

November 16<sup>th</sup>, 2020

### A Shot in the Arm

- A Glimpse of the Great Rotation
  - Positive vaccine news has offered a glimpse into potential market leadership for the back half of this pandemic
- A Vaccine: Hopes and Challenges
  - Last week's vaccine news was encouraging, but many steps remain before a tested vaccine becomes a pandemic cure
- Reopening Pauses as Case Counts Rise
  - Economic activity is likely to soften as cases surge, but the upcoming holiday season may prove resilient

## A Glimpse of the Great Rotation

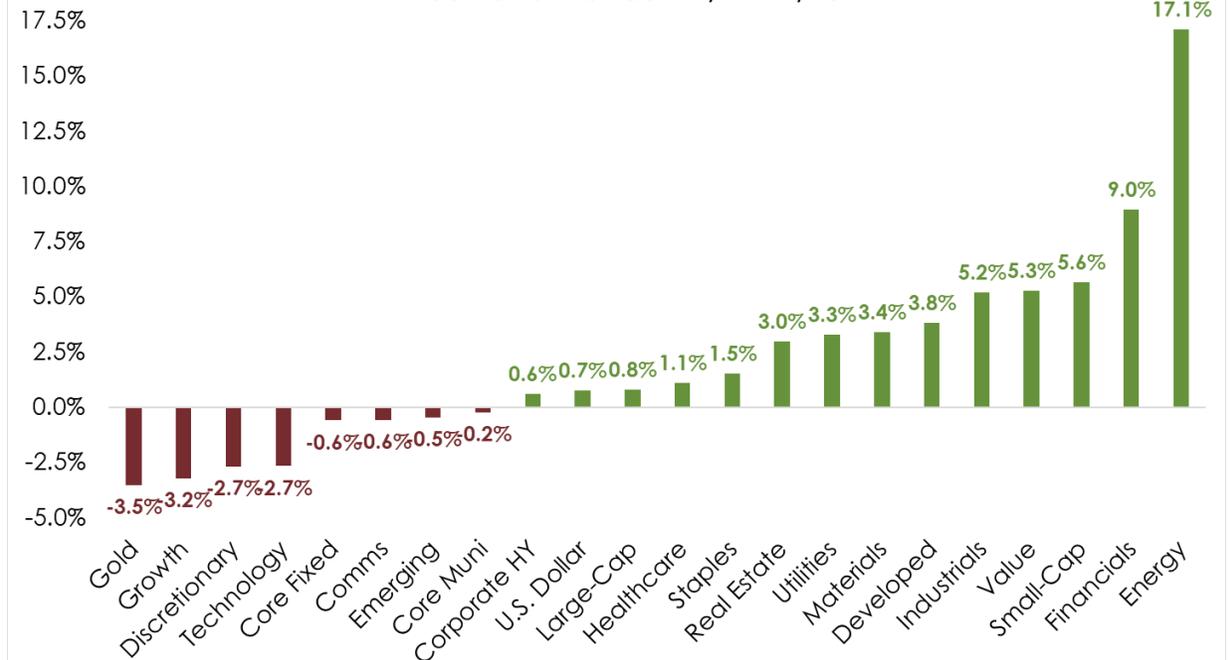
- Vaccine Hopes Run High.** Pfizer and partner BioNTech announced last week that their mRNA-based vaccine candidate had so far exhibited an efficacy rate of 90% in its Phase III trial. The trial includes over 40k diverse individuals and has reported no major safety concerns. Overall, markets reacted positively to the news, but beneath the surface, it was clear the breakthrough crowned a few winners and losers.
- Market Laggards Become Leaders.** Market leadership during the pandemic has been relatively narrow. Large growth stocks, as well as sectors catering to a socially-distant clientele, have exhibited stand-out growth year-to-date. However, last week's vaccine news appears to have offered a glimpse into a rotation as small-caps, value stocks and several "unloved" sectors outperformed significantly in the two market sessions after the announcement. This might be just the start of a longer-term trend as vaccine deployment comes further into focus.
- Taking a Bite Out of the FAAMGs.** The vaccine breakthrough news appeared to weigh on the dominance of the FAAMG stocks (Facebook, Apple, Amazon, Microsoft, Google). Year-to-date through 11/8, those five stocks were responsible for virtually all of the 10.3% total returns in the S&P 500. In contrast, during the two market sessions after the Pfizer/BioNTech news, each of the FAAMGs posted negative returns despite the S&P 500 rising more than 1%. The other stocks in the index (call them the S&P 495) picked up the slack; this was perhaps the first sign of a broader coalition in market leadership moving forward.

Positive vaccine news has offered a glimpse into potential market leadership for the back half of this pandemic

## Chart of the Week:

### A Glimpse Into the Pandemic Endgame Playbook?

Price Performance: 11/9 - 11/10



Source: Glenmede, FactSet

Datashown is the price performance of the listed asset classes/sectors from 11/9/2020 to 11/10/2020. Performance of sectors comes via the GICS breakdown of the S&P 500 index. Large-Cap and Small-Cap are represented by the Russell 1000 and Russell 2000 indexes, respectively. Value and Growth are represented by the Russell 1000 Value and Russell 1000 Growth indexes, respectively. U.S. Dollar is represented by the U.S. Dollar Index (DXY). Core Fixed is represented by the Bloomberg Barclays U.S. Aggregate Index. Core Muni is represented by the Bloomberg Barclays Municipal Bond Index. Corporate HY is represented by the HYG ETF as a proxy for the asset class. Gold is represented by its spot list price on the New York Mercantile Exchange.

## Vaccine: Hopes and Challenges

- **Vaccine Breakthrough.** In the race for a vaccine, Pfizer and partner BioNTech have taken the lead, with their mRNA-based vaccine candidate appearing to produce a 90% efficacy rate. The independent data monitoring committee reported no major safety concerns among the 40k diverse individuals in the trial. This sets the world incrementally further along the path of achieving herd immunity, especially as four other major developed market vaccine candidates are still in the works.
- **Logistical Challenges Await.** In the midst of excitement about the vaccine news, there remain a myriad of questions and challenges that lie ahead. Currently, information on how long the vaccine offers protection is unknown. Another challenge includes storage of the vaccine, which requires a temperature of -70 degrees Celsius. Distribution will be an enormous task for suppliers, as an estimated three quarters of the population must be vaccinated in order to achieve herd immunity.
- **Will the Public Take a Vaccine?** A survey conducted by the Pew Research Center in September found that 51% of Americans would definitely or probably take a COVID-19 vaccine. For those respondents who indicated they probably or definitely would not get the vaccine, they were most concerned about potential side effects (90%) and wished to learn more about how well it works (85%). Another 32% were concerned it would cost too much. This detail suggests that a well coordinated publicity campaign, along with government financial assistance could help achieve herd immunity once the vaccine becomes widely available.

Last week's vaccine news was encouraging, but many steps remain before a tested vaccine becomes a pandemic cure

## Reopening Pauses as Case Counts Rise

- **The COVID Battle Continues.** The 7-day average of new reported cases in the U.S. is now at 145,000, having eclipsed 100,000 just last week. Record U.S. cases have been accompanied by 65,000 hospitalizations, near prior peak levels. While all loss of life is undeniably a tragedy, COVID-related death totals remain below those during prior surges. The declining severity of each surge is likely due to a better equipped and more prepared medical system as well as more protective measures being taken by those more at risk of the disease.
- **A Pause in Reopening.** Glenmede's Reopening Index currently estimates that 70% of economic activity that was lost due to the pandemic has since been regained. This is modestly lower than its October high of 76%, as several states have imposed new lockdown measures in hopes of putting a lid on reinfection rates. It appears households may also be self-imposing their own social distancing measures, as mobility data has shown a deceleration in trips made outside of the home over the past few weeks.
- **Banking on Holiday Spending?** Consumer spending accounts for roughly two-thirds of all economic activity in the U.S. As a result, the focus will be on the resilience of households heading into the premier shopping season of the year. The National Retail Federation's Annual Holiday Survey estimates that consumers, on average, plan to spend \$880 on gifts and other holiday items this year, which is roughly flat relative to 2019 levels.

Economic activity is likely to soften as cases surge, but the upcoming holiday season may prove resilient



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