

## EXECUTIVE SUMMARY

Coming off a highly positive first half of 2021, economic growth in Q3 slowed relative to Q2, but still included significant economic highlights:

- The Dow, S&P 500 and Nasdaq rose to 12.1%, 15.9% and 12.7%, respectively
- Interest rates and, as a result, bond prices remained unchanged
- M&A activity was strong in terms of both deal volume and value

Monetary policy has been instrumental in the performance of the markets and the economy since the pandemic began, but, the Fed must soon begin tapering measures in response to inflationary pressures. They have indicated that they will soon begin to raise interest rates.

## BROADER MARKET

Overall, Q3 2021 was positive, albeit growth cooled slightly

US Indices	Sept %	YTD %	Q3 %	Q2 %	Q1 %	vs. 52-week High	vs. 52-week Low
Russell 2000	-2.9%	12.4%	-4.4%	4.3%	12.7%	-6.6%	47.1%
Russell Microcap	-2.9%	22.6%	-5.0%	4.1%	23.9%	-9.1%	61.0%
Russell 1000 Value	-3.5%	16.1%	-0.8%	5.2%	11.2%	-4.2%	36.3%
S&P Midcap 400	-4.0%	15.5%	-1.8%	3.6%	13.5%	-5.0%	42.9%
Dow Jones Industrials	-4.2%	12.1%	-1.5%	5.1%	8.3%	-5.0%	29.5%
Russell 3000	-4.5%	15.0%	-0.1%	8.2%	6.3%	-5.2%	34.4%
S&P 500	-4.7%	15.9%	0.6%	8.5%	6.2%	-5.2%	33.2%
Nasdaq Composite	-5.3%	12.7%	-0.2%	9.7%	3.0%	-6.2%	33.5%
Russell 1000 Growth	-5.6%	14.3%	1.2%	11.9%	0.9%	-6.3%	32.0%
Nasdaq 100	-5.7%	14.6%	1.1%	11.4%	1.8%	-6.4%	34.1%

\*\*\* Above percentages are in total return.

Source: Nasdaq September, Third Quarter 2021 Review and Outlook

## EQUITY MARKETS (STYLE/SECTOR/MARKET CAP)

Growth stocks outperformed value stocks, and Financials (+2.7%), Utilities (+1.8%), and Communication Services (+1.6%) represented the top gainers in the first three quarters of 2021. The overall market continues to be driven by the COVID-19 vaccine rollout, fiscal stimulus, accommodative monetary policy, strong corporate earnings growth, and economic growth. Within the market, a bifurcation remains between growth stocks (mainly Technology, Consumer Discretionary, and Communication Services) with current share prices heavily dependent on earnings potential, and cyclical stocks (mostly Financials, Energy, and Industrials) that are levered to the strength of the economy. Growth stocks outperformed for the quarter as interest rates were mostly docile over the period.

## FIXED INCOME/TREASURY YIELDS

As interest rates remained unchanged in Q3 2021, bond prices, which move inversely with interest rates, changed minimally. This relationship was highlighted by the Bloomberg Barclays U.S. Aggregate Bond Index, Corporates and High-Yields, which increased by 0.05%, 0.00% and 0.89%, respectively. Further, Munis decreased by 0.27% and the Securitized MBS/ABS/CMBS increased by 0.09%. Treasury Bills were up marginally by 0.01% in the third quarter and were only up by 0.03% on the year. The Fed's measure of inflation (known as the Core Personal Consumption Expenditures Index), which measures prices paid by consumers excluding food and energy, increased by 3.6% year-over-year for June, July and August 2021.

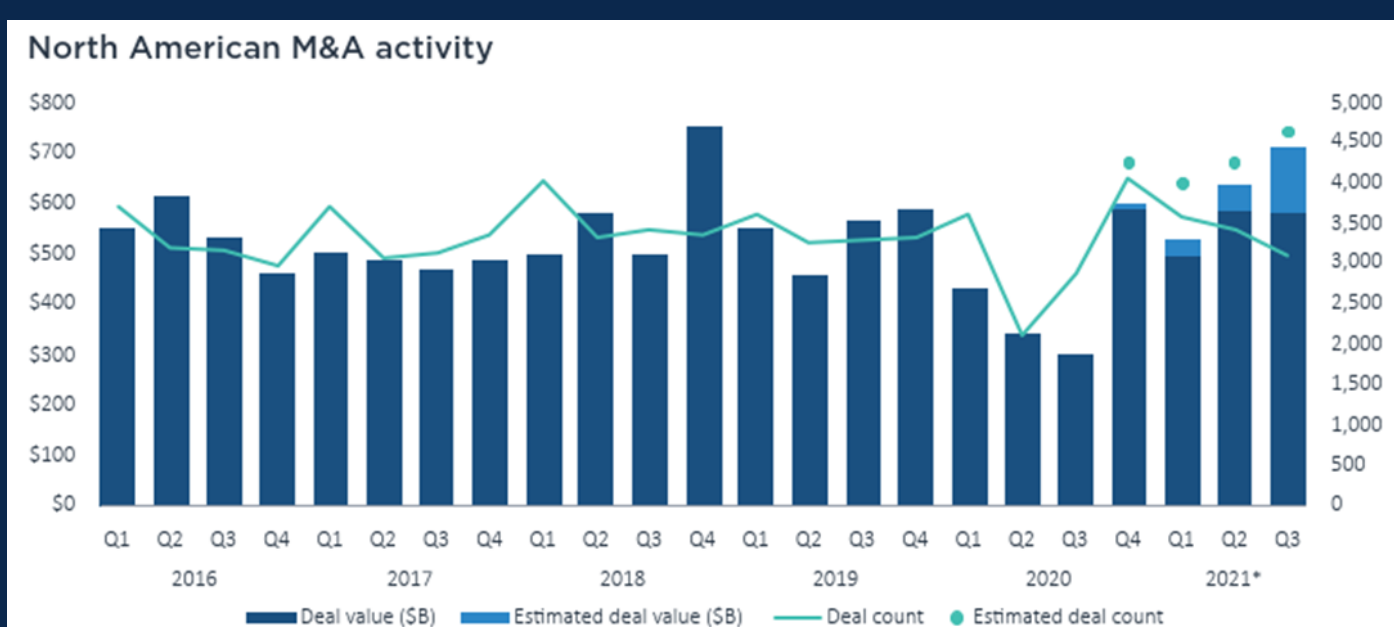
## M&A ACTIVITY



PitchBook Global M&A Report Q3'2021

PitchBook's most recent Global M&A Report, estimated that 27,000+ global transactions, with a combined value of more than \$3.4 trillion, closed in the first three quarters of 2021. This volume continues the year's record-setting pace for deals fueled by global economic recovery. In Q3 2021, an estimated 9,165 deals closed, with a total value of \$1.2 trillion.

North American M&A activity in the first three quarters of the year included approximately 12,855 transactions, totaling \$1.9 trillion. An estimated 4,069 deals closed in Q3 2021, with an approximate value of \$708 billion.



PitchBook Global M&A Report Q3'2021

## STIMULUS/ECONOMIC INDICATORS

Since March 2020, when the COVID-19 pandemic began, accommodative monetary policy and stimulus packages have helped to boost economic growth. The Federal Open Market Committee (FOMC) has kept interest rates low, and the Fed has continued its monthly purchases of Treasuries and agency mortgage-backed securities, resulting in a total of \$8.4 trillion on the Fed's balance sheet.

Real GDP showed slowed growth in the third quarter. According to the U.S. Bureau of Economic Analysis, Real GDP grew at an annual rate of 2.0% in Q3 2021, compared to 6.5% in Q2. Data from the Bureau of Labor Statistics shows improvements in hiring, coupled with strengthening demand for workers. The unemployment rate fell by 0.4% to 4.8% in September 2021, however, there are still extensive labor shortages caused by increased turnover, early retirements, childcare needs, challenges in negotiating job offers, and enhanced unemployment benefits. Continued challenges in finding qualified workers will likely lead to employers seeking advances in technological innovation and efficiencies in the workplace, ultimately resulting in improved economic productivity.

## OUTLOOK/CONCLUSION

With the normalization and stabilization of the U.S. economy that has occurred over the past several quarters, along with growing inflationary pressures, it is likely time for the Fed to start tightening monetary policy. The Fed has indicated that they will soon begin raising interest rates.

Although the stock market performance has been favorable in recent quarters, trade limitations, supply chain pressures and elevated commodity prices have set new base-lines for economic growth rates. Expected supply chain interruptions, especially during the holiday seasons, may have a negative impact on Q4 2021. However, December has historically been a good month for the equities markets.

Recent legislative spending and bills currently under discussion that include the threat of rising tax rates have accelerated profit taking and a rotation out of high beta equities in the stock market. These conditions and expectations have also driven private equity transactions as corporations and entrepreneurs take steps to lower their risk profiles.

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