GLENMEDE

Investment Strategy Insights

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Real Talk on Real Assets

- What to Make of Inflation?
  - Near-term price pressures are likely to prove transitory, though real assets may continue to curry favor as inflation hedges
- Bitcoin: Fool's Gold?
  - Bitcoin's recent volatility is a stark reminder to investors that it is a poorly equipped store of value for portfolios
- Real Estate: Triple Threat
  - Real estate offers fair valuations, insulation from key tax changes and a longer-term hedge on inflation

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What to Make of Inflation?

- **Transitory Inflation Drivers.** Inflation has quickly become one of the top concerns on the minds of investors. For a number of reasons, the recent spike in prices appears to be transitory in nature: 1) year-ago pandemic lows have created a base effect; 2) the impact of fiscal stimulus should decline going into 2022; 3) labor market tightness should moderate as enhanced unemployment benefits expire. While it is likely that price levels could continue to sit above the 4% threshold for a few months, this is unlikely to begin a cycle of incessant and overly punitive inflation.

- **Persistent Disinflationary Drivers.** There are a number of longer-term trends that have (and may continue to) keep a lid on inflationary pressures in the U.S. For one, tepid population growth generally reduces the rate of change in aggregate demand over time. Also, technological innovation typically reduces the cost of products over time and/or enhances their utility for consumers. Plus, recent semiconductor shortages have prompted many global governments to contemplate investments in production, so the future of computer chips may be overcapacity, not scarcity.

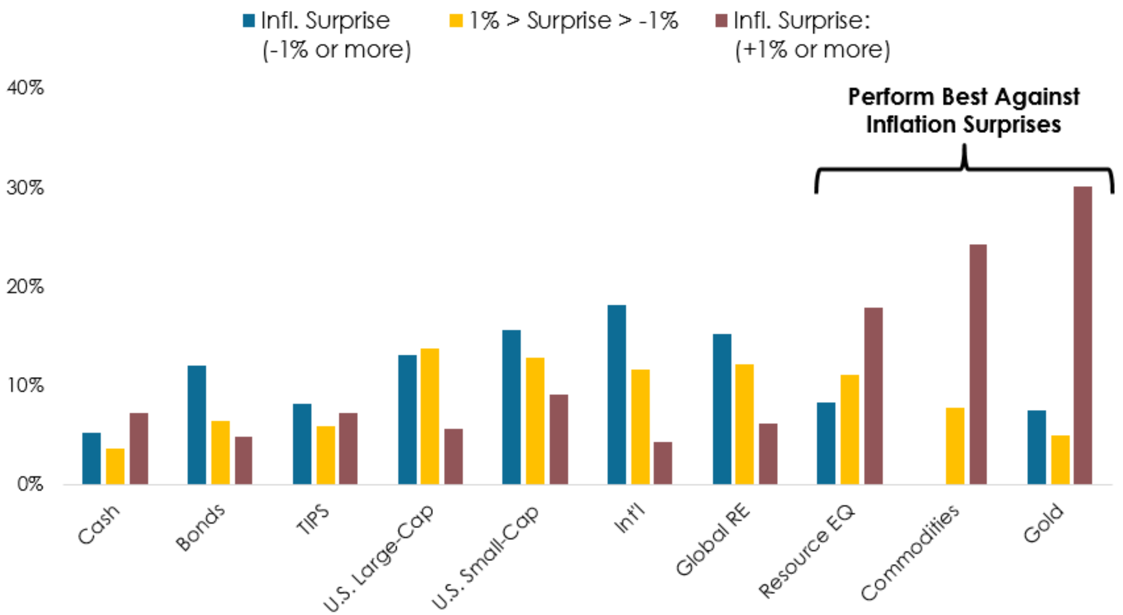
- **Inflation Playbook.** It is unlikely that a material inflation spike is imminent at this time, but there remains a distinct possibility that prices could prove volatile as the U.S. economy normalizes. In environments where inflation has surprised to the upside relative to market-based expectations, investments such as commodities, gold and resource-producing equities have historically performed best. As a result, investors interested in hedging their portfolios against further inflation risk would do so most effectively via real assets.

[Near-term price pressures are likely to prove transitory, though real assets may continue to curry favor as inflation hedges

Chart of the Week:

Real Assets Perform Particularly Well During Unexpected Inflation

Performance During Inflation Surprise Periods



Source: Glenmede *Data through 12/31/2020*

Data shown are annualized total return figures for a number of asset classes during various inflationary surprise environments since 6/30/1971. Inflation surprise represents periods when actual inflation was meaningfully higher or lower than projected inflation, as estimated by Glenmede's proprietary Global Expected Returns Model, which combines the Survey of Professional Forecasters, TIPS breakeven rates and inflation swaps. Proxy indexes for each asset class are as follows: Cash (Bloomberg Barclays Treasury Bellwethers 3M Index), Bonds (Barclays U.S. Aggregate Index), TIPS (Bloomberg Barclays U.S. Treasury Inflation Protected Notes Index), U.S. Large-Cap (S&P 500 Index), U.S. Small-Cap (Russell 2000 Index), Int'l (MSCI ACWI ex-U.S. Index), Global RE (FactSet's Global Real Estate Investment Trusts industry grouping), Gold (CRB Commodity Index, Gold), Resource EQ (2/3 energy sector, 1/3 materials sector in the S&P 500 Index), Commodities (Bloomberg Commodity Index). Consumer Price Index (CPI) measures the percent change in the price of a basket of goods and services consumed by households in the U.S. Data reflects past performance which may not be indicative of future results. One cannot invest directly in an index.

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Bitcoin: Fool's Gold?

- **Crypto Turbulence.** Bitcoin has been particularly volatile lately, ending last week down 46% vs. its all-time high reached only a month ago. Catalysts for the move included comments from Elon Musk that Tesla may sell (or has already sold) its position in the cryptocurrency due to its adverse environmental impacts of mining. In addition, China has been cracking down on bitcoin mining and trading recently, as well as stating that the digital tokens will not be an acceptable form of payment.

- **Busting the "Store of Value" Myth.** Some bitcoin advocates speak to the function it can play in a portfolio as a "store of value" but the historical record suggests that bitcoin is poorly equipped to fill that role. Since 2010 the S&P 500 has experienced 10 trading days when it either rose or declined by 5% or more. In comparison, traditional stores of value have delivered stability, with gold experiencing a daily move of that magnitude just once over that period and investment grade bonds never doing so. However, bitcoin has done it more than 455 times over the last 11 years. Investors seeking stability are likely best served steering clear of the crypto market and its associated volatility.

- **The Gold Standard.** The current inflationary environment has investors considering gold as an alternative store of value for their portfolios. In addition, gold has a more clear, time-tested track record of providing an inflation hedge, particularly since it acts as a medium-of-exchange, a productive commodity (as used in some electronics) and is an end good with consistent demand (e.g. jewelry). Investors concerned about a material spike in inflation should consider gold as part of their investment toolkit.

Bitcoin's recent volatility is a stark reminder to investors that it is a poorly equipped store of value for portfolios

Real Estate: Triple Threat

- **Fishing for Bargains in the REIT* Pond.** Among risk bearing assets, liquid real estate investments appear to be offering attractive valuations. For example, Glenmede's proprietary Global Expected Returns model estimates that U.S. large-cap equities currently sit at the 92nd percentile of longer-term value. Global real estate, in comparison, sits at a more reasonable 60th percentile, suggesting there are opportunities to be had there for investors seeking relative bargains in the marketplace.

- **REITs & Tax Regime.** The Biden administration has introduced a number of changes to corporate tax laws that could have an impact on the bottom line for many U.S. companies. The real estate sector appears to be relatively insulated from a key portion of the plan, which calls for doubling the rate applied to global intangible low-taxed income (GILTI). REITs tend to be more focused on domestic operations than other companies and typically fill out their balance sheets with physical structures rather than intangible assets. Investors seeking cover from tax changes may find it in real estate.

- **Inflation Tailwind.** Inflation expectations via 10-year TIPS** breakeven rates currently sit right around 2.5%, setting the backdrop for an inflationary environment in which REITs have historically performed well. Since shareholders in REITs have a claim on the real assets held within the trust (e.g. buildings and structures), liquid real estate investments have historically been an attractive long-term hedge against the erosion of purchasing power due to inflation.

Real estate offers fair valuations, insulation from key tax changes and a longer-term hedge on inflation

**Real estate investment trusts (REITs)*
***Treasury Inflation-Protected Securities (TIPS)*

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GLENMEDE CORPORATE FACTS

More than $40 billion in assets under management as of 12/31/2020

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