

The Cyclical and the Secular

MASSIVE AMOUNTS OF GOVERNMENT STIMULUS MAY BE IN THE PROCESS OF CREATING A BOTTOM FOR THE ECONOMY. Going forward, the issue for investors is not just when the economy will start to grow but whether the quality of growth will live up to market expectations. Given that real risks exist that the economic growth will be sub-par for a sustained period of time, we maintain a defensive investment posture.

Since March 6, the stock market rebound from a low of 667 on the S&P 500 can be attributed to three factors:

- 1) The market was "oversold."
- 2) Treasury Secretary Geithner's second attempt at a plan to address toxic assets received more positive response than his first proposal.
- 3) The economic data showed signs of getting "less bad." ("Less bad" does not necessarily mean that the economy is actually improving. Instead, imagine the economy is a car, skidding out of control. "Less bad" means the car's anti-lock brakes appear to be slowing down the skid.)

In recent months, retail sales have fallen at a slower annual rate, building permits and housing sales have begun to stabilize at lower levels, and the Institute for Supply Management expectations for manufacturing activity have stopped getting worse. As a result, it is possible to make a case that the economy could be ready to turn in a positive direction.

Secretary Geithner's plan may also begin to

have some positive effects. From at least one perspective, it appears to be succeeding. Large institutional investors are showing interest in some of the securities that the government is creating to free up the credit markets. TALF partnerships, leveraged pools of asset-backed securities, appear to be viewed quite favorably by large investors.

The second part of Geithner's program, the PPIP (Public-Private Investment Program), is intended to remove bad credits from banks' balance sheets. Right now, the fate of this program is a lot less clear. Banks who wish to participate in this program need to be prepared to sell their "bad" assets at substantial losses. Banks who have already written down the assets don't have huge incentives to sell out; while banks that have not taken the losses could potentially put their capital positions in jeopardy. At the end of the day, PPIP may be used principally by banks that the government forces into a program due to their precarious financial state.

Fixing the credit markets (and, then, finding the economic bottom) is only part of the problem. There is a larger question: how strong will growth be once we begin to emerge from the recession? Several factors could cause growth to be relatively slow for a sustained period:

- 1) Since the U.S. became more of a service economy over the last 20 years, economic recoveries have been much slower to unfold.
- 2) The American consumer is very overleveraged and unable to take on more debt.

FIXING THE CREDIT
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Cover Story continued

- 3) A change in the behavior of the American consumer has big implications for the economies of the rest of the world.

Economic downturns from 1945 to 1980 used to result in relatively sudden drops in employment followed by rapid rehiring cycles. In contrast, since 1980, firms have laid off workers at a slower pace and rehired people at an even more gradual rate when the economy recovered.

The second issue is more germane to the current cycle. An increase in consumer borrowing has been an important part of post-World War II recoveries. In contrast, American consumers, particularly those in the baby boom generation who are rapidly moving toward retirement, need to repair their balance sheets. Baby boomers, who had saved for their retirement through their 401(k)s and the equity in their homes, have now seen substantial depreciation in their assets and must consume less and save more.

If Americans made the mistake of over-consuming, the rest of the world erred by building their economies around exporting to us. A rebalancing must occur where the traditionally thrifty countries in Asia and Europe refocus their economies on domestic consumption rather than

exports. While free enterprise economies can adapt with remarkable speed, this sort of economic adjustment will take time.

How do we invest in this environment? From our perspective, even after the recent rebound, the good news is that the equity markets continue to represent good, long-term values. Our five-year expected return for stocks is 14%. Equities should be held as a long-term investment, and at current levels, they are priced to return a significant premium over bonds in the long term. The only problem with valuation models is that they can take a long time to work. Stocks in the 1970s and 1930s were very attractive from a valuation perspective. It took considerable time, however, before those values were realized.

Credits appear to be priced at even more attractive levels than stocks. This asset provides a better risk / reward tradeoff than equities in the near term. So, we would overweight corporate credits in portfolios. High yield and convertible bonds also appear very under-priced. If the economy recovers smartly, they will participate in the rally. If, however, the economy only achieves weak growth, these assets have the ability to hold more of their value than common stocks.

GLENMEDE'S MARKET ANALYSIS TEAM



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Executive Vice President and Chief Investment Officer

Mr. Fowler oversees all of the Company's investment activities and he is responsible for Glenmede's investment process and policies. He oversees the portfolio managers responsible for managing Glenmede's investment funds, the fundamental and quantitative analysts, and trading operations for the Company.

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First Vice President and Director of Quantitative Research

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Economic & Market Outlook

Key Economic and Market Viewpoints

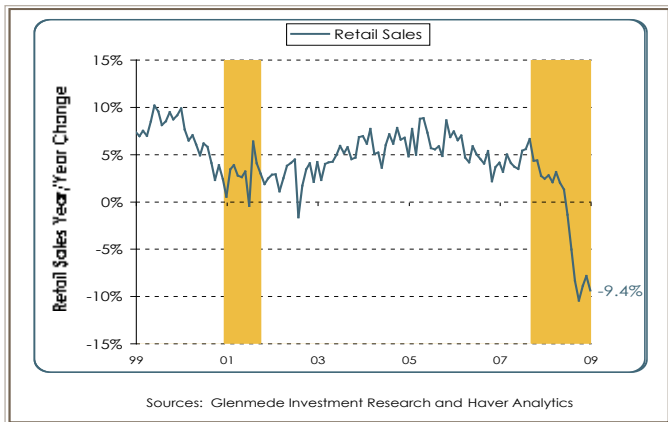
- Our best guess is that the economy will begin to stabilize in 2010.
- Fiscal and Monetary Stimulus is huge and should have an impact on the economy over the next year.
- There are several signs of positive economic news, including:
 - Recent housing data
 - Improving credit spreads
 - New IPOs
 - Successful corporate debt issuances
 - Reduced stock market volatility
- Credit deleveraging may lead to a sustained period of slower growth.
- There is a risk that government debt and taxes may “crowd out” private capital, resulting in higher real interest rates, lower profit margins and slower economic growth after a recovery occurs.
- Large deficits and stimulative monetary policy carry risks to the dollar.
- Five-year expected returns for stocks are well above normal levels based on valuations.

Investment Strategy Recommendations

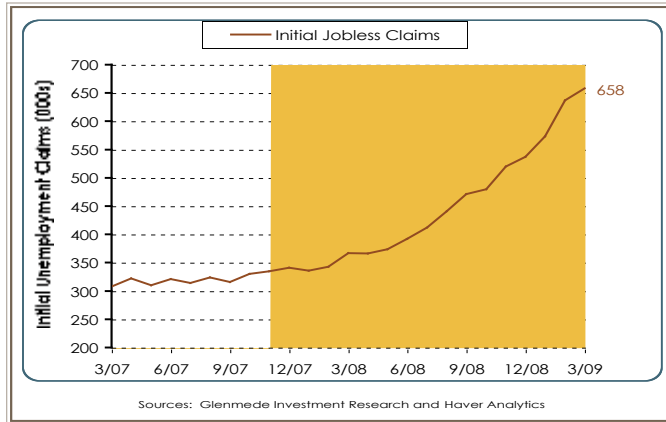
- Overweight high-quality fixed income. In the near term, debt holders may be more likely to be rewarded than equity holders.
- Underweight equities based on near term fundamentals, including earnings decline. However, rebalance extremely low equity positions to target.
- Hold large cap and mid cap growth stocks with relatively strong business models and sustainable earnings.
- Underweight small cap and international equity.
- Overweight commodities with an allocation to gold.
- Valuation spreads are at very high levels. Seek attractive opportunities in:
 - Convertible debt
 - High yield debt
 - Deep value style equity / Quantitative equity
 - Selling calls
- Allocate to Private Investments, particularly in distressed debt and secondaries.

Market Analysis in Brief

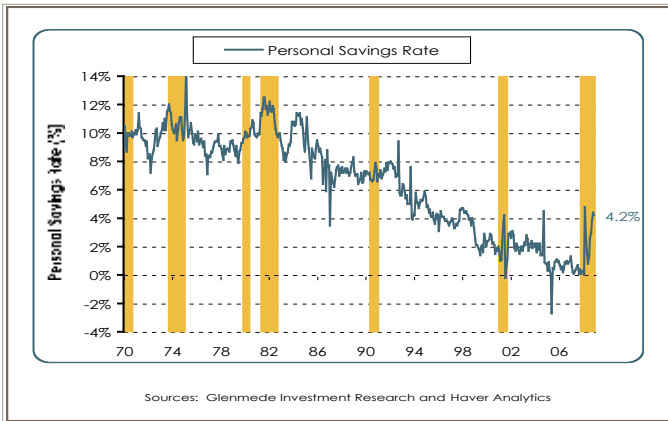
Cyclical Indicators Are Pointing To A Deceleration Of Bad Economic News.



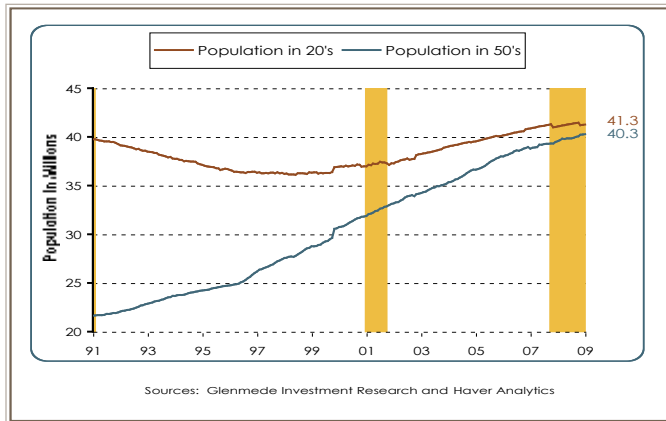
While Unemployment Claims Appear To Be Stabilizing At An Elevated Rate.



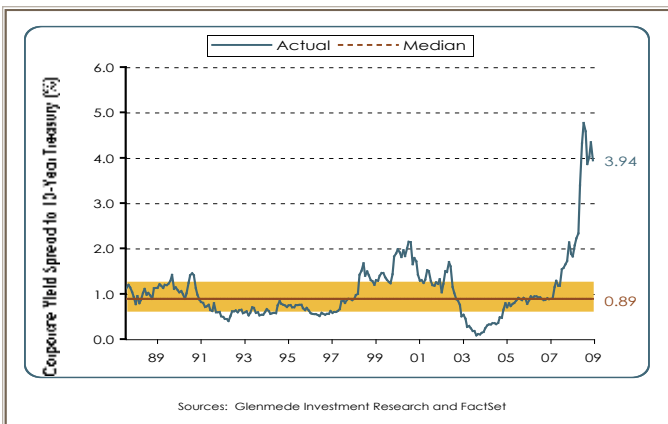
Secular Issues, Including High Debt Levels, May Constrain Future Economic Growth.



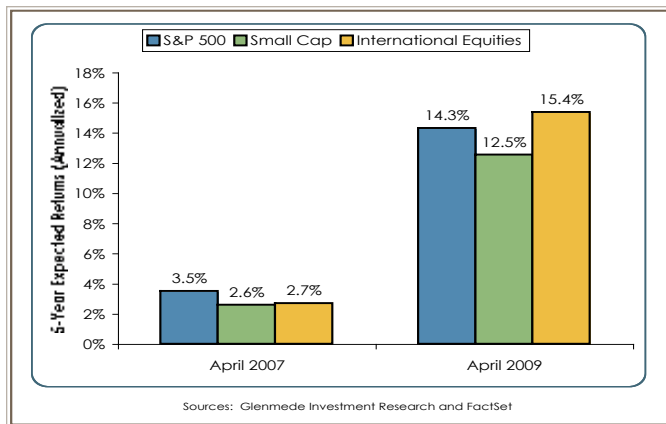
An Aging Population May Result In Less Spending And More Saving.



Currently, Corporate Credits Are Very Attractively Priced.



And Equities Offer Strong Long-Term Values In Contrast To Two Years Ago.



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