KEY TAKEAWAYS | SECOND QUARTER 2021

VITAL SIGNS

The State of the Markets

ECONOMY

Consumer sentiment continues to improve in 2Q21. Although consumer sentiment dropped in late June, it was still the second highest reading since the start of the pandemic. Consumers are paying close attention to three critical factors: inflation, unemployment, and interest rates. In particular, most see the decade's peak increase in prices in May as just temporary, adding to their optimistic outlook.

Inflation remains below the Fed target of 2%. The consensus among market watchers is that the inflationary pressures experienced during the second quarter are the result of a re-activating economy and thus temporary. This view is reinforced by the lack of consistent inflation across various purchase categories, with price increases impacting goods more than services.

The labor market is slowly coming back to normal. The number of unemployed people prevented from looking for work because of the pandemic continues to drop. This resulted in a slight improvement in the unemployment rate (5.9%) compared to 1Q21 (6.0%). However, total employment is still 6.8 million below its pre-pandemic level. A large percentage of people are likely to return to the labor force later, but some have permanently retired.

Indicator	Latest Available Data (eop)	Change: Average Last 5 Years	Change: YoY	Change: YTD	Change: QoQ
Consumer Sentiment	85.5 Jun	→	↗	↑	→
Inflation (CPI)	5.3% Jun	↗	↑	↑	↑
Unemployment	5.9% Jun	→	↓	↓	→

CAPITAL MARKETS

The stock market remains strong. For 2Q21, the S&P 500 delivered an 8% return, with gains of 14% so far this year. The combination of a reopening economy and an easy-money policy from the Fed has created the backdrop needed to fuel the equity market's ascent. As the economy continues to reopen and vaccination rates increase, economic readings will continue to improve, strengthening the prospects for earnings growth and a robust market performance.

The Fed is holding steady, for now. In the face of rising inflation and a bumpy economic recovery, the Federal Reserve remained steady throughout the quarter and kept short-term interest rates near zero. However, Fed members in their June meeting indicated that they expect to begin hiking short-term rates in 2023. As a result, the yield curve flattened, as short-term rates jumped, while longer-term yields held steady or declined.

S&P 500	4,238 Jun	↗	↑	↑	↗
10-yr. T-Bond Rates	1.5% Jun	→	↑	↑	→
VC - Investments ($bn)	81. 2Q21	→	↑	↑	↗
VC - Exits ($bn)	254.1 2Q21	→	↑	↑	↑
VC - Fundraising ($bn)	41.4 2Q21	→	↗	↑	↗

M&A ACTIVITY

Another record quarter for VC investments. US-based, VC-backed companies raised over $76B in 2Q21, up 123% compared to 1Q21.Nearly 60% of all capital raised in the second quarter came from deals worth more than $100M. For startups, much of the investment went to companies developing technology that proved valuable during the pandemic as the world changed how it worked, traveled, communicated, and shopped.

M&A Volume Multiples U.S. M&A remains strong, but growth is flat compared to 1Q21. Deal making in the U.S. was resilient in the second quarter, fueled by very supportive financing markets combined with the pressure from businesses to reorganize their operating models as a result of the pandemic. There is also the incentive to close deals before the end of 2021 from a tax perspective, as Congress and the Biden administration look for ways to finance proposed investments in infrastructure projects.

Middle market M&A multiples increased slightly. EBITDA multiples increased from 8.8x in 1Q21 to end the second quarter at 9.1x.

U.S. M&A ($bn)	248. Jun	→	↑	→	→
M&A EBITDA Multiples	9.1x 2Q21	→	↑	→	→

Enrique C. Brito, CFA, CVA, CM&AA

Managing Director of Transaction Advisory Services

804.977.5051 | ecbrito@pbmares.com