

VITAL SIGNS

# The State of the Markets

## ECONOMY

**Consumer sentiment posted a slight decline in 4Q20** - Although the index has remained well below pre-pandemic levels (100), it posted a trivial decline in 4Q20 (79) from the previous quarter (80). The deployment of the Covid-19 vaccine and the anticipated impact of Biden's economic policies contributed to the stability of the index.

**Inflation remains stable:** The annual inflation rate in the US increased to 1.4% in December of 2020, an outcome slightly higher than market forecasts of 1.3%. Most of the increase was driven by energy and food prices.

**Unemployment steady at 6.7%.** Although the virus surge continues to affect the hospitality industry with temporary layoffs, other industries are experiencing job gains. Also, there were fewer permanent job losses in 4Q20. This, combined with the increasing number of people looking for work prompted by the national vaccination program, offers a positive sign for the rebounding of the labor market in 2021.

Indicator	Latest Available Data (eop)	Change			
		Average Last 5 Years	YoY	YTD	QoQ
Consumer Sentiment	80.7 Dec	↓	↓	↓	→
Inflation (CPI)	1.3% Dec	↑	→	→	↑
Unemployment	6.7% Dec	→	↑	↑	↓

## CAPITAL MARKETS

**The S&P 500 delivered 17% in 2020.** Despite a challenging year, the S&P 500 index ended at an all-time high (3,756). The promise of vaccines and outside fiscal and monetary-policy aid helped to foster buy activity over the past several months lifting the index from its lows in March (2,237). The outstanding performance was supported by a handful of sectors, namely, IT, consumer discretionary, healthcare and telecom which comprise 65% of the index.

**The Fed is holding steady.** Short-term interest rates continue to hover at near zero (0% - 0.25%). The Federal Reserve reiterated the commitment to using its full range of tools to support the US economy given that the uncertainty surrounding the economic outlook remained elevated.

**VC investments hit new record in 2020.** Despite the pandemic, VC-backed companies raised nearly \$130B in 2020 (up 14% from 2019). Deal volume declined by 9% indicating that investments are concentrated in fewer, larger deals. In fact, mega-rounds (\$100M+) represented half of the 2020 funding with the number of quarterly mega-rounds rising for the third consecutive quarter.

S&P 500	3,695 Dec	↑	↑	↑	↑
10-yr. T-Bond Rates	0.9% Dec	↓	↓	↓	↑
VC - Investments (\$bn)	44.1 4Q20	→	↑	↑	→
VC - Exits (\$bn)	140.5 4Q20	→	↑	↑	↑
VC - Fundraising (\$bn)	259.8 4Q20	→	→	→	↑

## M&A ACTIVITY

**M&A activity in the U.S. drops by 30%.** Total M&A deal value in the U.S. for 2020 was \$1.4T representing a 30% drop from 2019. Similarly, deal count declined by 20%. Most of the decline results from companies moving to preserve cash instead of pursuing big-ticket acquisitions. However, the tide may be turning as increases in share prices are prompting companies with strong balance sheets to target vulnerable rivals.

**M&A multiples are improving.** EBITDA multiples continue their climb from the bottom of 5.8x reached in 2Q20. As of the end of December, the median EV/EBITDA multiple reached 9.7x.

U.S. M&A (\$bn)	17. 4Q20	→	↑	↑	→
M&A EBITDA Multiples	9.7x 4Q20	→	↑	↑	→