

EXECUTIVE SUMMARY

The second quarter of 2021 piggybacked off the first quarter with continued growth in the public markets.

- The Dow, S&P 500 and Nasdaq continued to rise in the first half of 2021.
- The Fed recognized that inflation was higher than expected in Q2 2021, but continues to opine that the inflation increases are transitory.
- M&A activity remains strong, and the current progress through 2021 is on pace to potentially set new records for M&A transactions.

The overall economic positivity continues in the second quarter of 2021, due primarily to monetary and fiscal policies put in place to combat the pandemic. However, now that the economy is recovering, inflation pressures are rising, and the Fed must decide when to begin tightening monetary policy.

BROADER MARKET

Most major market indices saw gains in Q2 2021

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

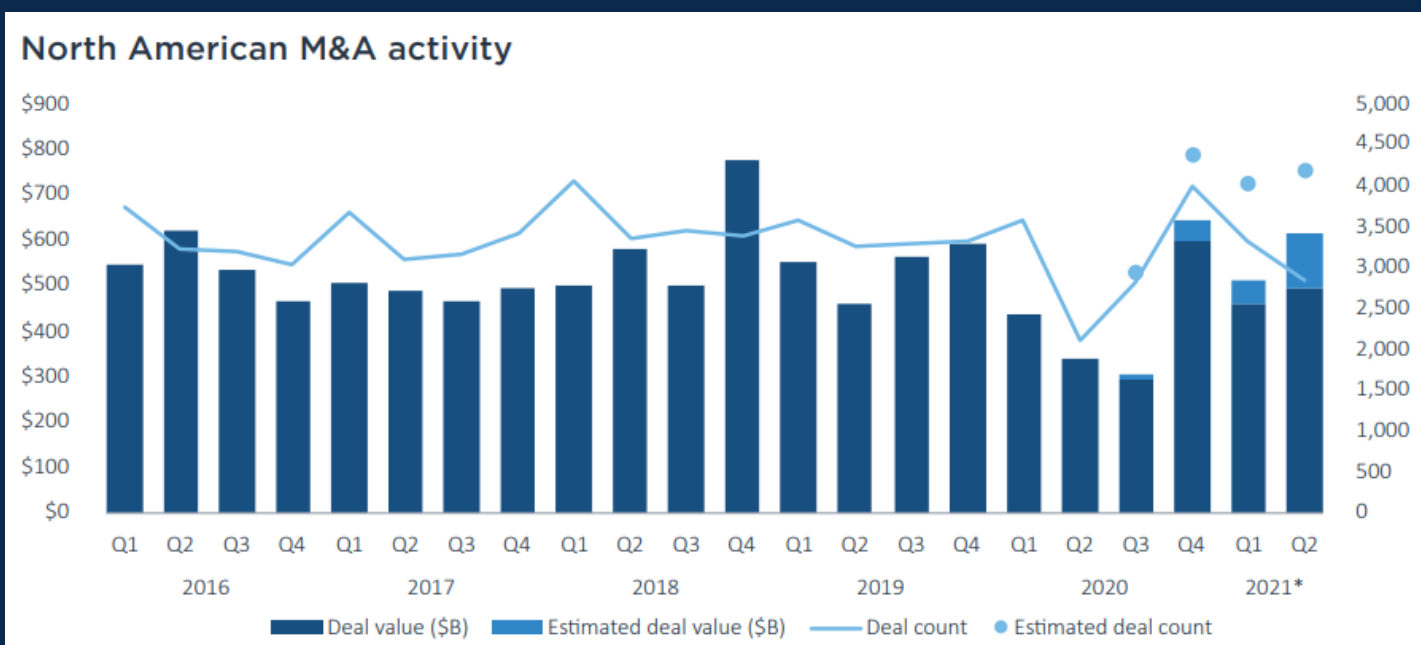
EQUITY MARKETS (STYLE/SECTOR/MARKET CAP)

Looking closer 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. The decrease in interest rates drove share prices higher because of the impact lower interest rates have on future expected cash flows (as discount rates decrease, valuations rise). Additionally, fixed income securities become less attractive as their future expected returns diminish, so investors move to stocks to achieve their required rates of return. Finally, corporations can take advantage of lower interest rates by adding leverage or refinancing, which increases cash flows.

FIXED INCOME/TREASURY YIELDS

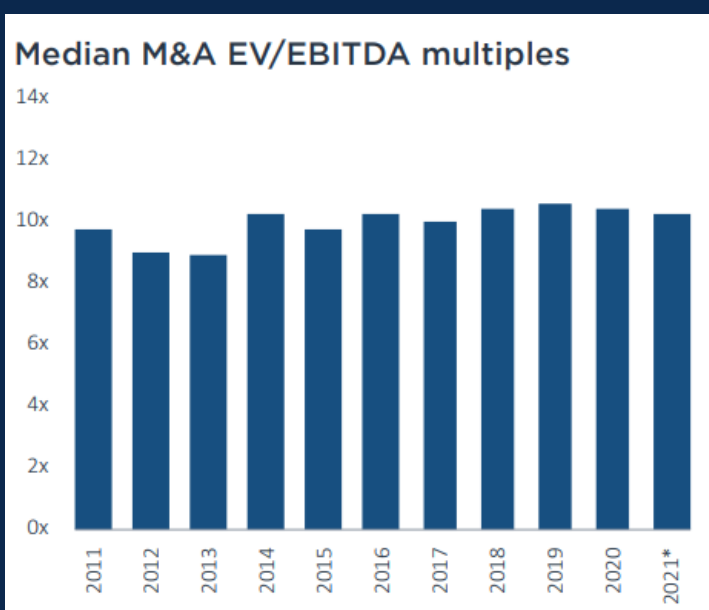
As interest rates declined in Q2 2021, bond prices rose due to their inverse relationship. Treasury Bills were unchanged in the second quarter and were up +0.02% for the year. The 10-Year Treasury yield decreased to 1.47% after hitting an all-time low of 0.51% in August 2020 and increasing to 1.74% for Q1 2021. The decrease in the second quarter was attributed to the unlikelihood of further fiscal stimulus and the thought that inflation may have peaked. The Fed believes that inflation will level out to 2% by 2022.

M&A ACTIVITY



Source: Pitchbook | Geography: Global, As of June 30, 2021

According to PitchBook's most recent [Global M&A Report](#), in the first half of 2021, over 17,000 global deals have closed with a combined value exceeding \$2 trillion. North American M&A activity so far in 2021 comprised 8,193 deals worth \$1.1 trillion. In Q2 2021, 8,810 global deals occurred with a combined value of \$1.1 trillion. Of this activity, 4,178 deals, totaling \$614 billion, were North American M&A transactions.



Source: Pitchbook | Geography: Global, As of June 30, 2021

In the first half of 2021, the global median EV/EBITDA multiple for M&A transactions was 10.2 times on a deal count of 280, which was similar to the 2020 figure of 10.3 times on a deal count of 564. The global median deal size was \$39.0 million, and the average deal size was \$408.9 million.

STIMULUS/ECONOMIC INDICATORS

Since the beginning of the COVID-19 pandemic in March 2020, numerous stimulus bills, totaling nearly \$5.0 trillion, have been enacted to help to boost the economy. Additional legislation was also in progress but not yet finalized by the end of the second quarter of 2021. The [American Jobs Plan](#) is expected to create jobs and rebuild the country's infrastructure. The [American Families Plan](#) is intended to provide assistance with childcare, education and other governmental social programs.

Two economic indicators, Real GDP and employment conditions, showed improvement in Q2 2021. According to the [U.S. Bureau of Economic Analysis](#), Real GDP grew at an annual rate of 6.5% in the second quarter of 2021, compared to 6.3% in the first quarter. Data from the [Bureau of Labor Statistics](#) notes a decrease in unemployment, reflecting the continued resumption of economic activity that was curtailed by the pandemic. In June 2021, the unemployment rate decreased to 5.9%, and the number of unemployed persons fell to 9.5 million. For additional information about these and other economic indicators, read GYF's [Q2 2021 Economic Outlook Report](#).

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 be raising 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 can be expected.

[Click here for more public market statistics and additional commentary.](#)

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Ethan is a valuation analyst in GYF's Business Valuation Services Group. He utilizes his background in FP&A to perform risk identification, financial statement analysis, industry and economic research and financial modeling. As part of the GYF team, Ethan is involved in the valuation of privately held companies for various purposes. He plans to obtain his CVA credential from NACVA.