GLENMEDE

Investment Strategy Insights

October 11th, 2020

Finish What Ya Started (Remembering Eddie Van Halen)

- "Might as Well Jump" into Q3 Earnings Season
    - While earnings may be starting to recover, a full and broad recovery may be dependent on a widely available vaccine

- Stimulus…Everybody Wants Some!!
    - Another round of fiscal stimulus aimed at the consumer and struggling industries could help sustain economic momentum

- Runnin' With the Consumer
    - Consumers are driving the pandemic recovery, but the U.S. economy is not completely out of the woods yet

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“Might as Well Jump” into Q3 Earnings Season

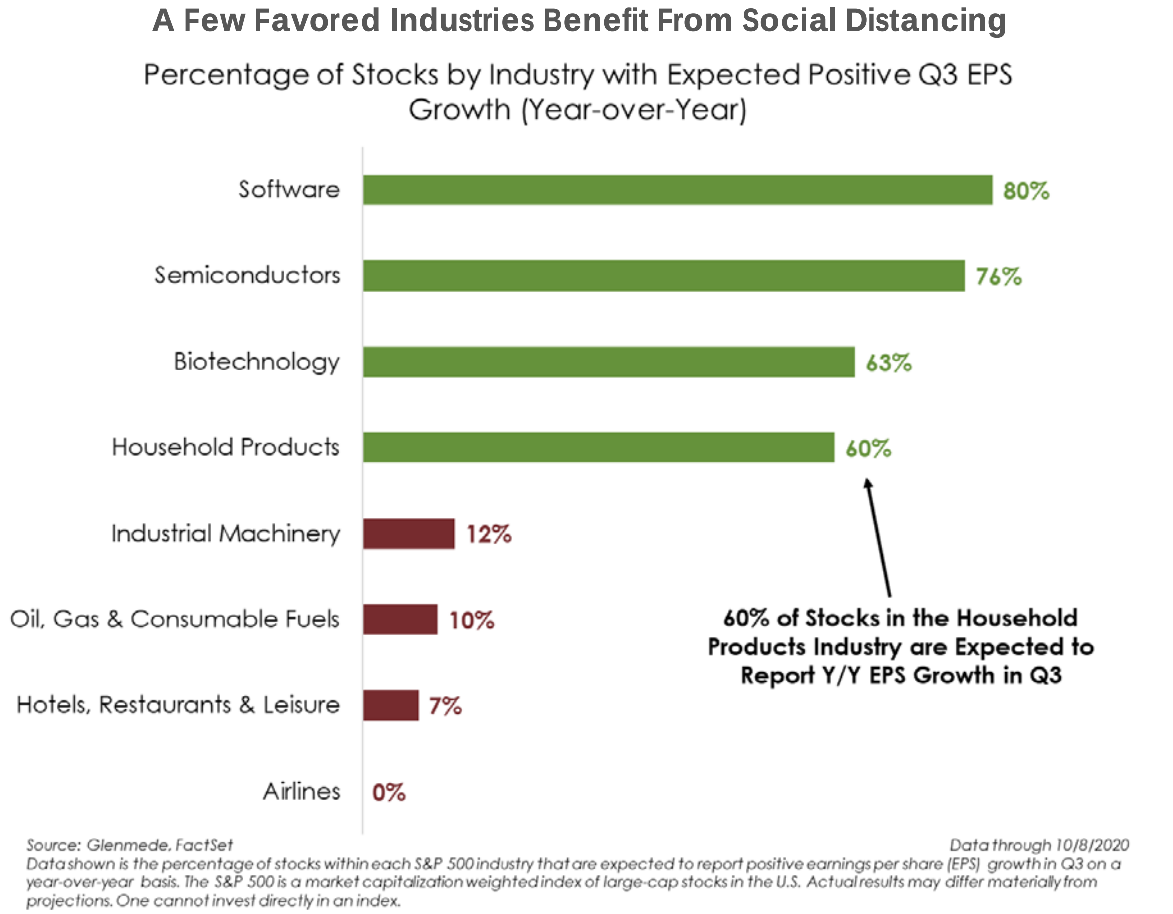
- **Awaiting Earnings Results.** Q3 earnings season kicks into high gear this week, with many expecting corporate profitability to rebound after an abysmal Q2. With ~5% of companies reporting so far, the blended year-over-year earnings growth estimate for the S&P 500, which combines actual results with consensus estimates for firms that have yet to report, currently sits at -20.6%, meaningfully better than Q2’s -31.6%.

- **A Tale of Two Earnings Trends.** Underneath the surface, there is much dispersion in earnings results expectations. A number of industries have been favored in this socially-distant economy, including software, semiconductors, biotech and household products – as a result, more than half of S&P 500 stocks in those industries are expected to actually grow their earnings in Q3 on a year-over-year basis. However, there is a noticeable portion of the market where profitability has been decimated. Very few airlines, hotels, restaurants, fossil fuels and industrial machinery companies are expected to at least break even on earnings results year-over-year.

- **Anticipating a Return to Peak Earnings.** Before the pandemic, the S&P 500 was averaging about $40 earnings-per-share (EPS) per quarter. Consensus expectations imply Q3 could deliver $33 in EPS, meaningfully higher than Q2’s $28, but with much ground to recover in returning to its prior peak. That said, consensus estimates show an expectation that earnings reach new highs in the second half of 2021, perhaps not so coincidentally aligned with estimates for vaccine delivery.

While earnings may be starting to recover, a full and broad recovery may be dependent on a widely available vaccine

Chart of the Week:



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Stimulus…Everybody Wants Some!!

- **On Again, Off Again Stimulus Talks.** Last week brought a whirlwind of negotiations on fiscal stimulus. On Tuesday afternoon, Trump tweeted that he instructed his representatives to stop negotiating on further stimulus until after the election, sending domestic markets into a tailspin. However, the White House quickly reversed course, drawing up a $1.8 trillion relief package that brings the Republican and Democratic plans closer in magnitude. Investors have been eagerly anticipating additional measures since many provisions of the CARES Act have expired.

- **Powell Pushes for More Fiscal Support.** Fed Chair Jerome Powell made the case last week for further action on government spending to support the recovering economy. He noted, "Too little support would lead to a weak recovery, creating unnecessary hardship for households and businesses." Meanwhile, the minutes from the September FOMC meeting offered little insight to prospects for bolstering the Fed's asset purchase program, though investors are eagerly awaiting more clarity over the next few months.

- **The Case for Gov't Action.** In many respects, the economy's recovery since this spring has been pretty remarkable, with Glenmede's Reopening Index estimating that 77% of economic activity that was lost due to social-distancing mandates has been regained. However, there are pockets of the economy that continue to struggle, and an additional round of fiscal stimulus could put the U.S. economy on a gentler and less painful path toward full recovery once a vaccine becomes widely available.

Another round of fiscal stimulus aimed at the consumer and struggling industries could help sustain economic momentum

Runnin' With the Consumer

- **Anticipating the Q3 GDP Report.** The Federal Reserve Bank of Atlanta's GDPNow forecasts Q3 U.S. real GDP at a would-be record +35.2% on a quarter-over-quarter, annualized basis. The consumer appears to be a big part of the rebound, responsible for ~70% of the total gain in an almost mirror image of Q2. If there's outsized focus on fiscal policy's ability to deliver more support to households, it is likely in an effort to keep the momentum rolling through year-end.

- **Digging Into Consumption Trends.** Glenmede's Reopening Index estimates that 77% of economic activity that was lost due to social-distancing mandates has since been regained. The Back-to-Spending sub-index has fared particularly well, though that depends on which portion of the economy is being observed. For example, the low-contact portion, which includes things like retail sales and gasoline purchases is back up to 96%. However, the high-contact portion, which includes restaurants and air travel remains much more subdued at 46%.

- **Job Market Not Yet in the Clear.** 840,000 Americans filed for unemployment benefits last week, with a number of high-profile companies such as American Airlines, United Airlines and Walt Disney among those announcing layoffs. While well below the peak 6.9 million claims filed during the week of March 28th, this is still meaningfully above the pre-pandemic trend of ~200,000 weekly claims per week, highlighting that the U.S. economy is not quite out of the woods in this recession yet.

Consumers are driving the pandemic recovery, but the U.S. economy is not completely out of the woods yet

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GLENMEDE CORPORATE FACTS

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