GLENMEDE

Investment Strategy Insights

November 9th, 2020

Counting, COVID & Continued Economic Gains

- The Blue ~~Wave~~ Ripple
  - The prospect for fiscal stimulus will be the focus through year-end, and thereafter on the implications of divided government

- COVID-19 Concerns Climb
  - Renewed lockdowns could pose a risk to ongoing economic reopening until the viral spread is brought under control

- Energized Earnings & Economics
  - Positive economic and earnings results should give investors confidence that the pandemic recovery is well underway

GLENMEDE

Investment Strategy Insights

The Blue ~~Wave~~ Ripple

- **Biden Wins, GOP Likely Retains Senate.** Joe Biden has been widely declared the new President-Elect of the United States. While Democrats comfortably maintained control of the House of Representatives, the result in the Senate remains unclear, though it appears the GOP may have the edge in the outstanding races. Assuming Republicans hold onto their seats in North Carolina and Alaska, control of the Senate may come down to two runoff elections in Georgia slated for January 2021, which may ultimately determine the latitude Biden has to enact his policy agenda.

- **Gridlock is Good, Markets Say.** The S&P 500 was sharply higher last week, in recognition that gridlock in Congress might actually deliver the best of both worlds for corporations. The expectation appears to be that Biden might be more predictable on issues like trade, lessening the risk of abruptly announced tariffs. That said, a Republican Senate likely throws cold water on plans to increase corporate taxes or uniformly raise the minimum wage, both of which could impair corporate profitability, all else equal.

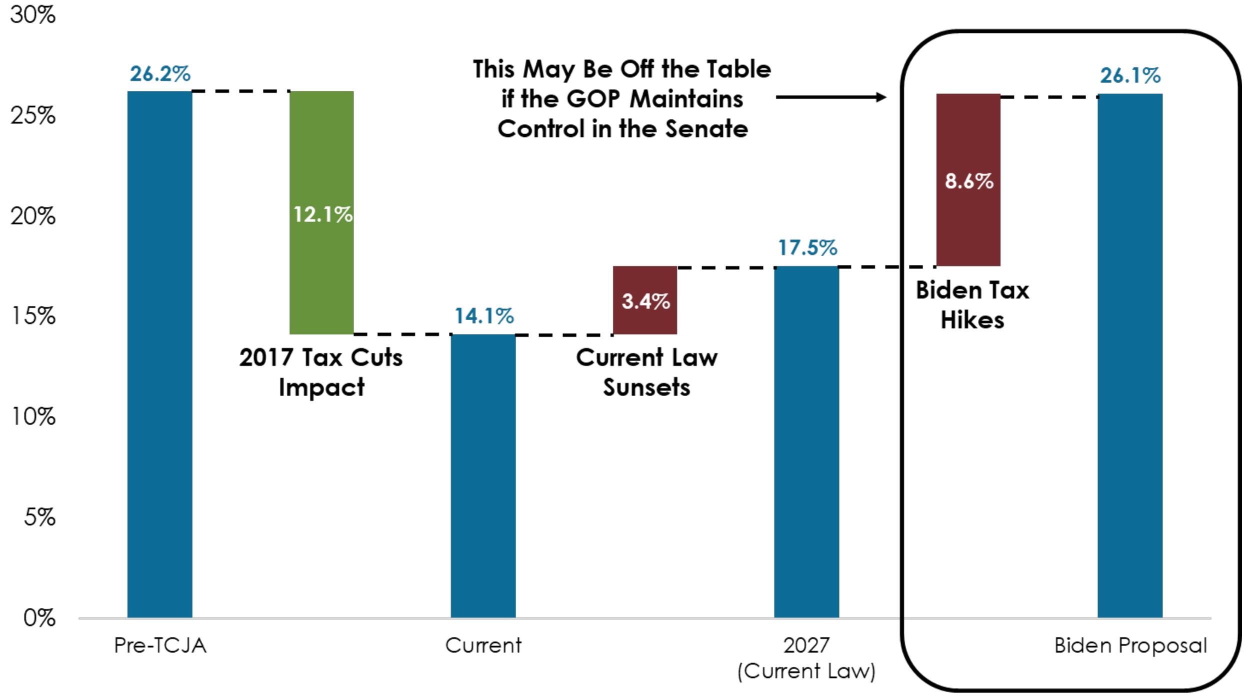
- **Shifting Focus to Fiscal Stimulus.** The main priority until year-end for Congress will likely be the next package of fiscal stimulus. When asked about the status of another rescue package, Senate Majority Leader Mitch McConnell said "I think we need to do it and I think we need to do it before the end of the year." The size, scope and timing of more fiscal stimulus will likely be the main focus for investors in the short-run, as it could steady the U.S. consumer heading into the holiday season.

The prospect for fiscal stimulus will be the focus through year-end, and thereafter on the implications of divided government

Chart of the Week:

Corporate Tax Overhaul Less Likely in Divided Government

Changes in Effective U.S. Corporate Tax Rates: Current Law & Proposals



Source: Cornerstone Macro, Congressional Budget Office, Tax Policy Center, Joint Committee on Taxation *Data through 11/6/2020*
TCJA refers to the Tax Cuts and Jobs Act of 2017, which is current law. Data shown are estimates of the effective tax rates paid by corporations subject to the corporate income tax under various scenarios. Pre-TCJA refers to the effective tax rate before the Tax Cuts and Jobs Act took effect. Current refers to the effective tax rate currently in effect. 2027 (Current Law) refers to the estimated effective tax rate in 2027 based on current law due to sunsetting provisions. Biden Proposal refers to the estimated effective tax rate that is likely to prevail if all of his tax proposals are ratified into law. Actual results may differ materially from projections.

Investment Strategy Insights

COVID-19 Concerns Climb

- **U.S. COVID Surge**. New reported COVID-19 cases in the U.S. eclipsed 120k last Wednesday, a new daily record high. In addition, hospitalizations have reached 50k for the first time in three months. As these numbers swell, some states have begun re-implementing restrictions. Various Northeastern states have dialed back reopening plans by reducing restaurant capacity, limiting gatherings and restricting hours of operation. While not yet as draconian as earlier this year, these restrictions could hamper further economic gains until the viral spread is brought under control.

- **European Lockdowns Becoming Law.** Europe's COVID-19 spike is taking a toll as hospitalizations have swelled across multiple countries. In Germany, 75% of ICU beds are occupied; France, Belgium and Switzerland all anticipate hospitals reaching capacity within a few weeks as well. On Thursday, a national lockdown commenced in the U.K., by orders of Prime Minister Boris Johnson. Lockdown measures include closing non-essential services and mandates to remain at home unless having due reason to leave.

- **Leading Vaccines Readying a Supply Chain.** There appears to be continued progress in efforts to manufacture an effective vaccine. The two vaccines furthest in progression are from Pfizer/BioNTech and Oxford/AstraZeneca. These organizations are deep into Phase III trials and readying a supply chain, conditional upon government approvals. In addition, a new study has shown T-cell immunity could last for at least six months after contracting the virus. Herd immunity, most likely reached via a widely distributable vaccine, is the key to a more normal economic environment.

Renewed lockdowns could pose a risk to ongoing economic reopening until the viral spread is brought under control

Energized Earnings & Economics

- **Earnings Continue to Surprise Higher.** With 89% 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 companies that have yet to report, currently sits at -7.5%. So far, a remarkable 85% of companies in the index have exceeded consensus expectations, and have done so by a margin of +19%, on average.

- **FOMC Meeting Echoes "Stay-the-Course" Message.** The Federal Open Market Committee met last week and was heard loud and clear that the Fed is nowhere near ready to begin raising rates again, at least not until the labor market improves materially and inflation is on track to sustainably exceed 2%. The Fed's ultra-accommodative monetary policy stance should prime the U.S. economy for a more robust recovery upon the return to a more "normal" economic environment.

- **U.S. Manufacturing Posts Large Gains.** Last week's ISM* Manufacturing report trampled expectations, rising to a two-year high of 59.3% for October. Most notably, the New Orders sub-component, which provides the most timely indication of forward-looking economic activity, hit 67.9%, its highest mark since 2004. As the U.S. economy continues to recover from the adverse effects of pandemic-induced social distancing, this is a good sign that business activity continues to get back on track.

Positive economic and earnings results should give investors confidence that the pandemic recovery is well underway

**Institute of Supply Management*

GLENMEDE

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