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KEY TAKEAWAYS | THIRD QUARTER 2021

VITAL SIGNS

The State of the Markets

ECONOMY

Consumer sentiment fell sharply in 3Q21. The overall consumer mood can be characterized as cautious due to the Delta variant, persistent inflation, reduced labor force participation rates and unfavorable long-term prospects for the national economy. In turn, expectations of a decline in real income and the reduced confidence in the government economic policies are leading to delayed purchases and caution on the part of consumers.

Inflation is outpacing forecasts. The consumer price index rose to a 5.4% annual rate in September. One of the main culprits is the bottlenecks afflicting supply chains. In addition, rising prices for food, housing, and energy could affect significantly the economic recovery in the U.S. Another sign of the rising inflation is the recent increase in Social Security benefits of 5.9%, the largest increase in 39 years.

The unemployment rate dropped to 4.8% in September. However, only 194K jobs were added in September, well below expectations of 500K. It's the weakest job growth so far in 2021. Most experts thought that a record number of open positions and a recovering economy would lead to a surge in job growth in the second half of 2021. However, the persistent challenge of finding workers and the Delta variant is making hiring an uphill battle.

Indicator	Latest Available Data (eop)	Change: Average Last 5 Years	Change: YoY	Change: YTD	Change: QoQ
Consumer Sentiment	72.8 Sep	→	↘	↓	↓
Inflation (CPI)	5.4% Sep	↗	↑	↑	↑
Unemployment	4.8% Sep	→	↓	↓	↓

CAPITAL MARKETS

The stock market is reflecting investor uncertainties. Equities were mixed for the third quarter, giving back most of their gains in September. The S&P 500 Index finished the quarter with a 0.58% gain. While corporate earnings have been high lately, recent shifts in thinking about Fed policy have led to lower projections of gross domestic product. In turn, there is uncertainty among investors about the sustainability of current market valuations.

The Fed is holding steady, for now. Although the shape of the yield curve has not substantially changed over the last three months, the entire curve has shifted upward as rates have begun to rise. Overall, this suggests a healthy market pattern in the long term. However, if rates continue to rise, both equities and bonds may suffer, leaving little safety for traditional investors.

Another record quarter for VC investments. Following similar strong performance during the first two quarters of 2021, $83bn in capital was deployed across 3,500 deals in 3Q21. Further, the long-term trend of funding larger deals continues with the YTD total invested in mega-rounds ($100M+) reaching $137bn - almost twice as much as the record $77bn invested in 2020.

S&P 500	4,446 Sep	↗	↑	↑	↗
10-yr. T-Bond Rates	1.3% Sep	→	↑	↑	↘
VC - Investments ($bn)	88.7 3Q21	→	↑	↑	↗
VC - Exits ($bn)	210.3 3Q21	→	↑	↑	→
VC - Fundraising ($bn)	21.9 3Q21	→	↗	↗	↘

M&A ACTIVITY

U.S. M&A in 3Q21 was strong. Deal activity during the third quarter was the highest so far in 2021. Activity is being driven by seller concerns over potential federal capital gains rate changes and a robust backlog of transactions and announcements from earlier in the year. Excess capital and high demand will continue to be catalysts for continued activity.

M&A multiples jump in 3Q21. The median EBITDA multiple was up to 10.7 for domestic transactions from a range of 8.8 to 9.2 in the fourth quarter of 2020 and the first two quarters of 2021. The increase in pricing multiples is a reflection of deal makers' pursuit of larger acquisitions and the wide availability of capital.

U.S. M&A ($bn)	237.2 Sep	↗	→	→	→
M&A EBITDA Multiples	10.7x 3Q21	→	↗	↗	→

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