GROSSMAN YANAK & FORD LLP

BUSINESS VALUATION & LITIGATION SUPPORT SERVICES GROUP

2021
FIRST QUARTER
PUBLIC MARKET REPORT

The Reopening of the U.S. Economy

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. Taking a closer look, Q1 2021's performance was led by Mid-Cap and Small-Cap companies. Further, the top sectors were Energy and Financials with Technology and Consumer Staples lagging. Additionally, there was a continued rotation into Value stocks away from Growth stocks.

Interest rates rose in the first quarter of 2021, which hurt bond prices (bond prices move inversely with interest rates). Investment grade and corporate bonds saw the largest decreases among fixed income securities. The expectations of economic recovery and rise in inflation correlated with higher interest rates will continue to slump the fixed income market. Further, the 10-Year Treasury yield continued to rise in 2021 after its historic low that was reached in August 2020. The same held for the 30-Year Treasury note for the first quarter of 2021.

M&A activity was strong in terms of both volume and deal value. The leading sectors for deal count were Technology Services, Commercial Services, and Finance. As for the laggard sectors, Government, Energy Minerals and Communications were at the bottom for deal count in Q1 2021. Additionally, the most valuable sectors for M&A activity were Technology Services, Finance and Consumer Durables.

Much of the economic positivity can be attributed to vaccine rollouts and monetary and fiscal policies that were put in place to combat the global outbreak of COVID-19. The Fed has not indicated any agenda to start tightening policy yet. Moreover, the Federal Open Market Committee's most recent Summary of Economic Projections[1] stated that they do not forecast a rate hike until 2024 at the earliest. This should not come as a surprise considering Federal Reserve Chairman Jerome Powell's indication that there is still a lot more recovery that needs to take place.

In summary, the economy is still in repair and recovery mode, therefore, it may have more room to grow.

Broader Market

The indices shown in the following table all saw gains in Q1 of 2021, but some saw more than others.[2] The rally was driven by continued vaccine rollout, the reopening of the economy, and favorable monetary and fiscal policy. The leading indices were the Russell MicroCap (+23.9%), the S&P Midcap 400 (+13.5%), and the Russell 2000 (12.7%). The S&P 500 increased by +6.2% in the first quarter and reached a new all-time high on March 26, 2021, closing at $3,975. Further, the S&P 500 was up +80% from its low caused by the pandemic selloff, declining by -34% during the period February 19, 2020, to March 23, 2020.

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[1] Federal Reserve FOMC Summary of Economic Projections - March 17, 2021.

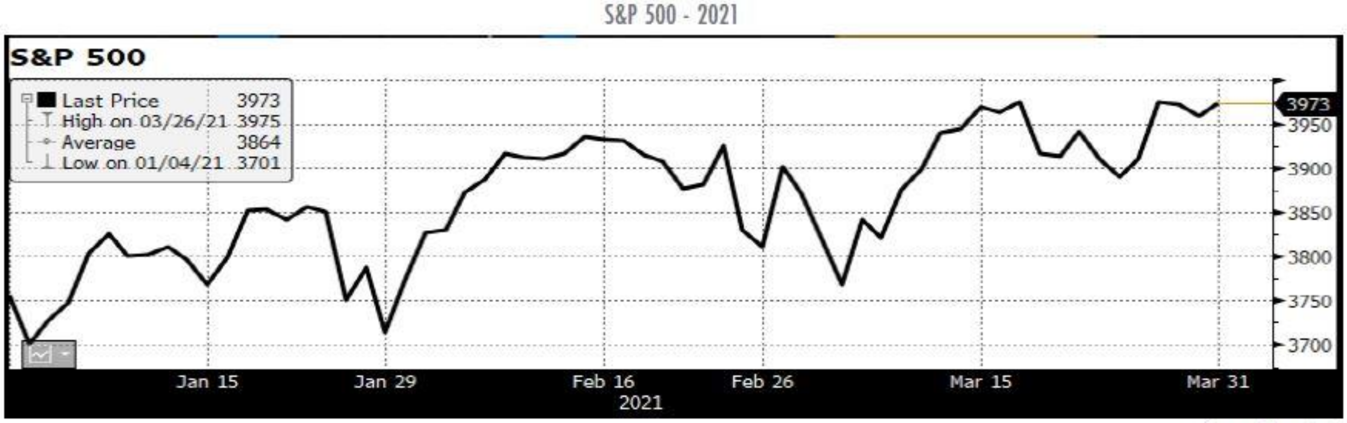
[2] Nasdaq. March, First Quarter 2021 Review and Outlook, The Market Intelligence Desk Team.

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

The Nasdaq Composite trailed the Dow (+8.3%) and the S&P 500 with an increase of only +3.0%. Further, the Russell 1000 Value Index increased by +11.2% compared to the Russell 1000 Growth Index, which only grew by +0.9% in the first quarter of the year. The marginal uptick in the Nasdaq can be linked to the rotation into value versus growth stocks. Since the Nasdaq is mainly composed of tech companies, and growth stocks also tend to be heavily tech-weighted, it makes sense that when growth style stocks lag, the Nasdaq, predictably, will follow suit. Lastly, in March 2021, the Dow led the list of indices with an overall monthly gain of +6.8%.[3]

S&P 500 - 2021



Source: Winthrop Wealth Q1'2021 Market Review and Outlook

[3] Winthrop Wealth. Q1'2021 Market Review and Outlook, Andrew Murphy, CFA.

Equity Markets (Style/Sector/Market Cap)

Looking at specific types and sectors, cyclical stocks outperformed growth stocks, and Energy, Financials and Industrials represented the top gainers in the first quarter of 2021. Winthrop Wealth categorizes these stocks as follows: "Cyclicals include many Financials, Energy and Industrial companies, while growth stocks are comprised mainly of Technology, Consumer Discretionary and Communication Services stocks."[4]

US Equity Market Performance					
Broad Market	**1st Quarter**	**Style**	**1st Quarter**	**Sector**	**1st Quarter**
S&P 500	6.17%	Russell 1000 Growth	0.94%	Materials	9.08%
Russell 3000	6.34%	Russell 1000 Value	11.24%	Real Estate	9.02%
Dow Jones Industrial Average	8.29%			Communication Services	8.08%
Nasdaq	2.95%			Health Care	3.18%
		Sector	**1st Quarter**	Consumer Discretionary	3.11%
Size	**1st Quarter**	Energy	30.84%	Utilities	2.84%
Mid Cap (S&P 400)	13.47%	Financials	15.90%	Technology	1.97%
Small Cap (Russell 2000)	12.69%	Industrials	11.41%	Consumer Staples	1.15%

Source: Winthrop Wealth Q1'2021 Market Review and Outlook

The increase in interest rates drove the defined cyclical sectors to outperform other sectors because of their levering toward the reopening of the economy. The Energy sector was up +30.84%, followed by Financials (+15.90%) and Industrials (+11.41%). 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. The Technology sector increased by a mere +1.97%, while Consumer Discretionary and Communication Services rose by +3.11% and +8.08%, respectively. Other notable sector performances were Materials (+9.08%), Real Estate (+9.02%) and Consumer Staples (+1.15%).

As noted in the previous section, Mid Cap (S&P 400) and Small Cap (Russell 2000) outperformed Large Cap (S&P 500). Mid Cap was up +13.47%, Small Cap rose by +12.69%, and Large Cap growth was +6.17%.[5]

GICS Sectors	March	2021	2020	vs. 52-week High	vs. 52-week Low
Utilities	10.5%	2.8%	0.5%	-5.2%	25.3%
Industrials	8.9%	11.4%	11.1%	-0.8%	77.0%
Staples	8.2%	1.1%	10.7%	-1.7%	28.9%
Basic Materials	7.6%	9.1%	20.7%	-1.7%	85.4%
REITs	6.9%	8.5%	-2.3%	-1.5%	37.9%
Financials	5.8%	15.9%	-1.8%	-3.2%	75.9%
Healthcare	3.9%	3.2%	13.4%	-1.9%	38.9%
Consumer Disc.	3.7%	3.1%	33.3%	-3.9%	80.1%
Communications	3.1%	8.1%	23.6%	-2.3%	68.4%
Energy	2.8%	30.8%	-33.7%	-9.1%	80.8%
Technology	1.7%	2.0%	43.9%	-4.7%	74.4%

Source: Nasdaq. March, First Quarter 2021 Review and Outlook

[4] Ibid.

[5] Nasdaq. March, First Quarter 2021 Review and Outlook, The Market Intelligence Desk Team.

Fixed Income/Treasury Yields

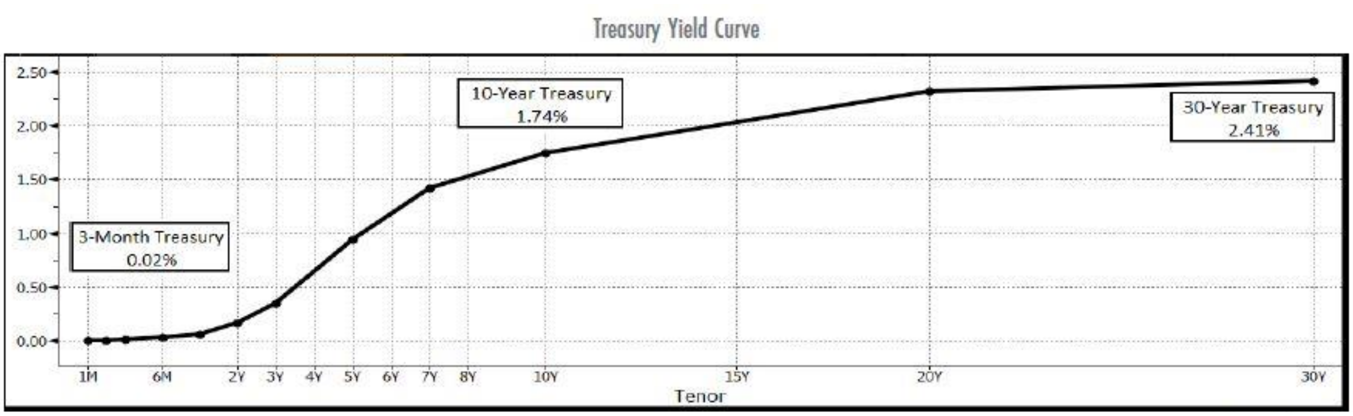
As interest rates grew in Q1 2021, bond prices fell because of their inverse relationship. This was highlighted by the Bloomberg Barclays U.S. Aggregate Bond Index and Corporates, which fell by -3.4% and -4.65%, respectively. Further, Munis and Securitized MBS/ABS/CMBS decreased by -0.35% and -1.18%, respectively, and High-Yield bonds increased marginally by +0.85%.

Taking a look at the previous two years, the Aggregate Bond Index had a return of +7.51% in 2020 and +8.72% in 2019. Corporates were up +9.89% and +14.54% in 2020 and 2019, respectively. Continuing, High-Yield bonds increased by +7.11% in 2020 and +14.32% in 2019. [6]

	Returns				Fundamental Estimates		
Bloomberg Barclays Index	1st Quarter	2020	2019	2018	Yield to Worst	Credit Spread (bps)	Duration
Aggregate	-3.37%	7.51%	8.72%	0.01%	1.6%	34	6.3
Treasury Bills	0.02%	0.54%	2.21%	1.83%	0.0%		0.1
Corporates	-4.65%	9.89%	14.54%	-2.51%	2.3%	96	8.3
High Yield	0.85%	7.11%	14.32%	-2.08%	4.3%	325	3.7
Securitized MBS/ABS/CMBS	-1.18%	4.18%	6.44%	0.99%	1.8%	21	3.9
Munis	-0.35%	5.21%	7.54%	1.28%	1.2%		5.3

Source: Winthrop Wealth Q1'2021 Market Review and Outlook

The 10-Year Treasury yield rose to 1.74% after hitting an all-time low of 0.51% in August 2020. Additionally, the 3-Month Treasury yield was at 0.02%, and the 30-Year Treasury stood at 2.41% in the first quarter of 2021. The expectation of higher levels of economic growth and inflation drove the increase in interest rates. Further, the amount of fiscal and monetary stimulus accompanied by the vaccine rollout contributed to an economic outlook involving growth and inflation.[7]



Source: Winthrop Wealth Q1'2021 Market Review and Outlook

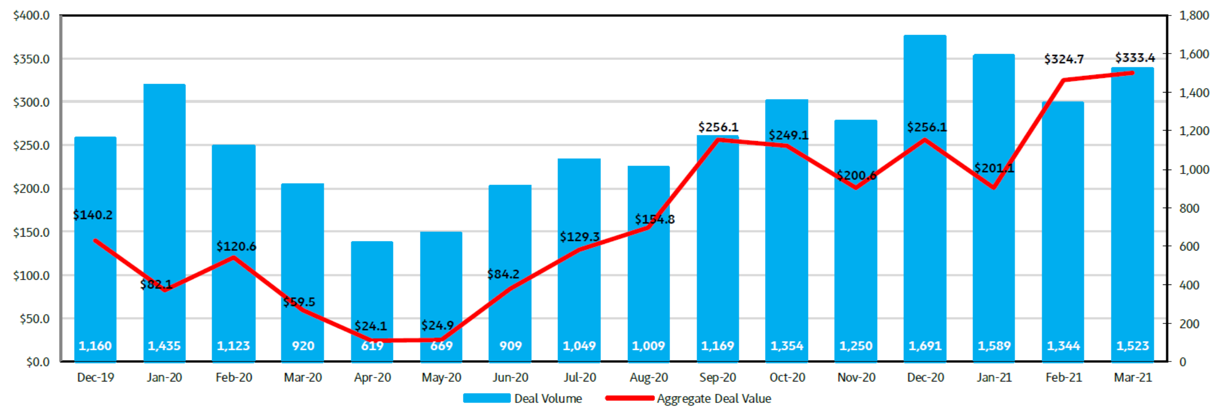
[6] Winthrop Wealth. Q1'2021 Market Review and Outlook, Andrew Murphy, CFA.

[7] Ibid.

M&A Activity

According to MergerStat's Monthly Review, there were 1,589, 1,344, and 1,523 deals 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.[8]

The US Mergers & Acquisitions Market Index



Source: MergerStat Monthly Review, April 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 (1,064 vs. 537), Health Services (228 vs. 147), and Finance (538 vs. 469). On the other hand, the sectors that saw the biggest decline for the same period were Consumer Services (211 vs. 239), Electronic Technology (110 vs. 114), and Government (0 vs. 3).

Target Sector	L3M 3/31/21 Deal Count	L3M 3/31/20 Deal Count	Difference
Technology Services	1064	537	527
Health Services	228	147	81
Finance	538	469	69
Retail Trade	163	104	59
Health Technology	148	102	46
Commercial Services	652	611	41
Utilities	93	53	40
Producer Manufacturing	236	203	33
Distribution Services	247	225	22
Non-Energy Minerals	61	42	19
Consumer Durables	78	65	13
Industrial Services	193	180	13
Energy Minerals	32	19	13
Process Industries	135	122	13
Consumer Non-Durables	104	97	7
Transportation	99	93	6
Miscellaneous	14	8	6
Communications	43	44	(1)
Government	0	3	(3)
Electronic Technology	110	114	(4)
Consumer Services	211	239	(28)
Total	**4,449**	**3,477**	**972**

Source: MergerStat Monthly Review, April 2021

[8] MergerStat FactSet Flashwire U.S. Monthly, April 2021

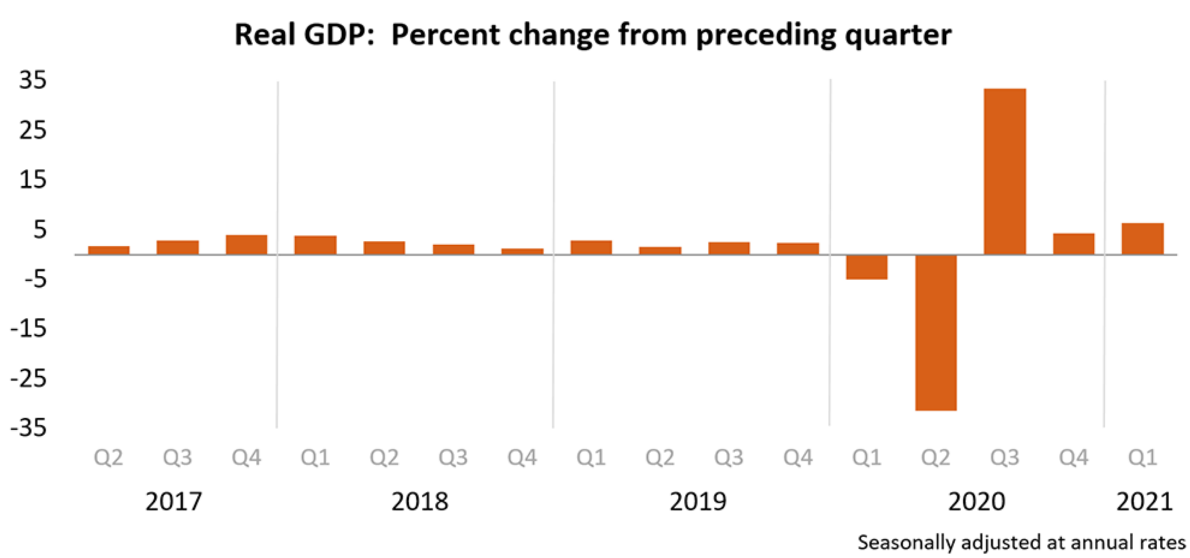
Fed/Stimulus/Economy

The *CARES Act* and the *Consolidated Appropriations Act, 2021* have helped stimulate the economy amidst the global pandemic. Combined, these two bills were worth approximately $2.9 trillion ($2 trillion for CARES and $900 billion for CAA). Additionally, in March of 2021, Congress passed the *American Rescue Plan*, a COVID-relief and stimulus package that was worth approximately $1.9 trillion (~9% of GDP). Further, on March 31, 2021, President Biden announced the *American Jobs Plan* to create jobs and rebuild the country's infrastructure. To complete the administration's "Build Back Better" plan, the *American Families Plan* (which was announced but not yet enacted in 1Q 2021) is expected to provide assistance with childcare, education and other governmental social programs to "rebuild the middle class and invest in America's future."[9]

American Rescue Plan	
Stimulus Checks	Eligible individuals will receive an Economic Impact Payment of up to $1,400 for individuals or $2,800 for married couples, plus $1,400 for each dependent. Unlike the prior stimulus, families will get a payment for all their dependents claimed on a tax return, not just their qualifying children under 17.
Unemployment Benefits	Extended unemployment insurance and the extra $300 weekly payment will occur until Labor Day (September 6th).
Child Tax Credit	The bill increases the amount of the Child Tax Credit from $2,000 to $3,600 for children under age 6, and $3,000 for other children under age 18. The scope was also expanded from children under 16 to under 17. Additionally, the credit is now fully refundable.
State and Local Governments	The legislation provides $350 billion in emergency funding for state and local governments to remedy the mismatch between rising costs and falling revenues.
Public Health	The bill includes about $100 billion for testing and vaccine production and distribution.

Source: Winthrop Wealth Q1'2021 Market Review and Outlook

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, 33.4% in the third quarter of 2020, and decreased at an annual rate of -31.4% in the second quarter of 2020. [10]



Source: U.S. BEA, Real GDP, First Quarter 2021 (Advance Estimate)

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[9] Build Back Better, Whitehouse.gov.

[10] U.S. Bureau of Economic Analysis. Real GDP, First Quarter 2021 (Advance Estimate).

GYF's *U.S. Economic Outlook, First Quarter 2021* provides commentary on another economic indicator, employment conditions. This analysis of data from the Bureau of Labor Statistics shows improvements 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, both the unemployment rate and the number of unemployed persons decreased to 6.0% and 9.7 million, respectively. Specific industry data also indicate job increases in most sectors over the past month.[11]

Outlook/Conclusion

The market comeback is still showing strength as the economy reopens, the vaccine rollout continues, and monetary and fiscal stimulus remains available. The accommodative stimulus is expected to lead to favorable corporate earnings and economic growth. That said, this trend will not continue forever, and interest rates are beginning to rise. The Fed will eventually need to tighten policy, and President Biden'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 their upward path, however, everyone is familiar with the classic phrase, "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.

CORONAVIRUS UPDATE

Data continues to improve as the vaccine rollout gains momentum.

Vaccines
- **Total Vaccines Delivered:** 196,000,000.
- **# of People Who Received At Least One Dose**: 98,000,000.
- **# of People Fully Vaccinated**: 55,000,000.
- **% of Population Over 65 Years Old Fully Vaccinated**: 51%.

Cases
- New Cases 7-Day Average: 62,000.
  - Down from 250,000 in January 2021.

Hospitalizations
- 7-Day Average: 33,000.
  - Down from 125,000 in January 2021.

Source: CDC.

MONETARY POLICY

The Fed has established the most accommodative monetary policy environment in United States history.

- **Interest Rates**: The federal funds rate is currently at a range of 0% to 0.25%. Most FOMC members do not expect to raise interest rates until at least 2024.
- **Quantitative Easing Program**: The Fed will continue purchasing at least $80 billion in Treasuries and $40 billion in agency MBS per month to help "foster smooth market functioning and accommodative financial conditions."
- As of now, the Fed has not changed their stance that they are a long way from tightening monetary policy. Our sense is that the Fed will move bit earlier than expected, with their first step being to taper the quantitative easing program later this year. "When will the Fed tighten?" will be one of the most important questions facing financial markets in 2021.

FISCAL STIMULUS

Congress passed the American Rescue Plan worth about $1.9 trillion (~9% of GDP) in March 2021. This was the third major stimulus package passed in the last year.

- The bill includes additional stimulus checks and unemployment benefits, expansion of the child tax credit, additional aid to state and local governments, and increased funding for vaccine production/distribution.

The Biden Administration will immediately pivot to the "Build Back Better" plan which could cost as much as $3 trillion and include corresponding tax increases.

- The proposal is still in its infancy and expect new details to emerge over the coming months. As a reminder, the majority in Congress is razor-thin and any bill will need either all Democrats to vote in favor or bipartisan support.

ECONOMIC GROWTH

Economic growth is estimated to materially increase due to the amount of fiscal and monetary stimulus combined with the vaccine rollout and subsequent reopening. The economy will likely surpass its pre-pandemic level in early 2021. Over the past several months, the country has experienced a somewhat uneven recovery with manufacturing and consumer spending surging, while parts of the labor market lag.

Real GDP Estimates:
2021: +6.5%
2022: +3.3%
2023: +2.2%

CORPORATE EARNINGS

S&P 500 earnings are estimated recover and increase in 2021 and 2022 after declining by -14% in 2020.

S&P 500 Earnings Estimates
- 2019 Actual: $163 (+1%)
- 2020 Estimate: $140 (-14%)
- 2021: Estimate: $176 (+25%)
- 2022: Estimate: $202 (+15%)

Over long time periods, earnings drive stock prices.

VALUATION

Most valuation measures are stretched by historical measures. The P/E ratio is calculated as the current price divided by the earnings-per-share.

- Forward P/E (next 12-months): 21.5x.
- 25-Year Average: 16.6x.

Valuation analysis is subjective and typically based on interest rates, earnings growth estimates, and historical or relative values.

Source: Winthrop Wealth Q1'2021 Market Review and Outlook

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[11] Grossman Yanak & Ford LLP. U.S. Economic Outlook, First Quarter 2021, Logan Nawrocki, CVA. May 19, 2021.