GLENMEDE

Investment Strategy Insights

April 19th, 2021

Great (Earnings) Expectations

- Kicking Off Earnings Season
  - Expect the rebound in earnings to continue into the back half of 2021, supporting equity markets both at home and abroad
- Percolating Pricing Pressure
  - Inflation appears to be trending higher, but seems unlikely to do so at a pace that places undue pressure on interest rates
- Growth/Value Saga 2021
  - Earnings strength and near-term inflation/interest rate concerns may continue to support the case for value stocks

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Kicking Off Earnings Season

- **Eagerly Awaiting Earnings Results.** Another earnings season is upon us, with many expecting signs that the rebound in corporate profitability picked up steam in Q1. With ~8.7% of companies reporting so far, the blended year-over-year earnings growth estimate for the S&P 500, which combines actual results with consensus estimate for firms that have yet to report, currently sits at 26%. This would be one of the largest gains in corporate profits since the tailwind from the Tax Cuts & Jobs Act of 2017.

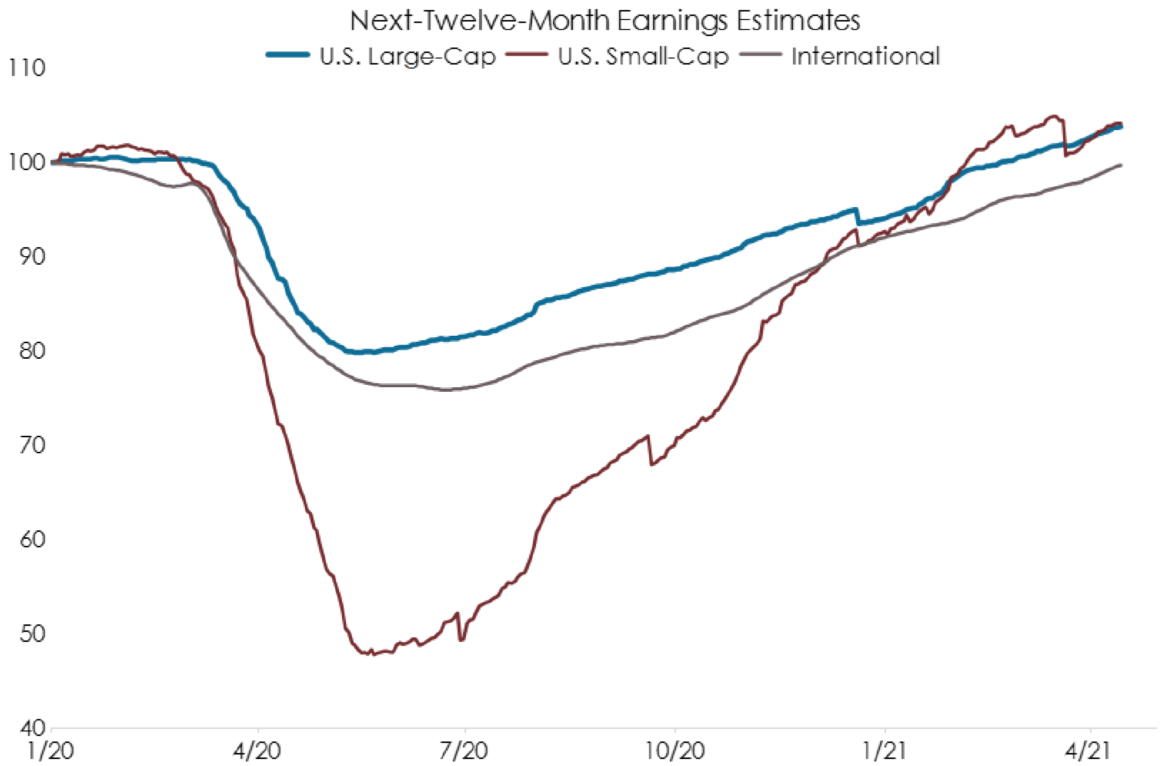
- **Growing Confidence in 2021 Profits.** Consensus expectations for the full year 2021 have steadily become more optimistic. At the beginning of the year, the consensus estimate for S&P 500 earnings growth for 2021 sat at 19%, but has marched higher where it sits now at nearly 28%. Contributing to that trend is an upbeat macroeconomic outlook, driven by a faster than expected vaccine rollout and anticipation for a material rebound in economic activity. This is an important development for equity investors, as stronger earnings provide the needed substance behind the market's rally that we have seen since the middle of last year.

- **Putting the "E" in "P/E"** The rebound in earnings is not just a U.S. large-cap story; similar rebounds can be seen in the profit outlooks of smaller and foreign companies as well. U.S. small-cap in particular faced an unprecedented decline in earnings expectations in the throes of the pandemic, yet the revival since then has been equally impressive. For investors, growing the "E" in price-to-earnings (P/E) ratios should place less pressure on valuations within equities to deliver incremental gains on a go-forward basis.

Expect the rebound in earnings to continue into the back half of 2021, supporting equity markets both at home and abroad

Chart of the Week:

Rise in Growth Expectations is Not Just a U.S. Large-Cap Phenomenon



Source: Glenmede, FactSet *Data through 04/14/2021*

Data shown is the progression of how next-twelve-month earnings per share estimates for the have evolved over time, indexed to 100 at 12/31/2019. U.S. Large-Cap is represented by the S&P 500 Index, U.S. Small-Cap is represented by the Russell 2000 Index and International is represented by the MSCI All Country World ex-U.S. Index. Outcomes may differ materially from consensus expectations. One cannot invest directly in an index.

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Percolating Pricing Pressure

- **Hot Inflation Print.** Inflation has been of particular concern for U.S. investors, especially as more signs of supply shortages begin to pop-up in certain sectors. The U.S. headline CPI* and PPI** each rose 2.6% and 4.1% respectively on an annual basis in March. With that said, a good portion of that rise was due to hot year-over-year comparables from the typically more volatile energy component. While some of these numbers may appear eye-popping at first glance, they may be more transitory in nature due to the base effect from declining prices in March/April of last year.

- **Fed Sticking to the Script.** Chairman Jerome Powell has made it abundantly clear to the marketplace that the Fed intends to tolerate above average inflation for a period of time before considering raising interest rates. In a speech last week, he noted that he would like to see core inflation on track to run above 2% for some time before liftoff on rates. All else equal, it does not yet appear that inflation is on a trajectory that would force the Fed to react by prematurely removing the monetary punch bowl.

- **Inflation & Interest Rates.** At a basic level, the building block approach to interest rates includes an inflation component and a level of real yield on top of that. As a result, a significant move higher in inflation could place upward pressure on 10-year Treasury yields. With that said, a material and persistent spike in inflation beyond the expected year-over-year base effect appears less likely at this point in time, suggesting that interest rates seem unlikely to spike higher in the near-term.

Inflation appears to be trending higher, but seems unlikely to do so at a pace that places undue pressure on interest rates

Growth/Value Saga 2021

- **Crypto Craze**. To much fanfare, the cryptocurrency exchange Coinbase became a publicly traded company via direct listing last week, jumping 36% higher than its initial reference point after its first day of trading. The interest here is indicative of the continued appetite among investors for exposure to newer, higher growth spaces of innovation, a trend that has driven the value/growth dynamic in the latter's favor over the past few years. However, that trend appears to be reversing course so far in 2021.

- **Marking Up Value**. Year-to-date, value stocks have returned to favor among investors. Glenmede's Global Expected Returns Model estimates that large-cap value sat at roughly the 70th percentile of longer-term fair value to begin 2021, but has since climbed to the 83rd percentile. The 90th percentile level has historically been a key threshold for valuations, where investors are typically rewarded from backing away from lofty pricing. Large-cap value stocks appear to have further room to run before bumping up against that threshold.

- **Relative Opportunity in Value.** While large-cap value currently sit at the 83rd percentile of longer-term fair value, their growth counterparts remain at the 99th percentile, suggesting that value stocks continue to offer considerable relative value within domestic equity markets. The combination of robust earnings growth, optimistic economic outlook and prospects of higher inflation/interest rates should all be tailwinds for the continued outperformance of value stocks.

Earnings strength and near-term inflation/interest rate concerns may continue to support the case for value stocks

**Consumer Price Index*
***Producer Price Index*

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GLENMEDE CORPORATE FACTS

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