

September 28th, 2020

COVID, Concentration & Contention

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Reopening Progress Report

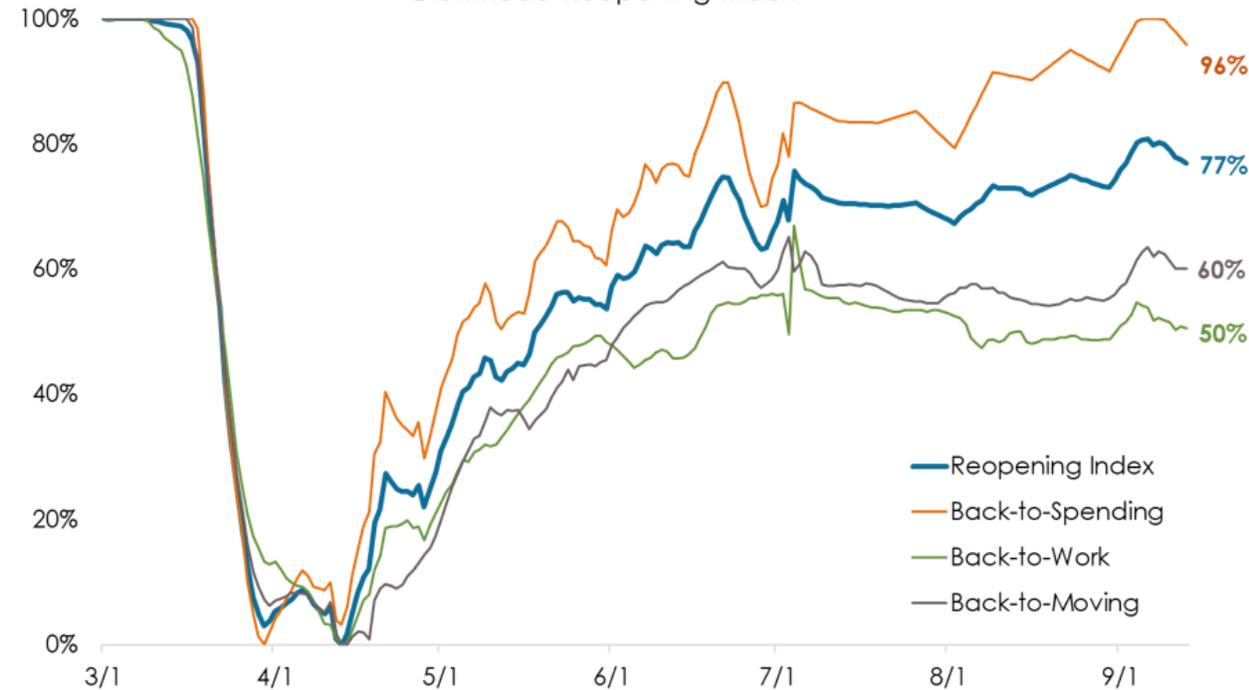
- COVID Third Wave Incoming?** Just as the 2nd wave of COVID-19 infections in the U.S. has been brought under control, there are signs of pockets of resurgence both in the U.S. and abroad. Europe's daily net new reported case counts have been steadily climbing after remaining contained through the summer season. In addition, a handful of states in the South and Midwest of the U.S. are seeing modest upticks in new cases as well, highlighting the stop and go nature of this pandemic.
- Economic Gains Lose Momentum.** Glenmede's Reopening Index, which was built to estimate the portion of economic activity that was lost due to social distancing that has since been regained, currently sits at 77%. A full recovery of economic activity has been elusive, though consumer spending has nearly completely recovered (Back-to-Spending*). Trends in employment (Back-to-Work*) and mobility (Back-to-Moving*) have remained subdued as the U.S. still battles the pandemic.
- Vaccine: COVID-19 Endgame?** An eventual recovery from this pandemic-induced recession is likely over the medium-term, but the timing is dependent on the delivery of a widely available vaccine/treatment protocol. A number of developed market vaccine candidates are in Phase III trials, including AstraZeneca, Pfizer, Moderna and now Janssen as well. Some optimistic projections from health experts pin spring 2021 as the earliest date that vaccines can begin to be distributed at scale to establish the herd immunity necessary for returning to some semblance of "normal."

The economy has recovered meaningfully, but the last leg of growth may be vaccine dependent

*Back-to-Spending, Back-to-Work and Back-to-Moving refer to sub-indices of the broader Glenmede Reopening Index

Chart of the Week:

U.S. Economy Has Recovered Over 75% of its Lost Activity
Glenmede Reopening Index*



Source: Glenmede, Opportunity Insights

Data as of 9/26/2020

*Glenmede's Reopening Index is a proprietary tool developed by Glenmede. It is a balanced mix of high frequency indicators meant to provide real-time insights into the progress of economic reopening in the U.S with 100% representing the prior peak level and 0% representing the crisis low. Back-to-Spending is a sub-index that measures the consumer spending portion of the economy. Back-to-Work is a sub-index that measures business activity trends in the U.S. Back-to-Moving is a sub-index that measures population mobility trends in the U.S. Although created in good faith, there can be no guarantee that these indicators will be accurate.

The COVID-Favored FAAMGs

- **A Narrowly Driven Market.** The extreme growth of the FAAMG stocks (Facebook, Apple, Amazon, Microsoft, Google) has shifted their valuations to extended levels. These outsized valuations relative to their fundamentals contribute to their significant weight in indices such as the S&P 500. Consequently, these top five stocks can have a profound impact on the top-line returns for these indexes. For instance, the FAAMGs have each been responsible for positive contributions to the S&P 500's returns year-to-date, but the remaining 450 companies have a combined negative contribution to returns.
- **Anticipating a Broadening in Market Breadth.** Apart from the massive proportion of market capitalization sitting atop the S&P 500, there are hundreds of other quality companies that do not appear as grossly overvalued. Investors may find opportunities in relatively cheap value and small-cap stocks that perhaps offer greater long-term return prospects. Particularly as the economy continues to recover from COVID-19, the market is likely to see a broadening in the breadth of performance beyond the FAAMGs as a return to a more "normal" environment becomes more likely.
- **The Value vs. Growth Disparity.** Despite FAAMG underperformance over the last few weeks, valuations between U.S. large-cap growth and value stocks remain wide. Glenmede estimates that large-cap growth stocks in aggregate currently sit at the 93rd percentile of longer-term fair value, whereas value stocks sit much closer to fair value at the 59th percentile. That being said, investors should be mindful to avoid a wholesale abandonment of growth stocks solely from the overvaluation of a select few firms.

Lofty valuations from a cohort of growth stocks may set up more reasonably priced stocks to outperform

Weighing Out Election Outcomes

- **Weighing Election Odds.** A little more than a month away from the 2020 U.S. Presidential election, this week will feature the first of several debates between Democratic nominee Joe Biden and incumbent Donald Trump. Biden appears to hold a polling edge, with Nate Silver's FiveThirtyEight predicting a 77% chance of a Biden victory. Just as important may be the Senate races, for which FiveThirtyEight handicaps the Democratic party's chances of control at 62%.
- **Weighing Election Outcomes.** There are a number of policy differences between the two major candidates running for President that may be pertinent to investors. Disparate opinions on the best path forward for corporate taxes, capital gains rates, trade policy and more are contributing to a pickup in volatility expectations around the election. Options pricing has already been implying heightened risk levels since spring due to the COVID-19 pandemic, but the incremental extra risk implied due to the election is higher than has been observed in past elections.
- **Weighing Market Performance.** Over full presidential terms, market returns and political results have not shown a clear relationship. Since 1872, no matter how you slice the data (i.e. all Republican Presidents, all 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.

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