GLENMEDE

Investment Strategy Insights

June 1st, 2021

The Very Hungry COVID Recovery

- In the Pupa Stage of Vaccine Distribution
  - Vaccine distribution continues to spread across the globe, setting the stage for further momentum in the global economy

- Fed Not Yet Biting on Inflation
  - Expect the Fed to maintain its patient approach, allowing transitory inflation to pass before taking away the punch bowl

- "…But He Was Still Hungry"
  - Large outstanding spending bills that are offset by tax hikes are likely to be less stimulative relative to past packages

In the Pupa Stage of Vaccine Distribution

- **Wrestling COVID Under Control.** The U.S. continues to make substantial progress in the fight against COVID-19. New case counts, hospitalizations and deaths all sit near year-ago lows, as it seems the vaccination effort has made a real impact. Glenmede estimates that approximately 60% of the population may have immunity either via vaccination or prior infection, which continues to drift closer to the estimated 70% herd immunity threshold. In addition, a few New England states (MA, CT, RI, VT) appear to have individually hit the 70% mark, with many others close behind.

- **Economic Reopening Continues.** Vaccination progress in the U.S. appears to be an important catalyst in the ongoing economic recovery. Glenmede's Reopening Index now estimates that 92% of all economic activity that was lost due to lockdowns has since been recovered, accelerating meaningfully since the beginning of the year. Strong household consumption trends have been the primary driver of further reopening efforts.

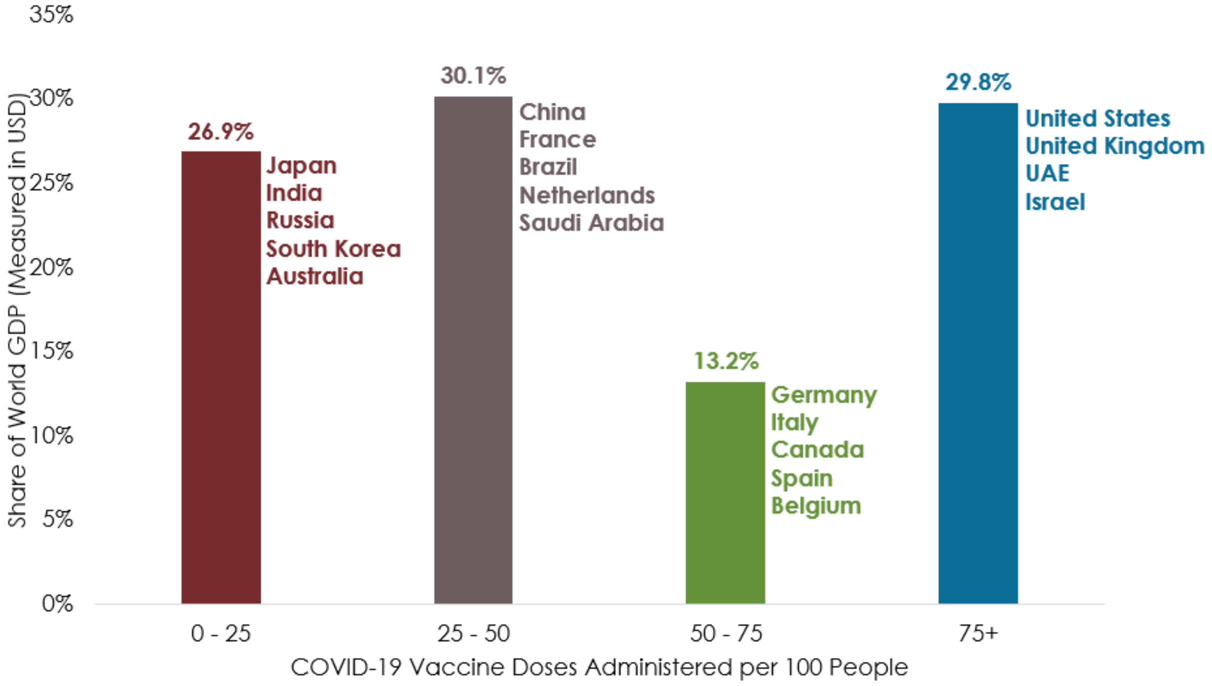
- **A Global Vaccine/Reopening Effort.** The U.S. has been one of a handful of countries that have administered more than 75 COVID-19 shots per hundred people. That said, a significant portion of the global population (and global economy) has not yet ramped up vaccination rates at a similar pace. In fact, more than a quarter of world GDP is driven by countries that have administered fewer than 25 shots per hundred people. If vaccines are the key to normalization, then there is potential for further momentum in pockets of the global economy through the end of 2021 and beyond.

Vaccine distribution continues to spread across the globe, setting the stage for further momentum in the global economy

Chart of the Week:

Vaccine Progress Yet to Ramp Up in Large Share of Global Economy

Share of World GDP by COVID-19 Vaccines Adminstered



Source: Glenmede, Our World in Data, World Bank *Data through 5/26/2021*
The graphic shown buckets each country in the world into groups based on the total number of vaccine doses administered per 100 people, and aggregates the sum share of world GDP based on the countries within each bucket. GDP estimates are as of 2019, or latest available, measured in USD.

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Fed Not Yet Biting on Inflation

- **Inflation Update.** The U.S. Core PCE deflator*, which is the Fed's preferred measure of inflation, reported at a year-over-year increase of 3.6% for April. On an absolute basis, this was the second highest reading since 1981, though it reported only modestly higher than consensus expectations of 3.5%. The Core PCE measure tends to be a better reflection of inflation trends, since it strips out the typically more volatile food and energy components and adjusts for goods substitution.

- **All Eyes on the Jobs Report.** Much attention will be paid to this Friday's jobs report for the month of May, particularly after April's weaker than anticipated report. Consensus expectations are calling for the U.S. unemployment rate to drop to 5.9%, down from 6.1% in the month prior. Additional data points such as labor force participation and wage growth will be closely watched, as investors continue to wrestle with the impact of generous unemployment benefits and anecdotal reports of wage pressures.

- **Stoic Fed Facing Inflation.** The Fed has expressed its intention to let inflation run hot for a period of time, allowing transitory factors to shake out before pulling the plug on monetary accommodation. It is possible that inflation figures over the next few months will test the Fed's resolve, as investors grapple with the possibility that the Fed may fold under pressure and raise interest rates prematurely. With that said, investors should operate under the base case that inflation does not rise to a level that prompts a Fed reaction, as reopening progress continues to iron itself out over the next few months.

Expect the Fed to maintain its patient approach, allowing transitory inflation to pass before taking away the punch bowl

U.S. Core Personal Consumption Expenditure Price Index

"…But He Was Still Hungry"

- **Infrastructure Plan Revisions.** The Biden administration's American Jobs Plan calls for roughly $2.3 trillion in combined new spending on infrastructure and social programs, with offsetting pay-fors via higher corporate taxes. However, it appears there has been some flexibility to that figure lately, with Biden offering to reduce the infrastructure ask to $1.7 trillion in an effort to potentially garner bipartisan support for the plan.

- **Latest from the Negotiating Table.** Just last week, Republican legislators countered with a $928 billion solution focused on more traditional definitions of infrastructure. Although this offer is still far less than Biden's proposed $1.7 trillion, there are reports that he has privately conveyed comfort with a deal in the ballpark of $1 trillion. However, unless either side makes a meaningful effort to bridge the gulf between the two proposals, the administration may opt to move forward via reconciliation.

- **Balancing Costs/Benefits.** Unlike previous spending bills which were intended to provide COVID relief and a stimulus injection into the U.S. economy without offsetting revenue raisers, the American Jobs Plan seeks to raise taxes on corporations to pay for new infrastructure and social program expenditures. The result may be a payoff pattern that has front-loaded costs to economic growth in the U.S. with lumpy spending tailwinds thereafter, as the proposed infrastructure plans begin to break ground. As a result, investors should expect the plan to be far less stimulative than other recent packages out of Congress.

Large outstanding spending bills that are offset by tax hikes are likely to be less stimulative relative to past packages

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