

January 4th, 2021

2021 Themes

- It Ain't Over 'Til the Peach State Sings
 - The most likely outcome in '21 is economically tenable political gridlock, but investors shouldn't entirely write off the alternative
- COVID-19 Endgame
 - Rising cases may cause near-term disruption, but the outlook for a vaccine-induced recovery remains a future tailwind
- Anticipating the "Next Normal"
 - Expect larger federal debts/deficits, higher productivity and rising inflation to be the reality in a post-pandemic economy

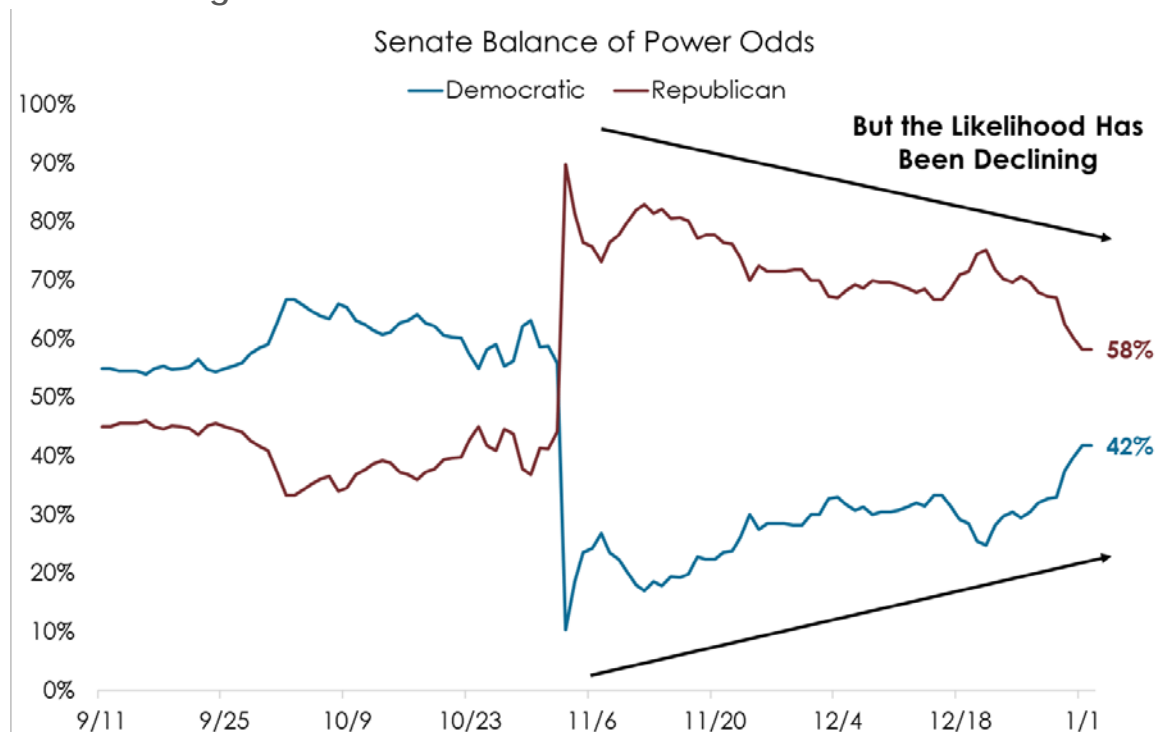
It Ain't Over 'Til the Peach State Sings

- All Eyes on Georgia.** Anticipating the policy agenda of the incoming Biden administration is a key focus for investors in the new year. To that end, the composition of Congress matters in determining the latitude Biden has to enact his ideas into law. As a result, many are circling this Tuesday on their calendars, the date of the two Georgia runoffs. If the GOP wins just one seat, they will likely stonewall some of Biden's more ambitious proposals, but a Democratic sweep of both elections might give the incoming administration free rein on their policy agenda.
- Senate Could Still Swing Either Way.** Polls for both Georgia races have tightened since early November, as Perdue/Ossoff and Loeffler/Warnock battle for the last two seats in the Senate, respectively. However, the betting markets appear to favor the GOP's chances of holding onto the Senate at 52%, noticeably lower than the 90% odds immediately following Election Day. 48% odds of a Democratic sweep is not negligible – that's roughly the probability that it rains in Philadelphia on a given day.
- Implications: Short- & Long-Term.** All else equal, a Democratic Senate will likely seek to pass more significant economic stimulus next year. In such a scenario, investors will be focused on the prospect for higher corporate taxes. If Republicans preserve a narrow majority, an infrastructure deal is possible at some point, as well as drug price controls and legislation incentivizing businesses to move production to the U.S. Overall, the latter would be much less ambitious than what Biden proposed during the campaign.

The most likely outcome in '21 is economically tenable political gridlock, but investors shouldn't entirely write off the alternative

Chart of the Week:

Betting Markets Still Favor The GOP To Win At Least One Seat



Source: Glenmede, PredictIt, FiveThirtyEight

Data through 1/3/2021

Data in the Top panel shows each party's probability of control in the Senate for the 117th Congress via PredictIt. PredictIt purports to be an experimental research and educational facility of Victoria University of Wellington, New Zealand, and not an investment market or gambling facility. Its website supports the operation of a "predictions market," a facility for buying and trading futures contracts linked to political or financial events or circumstances. The reference to PredictIt and use of its data herein in no way should be interpreted as an endorsement or recommendation of PredictIt by Glenmede, and none of the items predicted in the chart may actually occur.

COVID-19 Endgame

- **Virus Concerns Mounting.** Vaccine distribution has now officially begun following the FDA's emergency approvals, yet the pandemic has reached concerning levels on multiple fronts. The seven day averages of new case counts (213k), deaths (2.6k) and hospitalizations (125k) in the U.S. all sit near record highs. The viral resurgence has induced lockdown measures throughout the country, stunting economic reopening efforts. Bringing the viral spread under control will likely be a key initiative in early 2021 before a vaccine has become widely distributed.
- **Vaccine(s) to the Rescue?** Vaccine progress, the main force behind the ongoing market strength, is well underway. AstraZeneca/Oxford's vaccine is expected to be rolled out starting Jan. 4th in the U.K. The U.S. was expected to deliver enough Pfizer/BioNTech and Moderna vaccine first-round doses for ~20M people by the end of the 2020. Reaching vaccine-driven herd immunity will be the logistical challenge of 2021, but will be crucial to the last legs of economic recovery needed to return to some semblance of "normal," perhaps by summer 2021.
- **The Post-Vaccine Economy.** In a post-vaccine world, the economy's deeper wounds are expected to heal. For example, Glenmede's Reopening Index estimates that 72% of all economic activity has recovered since the March/April lows. At the same time, the rising tide has not lifted all boats – high-contact (e.g., in-restaurant dining/air travel) has only regained 39% of its prior peak. This suggests that a return to "normal" stands to benefit the unloved sectors of the economy and markets most.

Rising cases may cause near-term disruption, but the outlook for a vaccine-induced recovery remains a future tailwind

Anticipating the "Next Normal"

- **Federal Debts & Deficits.** The massive fiscal stimulus package passed earlier this year blew out the federal balance sheet, with net U.S. federal government debt to GDP reaching 107%. However, net interest payment costs have remained relatively unchanged, due to the meaningful move lower in Treasury rates to offset. This may be a sustainable new normal, assuming expiring debts need not be refinanced at meaningfully higher interest rates than have prevailed over the last decade.
- **Fed Giving Inflation Some Elbow Room.** Inflation has been put under the microscope as a result of the recent increase in federal debt. The influx of new money into the economy via unprecedented monetary/fiscal policy has worried some investors that inflation will spike. That said, inflation and market-implied inflation expectations remain relatively tepid, still below the Fed's stated comfort range of 2.0 – 2.5%. While inflation is unlikely to rise to concerning levels in 2021, investors should keep an eye out as economic activity shifts into a higher gear through the year.
- **Virtual Productivity Lift.** The pandemic has changed the landscape for how businesses operate and many that needed to adapt to a work-from-home setting have realized substantial benefits. Time lost commuting and capital allocated for physical spaces are just a few inefficiencies that have been mitigated by working remotely. Remote work has even allowed for the first increase in productivity during a recession in recent memory. And according to a BCG* survey, 83% of firms plan to accelerate digital transformation, suggesting this trend may be here to stay.

Expect larger federal debts/deficits, higher productivity and rising inflation to be the reality in a post-pandemic economy



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