

# Why an M&A Boom Could Be Just Around the Corner

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Stock markets have been reeling lately amid fears of an economic slowdown. And investors have piled into safe investments [like bonds](#) as a result, prompting [some pundits](#) to argue that the enthusiasm for safe instruments like Treasuries has gotten as unhinged as the mania for dot-com stocks was a decade ago.



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But as stocks come under pressure, investors should note that the current backdrop is also laying the foundation for a potential boom in mergers and acquisition activity. With stocks depressed, companies sitting on record amounts of cash and a generous bond markets providing easy funding, merger activity is already on the rise in the usually slow month of August. And a jump in dealmaking could help boost equities, especially those that get taken out at the big premiums that have been put on the table recently.

## Sweet Debt Terms

So far, August has already seen \$175 billion in takeovers, putting it on pace to trump March as the biggest months for merger activity this year, [Bloomberg noted](#). And seven of the month's ten biggest deals have been cash offers, which could set the pace for the rest of the year -- the world's biggest thousand companies outside the financial sector sit on \$2.86 trillion in cash.

Intel's ([INTC](#)) \$7.68 billion [bid for security company McAfee \(MFE\)](#), the biggest acquisition by far in the chip giant's history, is the latest and most prominent example of this dealmaking. And cash-rich technology and telecom companies could be especially aggressive.

But acquirers can also take advantage of the massive appetite for bonds over stocks by issuing debt on fantastic terms and buy companies trading at valuations that tend to be far below their historical averages.

Investor willingness to choose corporate bonds over stock has been staggering. Ten of the lowest-yielding bond deals ever took place over the last 14 months, according to Deutsche Bank. Earlier in the month, tech giant IBM's ([IBM](#)) ability to issue \$1.5 billion in three-year notes at a record 1% coupon became an emblem of investor enthusiasm for big company bonds.

And BHP Billiton ([BHP](#)) was able to line up \$45 billion in credit for its high-profile proposed takeover of Potash ([POT](#)), using just six banks.

Frenzied dealmaking could signal a turning point for the stock market and sentiment shifting. In March, companies wanted to move before a fast-rising market made share prices even more expensive amid improving economic expectations. This time, though, it would merely signal that corporate bosses felt the sentiment couldn't get much more sour.

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