

October 5th, 2020

A Fiscal Vaccination

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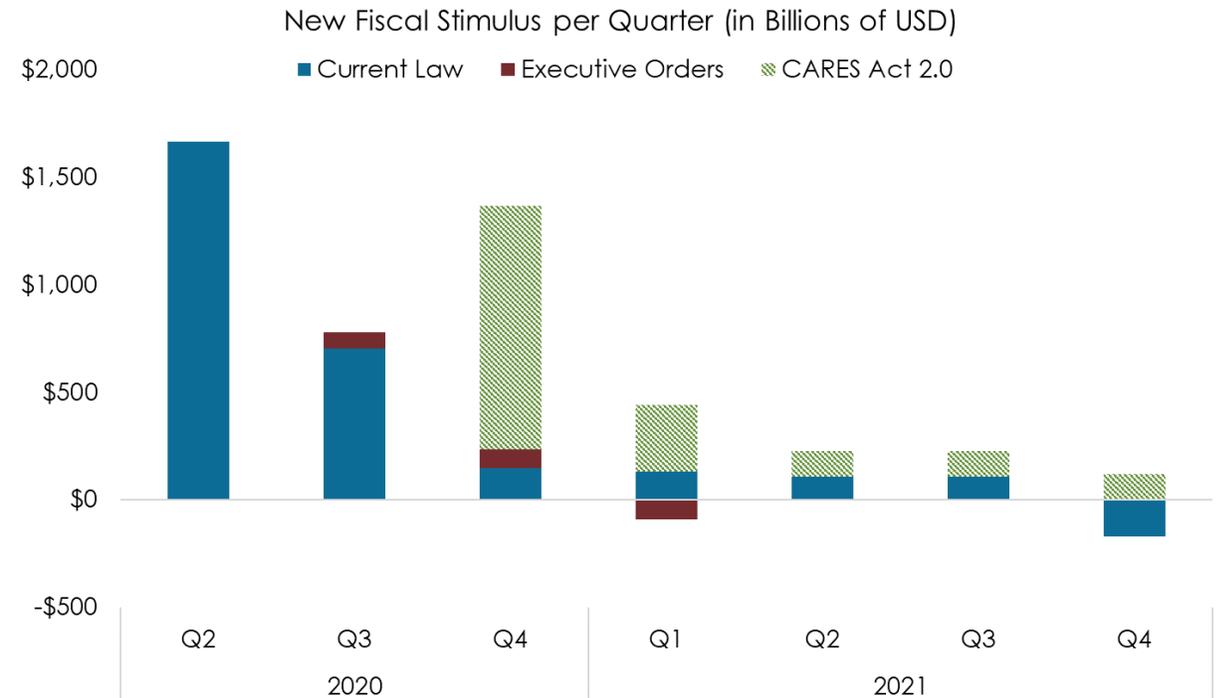
Seeking Stimulus

- Economic Deceleration.** Glenmede's Reopening Index estimates that it took only a month and a half from the middle of April to regain half of all economic activity lost due to social distancing orders. However, it took another 4 months through the end of October to reach 77% recovered, highlighting how each step toward full recovery has become incrementally more difficult to achieve. The model estimates that high-touch industries such as restaurant dining and air travel are only 42% recovered, as the heightened risk of viral contagion has kept a lid on activity.
- Super-Charged Monetary & Fiscal Stimulus.** The Federal Reserve's forceful measures this year primed the economy for a recovery, via aggressive rate cuts and its massive balance sheet expansion to backstop liquidity. In addition, the Congressional Budget Office estimates that the federal budget deficit will reach 16% of GDP this year, representing the largest peacetime fiscal stimulus in U.S. history. Though the effects of monetary policy are ongoing, the impact of fiscal stimulus appears to be waning.
- New Stimulus Could Buy More Time.** Congress has struggled to reach consensus for a reboot on enhanced unemployment benefits, aid for state/local governments and many other provisions of the CARES Act that expired over the last few months. It has become clear that some portions of the economy will struggle to stay afloat in a socially-distanced environment, so a new fiscal stimulus package could buy some time until a vaccine or widely available cure becomes widely distributable.

Fiscal policy may be key in helping bridge the economic gap between now and vaccine delivery

Chart of the Week:

New Stimulus Package Could Buy a Little More Time



Source: Congressional Budget Office, Joint Committee on Taxation, Committee for a Responsible Federal Budget, Cornerstone Macro Data shown are projections on the amount of fiscal stimulus per quarter through 2021 under various scenarios. The blue bars represent the amount of fiscal stimulus projected based on current law. The red bars represent the amount of fiscal stimulus as a result of President Trump's recent executive actions, including postponing payroll taxes and extending enhanced unemployment benefits. The hashed green lines are Cornerstone Macro's projections of the size and scope of a potential, yet to be agreed upon CARES Act 2.0. Actual results may differ materially from projections.

Government Anti-Trust Tech

- **Mega-Cap Tech in Congressional Crosshairs.** In a rare bipartisan effort, the Senate Committee on Commerce, Science and Transportation issued subpoenas to the CEOs of Facebook, Google and Twitter over monopoly concerns last week. In addition, the House Judiciary Committee's anti-trust subcommittee is expected to release a report with allegations of its own this week, increasing the political pressure on some of the largest companies in the world.
- **FAAMGs: Kings of the Market.** Just as the FAAMGs (Facebook, Apple, Amazon, Microsoft, Google) dominate their respective industries, they also represent an outsized share of the market capitalization of U.S. stocks. All together, these five companies represent 13.4% of the Russell 3000 index, with the remaining 86.6% distributed to the other 2,995 stocks. The FAAMGs' large weight is partially due to the outsized valuations relative to the fundamentals afforded these companies by investors.
- **Top Companies Don't Stay on Top Forever.** The historical record shows that the largest companies in the S&P 500 don't always remain so for extended periods of time. For example, since the 1960s, only a little more than half of companies that ended a decade in the top 5 as a share of market capitalization remained in the top 5 at the end of the next decade. A number of factors have contributed to the reshuffling of the largest stocks, including anti-trust intervention, increased competition and/or shifting macroeconomic trends.

[Mega-cap tech's position in the marketplace may be at risk of government intervention via anti-trust litigation

Health Solutions Cure Economic Woes?

- **Tracking Business Reopening.** Glenmede's Reopening Index estimates that 77% of all economic activity lost due to social distancing orders has since been regained. However, the Back-to-Work sub-index, which measures the proportion of businesses that had closed due to COVID-19 that have since reopened, currently sits at a mere 49%, suggesting there may be a meaningful portion of the economy that has yet to resume activity at any capacity.
- **Enhanced COVID-19 Testing Capabilities.** The U.S. announced early last week that it plans to deploy 150 million rapid test kits for COVID-19 in the coming months, which take only 15 minutes to develop results. Distribution is likely to be prioritized for vulnerable communities and densely populated locations, such as schools. This development has the potential to further accelerate economic activity, as a portion of high-touch industries such as airlines, cruise ships and sporting venues (to name a few) can rely on the semi-real-time insights of customer health risks.
- **Vaccine Progress Continues.** The WHO*, which tracks progress on more than 170 COVID-19 vaccine candidates, reports that 11 are now in Phase III trials. Vaccines in Phase III are tested on thousands of volunteers in order to monitor large scale safety and effectiveness. With multiple candidates showing promising results so far, many experts believe a vaccine could be widely available by mid-2021.

[The last leg of economic recovery from the pandemic may be vaccine-dependent

*World Health Organizations



Investment Strategy Insights

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