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Investment Strategy Insights

November 2nd, 2020

2020 Reaches its Crescendo?

- The Long Awaited Election & Beyond
  - Investors should brace for near-term election volatility, but stay the course with their long-term investment plans

- Earnings Trick or Treat
  - The recovery in corporate earnings puts U.S. stocks on path for new highs in profitability by year-end 2021

- COVID Concerns Deepen
  - The surge in COVID-19 cases poses risks in the short-term, though investors should keep an eye on vaccine progress

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The Long Awaited Election & Beyond

- **Weighing Short- & Long-Term Election Risks.** Volatility has already begun to spike, with the VIX reaching 41.0 last week. Investors should be prepared for further volatility in the short-run as Americans parse the results of this week's elections. However, history has shown market returns to be quite a-political longer-term. Regardless of which party has won the White House or their degree of control in Congress, full-term/4yr returns have not proved meaningfully different.

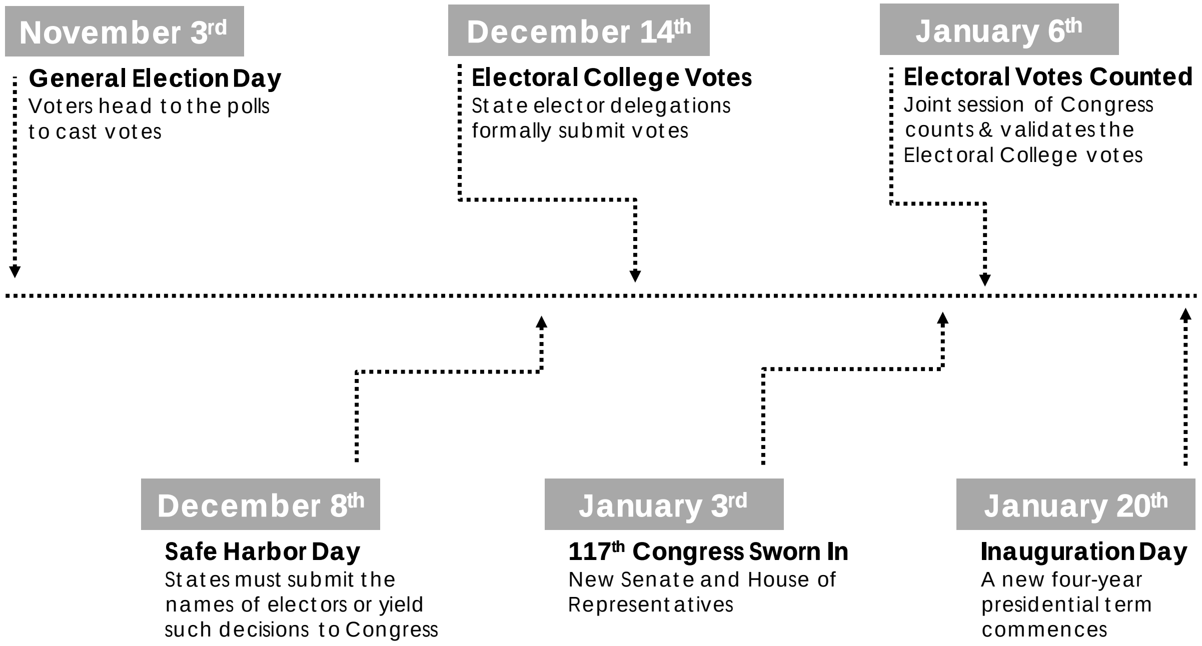
- **Potential for Policy Change.** FiveThirtyEight gives Biden an 89% chance to win the election. A Democratic White House would likely bring with it greater regulation and potentially higher taxes, but would also endorse a larger, more comprehensive stimulus bill. It will perhaps be equally, if not more, important to watch the results of the Senate, which could determine the latitude the next administration has in enacting its policy platform. To that end, FiveThirtyEight gives Democrats a 76% chance of control of the Senate.

- **Risks of an Unclear Outcome.** With more votes expected to be cast by mail than usual, Americans may not know the results on Election Day with certainty. However, the process to officially certify the results is clearly delineated by U.S. law. On December 8th, referred to as "Safe Harbor" Day, states submit their electors for the Electoral College or yield such decisions to Congress. Once that Electoral College casts its votes on December 14th and Congress verifies the votes on January 6th, the election is final and a president will be inaugurated on January 20th.

Investors should brace for near-term election volatility, but stay the course with their long-term investment plans

Chart of the Week:

2020 U.S. Presidential Election – A Timeline



Source: Glenmede

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Earnings Trick or Treat

- **Better-Than-Expected Q3 Earnings**. With ~63% of companies in the S&P 500 reporting Q3 results so far, the blended year-over-year growth rate in earnings for the index, which combines actual results with analysts' expectations for companies that have yet to report, currently sits at -9.8%. This is several percentage points better than initially expected, as 85% of companies have beaten earnings projections by an average margin of 15.6%.

- **Big Tech Reports.** Four of the five largest "tech" stocks in the S&P 500 (Apple, Amazon, Facebook and Google) reported after last Thursday's close and handily beat earnings expectations, further demonstrating the benefits they have reaped in a socially-distant economy. However, some of the details underneath the surface were causes for investor concern, including Apple's lackluster iPhone sales, Amazon's lower guidance for Q4 and Facebook's highlights of looming regulatory risks.

- **Return to Peak Earnings in 2021?** Glenmede projects that earnings for the S&P 500 are on pace to either match their pre-pandemic peak or track new highs by the end of Q4 2021. This is partly the reason for the dramatic rebound in equities year-to-date, as investors have become increasingly comfortable with the timing and nature of the U.S. economy's potential recovery from this crisis. That said, this trajectory may be dependent on keeping the virus in check until a vaccine becomes widely available for distribution among the public.

The recovery in corporate earnings puts U.S. stocks on path for new highs in profitability by year-end 2021

COVID Concerns Deepen

- **Viral Resurgence.** New COVID-19 cases continued to rise last week, with Europe and the U.S. battling fresh outbreaks. Over the past week, Europe has been averaging 220k new reported positive cases, as several countries in the region have implemented restrictions in order to stunt the spread, including national curfews, closing entertainment venues and reducing hours of operation. In the U.S., the 7-day average of new cases is ~70k, mostly concentrated in Western/Midwestern states.

- **Watching Hospitalization Trends.** Reported case counts in the U.S. and Europe continue to rise at the fastest rate of the pandemic so far. On the other hand, hospitalization rates appear to remain contained in aggregate so far for both regions. If the logic flows that higher hospital/ICU utilization necessitates more draconian economic shutdown measures, it would be prudent for investors to keep a close eye on these trends over the near-term.

- **Awaiting the Vaccine(s).** Glenmede's Reopening Index estimates that 76% of economic activity that was lost due to social distancing measures has since been regained. This figure is little changed since June, highlighting how difficult additional gains have been to generate in the heart of a pandemic. Many businesses have proved agile and creative in their efforts to resume activity. That said, there is a sizable portion of the economy that is reliant on human interaction and crowd attendance, which may be difficult to revive absent a widely available vaccine.

The surge in COVID-19 cases poses risks in the short-term, though investors should keep an eye on vaccine progress

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GLENMEDE CORPORATE FACTS

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