PUBLIC MARKET REPORT 1Q 2021

The Reopening of the U.S. Economy

GYF
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EXECUTIVE SUMMARY

The first quarter of 2021 showed continued signs of economic recovery, which were reflected in the public markets.

- **The overall increase in the Dow, S&P 500, and Nasdaq has yet to cease since the pandemic selloff at the beginning of 2020**
- **Interest rates rose in the first quarter of 2021, which hurt bond prices (bond prices move inversely with interest rates)**
- **M&A activity was strong in terms of volume and deal value**

Much of the economic positivity in Q1 2021 can be attributed to vaccine rollouts as well as and monetary and fiscal policies that were put into place to combat the global outbreak of COVID-19. The U.S. economy is still in repair and recovery mode, thus, it may have more room to grow.

BROADER MARKET

All major market indices shown in the table below saw gains in Q1 of 2021, but some saw more than others.

US Indices	March	2021	2020	vs. 52-week High	vs. 52-week Low
Dow Jones Industrials	6.8%	8.3%	9.7%	-0.8%	59.1%
Russell 1000 Value	5.9%	11.2%	2.8%	-1.1%	61.4%
S&P Midcap 400	4.7%	13.5%	13.6%	-2.7%	97.2%
S&P 500	4.4%	6.2%	18.4%	-0.5%	62.3%
Russell MicroCap	2.3%	23.9%	20.9%	-7.7%	143.5%
Russell 1000 Growth	1.7%	0.9%	38.5%	-4.9%	70.1%
Nasdaq 100	1.5%	1.8%	48.9%	-5.7%	76.3%
Russell 2000	1.0%	12.7%	19.9%	-5.9%	114.5%
Nasdaq Composite	0.5%	3.0%	45.1%	-6.5%	81.8%

Source: Nasdaq March, First Quarter 2021 Review and Outlook

EQUITY MARKETS (STYLE/SECTOR/MARKET CAP)

Looking closer at specific types and sectors, cyclical stocks (Energy, Financials and Industrials) represented the top gainers in Q1 2021, outperforming growth stocks. The increase in interest rates drove the cyclical sectors to outperform due to their levering toward the reopening of the economy. The underperformance of growth stocks can be attributed to their relationship with future potential earnings, which contain a lot of uncertainty due to the pandemic.

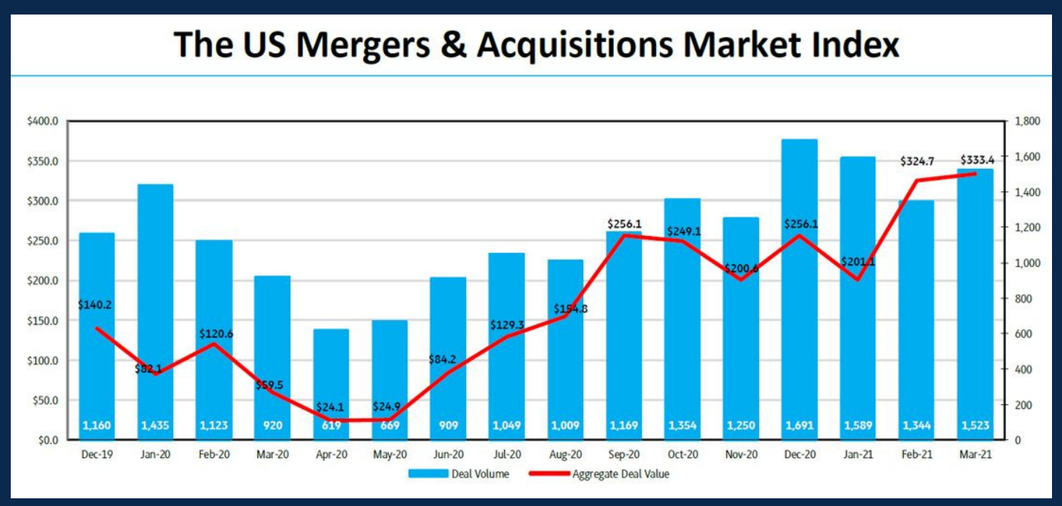
FIXED INCOME/TREASURY YIELDS

As interest rates grew in the first quarter of 2021, bond prices fell because of their inverse relationship. The increase in interest rates was driven by the expectation of higher levels of economic growth and inflation. Further, the amount of fiscal and monetary stimulus accompanied by continued vaccine rollouts contributed to an economic outlook involving growth and inflation.

M&A ACTIVITY

According to MergerStat's Monthly Review, 1,589, 1,344, and 1,523 deals were announced in January, February and March of 2021, respectively. The aggregate deal value reached a peak of $333.4 billion in March 2021 for the period December 2019 to March 2021.

Over the first quarter of 2021, the sectors that saw the largest increase in deal count versus the same three-month period one year ago, were Technology Services, Health Services and Finance. On the other hand, the sectors that saw the biggest decline for the same period were Consumer Services, Electronic Technology and Government.



Source: MergerStat Monthly Review, April 2021

FED/STIMULUS/ECONOMY

The *CARES Act* and the *Consolidated Appropriations Act, 2021* have helped stimulate the economy amidst the pandemic. Combined, the two bills were worth approximately $2.9 trillion. Additionally, in March 2021, Congress passed the *American Rescue Plan*, a COVID-relief and stimulus package that was worth approximately $1.9 trillion.

More legislation is also in progress. On March 31, 2021, President Biden announced the *American Jobs Plan* to create jobs and rebuild the country's infrastructure. The *American Families Plan* was announced but not yet enacted in 1Q 2021. This bill is expected to provide assistance with childcare, education and other governmental social programs to "rebuild the middle class and invest in America's future."

According to the Bureau of Economic Analysis, Real GDP increased at an annual rate of 6.4% in the first quarter of 2021, 4.3% in the fourth quarter of 2020, and 33.4% in the third quarter of 2020, after decreasing at an annual rate of -31.4% in the second quarter of 2020.

Another economic indicator, employment conditions, also improved in the first quarter of 2021. Data from the Bureau of Labor Statistics shows modest recovery in the labor market. The recent decrease in unemployment reflects the continued resumption of economic activity that had been curtailed due to the pandemic. In March 2021, the unemployment rate and the number of unemployed persons both decreased to 6.0% and 9.7 million, respectively.

OUTLOOK/CONCLUSION

The market comeback is still showing strength as the economy reopens, vaccines rollout, and monetary and fiscal stimulus remains available. The accommodative stimulus is expected to lead to favorable corporate earnings and economic growth. However, interest rates are beginning to rise, and the Fed will eventually need to tighten policy. Additionally, the Biden administration's *Build Back Better Plan* may include higher corporate, individual, estate and capital gains taxes.

Until the economic picture becomes clearer, the markets may continue on an upward path, however, as the classic saying goes, what goes up, must come down. There is no way to predict the precise timing of impending change, but volatility is certainly a future concern for the public markets.

Meet the Author: Ethan Dysert

Ethan recently transitioned to the GYF Business Valuation team from an FP&A role at his previous firm. In his current position, he performs risk identification, financial statement analysis, industry and economic research and financial modeling. Ethan is involved in the valuation of privately held companies for a variety of purposes and plans to obtain his CVA.