GLENMEDE

Investment Strategy Insights

March 29th, 2021

A Road to Recovery

- Evaluating Value Stocks
  - Value continues to benefit from relatively attractive valuations, improving fundamentals and interest rate tailwinds

- Bear Market Anniversary
  - Earnings trends will likely be a key driver of equity returns in the second year of this nascent bull market

- A New Spring in Economic Activity
  - The U.S. economy is on track for a robust and broad-based recovery on the back of quicker-than-expected vaccinations

Evaluating Value Stocks

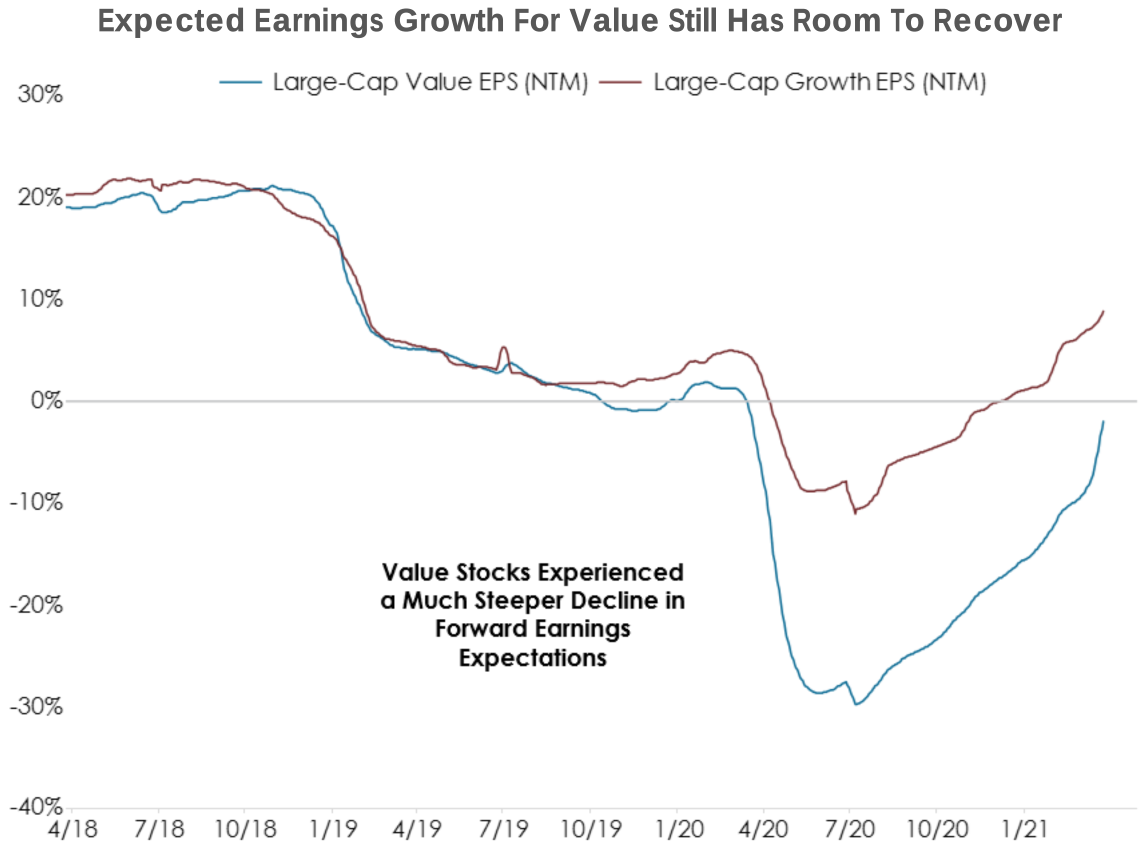
- **Momentum in Value Stocks.** The Russell 1000 Value Index has climbed 12% year-to-date, compared to a 0.2% return for its growth counterpart. Despite this recent run in performance, value stocks continue to appear more attractively valued than growth stocks. Glenmede's proprietary Global Expected Returns Model estimates that large-cap growth currently sits at the 98th percentile of longer-term fair value, whereas large-cap value sits at a more reasonable 81st percentile.

- **Earnings Upside.** The pandemic has been a relatively unique environment, where growth stocks and technology solutions have generally been beneficiaries of the socially-distant environment. As a result, earnings expectations fell considerably further for value stocks, which typically tend to be more cyclical in nature. As a result, with expectations rising for unleashed consumer demand in the back half of 2021, value appears to have more room to recover, with the prospect of further improvement in fundamentals ahead.

- **Rates Eat Away at Growth.** Rising interest rates may continue to move the needle on the growth/value equity dynamic, as value stocks are typically less sensitive to this headwind than their growth counterparts. Growth stocks typically offer the prospect of stronger results further in the future than their value counterparts. Since Treasury yields are a key determinant in defining the discount rate for those future benefits, value stocks tend to perform relatively well in rising rate environments.

Value continues to benefit from relatively attractive valuations, improving fundamentals and interest rate tailwinds

Chart of the Week:



Source: Glenmede, FactSet *Data through 03/25/2021*
Data shown is the 7-day moving average of year-over-year % change of expected earnings per share (EPS) on a next twelve months (NTM) basis for the Russell 1000 Value Index and the Russell 1000 Growth Index. Past performance may not be indicative of future results. One may not invest directly in an index.

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Bear Market Anniversary

- **1yr Since the Pandemic Bear Market Lows.** Last week marked one year since the bottom of the COVID-19 bear market last March. Since then, the S&P 500 has rallied a little under 75% on price return alone. Yet even that has been dwarfed by the run up in small-caps, with the Russell 2000 returning an astounding 120% since then. This highlights just how valuable taking a contrarian view can be when market sentiment reaches historic extremes rife with investor capitulation.

- **Expectations for Bull Market Year 2.** Each time the S&P 500 has experienced a decline of 20% or more since 1957, equities have gone on to post 42.2% returns on average in the one year following the market's trough. However, during the second year after the lows, historical returns appear a bit more muted, averaging 12.7%, but have never been negative. That does not necessarily mean that fledgling bull markets are without their risks, as the S&P 500 has seen drawdowns of 5% or more in the second year of every post-WWII bull market.

- **Earnings, Take the Wheel.** At a high level, the building blocks for equity total returns can be broken down into three drivers: earnings trends, valuations and dividends. 2020's outstanding returns were due in large part to expanding valuation multiples, such as price-to-earnings or price-to-cash flow ratios. However, with valuations appearing extended in many parts of the equity markets, it will likely fall to a broad-based earnings recovery to drive gains in equities in the second year of this bull market.

Earnings trends will likely be a key driver of equity returns in the second year of this nascent bull market

A New Spring in Economic Activity

- **Improving Economic Fundamentals.** Markit's Flash PMIs* for the U.S. remained notably strong for March. The services PMI hit 60.0, with the press release highlighting "the steepest increase in new business for almost three years." The manufacturing PMI improved to 59.0, though it appears that input shortages may have limited the expansion in production capacity. All in all, this rebound in economic activity may be a taste of things to come in the back half of 2021.

- **Turning Increasing Optimistic.** Consumer sentiment continued its ongoing improvement this month, with the University of Michigan Consumer Sentiment Index reporting at 84.9. The increase in sentiment appeared to be driven by the third round of stimulus checks as well as the better than expected vaccination rollout. Consumers may be beginning to see the "light at the end of the tunnel," which could lead to a more robust and broad-based economic recovery.

- **Housing Pause.** Recently there have been some signs of a slowdown in housing, with U.S. housing starts and building permits for February falling -10.3% and -10.8% month-over-month, respectively. Some of that decline may be transitory, since unseasonably cold weather in the South appeared to take its toll. On the other hand, the National Association of Home Builders Market Index continues to sit near multi-year highs at 82, suggesting the recent weak reports may just be a temporary hiccup in an ongoing recovery.

The U.S. economy is on track for a robust and broad-based recovery on the back of quicker-than-expected vaccinations

**Purchasing managers' index*

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GLENMEDE CORPORATE FACTS

More than $40 billion in assets under management as of 12/31/2020

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