

December 7<sup>th</sup>, 2020

## Investment Strategies: Old & New

- Keeping an Eye on Sentiment
  - It may be prudent for investors to weigh rebalancing their portfolios amid stretched valuations and sentiment
- Anticipating Viral & Economic Recovery
  - Economic reopening has stalled amid a worsening viral outlook, though economic gains have so far proved resilient
- Bitcoin – A Not-So-Safe Haven
  - Amid low yields, investors seek alternative stores of value, but bitcoin appears poorly equipped to serve this purpose

## Keeping an Eye on Sentiment

- **A November for the Ages.** Equities rallied dramatically last month, with the S&P 500 logging a 10.8% gain. Not to be outdone, U.S. small-caps (as represented by the Russell 2000 index), surged 18.3%, a monthly record. The breadth of domestic equity performance has improved dramatically as well. Currently, 85.4% of stocks in the Russell 3000 index trade above their respective 200-day moving averages, a feat only surpassed once before in history (mid-July 2013), a period where equity markets marched steadily higher following the depths of the Great Recession.
- **Sentiment Inching Exuberant.** November's historic rally appears to have turned market participants increasingly optimistic. For example, the American Association of Individual Investors' survey reported 55.8% of its respondents as of mid-November were bullish, a 95<sup>th</sup> percentile reading for this indicator. In addition, the bull/bear ratio compiled by Investors Intelligence, hit the 98<sup>th</sup> percentile last week, when its own survey found bulls outnumbering bear by a 3.9:1 margin. These are typically contrarian indicators – history would suggest caution may be warranted over the short-term.
- **Rebalancing Opportunity.** The large returns from risk assets since earlier this year has likely altered the makeup of many investors' portfolios in practice. With stretched valuations and signs of overheating sentiment, it may be prudent for investors to rebalance their portfolios back to their longer-term target asset allocations as an appropriate risk management measure.

It may be prudent for investors to weigh rebalancing their portfolios amid stretched valuations and sentiment

## Anticipating Viral & Economic Recovery

- **Concerning COVID Trends.** The daily count of reported COVID-19 cases continues to tick higher, with the 7-day rolling average hitting a new record at 196k. In addition, hospitalizations have hit a new record high, with more than 100k patients. In order to deal with mounting capacity issues, some hospitals have had to add beds and redeploy nurses. The outlook in the short-term does not look much better, with CDC director Robert Redfield warning last week that the next few months could be tragic, due to expected post-Thanksgiving surges.
- **Anticipating Vaccine Rollout.** Vaccine progress, the primary tailwind for the market's recent surge, has continued, as both Pfizer/BioNTech and Moderna have submitted requests to the FDA for emergency use approval. The U.K. has already approved Pfizer's vaccine, and the first doses are set to begin as early as this week. Revised projections now have Moderna and Pfizer distributing a combined 70 million doses by the end of 2020. More than 2 billion vaccines are expected to be manufactured in 2021 between the two companies.
- **Reopening Malaise.** While the U.S. faces unprecedented levels of infection, the country's economic reopening efforts have neither accelerated, nor regressed. Glenmede's Reopening Index, which seeks to estimate the percentage of economic activity that was lost due to social distancing that has since been regained, currently sits at 73%, little changed since mid-summer.

Economic reopening has stalled amid a worsening viral outlook, though economic gains have so far proved resilient

## Bitcoin – A Not-So-Safe-Haven

- Sobering Up on Bitcoin.** With fixed income yields sitting near multi-decade lows, some investors have been searching for alternative stores of value for their portfolios. There are a number of reasons why bitcoin may be a poor option for this purpose. For one, good stores of value traditionally offer stability and bitcoin has so far been the antithesis of stability. Since gaining mainstream notoriety in late-2013, bitcoin has seen daily moves of 5% or more 359 times. In comparison, U.S. core bonds\* and gold experienced 0 and 2 such days over the same period, respectively.
- Phantom Diversification.** Many cite bitcoin’s low correlation to traditional assets to justify its place in a portfolio. However, its fledgling trading history suggests that bitcoin exhibits conditional correlation to risk assets when it matters most. For example, during the correction in late-2018, the S&P 500 was down nearly 20% and bitcoin was off more than 40%. In addition, during the COVID-19 bear market, bitcoin tracked the S&P 500 lower step-for-step. Right when investors needed it most to provide diversification, bitcoin went right back to behaving like other risky assets.
- Expensive Passive Exposure.** There are few options to get exposure to bitcoin. Investors could purchase directly on a cryptocurrency exchange, but those are not SEC regulated and could be vulnerable to hacking. Exposure via futures requires the constant rolling of expiring contracts and may include embedded storage and transaction costs. Also, publically traded vehicles like GBTC\*\* overlay a 2% fee and trade at an average NAV premium of 30% for simple passive exposure.

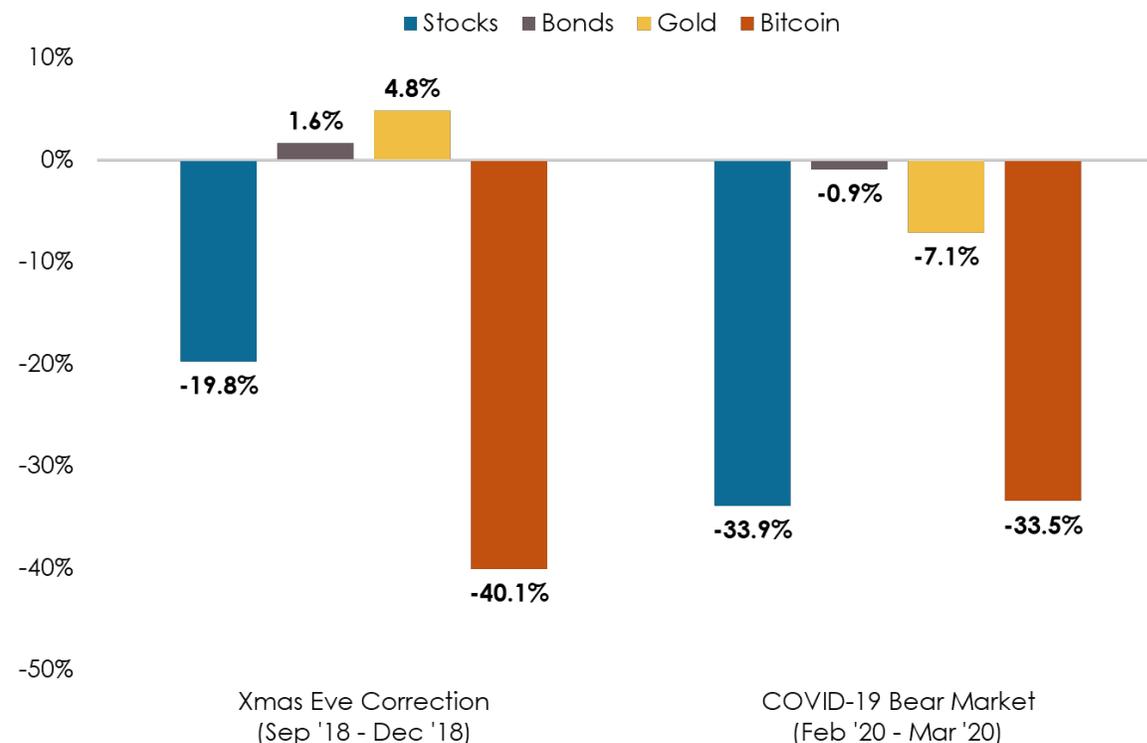
Amid low yields, investors seek alternative stores of value, but bitcoin appears poorly equipped to serve this purpose

\*As represented by the Bloomberg Barclays U.S. Aggregate Bond Index

\*\*GBTC refers to the Grayscale Bitcoin Trust

## Chart of the Week:

### Bitcoin Has Historically Offered Little Downside Protection



Source: Glenmede, Coindesk

Stocks are represented by the S&P 500 Index. Bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index. Gold returns are derived via daily prices for gold bullion by the London Bullion Market Association. Bitcoin returns are derived via daily prices for bitcoin by Coindesk. Past performance may not be indicative of future results. All indices mentioned are unmanaged, total return indices with cash flows reinvested. One cannot invest directly in these indices.

Data as of 12/03/2020



# 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

This presentation is intended to be a review of matters of possible interest to Glenmede Trust Company's clients and friends and is not intended as personalized investment advice. Advice is provided in light of a client's applicable circumstances and may differ substantially from this presentation. Opinions or projections herein are based on information available at the time of publication and may change thereafter. Information obtained from third-party sources is assumed to be reliable, but accuracy is not guaranteed. Outcomes (including performance) may differ materially from expectations and projections noted herein due to various risks and uncertainties. Any reference to risk management or risk control does not imply that risk can be eliminated. All investments have risk. Clients are encouraged to discuss the applicability of any matter discussed herein with their Glenmede representative.