GLENMEDE

Investment Strategy Insights

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Reverberations of the Blue Ripple

- Implementing Fiscal Policy Plans
  - Aligned control of Congress is likely positive for the economy, but a headwind for equities due to the threat of higher taxes

- Peeking in on Equities
  - While equity valuations appear stretched, they may prove to be sustainable given rising earnings and low interest rates

- Mixed Bag of Economic Data
  - While the U.S. economy may have stumbled a bit in December, it remains on a steady recovery pace through 2021

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Implementing Fiscal Policy Plans

- **Democrats Complete Washington Sweep.** Democrats appear to have won a new majority in the Senate, completing a trifecta of control of both chambers of Congress and the White House. The aligned control of Congress should enable greater implementation of the Biden policy agenda. However, even with control, the narrow win by the Democrats will likely hinder the party from passing its full agenda.

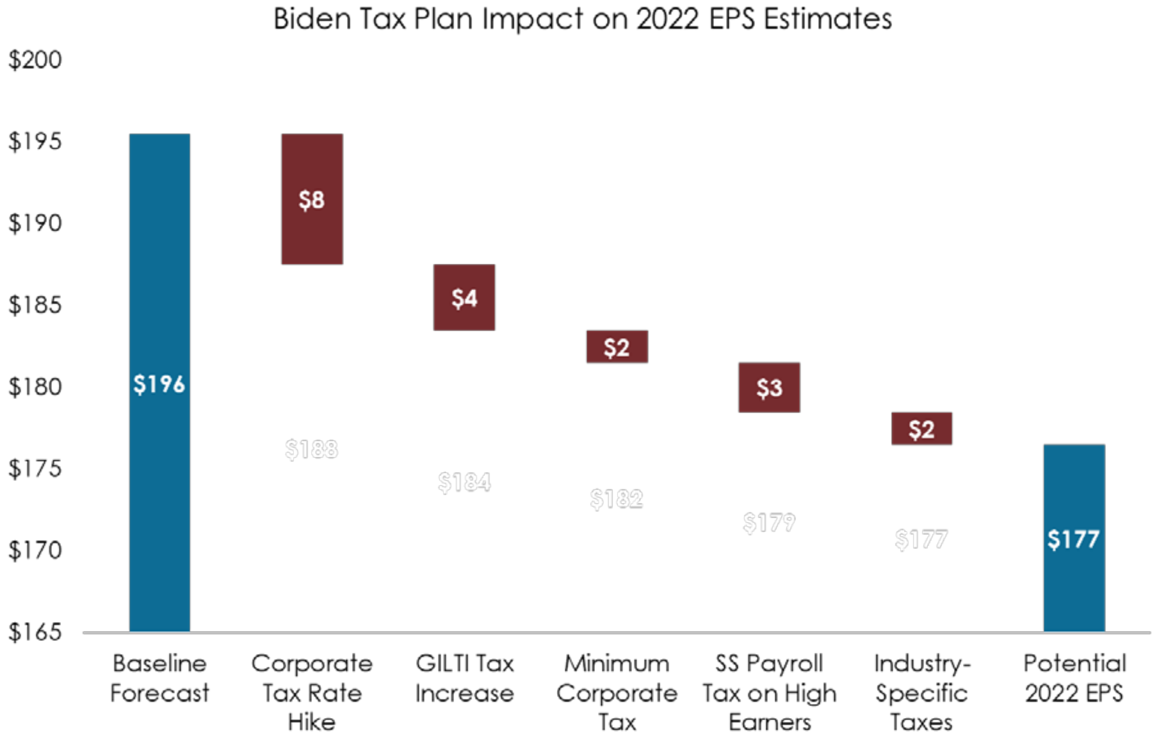
- **The Outlook for Fiscal Stimulus.** President-elect Joe Biden plans to lay out the details of his stimulus plan this Thursday, noting that the price tag could be in trillions of dollars and include additional stimulus checks, enhanced unemployment benefits, money for state/local governments and funding for vaccine distribution. However, it may not be smooth sailing passing additional stimulus through the new Democratically-controlled Senate. Democratic Senator Joe Manchin has already expressed skepticism on the need for boosting stimulus checks even further. An additional round of fiscal injections into the economy would be a short-term tailwind for risk assets.

- **The Specter of Higher Taxes.** Balanced against the potential benefit of additional fiscal stimulus, is the longer-term possibility of higher corporate taxes. Under the provisions of Biden's corporate tax plan, prospective 2022 earnings-per-share would be reduced by ~10% if fully implemented. That said, tweaks to the tax code are far from certain. While the direction of corporate tax changes is likely higher, expect some noise around the likelihood, magnitude and timing of any changes to evolve throughout 2021.

Aligned control of Congress is likely positive for the economy, but a headwind for equities due to the threat of higher taxes

Chart of the Week:

As Proposed, the Biden Tax Plan Could Shave ~10% Off 2022 EPS



Source: Glenmede, FactSet, GS, JPMAM *Data through 1/8/2021*

"Baseline Forecast" refers to 2022 earnings-per-share estimates via FactSet. "Corporate Tax Rate Hike" refers to the impact of increasing the statutory rate from 21% to 28%. "GILTI Tax Increase" refers to an increase from 11% to 21% of the global intangible low-taxed income rate."Minimum Corporate Tax" refers to a proposed 15% minimum tax rate on corporations. "SS Payroll Tax on High Earners" refers to additional Social Security taxes for higher-earners. Figures shown are estimates. Actual results may differ materially from figures shown.

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Peeking in on Equities

- **Months-Long Rally Continues**. Domestic equity markets appear to be picking up right where they left off last year – large-caps (S&P 500) posted a 1.8% return and small-caps (Russell 2000) gained 5.9% for the first week of 2021. Key tailwinds to start the year include reports that the incoming Biden administration plans to prioritize additional fiscal stimulus, as well as a recent study suggesting existing COVID-19 vaccines may provide protection against new mutations/strains.

- **Full Valuations: Cause for Concern or Justified?** Alongside the dramatic rally in risk assets over the past year, valuations have risen to premium levels by historical standards. Glenmede's Global Expected Returns model estimates that U.S. large-cap stocks sit at the 92nd percentile of longer-term valuations, and U.S. small-caps sit at the 84th percentile. That said, many have argued that premium valuations are justified given the unfolding recovery in earnings, as well as a dearth of alternative investment options. While 10-year U.S. Treasury yields now sit above 1%, that may not be enough to outpace inflation, leaving investors little choice but to turn to risk assets for real returns.

- **An Eye on Sentiment.** Full valuations alone are a poor timing mechanism for risk assets. However, investor sentiment can often provide insight to the short-term prospects for risk assets. For example, the percentage of respondents to the AAII* survey indicating they are "bullish" sits at 54%, a near-95th percentile reading. Historically, at these levels or higher, the S&P 500 has underperformed 10-year Treasuries by ~5% on average in the 12 months thereafter, but 53% of the time stocks outperformed.

While equity valuations appear stretched, they may prove to be sustainable given rising earnings and low interest rates

Mixed Bag of Economic Data

- **Manufacturing PMIs Overwhelmingly Positive.** The Institute of Supply Management's December Manufacturing PMI** rose markedly to 60.7, up from 57.5 in November. This is the highest mark for the Mfg PMI since August of 2018. The employment index crossed over 50, entering growth territory, and new orders rose 2.8 points to a whopping 67.9. Robust PMI readings suggests that the economy has continued its recovery even while the accompanying COVID-19 crisis gained momentum around the country.

- **Services PMIs.** ISM's Non-Manufacturing (or services) survey increased 1.3 points to 57.2, beating consensus expectations of 54.5. Major components that rose included new orders, supplier deliveries and business activity. However, there were some weak links within the index, including the employment component, which came in at 48.2, indicating contraction. The services portion of the economy has proved to be most sensitive to reopening/lockdown efforts, so this is an incremental sign of the U.S. economy holding its ground.

- **Employment Recovery Stumbles.** Not all parts of the economy proved resilient in December. Last Friday, the Department of Labor reported that U.S. payrolls fell by 140k on a seasonally adjusted basis in December. Almost half a million jobs were lost in the leisure and hospitality sector, which has shown the highest sensitivity to COVID-19 resurgence trends. The unemployment rate was unchanged at 6.7%, suggesting December may be just a hiccup in the longer-term recovery in the jobs market.

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**American Association of Individual Investors*
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