GLENMEDE

Investment Strategy Insights

October 19th, 2020

Seeing Through the Near-Term Haze

- Large-Cap at its 90th Percentile Valuation…Now What?
  - Equities still offer relative value in a yield-starved world, but investors should emphasize opportunities beyond mega-caps

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

- Tick Tock on the Election Countdown
  - While the major presidential candidates may have disparate views, elections tend to matter less for returns than expected

Investment Strategy Insights

Large-Cap at its 90th Percentile Valuation…Now What?

- **Large-Caps Flash Warning Sign.** According to Glenmede's proprietary Global Expected Returns model, valuations on U.S. large-cap stocks have now eclipsed the 90th percentile of long-term fair value. However, the equity market's rising tide has not lifted all boats equally. For example, valuations on U.S. small-cap and international equities sit at much more reasonable levels, at the 68th and 59th percentile, respectively. As a result, investors searching for relative value within equities may find it away from the largest, most-favored companies.

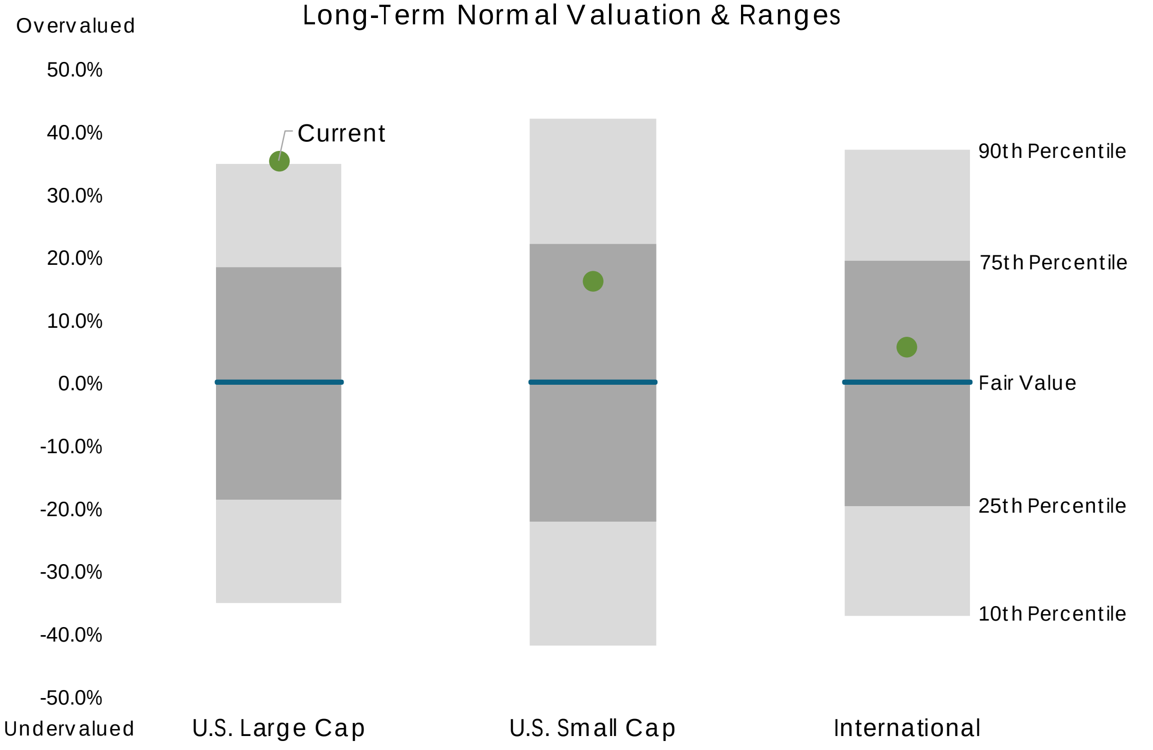
- **Less Loved Assets' Time to Shine?** As the global economy continues to recover from the ravages of the pandemic, some portions of the market perhaps have more to gain than others in further reopening prospects. Earnings expectations for U.S. small-caps have declined by more than half in 2020, but are expected to almost triple by 2021, as they may be some of the biggest beneficiaries of a return to a more normal environment. In addition, international equities may benefit from a catch-up trade as well, with the added tailwind of a weaker-trending dollar in its favor.

- **Value is Relative.** While there is much dispersion within, equities on the whole are still priced at a premium relative to Glenmede's estimates of fair value. That said, fixed income offers much less upside potential of its own, particularly in this yield-starved world. As a result, rather than abandoning equities wholesale, investors should seek value within equities to avoid taking risk off the table.

Equities still offer relative value in a yield-starved world, but investors should emphasize opportunities beyond mega-caps

Chart of the Week:

Fairer Valuations Away from Large Cap Stocks



Source: Glenmede, MSCI *Data through 10/15/2020*

Glenmede's estimate of long-term fair value for equities is based on normalized earnings, dividend yield and book value using MSCI Indexes (MSCI USA Index, MSCI USA Small-Cap Index and MSCI All Country World ex-U.S.), which are unmanaged total return index with dividends reinvested. Past performance may not be indicative of future results. One cannot invest directly in an index.

GLENMEDE

Investment Strategy Insights

Checking in on Earnings

- **Assessing Pandemic Profitability.** Q3 earnings season is under way, with ~10% of companies in the S&P 500 reporting so far. The blended year-over-year earnings growth estimate for the index, which combines actual results with consensus estimate for firms that have yet to report, currently sits at -18.4%, meaningfully better than Q2's -31.6%.

- **Tech & Financials: Earnings Behemoths.** Two of the S&P 500's eleven sectors account for over 40% of the index's earnings – information technology at 23% and financials adding another 19%. As such, the results from companies in those sectors could play a major role in the S&P 500's overall earnings trajectory. On a year-over-year basis, financials are expected to post an 8.6% drop in profits for Q3 as lower interest rates have put pressure on margins. Tech appears to be faring much better, expecting a mere 2.6% decline in profits for the quarter, as many technology stocks have been beneficiaries of socially-distant economic activity.

- **Earnings Back on Track by 2021?** Many investors have come to terms with the carnage in profits this year and are already looking ahead to 2021. Consensus expectations imply the S&P 500 sees an 18% decline in earnings-per-share for 2020, but an ensuing 24% rebound next year. Sharpened safety protocols, work-from-home adaptability and the resourcefulness of many companies has helped soften the blow during the pandemic. That said, expectations for vaccine delivery around mid-2021 may be playing a significant role in projecting a return to a more normal profit environment.

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

Tick Tock on the Election Countdown

- **Volatility Markets Picking Up on Political Risk.** As Election Day nears ever closer, FiveThirtyEight estimates that Biden has an 87% chance of winning the presidential election. VIX futures for the November options expiration cycle topped out in early September when the polls showed the race appeared to be tightening. However, as Biden's lead has grown, implied volatility has also dropped, as his larger lead has perhaps decreased the odds of a unclear election outcome at the margin.

- **Awaiting the Next Fiscal Injection.** Just as important as the election at the top of the ticket may be some of the Senate races, which could determine the latitude the next president may have in enacting his policy agenda. One of the biggest initiatives will likely being piecing together another fiscal stimulus package, since many provisions of the CARES Act have expired. Odds are likely low that Congress gets together on a new package by the election, but fiscal stimulus is being perceived as a priority in a potential Biden administration.

- **Elections & Market Performance.** Over full presidential terms, market returns and political results have not shown a clear relationship. Since 1872, no matter how one slices the data, (i.e. Republican Presidents, Democratic Presidents, split Congress, etc.), there is no meaningful difference in the performance of U.S. large-cap stocks, on average. This is perhaps due to the general propensity of candidates to over-promise on the campaign trail and under-deliver when in office.

[While the major presidential candidates may have disparate views, elections tend to matter less for returns than expected

Investment Strategy Insights

JASON D. PRIDE, CFA
Chief Investment Officer - Private Wealth

Responsible for formulating investment policy and strategy

Serves as a leading member of the Investment Policy Committee

B.S. from Massachusetts Institute of Technology

MICHAEL T. REYNOLDS, CFA
Investment Strategy Officer

Responsible for supporting the development of investment strategies, policy and portfolio construction methodologies

Is an active member of the CFA® Society of Philadelphia

B.S. from the Wharton School of the University of Pennsylvania

ILONA V. VOVK, CFP®
Investment Strategy Officer

Responsible for supporting the development of investment strategies, policies and portfolio construction methodologies applied to Private Wealth client portfolios

B.A. and B.S. from Drexel University

GLENMEDE CORPORATE FACTS

More than $41 billion in assets under management as of 12/31/2019

Founded in 1956

Serves high net worth individuals, families, family offices, foundations and institutional clients