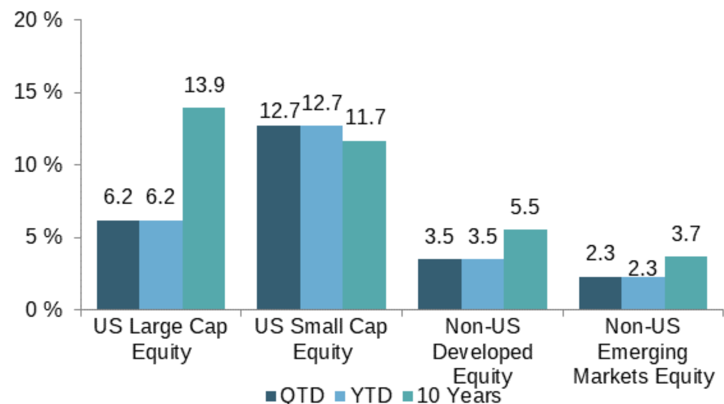
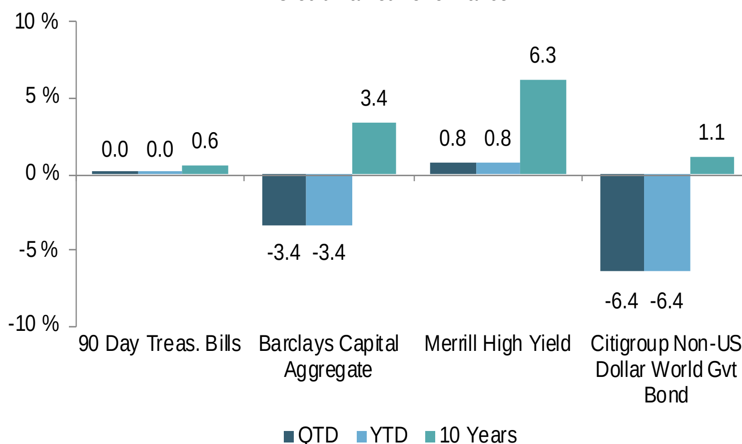
Global Market Summary
2021 / Q1

Lining Up



Passing the one-year anniversary of the widespread lockdowns that brought economic activity to a halt, markets continued to climb in the first quarter with the S&P 500, MSCI EAFE, and MSCI EM indices posting gains of 6.2%, 3.5%, and 2.3%, respectively. In much of the world positive sentiment that the worst of the pandemic is over continued to grow as people lined up to receive COVID-19 vaccinations. Although the pace and availability of vaccinations varied considerably by region and country, significant progress towards wide-spread vaccination was made during the quarter, bringing the world closer to a return to normal.



There has been a marked pickup in economic activity; the IMF now expects the global economy to expand by 6% in 2021, led by strong growth in the US and China. Accommodative policies from global central banks and record-breaking fiscal stimulus measures continue to ensure liquidity and stimulate demand. However, the darker side to all the excess liquidity was front and center this past quarter, as the Reddit-fueled stock surge, record-setting SPAC offerings, and the Archegos Capital meltdown all pointed to a robust willingness to take on risk. While each occurred on the edges and only had a transitory impact on broader equity markets, they provide a barometer of sentiment and in some cases a cautionary tale about how speculation can go wrong. For institutional investors, they are also a reminder that the price you pay for something matters, as prices can shift back towards fundamental value in the blink of an eye.

Quarterly Highlights

After a rancorous post-election period that included protests and a riot at the Capitol, in late January Joe Biden became the 46th president of the United States. His administration quickly got to work implementing his key policy priorities – an additional round of stimulus, vaccine distribution, and infrastructure spending. On the same day he took office, the Biden administration posted its 200-plus-page COVID-19 response strategy, which included a pledge to "listen to science" and outlined a multi-pronged approach to vaccine distributions, addressing issues around vaccine acceptance, production, and availability. To speed up the supply available, the administration has invoked the Defense Production Act to collaborate with US-based pharmaceutical manufacturers. On the distribution side, the federal government has worked with FEMA and local authorities to build its own vaccination centers and approve new distribution centers at local healthcare providers. Since its initial announcement, the administration has gone on to refine its vaccine goals to include enough vaccine doses for every eligible adult by May, with 200 million doses administered in Biden's first 100 days. As of early April, 175 million doses have been administered nationwide with approximately 33% of the total population receiving at least one dose. An estimated 20% of the total population is fully vaccinated, with the Pfizer-BioNTech offering being the most widely distributed vaccine and Moderna a close second. By quarter end, nearly all states had met the president's directive to make all adults eligible for vaccination by May 1st.

Leveraging the Democrats' narrow control of the legislative branch and the reconciliation process, the Biden administration passed a $1.9 trillion coronavirus-aid bill providing direct aid to many lower- and middle-income Americans, an extension of a $300 weekly jobless-aid supplement, and a one-year expansion of the child tax credit. The bill also includes support for schools, vaccine-distribution efforts, and funding gaps in state and local government budgets. The legislation accounts for an estimated 9% of US GDP with $1 trillion expected to be spent in the next five months. Overall, US fiscal-aid packages implemented since the start of the pandemic now top 27% of GDP, raising some concerns about the potential for inflation. On the last day of the quarter, the Biden administration released its $2.3 trillion infrastructure plan, which includes money for traditional infrastructure (e.g., roads, bridges, mass transit), soft infrastructure, and manufacturing. The plan is expected to face vocal resistance in Congress, as it targets raising corporate tax rates from 21% to 28%, which would undo a cornerstone of the last administration's tax cuts.

China's COVID-19 vaccination efforts got off to a slow start, but with the virus largely contained its economy continued to expand. The IMF expects China's economy to grow 8.4% in 2021. Over the past twelve months, manufacturing activity has led the country's recovery with exports up over 30% on a year-over-year bias. Consumer spending has been more of a mixed bag but is trending in a positive direction; the official National Bureau of Statistics (NBS) Non-Manufacturing Purchasing Managers' Index (PMI) recently surged to 56.3. China's set to become the first major economy to reduce its pandemic-related stimulus efforts. Taking a measured approach, China's central bank used its daily operations to reduce the amount of liquidity provided for banks, but kept benchmark lending rates unchanged. In addition, China's financial regulators imposed new rules making it more difficult for property developers to obtain

new bank loans, while on the fiscal side the government lowered its deficit target and cut the quota for local government special bonds.

China's National People's Congress concluded its annual parliamentary session in early March, discussing long-term plans for the future of the country. The Chinese Communist Party (CCP) adopted a new five-year development plan calling for a more self-reliant economy, setting a target growth rate of 6%. Increasing the government's oversight of Chinese tech companies was also a prominently featured topic during the meeting; Pony Ma, founder and CEO of Tencent Holdings, called for stricter regulation of the company he founded. Jack Ma's Alibaba (and Ant Group) and Tencent Holdings have been in the spotlight over the past couple of months. Jack Ma is set to restructure Ant Group into a financial holding company overseen by China's central bank after being pressured by regulators. According to news reports in late March, Pony Ma met with anti-trust watchdog officials to discuss compliance regarding his company.

Relations between the incoming Biden administration and China got off to a bumpy start. The Biden administration has publicly called China an "assertive competitor." At high-level talks in Anchorage, Alaska, both the US and Chinese delegations aired their grievances in dramatic fashion on a wide range of topics, including cyber-security, human rights, and economic coercion. The talks did not lead to a substantive change in the relations between the world's two largest economic powers; however, the fact that such talks are occurring so early in the new administration was taken as a sign that the process around US-China relations will be more formal going forward.

The Eurozone seemed well-positioned to vaccinate its population with a robust pharmaceutical industry and the European Commission centralizing purchases and resources, avoiding potential competitive bidding. However, delays in ordering and a complex global supply chain favoring early orders led to a severe shortage of doses, keeping the EU's vaccination effort from taking off like those in the UK and US. Bowing to political pressure, EU leaders sought to tighten vaccine export controls and proposed additional export bans. While the EU stopped short of additional bans, it has continued to press the UK on which side gets to claim vaccine production rights from various plants in the EU.

Across continental Europe, responses to rising COVID-19 case rates and the "UK variant" varied as political dynamics made it difficult to impose a full lock-down. French President Emmanuel Macron initially relied on a nationwide evening curfew and other restrictions, while Germany tried to stay the course on its incremental easing of restrictions. However, as case rates continued to climb and strain healthcare systems, both relented and joined many of their European peers in reversing easing measures and imposing more-stringent lock-downs to control the "third wave." While restrictions continued to impact the services sector, the Eurozone economy showed signs of adaptation, as higher levels of remote working and enhanced social-distancing rules helped more companies maintain operations despite the lock-downs. The OECD Weekly Tracker of GDP growth remained flat across the region and the IHS Markit Flash Composite PMI rose in March as factories ramped up output at the fastest monthly pace in over 23 years. In its most recent meeting, the European Central Bank (ECB) voted to keep interest rates at 0% and step up its bond-buying stimulus to prevent an early rise in borrowing costs. ECB President Christine Lagarde said that these actions

were aimed at sustaining favorable financing conditions.

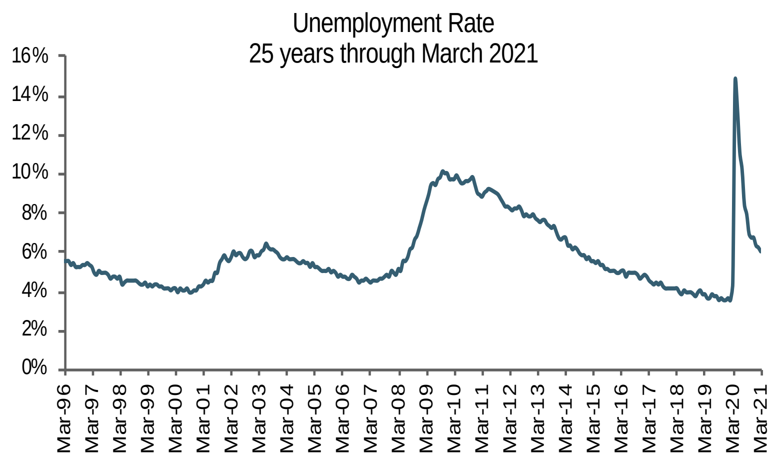
The COVID-19 vaccination roll-out in Japan got off to a slow start, as the country didn't approve any of the leading vaccines until February (when its health ministry approved the Pfizer-BioNTech vaccine). Initially, the country plans to focus on healthcare workers and the elderly, making it likely that the general population won't be vaccinated until the second half of the year. Overall, COVID-19 infection rates remain low compared to those of the US and Europe. The Japanese government has been quite vigilant about implementing voluntary restrictions to slow upticks in case rates and did so early in the quarter in its more densely populated regions, urging residents to work from home and restaurants and bars to close early. These restrictions did have some impact on the services sector and GDP growth did take a step back from that of late 2020, but it continued to benefit from the strong global economic growth led by China and the US – the Tankan survey by the Bank of Japan (BOJ) showed its third straight quarter of improvement, lifted by a rebound in manufacturing activity and increases in capital expenditures. During its March policy meeting, the BOJ left its short-term rate targets unchanged but widened the band around long-term rates. The bank also removed its explicit guidance to buy exchange-traded funds (ETFs) at an annual pace of roughly ¥6 trillion ($55 billion), replacing it with guidance indicating that it would buy ETFs only when necessary while maintaining a ceiling of ¥12 trillion for annual purchases.

The Bloomberg Commodity Index ended the quarter up 6.92%, driven by gains in energy and petroleum. The global roll-out of COVID-19 vaccinations increased investor optimism for a global economic recovery and buoyed demand for commodities. The US dollar strengthened during the quarter with a gain of 3.57% against the six major currencies, its best quarterly performance since 2018. Energy outperformed all other Bloomberg Commodity sub-index constituents during the first quarter – primarily unleaded gasoline and Brent crude, which led with gains of 29.0% (Bloomberg Unleaded Gasoline Subindex) and 23.3% (Bloomberg Brent Crude Subindex), respectively, driven by higher consumer demand and continued supply constraints. Industrial metals performed best over the quarter on a one-year-change basis, posting a 53.35% increase (Bloomberg Industrial Metals Index) driven mainly by gains from aluminum and copper. Precious metals lagged relative to other commodity constituents, posting a return of -9.26% for the quarter (Bloomberg Precious Metals Index) with sharp declines in silver and gold. Bitcoin gained over 80% and its market cap crossed $1 trillion, as a handful of payments networks, investment advisors, and companies announced plans to include Bitcoin on their platforms.

Economic Indicators

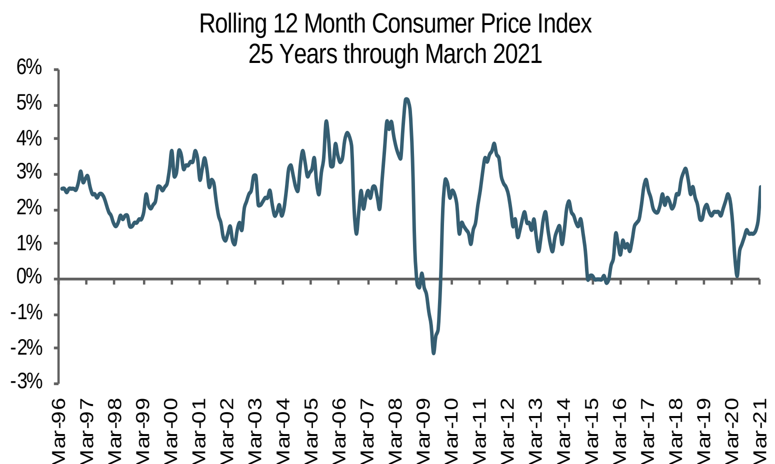
The US economy recovered over 1.6 million jobs over the first quarter as improving economic conditions and business confidence spurred increased hiring. In March, the leisure and hospitality segment made a strong recovery, adding back 280,000 workers. Other segments with notable hiring were construction (+110,000) and government services (+136,000), especially in education, as many places of learning began to normalize activities. No meaningful job losses occurred in aggregate across any single segment in the month of March.

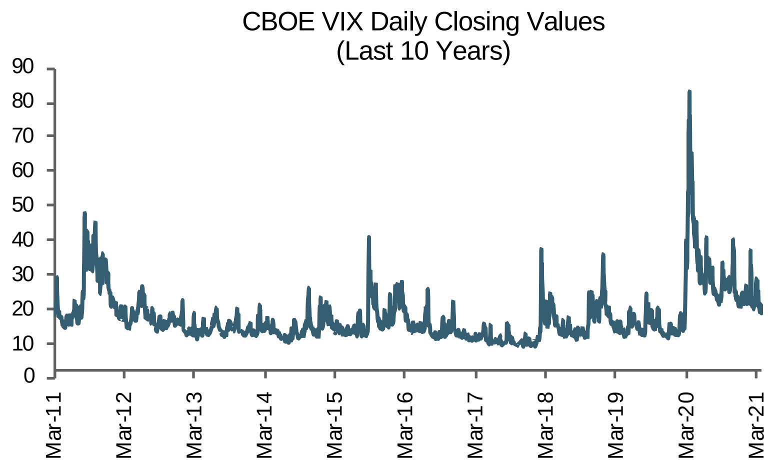
The unemployment rate moved down to 6.0% from February, and the number of unemployed persons continued its trend downward, currently at 9.7 million, 4.0 million above February 2020 levels. The labor-force participation rate of 61.5% has remained unchanged for the past several months and is 1.8% below its February 2020 level.



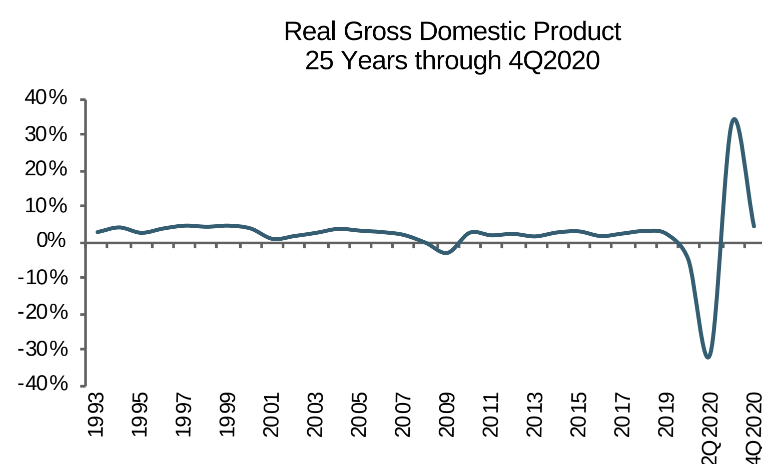
Large employment fluctuations in the past year, especially among lower-paid workers, have made the calculation of periodic changes in wages impractical as an economic reference for the time being.

The Consumer Price Index for All Urban Consumers (CPI-U) has increased each month since June 2020 (and at an increasing rate since October). Most recently, the CPI-U increased at 0.2%, 0.3%, and 0.4% over December, January, and February, respectively. Over the trailing twelve months, prices of goods in the US registered an average 1.7% rate of inflation. Energy commodity prices continued their upward trend, gaining 6.6% in February following increases of 7.3% and 5.1% in January and December, respectively. The core index (CPI-U less food and energy) has increased at a rate of 1.3% since February 2020, led by an increase of 9.3% in the price of used cars and trucks. This increase is partially offset by price cuts in transportation services (-4.4%) and apparel (-3.6%).





Market volatility, as measured by the VIX Index, closed the first quarter of 2021 at 19.4, slightly above its five-year average of 17.8 and roughly in-line with pre-pandemic levels. Investor confidence in the market's long-term prospects continued to solidify over the quarter as hopes of further socio-economic normalization became widespread due to accelerating vaccination campaigns in the US. The VIX did experience a localized spike into the high 30s in late January when markets recoiled from temporary liquidity-driven events surrounding so-called "meme stocks" before resuming the steady decline to the current lower levels.

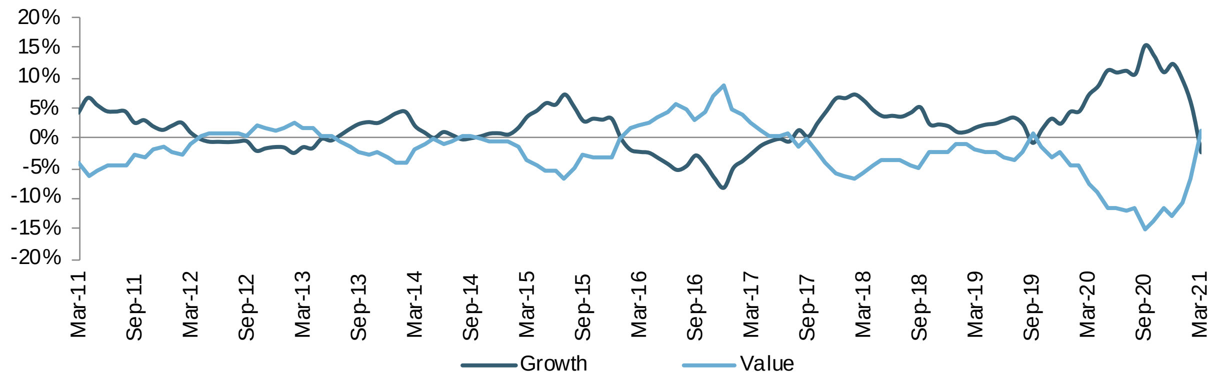


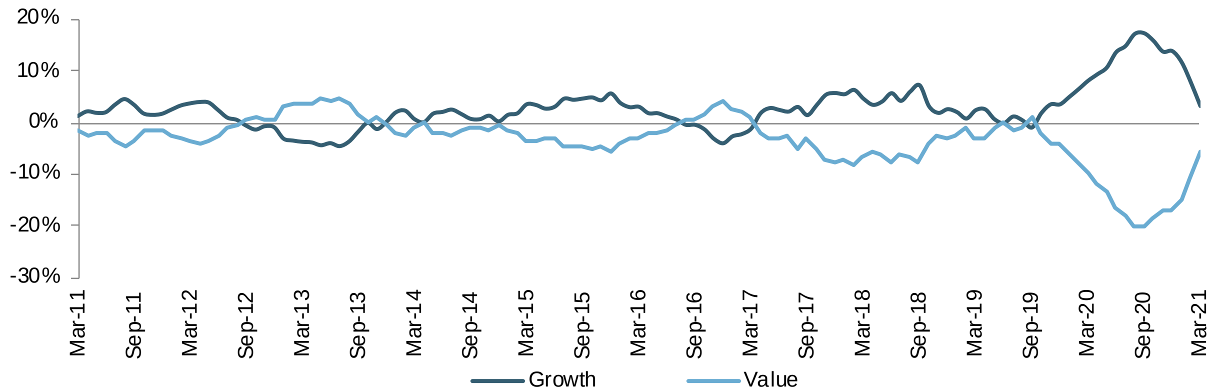
US GDP grew at 4.3% in the fourth quarter of 2020, a strong result in a year that started with a pronounced but ultimately short-lived recession. In contrast to the consumption-led recovery in the third quarter, the pent-up private investment flows led the economy forward to close the year. Individuals made meaningful investments in residential property (+36.6%), while private enterprise increased investments in equipment by 25.4%. Partially offsetting these flows were cuts to federal non-defense spending (-8.9%), cuts to consumer goods spending (-1.4%), and continued weak demand for non-residential structures (-6.2%).

Retail sales decreased by 3.0% in February following a 7.6% increase in January. February 2021 retail sales were 6.0% above February 2020 levels. Total sales for the December 2020 through February 2021 period were up approximately 6.0% from the same period one year ago. Meaningful increases in sales during the December through February period were led by a rebound in gas-station sales (+11.8%), as well as furniture stores (+5.2%) and miscellaneous retailers (+5.2%). Department-store sales continued to decline, falling by 2.7% in the period. Year over year, non-store retailers (+25.4%) and building materials stores (+16.6%) experienced the largest sales gains, while food services (-17.9%), department stores (-14.7%), and clothing stores (-12.5%) experienced the largest declines.

Returns by Style: Performance through March 2021

	Q1 2021	YTD		Q1 2021	YTD
Large Cap Value	10.3%	10.3%	Large Cap Growth	1.3%	1.3%
Mid Cap Value	13.1%	13.1%	Mid Cap Growth	-0.6%	-0.6%
Small Cap Value	21.2%	21.2%	Small Cap Growth	4.9%	4.9%





Sector Returns by Capitalization

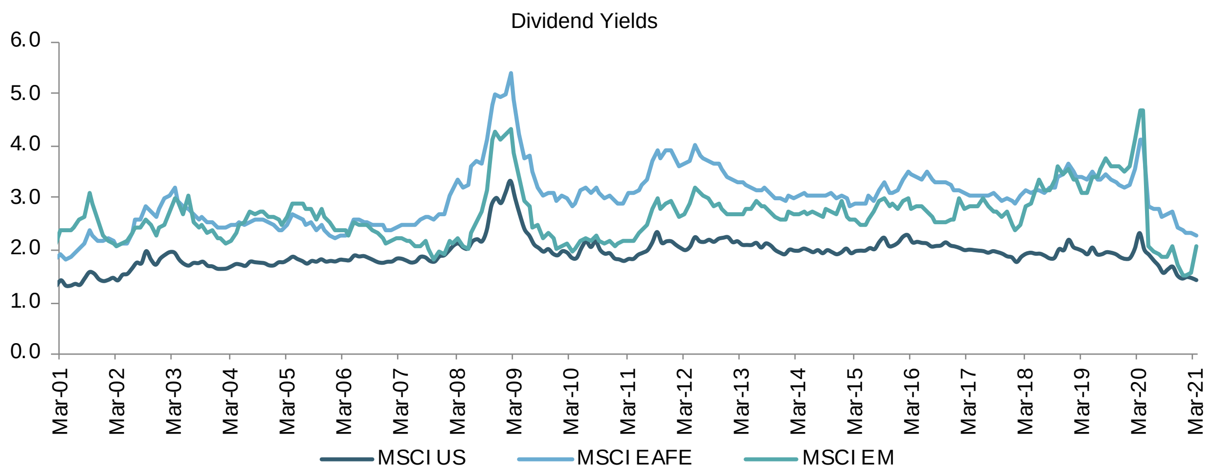
	U.S. Large Cap		U.S. Mid Cap		U.S. Small Cap	
	1Q2021	YTD	1Q2021	YTD	1Q2021	YTD
Basic Materials	3.4	3.4	1.5	1.5	0.3	0.3
Consumer Goods	5.4	5.4	16.6	16.6	20.0	20.0
Consumer Services	2.6	2.6	7.9	7.9	13.3	13.3
Financials	-0.1	-0.1	12.4	12.4	26.4	26.4
Health Care	15.7	15.7	15.8	15.8	19.3	19.3
Industrials	3.2	3.2	-0.3	-0.3	0.3	0.3
Oil & Gas	7.3	7.3	9.2	9.2	15.2	15.2
Technology	31.2	31.2	23.3	23.3	30.0	30.0
Telecommunications	3.7	3.7	0.8	0.8	4.5	4.5
Utilities	2.8	2.8	4.0	4.0	10.3	10.3

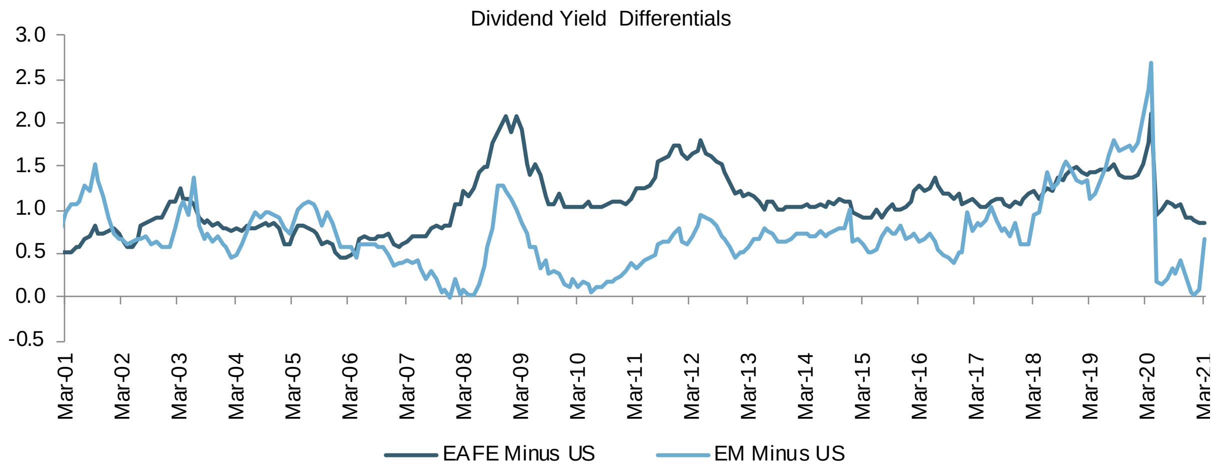
Source: Russell Investments & Industry Classification Benchmark

*Large Cap: Russell Top 200 Index Mid Cap: Russell Mid Cap Index Small Cap: Russell 2000 Index

From a market-capitalization perspective, large- and mid-cap equities outperformed small-cap equities over the quarter. For the second consecutive quarter, the biggest winners at the sector level were energy and financials across all capitalizations. Positive demand trends and increased air travel helped the energy section. Meanwhile, rising rates and accelerating economic activity had a positive impact on financials. Last year's winners in information technology and healthcare lagged this past quarter along with the traditionally defensive sectors. The technology sector lagged over concerns about its ability to live up to growth expectations. Healthcare faced multiple headwinds, including concerns about regulations, drug pricing, and a few notable drug clinical trial setbacks.

Global Equity Ratios (source: MSCI - data sourced 'as is')




Dividend Yield Differentials
3.0
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
Mar-01
Mar-02
Mar-03
Mar-04
Mar-05
Mar-06
Mar-07
Mar-08
Mar-09
Mar-10
Mar-11
Mar-12
Mar-13
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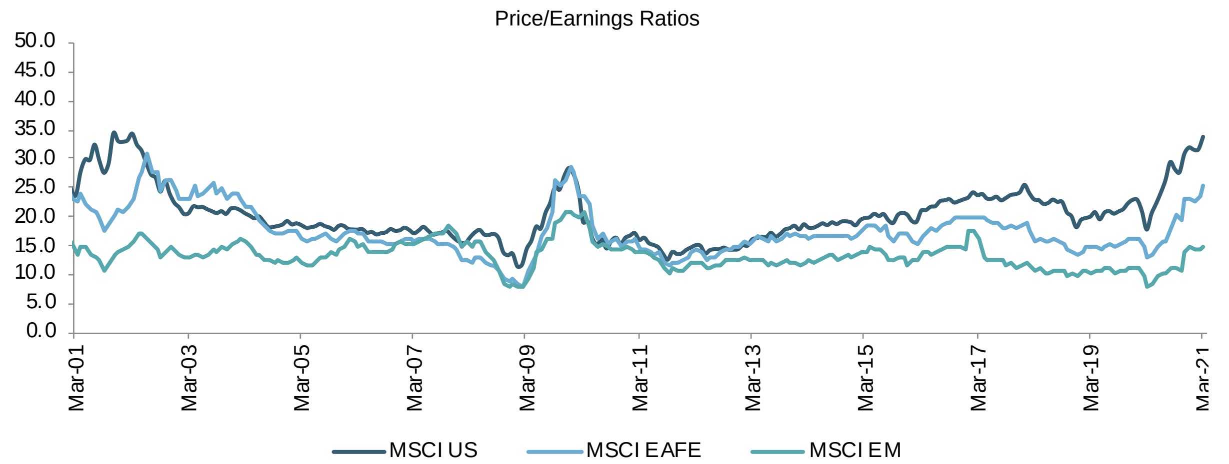
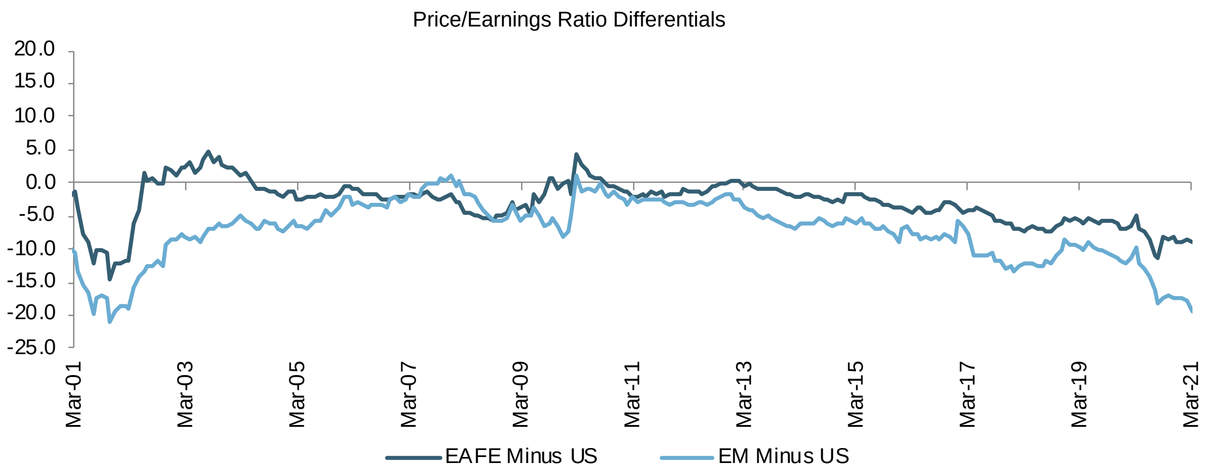
Mar-19
Mar-20
Mar-21
EAFE Minus US
EM Minus US


Price/Earnings Ratios
50.0
45.0
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
Mar-01
Mar-03
Mar-05
Mar-07
Mar-09
Mar-11
Mar-13
Mar-15
Mar-17
Mar-19
Mar-21
MSCI US
MSCI EAFE
MSCI EM


Price/Earnings Ratio Differentials
20.0
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
-20.0
-25.0
Mar-01
Mar-03
Mar-05
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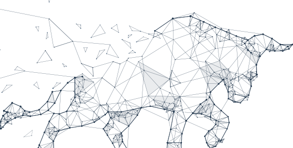
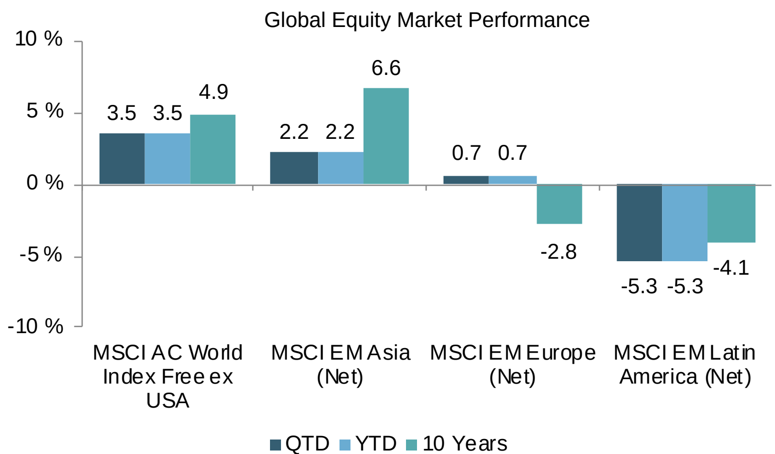
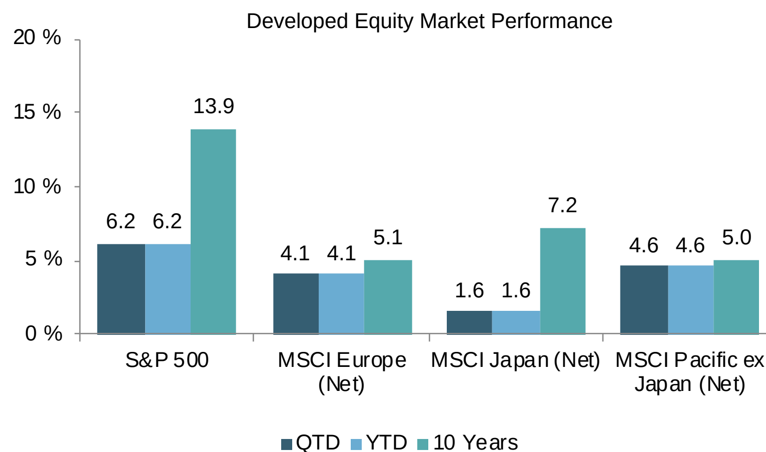
Mar-21
EAFE Minus US
EM Minus US



Global Equity Performance



The MSCI All Country World Index (ACWI) gained 4.6% in the first quarter of 2021 as investors looked toward a new year with optimism. Hopes of a broad economic recovery spurred a jump in commodity prices. Higher inflation expectations and subsequently higher interest rates caused the outperformance of undervalued stocks, with the MSCI World Value Index beating its growth counterpart by 940 basis points for the quarter. US markets led the quarterly rally due in large part to the relative success of the American vaccination effort.



The S&P 500 gained 6.2% in the first quarter. The US markets started the year on unsure footing. January was a particularly volatile month marked by targeted retail trading activity in highly shorted stocks. This was followed by US investors experiencing a strong recovery on the back of a relatively well-executed vaccine rollout and the federal government's promises of further fiscal spending to stimulate economic expansion.

The MSCI EAFE Index gained 3.5% in the quarter, with MSCI Europe returning 4.1% and MSCI Japan returning 1.6%. Performance on the continent was mixed; Sweden, Norway, and the Netherlands posted returns above 10%, while Portugal, Denmark, and Belgium saw their markets fall in the low single-digits. Overall, industrial companies did well, with auto-makers such as Volkswagen garnering interest after announcing aspirational electric-vehicle targets. Industries with high interest-rate sensitivity less tied to the economic recovery tended to underperform. The United Kingdom performed better than the broader index, returning 6.2%. In addition to the materials and energy sectors, British banks performed particularly well due in part to increasing bond yields as the global economic backdrop improved. Japan benefitted from improved corporate profitability over the quarter. Yen weakness helped its export market, while the relatively low valuation of its stock market benefited from a perceived change in the path of global rates and inflation.

The MSCI EM Index gained 2.3% in the quarter led by stronger commodity prices. Middle Eastern petroleum-focused economies, Russia, and much of Africa rallied as a result. In a reversal of their fourth-quarter strength, Latin American markets suffered a setback, returning -5.3%; vaccine efforts greatly lagged those of developed markets and rates of infection increased. However, the Chilean market (+16.9%) benefitted from a jump in the price of copper. In Asia, Turkey (-20.4%) remained a challenging place to invest – the Turkish central-bank governor was unexpectedly replaced, leading to heightened uncertainty. China also finished in negative (albeit relatively muted) territory at -0.4%. In general, markets with a higher proportion of dollar-denominated debt suffered the double headwind of higher US Treasury rates and a stronger dollar.

US Valuations

US Large Cap Equity	Quarter Ending 3/31/2021		Quarter Ending 12/31/2020	
	Value	Growth	Value	Growth
Price/Earnings Ratio:	38.2	42.9	32.0	44.2
IBES LT Growth (%):	10.0	18.5	7.1	16.6
1 Year Forward P/E Ratio:	18.1	30.1	18.2	32.4
Negative Earnings (%):	16.9	6.0	14.6	5.6

US Mid Cap Equity	Quarter Ending 3/31/2021		Quarter Ending 12/31/2020	
	Value	Growth	Value	Growth
Price/Earnings Ratio:	41.9	82.5	39.2	72.0
IBES LT Growth (%):	8.5	15.7	5.6	14.7
1 Year Forward P/E Ratio:	18.0	32.6	18.3	34.5
Negative Earnings (%):	20.9	26.4	20.2	24.1

US Small Cap Equity	Quarter Ending 3/31/2021		Quarter Ending 12/31/2020	
	Value	Growth	Value	Growth
Price/Earnings Ratio:	140.2	NA	56.9	-990.1
IBES LT Growth (%):	9.1	15.4	8.0	14.9
1 Year Forward P/E Ratio:	16.1	25.5	15.5	26.1
Negative Earnings (%):	35.9	42.6	34.1	42.8
Source: Russell Investments Total Equity Profile				

Price multiples of US companies were mixed in the first quarter; traditional value stocks made a significant recovery due to investor confidence in a broader recovery in aggregate demand and the potential for higher interest rates. Earnings multiples in the large-cap value segment increased by 19% (from 32x to 38.2x) from the previous quarter end, while the average P/E ratio of large-cap growth fell from 44.2x to 42.9x. Accounting for forward earnings projections, multiples in the value segment across size and geographies remained relatively unchanged while those for growth stocks fell across the board. The median P/E of the S&P 500 reached multi-decade highs, but interestingly, so did the dispersion of valuations within the index itself, allowing for increased opportunities for active managers to discern winners from losers. Nevertheless, price-to-earnings ratios in the US across market capitalizations are well-

above their 20-year averages. Consensus estimates expect the S&P 500 to report a year-over-year growth in earnings of 24.5% for the first quarter, well-above the five-year average earnings growth rate of 3.8%. If this level is realized, it will be the largest year-over-year earnings growth rate reported since Q3 2018. For the quarter, the year-over-year earnings outlook is broadly positive, with nine sectors expected to experience earnings growth and two sectors currently projected to have earnings declines. Looking ahead, analysts predict the energy (+15.6%), healthcare (+14.2%), and information technology (+11.6%) sectors will have the largest price gains, while industrials are expected to lag. In aggregate, analysts expect the S&P 500 to experience a 9.8% price increase over the next twelve months.

International Valuations

International Equity	Quarter Ending 3/31/2021		Quarter Ending 12/31/2020	
	Value	Growth	Value	Growth
Price/Earnings Ratio:	30.6	42.9	28.0	42.8
IBES LT Growth (%):	5.8	13.0	3.4	10.7
1 Year Forward P/E Ratio:	13.3	26.8	13.6	28.0
Negative Earnings (%):	17.5	9.8	18.5	9.5

Emerging Markets Equity	Quarter Ending 3/31/2021		Quarter Ending 12/31/2020	
	Value	Growth	Value	Growth
Price/Earnings Ratio:	25.1	21.6	25.5	21.6
IBES LT Growth (%):	18.7	9.4	18.0	9.4
1 Year Forward P/E Ratio:	15.2	17.9	16.8	17.9
Negative Earnings (%):	6.7	6.3	6.5	6.3
Source: Russell Investments Total Equity Profile				

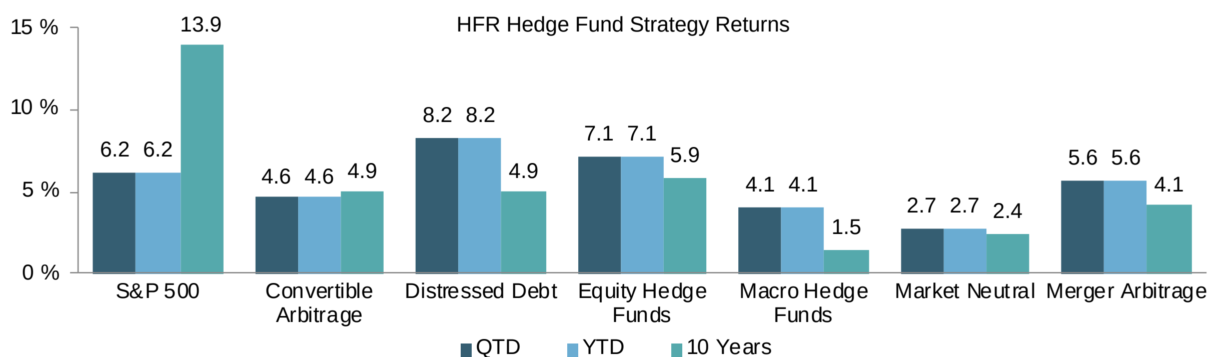
Other developed markets' multiples behaved similarly to those in the US with value outpacing growth. The higher traditional cyclical exposure (e.g., energy, industrials, and financials) in EAFE economies benefitted from investors wary of rising rates and hopeful for robust global economic growth seeking more-attractive valuations. A 13.3x one-year forward P/E made developed non-US value stocks the cheapest segment available to equity investors by a wide margin at the end of the quarter, followed by emerging markets at 15.2x forward P/E. In contrast to their developed-market peers, emerging markets saw their multiples contract in aggregate due to investor concerns about Chinese economic growth and weaker confidence in the recovery timeline for Latin American economies.

Non-US Developed/Emerging Cap & Style: MSCI AC World Ex - US Indices (Source: MSCI - data sourced 'as is')

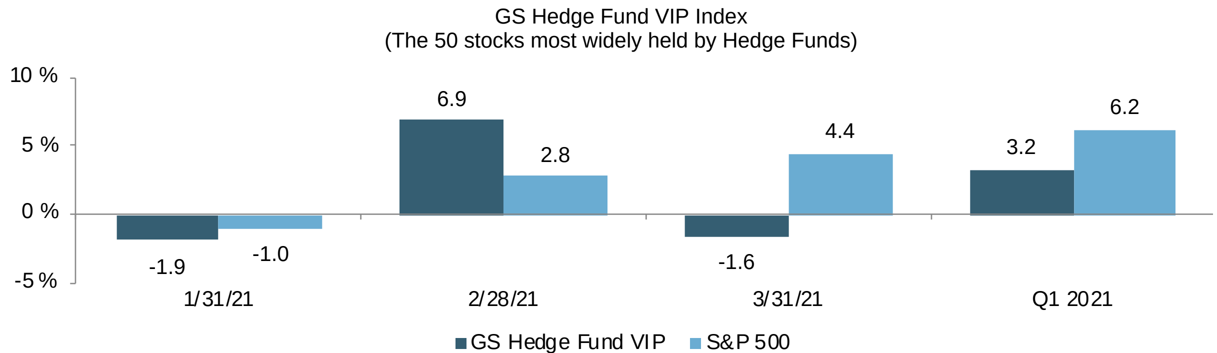
	Q1 2021	YTD		Q1 2021	YTD
Large Cap Value	7.0%	7.0%	Large Cap Growth	0.1%	0.1%
Mid Cap Value	7.2%	7.2%	Mid Cap Growth	-0.9%	-0.9%
Small Cap Value	7.7%	7.7%	Small Cap Growth	3.3%	3.3%

Country	Best Performing Style
Australia	Value
Brazil	Growth
Canada	Value
China	Value
France	Value
Germany	Value
Hong Kong	Value
Indonesia	Value
Italy	Value
Japan	Value
Mexico	Value
Singapore	Value
Spain	Value
Thailand	Growth

Hedge Fund Performance

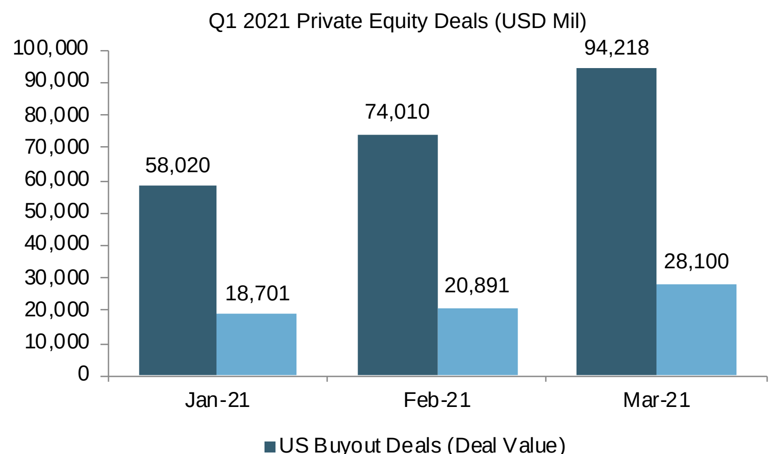


In the first quarter of 2021, all major hedge-fund strategies posted positive performance. Distressed and equity hedge strategies experienced the largest gains. Distressed debt and equity managers benefited from their exposure to “reopening oriented” businesses that had suffered during the early days of the pandemic. Distressed debt managers also saw their heavily discounted investments in oil and gas perform well as energy prices trended up over the quarter. Meanwhile, record-breaking levels of deal-making activity had a positive impact on merger-arbitrage strategies, as both SPACs and corporate buyers took advantage of robust liquidity. Lagging all other strategies but still positive for the quarter, market-neutral strategies were negatively affected by their short portfolios. According to eVestment, asset flows into hedge funds had their strongest start to the year since 2014. Year to date through February, multi-strategy and macro hedge-fund strategies have received the largest inflows, while long/short equity and relative value credit have had the largest outflows.



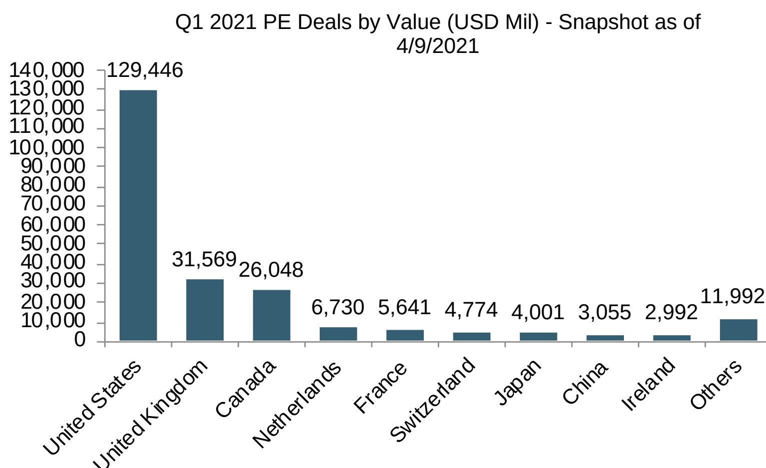
The GS Hedge Fund VIP Index, which comprises the 50 equities most widely held by hedge funds, appreciated by 3.2% in the first quarter of 2021, underperforming the S&P 500 Index by 300 basis points. According to data published by Morgan Stanley's Prime Brokerage Group, hedge-fund managers had their worst start to the year since 2010 as they struggled to generate alpha in their long and short portfolios during the quarter. Generally speaking, widely held positions lagged; at a sector level, alpha generation was most challenged in the consumer discretionary, information technology, and consumer staples sectors. Gross-exposure utilization ended the quarter about where it began; after coming down early in the quarter, managers quickly brought their exposures back up after it became clear that the frenzy caused by the "wallstreetbets" subreddit was relatively isolated. US-focused portfolios' exposures ended the quarter at 198%, while gross-exposure utilization in Europe- and Asia-focused portfolios ended the quarter at 179% and 143%, respectively. Year to date for US-focused managers, the largest positive changes in aggregate exposure occurred in consumer services, healthcare, and consumer discretionary, while the largest declines occurred across ETF and financials exposures.

Private Equity Performance



M&A activity surged globally in the first quarter of 2021 to a year-to-date record, as companies and investment firms rushed to get ahead of the pandemic-instigated changes in how people work, shop, trade, and receive healthcare. While the number of deals was up only 6% from a year ago, the total value of pending and completed deals rose 93% (to $1.3 trillion), the second-biggest quarter on record according to data-provider Refinitiv. Dealmakers said a boom in the stock market and low borrowing costs – driven by the Federal Reserve's loose monetary

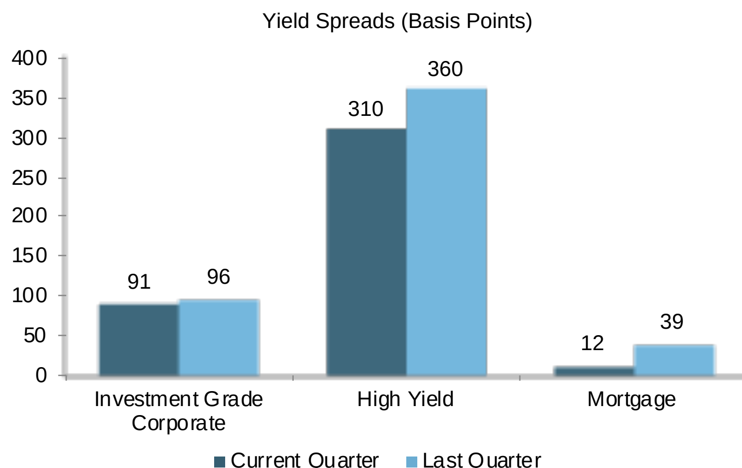
policies – emboldened companies, private equity funds, and blank-check acquisition firms to pursue their dream deals; this is despite the global economy's failure to have fully recovered as yet from the financial fallout of the virus. Deal-making surged in most sectors of the economy, especially within the technology industry. Real estate was the only sector to record a major slump in M&A activity, as offices and other types of commercial property became less appealing to buyers. Around half the deal activity came from the United States, where volumes were up 160% year on year at $654.1 billion. The Asia Pacific region, excluding Central Asia, was up 44.9% at $206.5 billion. In contrast, M&A activity in Europe was up 24.5% year on year at $277.3 billion; mega-deals became more difficult to negotiate, with the French government blocking a proposed €16.2 billion takeover of European retailer Carrefour SA by Canada's Alimentation Couche-Tard in January.



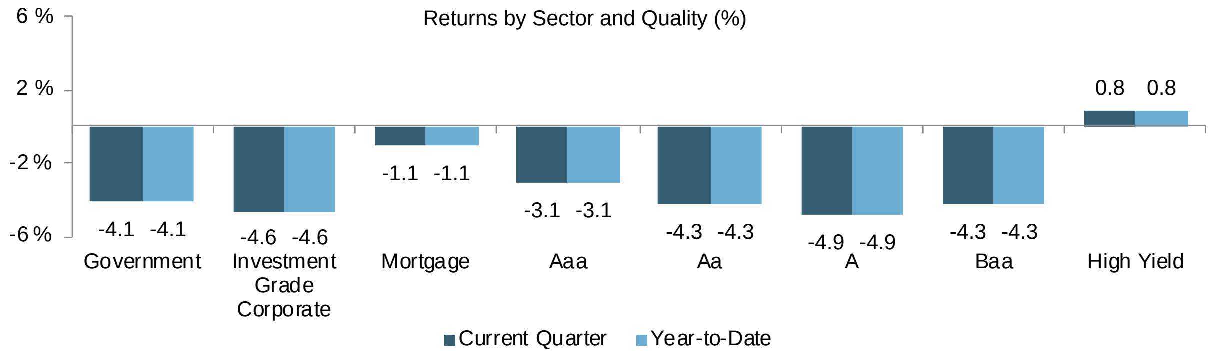
The first quarter of 2021 was a frenzied period for SPAC transactions. There were almost as many combinations between a SPAC and an operating company announced in the first quarter of 2021 as there were in all of 2020, which in turn saw as much activity as the prior five years combined according to PrivateRaise, a data service tracking US SPAC activity and private placements larger than $1 million. Through the end of March 2021, there have been 91 such deals with an aggregate acquisition value — essentially the equity value of the operating company — of $215 billion, compared with 98 such deals last year worth a total of $157 billion. Between 2015 and 2019, there were a total of 105 deals worth $82 billion.

US Spread Products

The investment-grade corporate bond market returned -4.7% for the quarter. The primary driver of the negative return was an increase in the general level of interest rates. This market's option-adjusted spread (OAS) decreased by 5 bps to end the quarter at 91 bps. By credit quality, performance was mixed. Aa-rated corporates returned

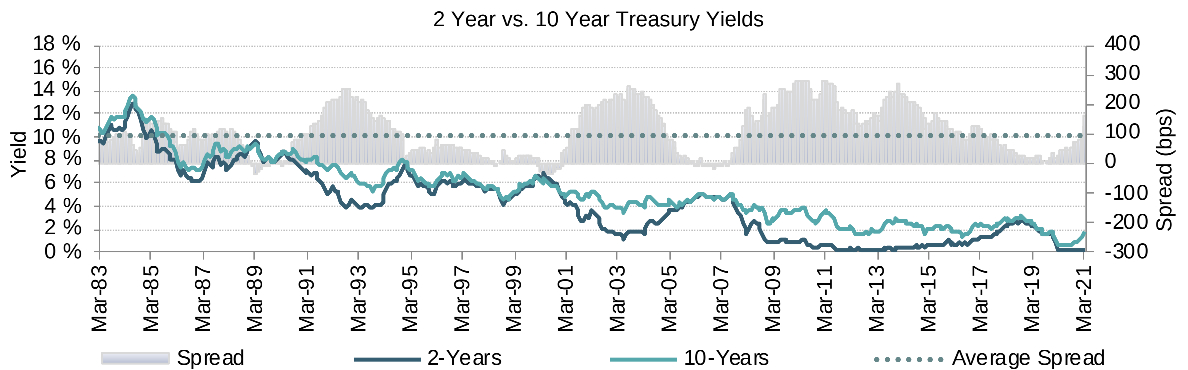


-4.2%, A-rated corporates returned -4.9%, and Baa-rated corporates returned -4.3%. The worst-performing sectors for the quarter were utilities (-6.6%), transportation (-5.9%), and communications (-5.8%). This market's issuance totaled approximately $444 billion for the quarter, which was a decline of 10% from the first quarter of 2020.



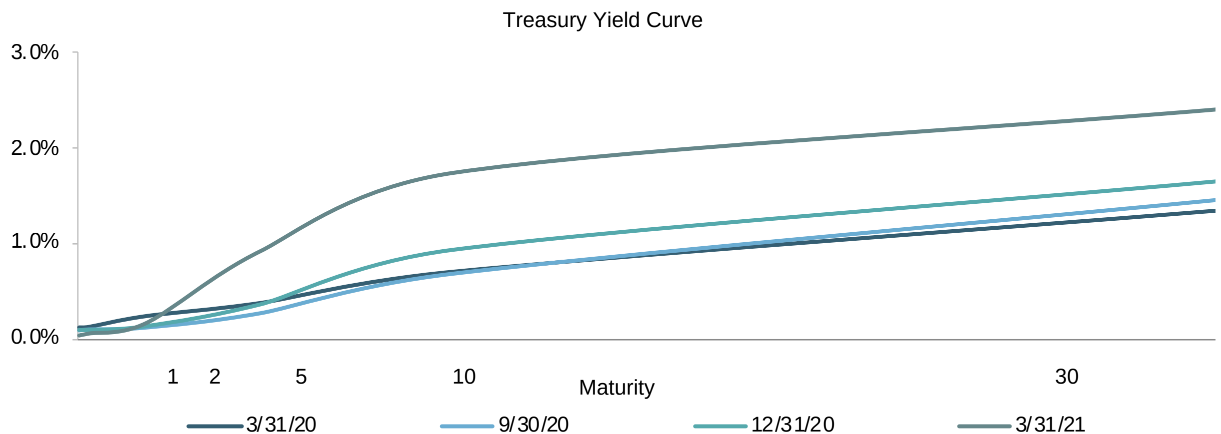
The high-yield corporate bond market returned 0.9% for the quarter. The primary drivers of the positive return included the relatively higher yield offered by this market and a 50-bps decrease in this market's OAS, which ended the quarter at 310 bps. By credit quality, the lowest-rated bonds significantly outperformed their higher-rated counterparts. Caa-rated bonds returned 3.5%, B-rated bonds returned 1.2%, and Ba-rated bonds returned -0.1%. The best-performing sectors in this market were transportation (4.4%), energy (3.6%), and basic industry (1.0%). This market's issuance totaled approximately $152 billion for the quarter, which was more than double that of the first quarter of 2020.

Yield Curve



The US Treasury yield curve steepened dramatically during the quarter; short-term yields remained anchored by Fed policy, while medium- and long-term yields increased significantly in response to higher inflation and real-growth expectations. The yield on the two-year treasury note increased by 3 bps to 0.16%, the yield on the five-year note increased by 56 bps to 0.92%, the yield on the ten-year bond increased 81 bps to 1.74%, and the yield on the 30-year bond increased 76 bps to 2.41%. The two- to ten-year spread widened by 78 bps, to 158 bps, which is nearly three-quarters of one

standard deviation above its long-term average (~90 bps). The inflation-expectation components of the increases in yields accounted for 105%, 47%, and 37% of the five-year, ten-year, and 30-year bonds, respectively; these movements have driven the TIPS curve to inversion. Positive news on the efficacy and deployment of COVID-19 vaccines, the expectation of a full economic reopening, continued fiscal and monetary support, and concerns about the financing of US Treasury supply triggered the sell-off in medium- and long-term bonds.



The Federal Open Market Committee (FOMC) met in January and March. In March, the FOMC made significant upward revisions to its assessment of economic growth, employment, and inflation, but reiterated that the size and pace of its quantitative-easing program would continue until the committee sees "substantial further progress" towards its inflation and employment goals. According to the Summary of Economic Projections (SEP), the median Federal Reserve board member projects no increase in the federal funds rate through 2023; however, Eurodollar futures contracts imply an interest-rate increase of 25 bps by December 2022 and 100 bps by December 2023. The Federal Reserve's balance sheet increased by approximately $325 billion (to $7.65 trillion), which was primarily driven by the Fed's net purchases of US treasuries and agency mortgages equaling at least $120 billion per month; the balance sheet has grown by $1.88 trillion (33%) over the past year.

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