. (2019). In addition, they argue that an increase in monetary policy uncertainty leads to a decrease in the number of debt-financed M&A deals, as well as a decrease in the value of these deals. The regression employed by Nguyen and Phan (2017) to arrive at these conclusions provides useful direction to the methods adopted in our investigation. The work later executed by Adra et al. (2019) provides further evidence to support Nguyen and Phan's (2017) findings whilst also using Baker et al. (2016) MPU Index. We base our regression on Nguyen and Phan (2017) and apply their methods in our paper.

Adra et al. (2019) use the MPU index to provide an empirical analysis of the relationship between monetary policy and M&A outcomes between 1986 and 2017 in the US. Adra et al. (2019) find that monetary policy uncertainty is negatively related to the number of M&A deals and the size of the deal. They find an increase in MPU at the time of the deal announcement is associated with a 0.40% decline in the acquired CAR, on average. Also, their findings prove that the returns in deals announced whilst there is a high MPU tend to be more volatile.

Thus, we will take the combination of the findings and research of the above-mentioned papers and expand on it. Specifically, the Baker et al. (2016) MPU Index is a crucial variable to our study, and Nguyen and Phan (2017) and Adra et al. (2017) serve as the foundation for our

regression and methodology (2019). Overall, these studies provide evidence that monetary policy uncertainty has a negative impact on M&A outcomes, so we expect the same outcome from our analysis.

Methods & Results

Methodology

This paper mainly draws on the regression analysis undertaken by Nguyen and Phan (2017) regarding the effects of the MPU index by Baker et al (2016) on M&A outcomes. To ensure that both merging firms operate within the same economic, legal, and institutional frameworks, our monthly dataset covers only deals done by public US firms from January 1st, 1997 to December 31st, 2017. The data set contains all of the companies in the Standard and Poor's 500 (S&P 500), S&P MidCap 400 (S&P 400), and S&P SmallCap 600 (S&P 600) indexes. Our two variables of interest are the MPU Index to account for monetary policy uncertainty, and a dummy variable we created to determine if each particular firm conducted an M&A that year. For each of the businesses, we acquired data for all regression variables from 1997 to 2017, then deleted all 'N/A's before running the model. The findings suggest that policy uncertainty has a considerable detrimental impact on mergers and acquisitions.

Data

In this section, we will provide an overview of the Baker et al. (2016) policy uncertainty index, which we will refer to as the MPU Index, and discuss the data we collected for mergers and acquisitions. Additionally, we will outline the sources we used for obtaining macro-level, industry-level, and firm-level control variables.

Measuring policy uncertainty

We assess policy-related economic uncertainty by utilizing the MPU Index which is constructed by identifying newspaper articles that contain keywords related to monetary policy uncertainty, such as “government spending,” “federal budget”, “budget battle”, “balanced budget”, and “fiscal stimulus” (Baker et al., 2016). This index uses hundreds of daily newspapers covered by Access World News. The resultant raw counts of articles are then divided by the total

number of articles in the same month and adjusted to have an average value of 100 from 1985 to 2022. To demonstrate the effectiveness of this measure in capturing policy uncertainty, Fig. 4 illustrates a clear upward trend in the BBD index during events that are anticipated to heighten policy-related uncertainty. These events include recessions (indicated by shaded areas), financial crises, and wars.

Figure 4

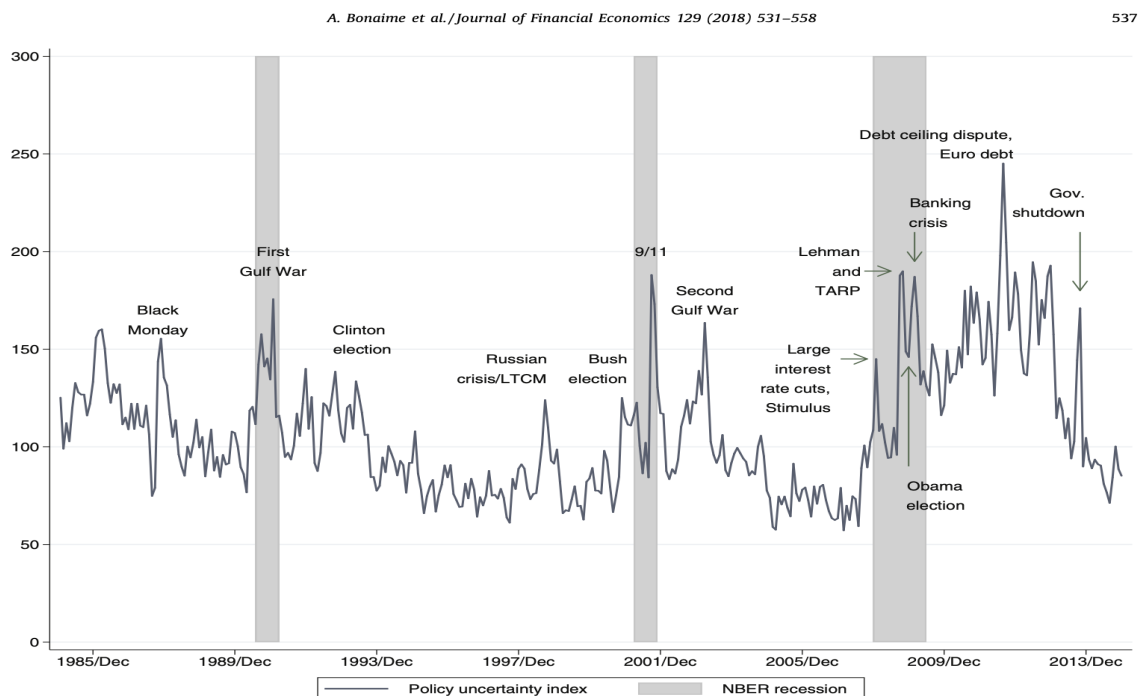


Fig.4 The graph depicts the policy uncertainty index, represented by the solid line, and the NBER periods, indicated by the shaded regions, from January 1985 to December 2014.

Mergers and acquisitions data

Our merger and acquisition data are from Bloomberg Terminal. To ensure consistency with the availability of the policy uncertainty index, our sample encompasses the period from 1997 to 2017. For our firm-level tests, we narrow down our sample to include only publicly traded acquirers based in the United States. We utilize data from Bloomberg and Mergr to compile a panel dataset of 1232 individual companies that were a part of the S&P 500, S&P 400 Mid-Cap, and S&P 600 Small- Cap funds in 1997. To initiate our empirical analysis, we examine the response of aggregate merger and acquisition activity to a monetary policy uncertainty shock.

We accomplish this by estimating a probit model that includes merger activity, policy uncertainty, and relevant controls as variables.

Other variables

Using Bloomberg, we collect a plethora of data at the business, industry, and macroeconomic levels to develop our control variables. The variables utilized in this investigation are described in full below (under “Table I”).

Model

The model is based on Nguyen and Phan’s (2017) research which investigates the question of whether M&As are affected by monetary uncertainty by running the following regression:

$$(1) \text{M\&A DUMMY} = \alpha + \beta \times \text{MPU} + C_{i,t-1} \times \gamma + \varepsilon_{i,t}$$

This model has *M&A DUMMY* as the dependent variable which is assigned a value of 1 if the firm *i* makes at least one acquisition in year *t*, and 0 otherwise. This variable was created by examining whether or not each business executed an M&A between 1997 and 2017 using Mergr, an online database of private equity firms, private and public companies, their M&A activity, and advisors. Our main variable of interest is the Monetary Policy Uncertainty (MPU) Index, which we incorporate through the variable *MPU*. We expect the coefficient of *MPU* obtained from our regression analysis to be negative and statistically significant, indicating the magnitude of the impact of monetary uncertainty on firms' decision-making regarding acquisitions

The firm-specific characteristics that explain the firm’s acquisitiveness are controlled for by the vector of control variables $C_{i,t-1}$. As a result, our regression outcomes and findings will enable us to advise businesses and investors on the optimal action to follow in any monetary policy situation.

Table 1 : Additional Explanation about Control Vector $C_{i,t-1}$

<u>Control Vector</u> $C_{i,t-1}$	<u>Description</u>
SIZE	The natural logarithm of the book value of assets.
MARKET.TO.BOOK.RATIO	The ratio of the market value of assets to the book value of assets.
BOOK_LEVERAGE	Ratio of the book value of short-term and long-term debt to assets.
PAST-12.MONTH.RETURNS	The buy-and-hold 12-month stock return of the year preceding year.
NON-CASH.WORKING.CAPITAL	The ratio of (working capital - cash) to the book value of assets.
AVERAGE.SALES.GROWTH	Average annual sales growth over the last 3 years.

Results

With a comprehensive understanding of Nguyen and Phan's (2017) model, we begin to examine the results of the regression on our model (Fig.5).

Figure 5

```
Call:
lm(formula = MA_DUMMY ~ MPU.Index + SIZE + MARKET.TO.BOOK.RATIO +
    BOOK_LEVERAGE + PAST.12.MONTH.RETURNS + AVERAGE.SALES.GROWTH +
    NON.CASH.WORKING.CAPITAL, data = Final_Data)
```

Residuals:

Min	1Q	Median	3Q	Max
-0.69016	-0.24053	-0.15060	-0.01367	1.07480

Coefficients:

	Estimate	Std. Error	t value	Pr(> t)
(Intercept)	-2.520e-01	2.143e-02	-11.759	< 2e-16 ***
MPU.Index	-1.396e-04	7.988e-05	-1.747	0.08064 .
SIZE	6.301e-02	2.314e-03	27.223	< 2e-16 ***
MARKET.TO.BOOK.RATIO	-3.863e+02	1.084e+03	-0.356	0.72152
BOOK_LEVERAGE	-1.215e-03	2.190e-04	-5.548	2.96e-08 ***
PAST.12.MONTH.RETURNS	2.353e-05	6.853e-05	0.343	0.73137
AVERAGE.SALES.GROWTH	1.741e-05	8.232e-05	0.212	0.83248
NON.CASH.WORKING.CAPITAL	1.037e-13	3.632e-14	2.854	0.00433 **

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.3878 on 10281 degrees of freedom
Multiple R-squared: 0.08588, Adjusted R-squared: 0.08526
F-statistic: 138 on 7 and 10281 DF, p-value: < 2.2e-16

Fig.5 Regression output from RStudio Console

Variables

The coefficients represent the estimated effects of the independent variables on the probability of the dependent variable's success:

Table 2

Variable	Coefficient	Standard Error	P-value	Significance Level
Intercept	-0.252	0.02143	< 2e-16	p-value < 0.001 (***)
MPU.Index	-1.40E-04	7.99E-05	0.08064	p-value $\geq$ 0.05 (.)
SIZE	0.06301	2.31E-03	< 2e-16	p-value < 0.001 (***)
MARKET.TO.BOOK.RATIO	-386.3	1.08E+03	0.72152	p-value $\geq$ 0.05
BOOK_LEVERAGE	-0.001215	2.19E-04	< 2.96e-08	p-value < 0.001 (***)
PAST.12.MONTH.RETURNS	2.35E-05	6.85E-05	0.73137	p-value $\geq$ 0.05
AVERAGE.SALES.GROWTH	1.74E-05	8.23E-05	0.83248	p-value $\geq$ 0.05
NON.CASH.WORKING.CAPITAL	1.04E-13	3.63E-14	0.00433	p-value < 0.01 (**)

The findings presented in Table 2 consistently confirm the hypothesis that increased policy uncertainty is linked to a reduced probability of concluding successfully an M&A. The incremental effects associated with the coefficient for policy uncertainty in the overall-index model (as shown in column 1) indicate that a one-unit rise in the overall index (measured from its average) is associated with a 0.014% decline in the likelihood of engaging in a successful merger or acquisition. This decrease holds significant economic implications.

Additionally, the model's results reveal that a firm with a bigger market value (size), low book leverage, and high non-cash working capital has a greater impact on the volume of successful M&As.

Figure 6

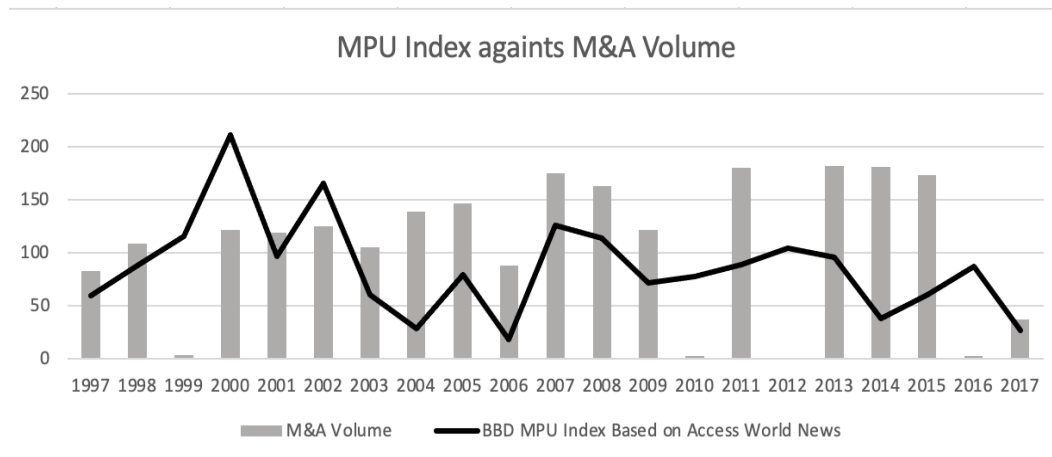


Fig.6 Impact of the MPU Index on M&A Volume

The graph presented in Figure 6 provides compelling evidence of the substantial influence that the MPU Index exerts on the volume of M&As. It effectively illustrates the pronounced changes observed before and during major economic crises, namely the Tech Bubble from 1999 to 2002 and the Great Recession from 2007 to 2009.

The graphical representation unmistakably portrays a remarkable surge in the MPU Index during these turbulent periods. This serves as a clear indication of the strong and significant impact that the MPU Index has on M&A activity. The substantial increase in the MPU Index before and during these economic crises underscores its role as a critical predictor or determinant of M&A volume.

F-score

The analysis yielded a remarkably low F-Score p-value of $2.2e-16$, indicating strong statistical significance. This finding highlights the robustness of our findings and provides persuasive evidence to demonstrate the link between the variables under consideration. The extremely small p-value suggests that the observed effect is unlikely to be due to random chance alone. Therefore, we can confidently conclude that the relationship we have uncovered is highly reliable and holds substantial economic implications. These findings highlight the importance of monetary policy uncertainty along with the other variables in understanding and predicting the volume of M&As.

Residual Standard Error

The residual standard error (RSE) of 0.3878 implies that, on average, the predicted values from the regression model deviate from the observed values by approximately 0.3878 units. This value denotes the standard of dependability and allows us to evaluate the model's predictions with acceptable precision.

Correlation and Covariance

The correlation table, as expected, shows a low correlation between all variables, dispelling any doubt about collinearity. Please also take note of the -.03226 negative correlation between the MPU Index and the M&A Dummy. The covariance table, with a value of -.628, gives further proof of the highly inverse relationship between the MPU Index and the M&A Dummy Variable.

Figure 7

Correlation Table

	PAST.12.MONTH.RETURNS	MARKET CAP	SIZE	MARKET.TO.BOOK.RATIO	BOOK_LEVERAGE	AVERAGE.SALES.GROWTH	NON.CASH.WORKING.CAPITAL	MPU.Index	MA_DUMMY
PAST.12.MONTH.RETURNS	1								
MARKET CAP	-0.046105752	1							
SIZE	-0.083585248	0.608967566	1						
MARKET.TO.BOOK.RATIO	-0.028615012	0.05947393	0.07797301	1					
BOOK_LEVERAGE	0.016741611	-0.034873481	-0.056470783	-0.05126652	1				
AVERAGE.SALES.GROWTH	0.02781054	-0.022693513	-0.033320013	0.04193519	0.008743405	1			
NON.CASH.WORKING.CAPITAL	-0.01359352	0.475531325	0.321075244	-0.0440725	0.07199105	-0.003725923	1		
MPU.Index	0.049499384	-0.009053316	-0.049863843	0.022800383	0.028707299	0.012573116	-0.022554089	1	
MA_DUMMY	-0.021626946	0.219235646	0.286888615	0.019069773	-0.066377393	-0.007974715	0.113430461	-0.032263007	1

Figure 8

Covariance Table

	PAST.12.MONTH.RETURNS	MARKET CAP	SIZE	MARKET.TO.BOOK.RATIO	BOOK_LEVERAGE	AVERAGE.SALES.GROWTH	NON.CASH.WORKING.CAPITAL	MPU.Index	MA_DUMMY
PAST.12.MONTH.RETURNS	3145.274673								
MARKET CAP	-89612.02102	1201057360							
SIZE	-8.280601478	37280.2653	3.12036871						
MARKET.TO.BOOK.RATIO	-5.70766E-06	0.00733066	4.8987E-07	1.26494E-11					
BOOK_LEVERAGE	16.51119642	-21253.438	-1.7541987	-3.20642E-06	309.2459505				
AVERAGE.SALES.GROWTH	72.58305764	-36599.922	-2.7390797	6.94081E-06	7.155321234	2165.674106			
NON.CASH.WORKING.CAPITAL	-85327427677	1.8445E+15	6.348E+10	-17544.04871	1.41696E+11	-19406973601	1.25272E+22		
MPU.Index	133.276645	-15063.106	-4.2287662	3.89316E-06	24.23646678	28.09082238	-1.21193E+11	2304.8886	
MA_DUMMY	-0.491768285	3080.5557	0.20547183	2.7499E-08	-0.473269181	-0.150469242	5147462107	-0.628009	0.16438873

Conclusion & Policy Recommendations

Mergers and acquisitions (M&A) play a crucial role in the efficient allocation of capital. However, various frictions such as transaction costs, information asymmetry, and managerial biases can introduce inefficiencies and lead to suboptimal capital allocation. In our study, we examine how another potential friction, namely government policies on monetary uncertainty, can impact M&A activity. Uncertainty significantly shapes the business environment for firms, and shocks in monetary policy have the potential to prompt managers to adjust their firm's strategic decisions. Utilizing a newly developed metric by Baker et al. (2016) and previous research by Nguyen and Phan (2017) and Adra et al. (2019), we investigate the influence of policy uncertainty on M&A activity.

Our findings are consistent with the aforementioned research and robustly demonstrate that policy uncertainty has a negative impact on aggregate M&A activity. The economic significance of this effect is noteworthy. Specifically, a one-unit increase in policy uncertainty (index) is associated with a significant 0.014% decrease in the total probability of an M&A deal occurring. This shows the importance of closely monitoring the fluctuations in the MPU Index as a means to gauge and predict the occurrence of M&As.

Firms are more cautious and less likely to engage in M&A activities when faced with higher levels of uncertainty regarding future monetary policy actions. The interplay between economic indicators and M&A activity provides indispensable insights for policymakers along with investors and stakeholders of almost all companies open to the potential of being involved in M&As. The conclusions reached have significant consequences for a variety of parties. These findings may be used by policymakers to create more effective monetary policy frameworks that enhance stability and minimize uncertainty, ultimately promoting M&A activity. When analyzing investment prospects and devising acquisition plans, corporate executives might benefit from knowing the influence of monetary policy uncertainty on M&A outcomes. During periods of monetary policy uncertainty, investors might use this knowledge to analyze the possible risks and benefits associated with M&A transactions.

We strongly recommend that policymakers implement measures to establish a more certain monetary policy framework. Doing so would harness the potential of M&As as a

powerful driver of economic growth, particularly during periods of economic downturns, and thereby foster the stimulation of the overall economy.

As global macroeconomic uncertainty continues to prevail, the implications of this research are particularly relevant for stakeholders navigating uncertain times. By leveraging the historical implications of monetary policy uncertainty on M&As, stakeholders can make more informed decisions and adapt their strategies to mitigate risks and capitalize on opportunities in an ever-changing economic landscape.

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