GROSSMAN YANAK & FORD LLP

BUSINESS VALUATION & LITIGATION SUPPORT SERVICES GROUP

2021
SECOND QUARTER
PUBLIC MARKET REPORT

Time to Taper

Executive Summary

The second quarter of 2021 piggybacked off the first quarter of 2021 with continued growth in the public markets. The Dow, S&P 500, and Nasdaq rose +13.8%, +15.2%, and +12.9%, respectively, in the first half of 2021. Taking a closer look, Q2 2021's performance was led by growth stocks, indicated by the Russell 1000 Growth Index, which increased by +11.93%. Further, the top sectors were Real Estate, Technology, and Energy with Utilities, Consumer Staples, and Industrials lagging.[1]

Interest rates declined in the second quarter of 2021, which supported bond prices (bond prices move inversely with interest rates). Corporate, high-yield, and investment grade bonds saw the largest increases among fixed income securities. Further, the Fed recognized that inflation was higher than expected, but remain consistent in their belief that the inflation increases are transitory. The 10-Year Treasury yield saw a surprising drop in 2Q 2021, which was attributed to decreasing odds of additional fiscal stimulus and the idea that inflation may have peaked.[2]

Merger & Acquisition (M&A) activity was strong in terms of both volume and deal value. The current progress through 2021 is on pace to potentially set new records for M&A transactions. Some reasons for the positivity are strong stock market returns, optimistic executives, and cheap financing. Further, deals are being sought after in faster-growing sectors such as technology, healthcare, and financial services.[3]

Much of the economic positivity can be attributed to continued vaccine rollouts and monetary and fiscal policies that were put in place to combat the global outbreak of COVID-19. However, now that the economy has been on the road to recovery, inflation pressures are rising and the Fed must now decide when to begin tightening monetary policy. The Fed will need to taper their quantitative easing program and eventually raise interest rates.

Broader Market

The indices shown in the table below all saw gains in Q2 of 2021, but the S&P Midcap 400 and the Russell 1000 Value were negative in the month of June.[4]

U.S. Indices	June %	Q2 %	Q1 %	2021%	vs. 52-week High	vs. 52-week Low
Nasdaq 100	6.4%	11.4%	1.8%	13.3%	-0.2%	46.2%
Russell 1000 Growth	6.3%	11.9%	0.9%	13.0%	-0.3%	44.2%
Nasdaq Composite	5.5%	9.7%	3.0%	12.9%	-0.2%	47.0%
Russell 3000	2.5%	8.2%	6.3%	15.1%	-0.2%	44.5%
S&P 500	2.3%	8.5%	6.2%	15.2%	-0.1%	41.0%
Russell Microcap	2.2%	4.1%	23.9%	29.0%	-4.1%	82.9%
Russell 2000	1.9%	4.3%	12.7%	17.5%	-2.1%	66.9%
Dow Jones Industrials	0.0%	5.1%	8.3%	13.8%	-1.7%	35.4%
S&P Midcap 400	-1.0%	3.6%	13.5%	17.6%	-3.0%	56.0%
Russell 1000 Value	-1.1%	5.2%	11.2%	17.0%	-2.8%	43.7%

Source: Nasdaq. June, Second Quarter 2021 Review and Outlook

[1] Nasdaq. June, Second Quarter 2021 Review and Outlook, The Market Intelligence Desk Team.
[2] Winthrop Wealth. Q2'2021 Market Review and Outlook, Andrew Murphy, CFA.
[3] PitchBook Global M&A Report Q2'2021
[4] Nasdaq. June, Second Quarter 2021 Review and Outlook, The Market Intelligence Desk Team.

The leading indices were the Russell 1000 Growth (+11.9%), the Nasdaq 100 (+11.4%), and the Nasdaq Composite (9.7%). The S&P 500 increased by +8.5% in the second quarter and reached a new all-time high, closing the quarter at $4,298. Further, the S&P 500 was up +15.2% for the first half of the year and is up over +96.0% from March 23, 2020, when the pandemic selloff changed course.[5]

The Dow was in the middle of the pack for the second quarter with an increase of +5.1% and was up +13.8% for the first half of the year. Further, the Russell 1000 Value Index increased by +5.2% compared to the Russell 1000 Growth Index, which grew by +11.9% in the Q2'2021. However, the Russell 1000 Value was up +17.0% for the first half of 2021, signaling a continued shift to value stocks. Lastly, in June 2021, the Nasdaq 100 led the list of indices with an overall monthly gain of +6.4%.[6]

Source: Winthrop Wealth Q2'2021 Market Review and Outlook

Equity Markets (Style/Sector/Market Cap)

Looking at specific types and sectors, growth stocks outperformed value stocks, and Real Estate (+13.09%), Technology (+11.56%), and Energy (+11.29%) represented the top gainers in the second quarter of 2021. Winthrop Wealth categorizes growth and cyclical stocks as follows: "[…] growth stocks (mainly Technology, Consumer Discretionary, and Communication Services) whose current share price is heavily dependent on earnings potential sometimes several years into the future and cyclical stocks (mostly Financials, Energy, and Industrials) that are levered to the strength of the economy."[7]

US Equity Market Performance								
Broad Market	**2nd Quarter**	**2021**	**Style**	**2nd Quarter**	**2021**	**Sector**	**2nd Quarter**	**2021**
S&P 500	8.55%	15.24%	Russell 1000 Growth	11.93%	12.98%	Communication Services	10.72%	19.67%
Russell 3000	8.24%	15.10%	Russell 1000 Value	5.21%	17.04%	Health Care	8.40%	11.85%
Dow Jones Industrial Average	5.08%	13.79%				Financials	8.36%	25.60%
Nasdaq	9.68%	12.92%				Consumer Discretionary	6.95%	10.27%
			Sector	**2nd Quarter**	**2021**	Materials	4.97%	14.50%
Size	**2nd Quarter**	**2021**	Real Estate	13.09%	23.30%	Industrials	4.48%	16.40%
Mid Cap (S&P 400)	3.64%	17.59%	Technology	11.56%	13.76%	Consumer Staples	3.83%	5.02%
Small Cap (Russell 2000)	4.29%	17.53%	Energy	11.29%	45.61%	Utilities	-0.37%	2.47%

Source: Winthrop Wealth Q2'2021 Market Review and Outlook

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[5] Winthrop Wealth. Q2'2021 Market Review and Outlook, Andrew Murphy, CFA.
[6] Ibid.
[7] Ibid.

The decrease in interest rates drove share prices higher because of the impact lower interest rates have on future expected cash flows (discount rates decrease, therefore, valuations rise). Additionally, fixed income securities become less attractive as their future expected returns diminish, therefore, investors move to stocks to achieve their required rate of return. Finally, with lower interest rates, corporations can take advantage by adding leverage or refinancing, which increases cash flows. As for the laggards, the Utilities sector fell by -0.37%, while Consumer Staples and Industrials rose by +3.83% and +4.48%, respectively. Other notable sector performances were Communication Services (+10.72%), Health Care (+8.40%) and Financials (+8.36%).[8]

For Market Capitalization's sake in the second quarter of 2021, Large Cap (S&P 500) outperformed Mid Cap (S&P 400) and Small Cap (Russell 2000). Large Cap was up +8.5%, Small Cap rose by +4.3%, and Mid Cap grew +3.6%.[9]

GICS Sectors	June %	Q2 %	Q1 %	2021%	vs. 52-week High	vs. 52-week Low
Technology	7.0%	11.6%	2.0%	13.8%	-0.2%	43.7%
Energy	4.6%	11.3%	30.8%	45.6%	-3.7%	99.1%
Consumer Disc.	3.8%	6.9%	3.1%	10.3%	-0.8%	38.8%
REITs	3.4%	13.2%	8.5%	22.9%	-3.0%	31.8%
Communications	2.7%	10.7%	8.1%	19.7%	-0.9%	49.7%
Healthcare	2.3%	8.4%	3.2%	11.9%	-0.4%	28.3%
Staples	-0.2%	3.8%	1.1%	5.0%	-1.8%	21.1%
Utilities	-2.2%	-0.4%	2.8%	2.5%	-7.0%	13.2%
Industrials	-2.2%	4.5%	11.4%	16.4%	-4.0%	53.1%
Financials	-3.0%	8.4%	15.9%	25.6%	-4.6%	63.3%
Basic Materials	-5.3%	5.0%	9.1%	14.5%	-7.7%	48.8%

Source: Nasdaq. June, Second Quarter 2021 Review and Outlook

Fixed Income/Treasury Yields

As interest rates declined in Q2 2021, bond prices rose because of their inverse relationship. This was highlighted by the Bloomberg Barclays U.S. Aggregate Bond Index, Corporates, and High-Yields, which increased by +1.8%, +3.55%, and +2.74%, respectively. Further, Munis and Securitized MBS/ABS/CMBS increased by +1.42%, +0.44%, respectively. Treasury Bills were unchanged in the second quarter and were only up by +0.02% on the year.[10]

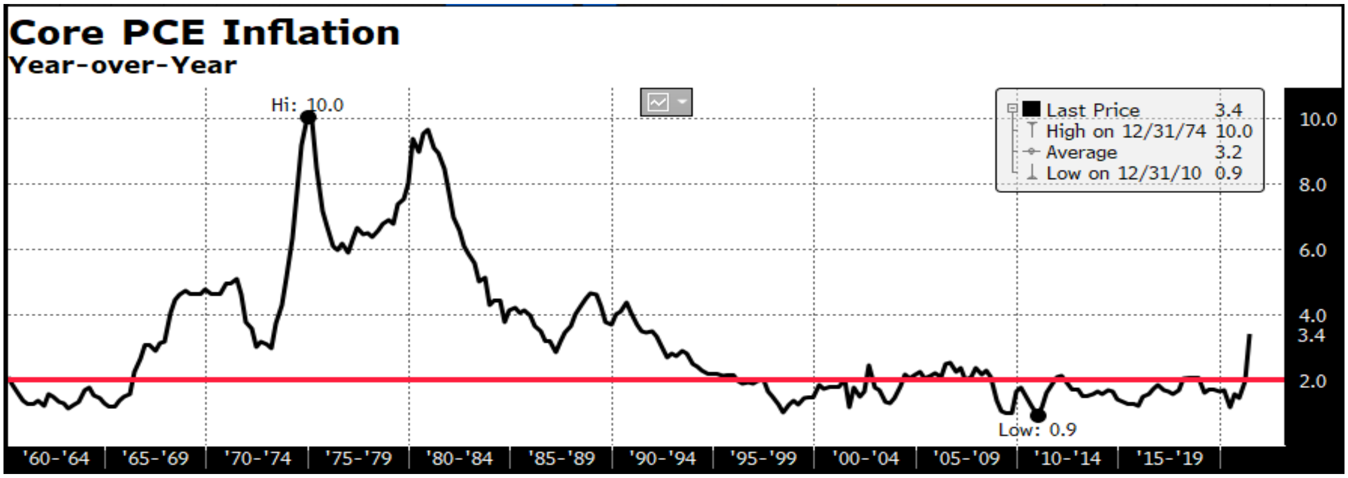
Looking at the previous two years, the Aggregate Bond Index had a return of +7.51% in 2020 and +8.72% in 2019. Corporates were up +9.89% and +14.54% in 2020 and 2019, respectively. Continuing, High-Yield bonds increased by +7.11% in 2020 and +14.32% in 2019.[11]

	Returns				Fundamental Estimates		
Bloomberg Barclays Index	2nd Quarter	2021	2020	2019	Yield to Worst	Credit Spread (bps)	Duration
Aggregate	1.83%	-1.60%	7.51%	8.72%	1.5%	32	6.5
Treasury Bills	0.00%	0.02%	0.54%	2.21%	0.0%		0.1
Corporates	3.55%	-1.27%	9.89%	14.54%	2.0%	80	8.7
High Yield	2.74%	3.62%	7.11%	14.32%	3.7%	268	3.7
Securitized MBS/ABS/CMBS	0.44%	-0.74%	4.18%	6.44%	1.7%	29	4.1
Munis	1.42%	1.06%	5.21%	7.54%	1.0%		5.0

Source: Winthrop Wealth Q2'2021 Market Review and Outlook

[8] Nasdaq. June, Second Quarter 2021 Review and Outlook, The Market Intelligence Desk Team.
[9] Ibid.
[10] Winthrop Wealth. Q2'2021 Market Review and Outlook, Andrew Murphy, CFA.
[11] Ibid.

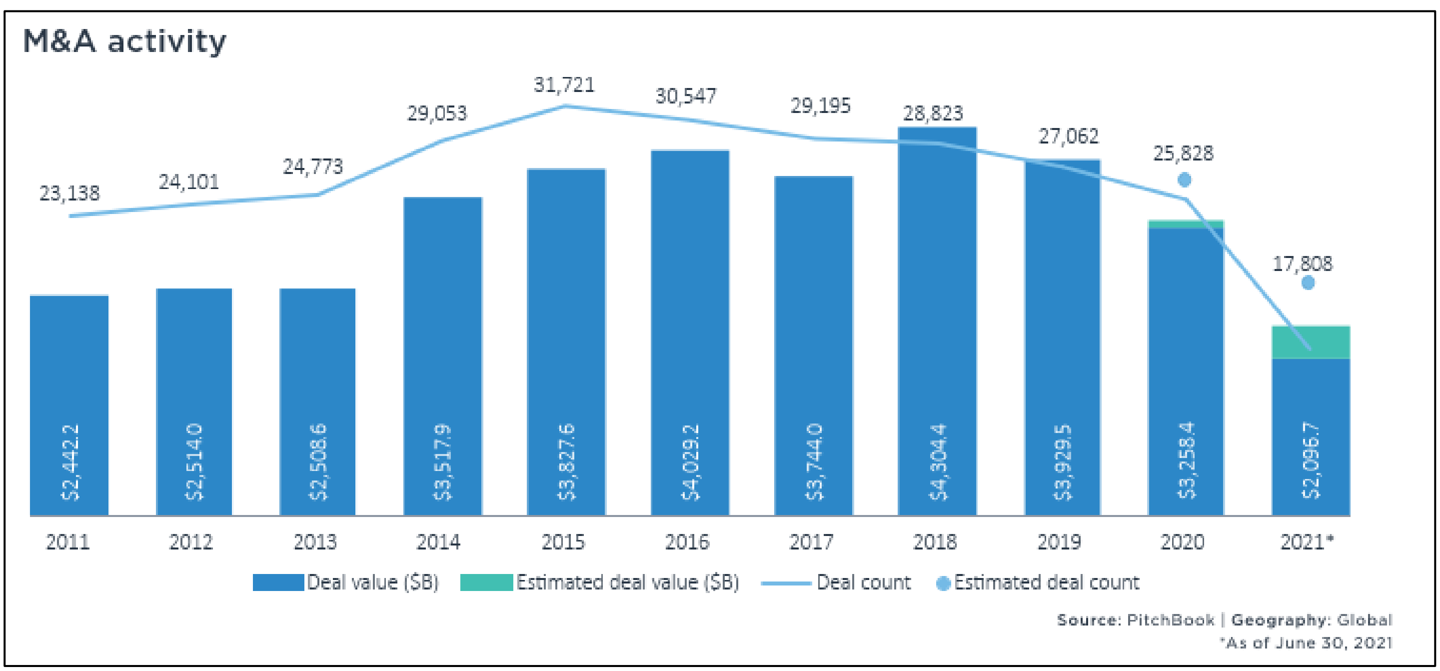
The 10-Year Treasury yield decreased to 1.47% after hitting an all-time low of 0.51% in August 2020 and increasing to 1.74% for the first quarter of 2021. The decrease was attributed to the unlikelihood of further fiscal stimulus and the idea that inflation may have reached a peak. The Fed's measure of inflation, known as the Core Personal Consumption Expenditures Index (measures prices paid by consumers excluding food and energy), increased by +3.4% year-over-year for May of 2021. Moreover, the Fed believes that inflation will level out to 2% by 2022.[12]



Source: Winthrop Wealth Q2'2021 Market Review and Outlook

M&A Activity

According to PitchBook's most recent Global M&A Report, an estimate of over 17,000 global deals have closed with a combined value of more than $2 trillion for the first half of 2021. This is on pace to meet or surpass record highs in terms of deal count. In the second quarter of 2021, there were an estimated 8,810 deals closed with a total value of $1.1 trillion.[13]



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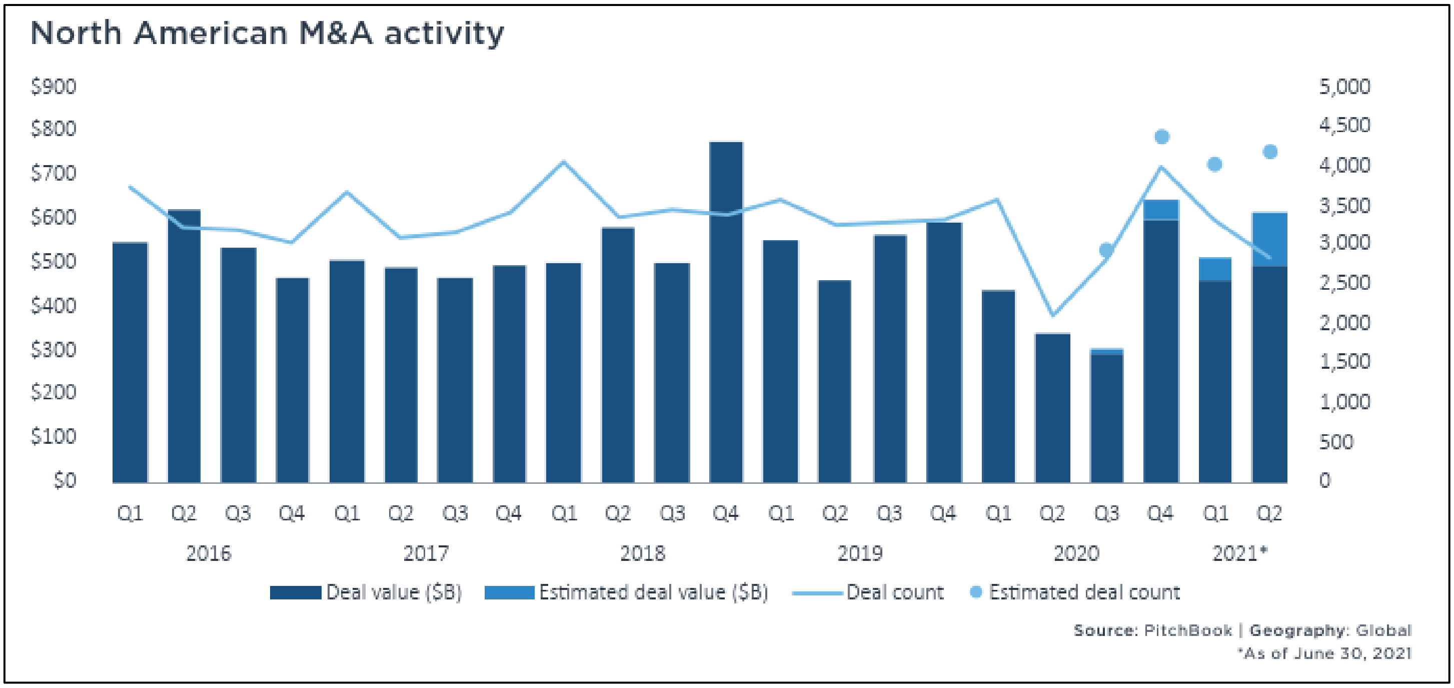
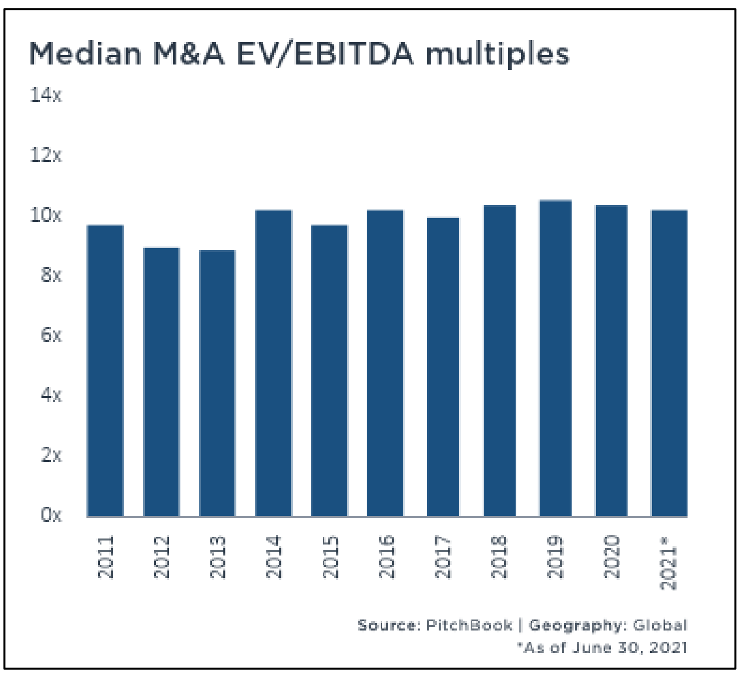
[12] Winthrop Wealth. Q2'2021 Market Review and Outlook, Andrew Murphy, CFA.

[13] PitchBook Global M&A Report Q2'2021

North America M&A activity included an estimated 8,193 deals totaling approximately $1.1 trillion in the first half of 2021. 1Q 2021 had an estimated 4,015 deals with an approximate value of $508 billion and 2Q 2021 had an estimated 4,178 deals with an approximate value of $614 billion for North American M&A activity.[14]





As for the Global multiples on M&A transactions, the median EV/EBITDA multiple for the first of half of 2021 was 10.2 times on a deal count of 280. This was similar to the median multiple in 2020 of 10.3 times on a deal count of 564. Furthermore, the median and average deal size for the first half of 2021 were approximately $39.0 million and $408.9 million, respectively.[15]

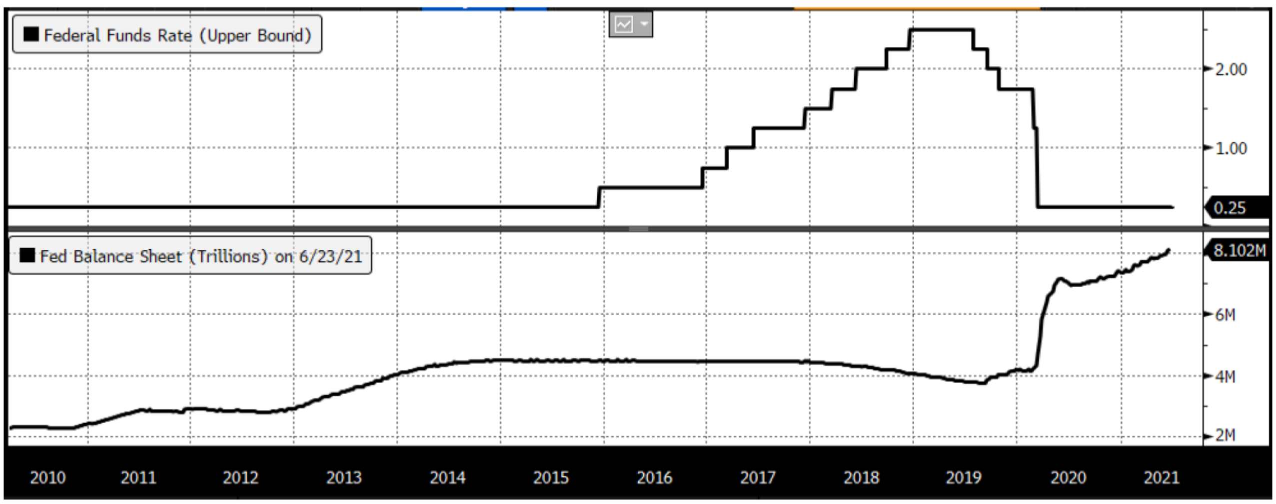
[14] PitchBook Global M&A Report Q2'2021
[15] Ibid.

Fed/Stimulus/Economy

Monetary policy has been instrumental in the performance of the markets and the economy since the pandemic began. The Federal Open Market Committee (FOMC) cut the federal funds rate by a total of -1.5% in March 2020, leaving the rates at a current range of 0 to 0.25%. The Fed has continually bought $80 billion in Treasuries and $40 billion in agency mortgage-backed securities each month since the start of the pandemic. This has resulted in a total of $8.1 trillion on the Fed's balance sheet.[16]

Interest Rates	Balance Sheet		Commentary
Federal Funds Rate	Fed Balance Sheet	Fed Balance Sheet 2021 Change	June FOMC Statement
0 - 0.25%	$8.1 Trillion	+ $0.7 Trillion	The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved.

Source: Winthrop Wealth Q2'2021 Market Review and Outlook



Source: Winthrop Wealth Q2'2021 Market Review and Outlook

The *CARES Act* and the *Consolidated Appropriations Act, 2021* 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 2021, Congress passed the *American Rescue Plan*, a COVID-relief and stimulus package worth approximately $1.9 trillion (~9% of GDP). On March 31, 2021, President Biden announced the *American Jobs Plan* to create jobs and rebuild the country's infrastructure. Additionally, the *American Families Plan* (which was announced but not yet enacted in Q2'2021) is expected to provide assistance with childcare, education and other governmental social programs to "rebuild the middle class and invest in America's future."[17]

GYF's *U.S. Economic Outlook, 2Q 2021* reports on another economic indicator, employment conditions. 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 was curtailed by the pandemic. In June 2021, the unemployment rate and number of unemployed persons decreased to 5.9% and 9.5 million, respectively.[18]

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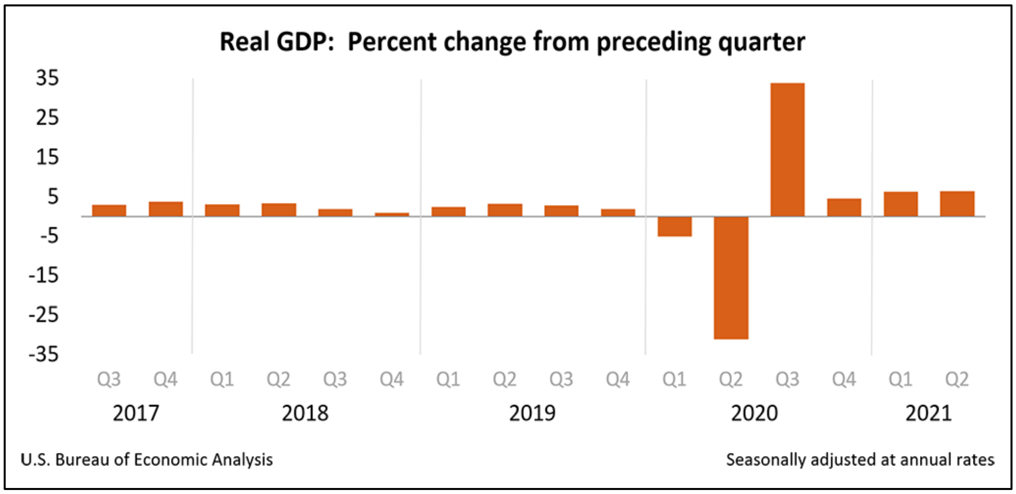
[16] Winthrop Wealth. Q2'2021 Market Review and Outlook, Andrew Murphy, CFA.

[17] Build Back Better, Whitehouse.gov.

[18] Grossman Yanak & Ford LLP. U.S. Economic Outlook, Second Quarter 2021, Logan Nawrocki, CVA. August 6, 2021.



Real GDP grew 6.5% in the second quarter of 2021 at an annual rate.[19] Previously, Real GDP increased at an annual rate of 6.3% 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. [20]

Outlook/Conclusion

The markets have experienced a significant recovery since the pandemic sell-off in 2020 due to massive monetary and fiscal stimulus, vaccine roll-outs, and the reopening of the economy. Now that the markets have seemingly obtained the maximum outside support, it is likely time for the Fed to start tapering down their bond-buying program. Inflationary pressures are present, but the Fed has not indicated that they will raise interest rates any time soon. Further, higher taxes may result from President Biden's Build Back Better plan. Because of these anticipated changes, the markets will face potential headwinds in the future quarters of 2021, and volatility is expected.

CORONAVIRUS UPDATE

Data continues to improve as the vaccine rollout gains momentum.

Vaccines

- **Total Vaccines Delivered:** 382,000,000.
- **# of People Who Received At Least One Dose**: 181,000,000.
- **# of People Fully Vaccinated**: 155,000,000.
- **% of Population Over 65 Years Old Fully Vaccinated**: 55%.

Cases

- New Cases 7-Day Average: 12,600.
  - Down from 250,000 in January 2021.

Hospitalizations

- 7-Day Average: 12,000.
  - Down from 125,000 in January 2021.

Source: CDC.

MONETARY POLICY

The Fed remains accommodative:

- **Interest Rates**: The federal funds rate is currently at a range of 0% to 0.25%. Most FOMC members now forecast the next rate increase to occur in 2023.
- **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."
- Now that the economy is on the path to recovery and inflation pressures are rising, the Fed must decide when to tighten monetary policy by first taking their foot off the gas pedal (tapering the quantitative easing program) and next by hitting the brake (raising interest rates). Our sense is that the Fed will begin tapering within the next six months and will raise interest rates in late 2022.

FISCAL STIMULUS

Since the start of the pandemic, Congress has passed three major fiscal stimulus bills, including the CARES Act ($2.3 trillion) in March 2020, the Consolidated Appropriations bill ($900 billion) in December 2020, and the American Rescue Plan ($1.9 trillion) in March 2021.

The Biden administration is working to pass the three-part Build Back Better plan, that also includes proposals for the American Jobs Plan (infrastructure) and the American Family Plan (~$1.8 trillion).

The White House is proposing increases to the corporate, individual, and capital gains rates as well as additional funding to the IRS to curtail tax evasion to fund the latest proposals. Note that these are currently just proposals, 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. While certain parts of the economy are doing exceptionally well, the labor market has been a bit weaker than expected over the last few months. We remain in the camp that the labor market will accelerate, and that economic growth will achieve the current estimates.

Real GDP Estimates:
2021: +7.0%
2022: +3.3%
2023: +2.4%

CORPORATE EARNINGS

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

S&P 500 Earnings Estimates

- 2021 Estimate: $190 (+35%)
- 2021: Estimate: $212 (+11%)
- 2022: Estimate: $234 (+10%)

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): 21.4x.
- 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 Q2'2021 Market Review and Outlook

[19] Winthrop Wealth. Q2'2021 Market Review and Outlook, Andrew Murphy, CFA

[20] U.S. Bureau of Economic Analysis. Real GDP, Second Quarter 2021 (Advance Estimate) and Annual Update.